SKU EXPANSION IS HERE TO STAY – HOW TO MAKE IT A WINNING STRATEGY

EXECUTIVE BRIEF

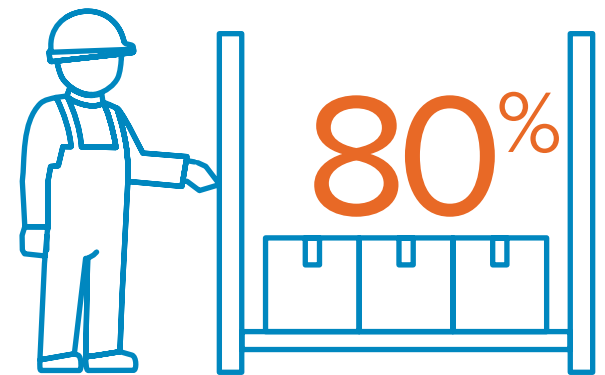# SKU EXPANSION IS HERE TO STAY– HOW TO MAKE IT A WINNING STRATEGY

"The ability to handle product line complexity cost-effectively can in itself become a competitive advantage."

The ever-expanding long tail of CPG

CPG's "long tail" of consumer product SKUs grew by 31% from 2010 to 2016, and continues to grow longer every year.

"The CPG industry can sometimes seem like an energetic pup chasing its own tail." Many CPG execs would like to bite off the end of their company's long tail of less profitable products (on average, making up about 80% of active items but generating only about 20% of total sales volume). It's not only that SKU expansion has recently been outpacing sales growth by four to five times, it's also adding costly complexity to manufacturing, marketing, and distribution. According to McKinsey & Company, SKU- driven complexity has cost manufacturers as much as $50 billion in gross profit in the US food and beverage market alone.

80%

Less profitable products make up about 80% of active items but generating only about 20% of total sales volume

But while shortening product tails would cut complexity and cost, it may not be a winning strategy in today's markets. CPG manufacturers have good reasons to launch more SKUs: meeting increasing demand for variety, choice, and customization from today's digital consumers; fitting into proliferating retail formats; jumping on fast-growing niche markets; constantly innovating to win more shelf space and consumer attention. In the face of these pressures, slashing products and other hatchet-like approaches to cost cutting can be self-defeating. As Price Waterhouse points out in its *2017 Consumer Packaged Goods Trends*, profit margin improvements from such strategies "can be short-lived and ultimately leave companies unprepared to take advantage of marketplace opportunities, which are the real keys to growth."

Embracing SKU expansion is another way to go—and with the transition to Industry 4.0 digital factories, it's a viable and increasingly attractive strategy.

In fact, according to PwC, "the ability to handle product line complexity cost-effectively can in itself become a competitive advantage."

This executive brief looks at three keys to seizing this advantage:

1 Deeper, faster analytic insights to identify and preserve complexity that is actually helping you succeed.
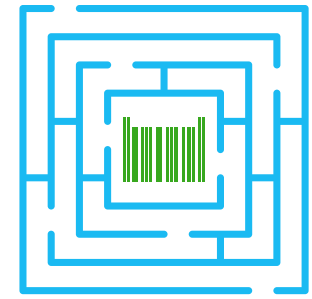
2 Agile automation for flexibly responding to detailed order variations and frequent changes in demand.

3 Connected workers using consumer-like mobile digital devices that guide them through complex production procedures and changeovers with fewer errors and delays.

A *Connected Worker* solution — Parsable's focus — can start delivering hefty benefits even before you have analytics and automation in place. Transforming human work processes from paper-driven to digital is the low-hanging fruit of Industry 4.0, producing high payback from modest investment. Implementations generally take just weeks. ROI from cost and time savings adds up quickly, with benefits multiplying as you digitize additional work procedures.

$50bn

SKU-driven complexity has cost manufacturers as much as $50 billion in gross profit

"Winners make bigger and more frequent **adjustments to their SKU portfolios...**"

2016 survey of North American CPG companies
McKinsey & Company

1

DEEPER, FASTER ANALYTIC INSIGHTS

Deeper, faster analytic insights

Today's powerful cloud-based analytics technologies let you rapidly crunch through sales and inventory data to extract SKU- and attribute-level insights on a weekly or even daily basis. One aim should be to identify and support what McKinsey calls "good complexity."
For example, these low-volume SKUs may be helping you by:

- addressing unmet customer needs
- filling significant gaps in assortment
- aligning your brand with an emerging market segment
- improving brand position in a growth segment
- improving the per-unit manufacturing cost of other SKUs, or
- enabling better overall margin management across a product line

This is helpful complexity that you want to preserve and even increase.

2

AGILE AUTOMATION

Agile automation

More SKUs mean more frequent changeovers, but that doesn't have to mean production time and costs rise proportionately. Agile automated systems are granular—they break down production processes to components that can be rapidly and cost-effectively modified or switched out to meet detailed product and order variations. Such agility also lowers the cost and risk of trying new ideas. Today's category leaders and up-and-comers are increasingly conducting market experiments, often in cooperation with retail partners.

31%

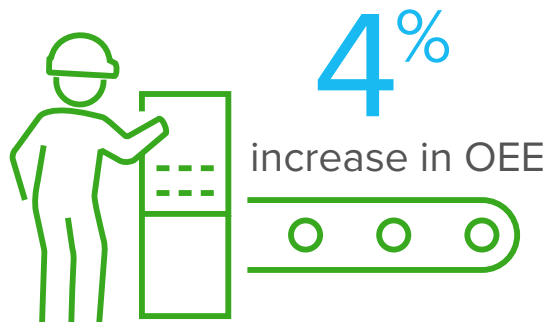Consumer product SKUs grew by 31% from 2010 and 2016 and continue to grow longer every year

3

CONNECTED WORKERS

Connected Workers

With more SKUs being produced on more sophisticated machines with more frequent changeovers, it's never been so important that work crews do jobs right, every time. Empower them with consumer-like digital devices they already know how to use. Parsable's *Connected Worker* platform connects digital work instructions to workers, workers to each other, and leaders to the people responsible for executing the plan. It enables human work processes to be broken down—"parsed"—

into granular components, just as with agile automation. Step-by-step interactive guidance, along with integrated communications (including video, hi-res photos, and multimedia chat) enable production teams to consistently execute structured processes, collaborate on the spot to solve problems, and fluidly perform changeovers.

Simplifying the execution of complex work is essential to economically viable SKU expansion as well as to boosting Overall Equipment Effectiveness (OEE). Case in point: At a Unilever plant in Mexico, Parsable is enabling a 50% reduction in start-up, shutdown, and changeover time, and this increased efficiency has improved OEE by 4%.

4%
increase in OEE

> **"The ability to handle product line complexity cost-effectively can in itself become a competitive advantage"**
>
> "Fragmentation & Simplification"
> PwC 2015 Consumer Goods Trends

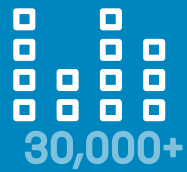All the trends in today's CPG markets point to greater product line and production complexity ahead.

Now's the time to get a better handle on SKU expansion, and even systematically turn it into a competitive advantage.

To learn more about connecting your workers, contact us at www.parsable.com/contact or call 1-888-681-2119.

SELECTED PARSABLE CUSTOMER RESULTS

85% Paperless

30,000+

30,000+ New Workforce Data points to Analyze Daily

56% reduction in the size of procedures

50% Decrease in Start-up, Shutdown, and Changeover Times

OEE

4% increase in OEE

About Parsable

Parsable helps the world's largest industrial firms get jobs done right—every time. Most companies know that adhering to Standard Work processes produces the best results, but have trouble getting their teams to follow these processes resulting in lost productivity and poor quality. Parsable provides an Industry 4.0 Connected Worker platform so employees can collaborate together in paperless, mobile, and digital business pro cesses. Teams know what work they need to do, and how and when they need to do it right on their mobile devices. Each step and action is measured and employees can raise issues and provide feedback so that every process is quickly analyzed and improved.

For more information on how Parsable can help you transform your operations into a real-time, digital, Industry 4.0 company, please call us at 1-888-681-2119 or by contacting us via www.parsable.com/contact.

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