

Liberty SKU Rationalization Insight

David Federico and DJ Laux

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Introduction

COVID-19 continues to impact companies across the world in new and unusual ways, unlike anything else in modern history. Never before have companies had greater reliance on access to global suppliers, customers, and resources. While highly beneficial for the growth of the global economy, this strength has quickly turned into a major risk due to COVID-19. Companies are struggling to manage diverse and complex supply chains, with decreased access to data. Additionally, consumer preferences have been turned upside down in many industries, as customer purchasing habits have changed due to changing priorities and financial volatility.

One function that has been particularly challenged is the enterprise supply chain. Access to necessary raw materials, consumer channels, and logistics has entered a stage of “new normal” associated with operations during and post COVID-19.

The ability to understand your product’s profitability is essential to adapting and overcoming current supply chain challenges. It enables optimization of your SKU list from the perspective of product profitability, demand management, raw materials, and inventory.

Product Profitability

Since the onset of the coronavirus pandemic, companies are working with a very limited data set in an attempt to maintain profitability. The aim is to enhance existing data to deliver actionable insights on what products to produce, the quantity of production, and pricing in the face of a tumultuous supply chain. To do that, companies have to evaluate current spend processes and data to identify areas of cost saving opportunity. They have to fully understand the supply chain of each SKU to make data-driven decisions on how to optimize direct spend and create greater opportunities for profit growth. Only once a complete picture of the market has been derived from the enhanced data can a company understand which key segments to focus.

Demand Management

The world has realized that many of the unusual trends brought upon by the pandemic are set to continue well into 2021. Typical buying patterns associated with holidays, events, etc., will still impact the organization; however, the availability of products and the ability to reach the market are significantly hampered. Companies need to holistically adapt to the “new normal” as access to accurate data and the correct processes to execute on that information becomes more important than ever before. Part of that is understanding that systems and resources are being pushed more than ever before. Companies with antiquated systems and poor data quality are especially impacted because the loss of demand indicators leads to inefficient decisions.

Raw Materials

The raw materials market was in a very poor position at the end of 2019 due to the US-China trade war, and the coronavirus has exacerbated those struggles. American manufacturing companies, who had been asked to weather the trade war on behalf of the global economy, were already experiencing rising costs of inputs and decreasing access to global markets. When the pandemic hit, some of those companies were forced to close. Pandemic-related shutdowns in other parts of the world have caused ripple effects throughout the economy as well. In the first quarter of 2020, manufacturing in China dropped as much as 80 percent, so parts needed to build products in the rest of the world were not shipped. Mexico, which also has a large components sector, began to shutter businesses due to the pandemic starting in the second quarter. This combination of factors led to many American companies not having what they need (due to price or scarcity) to continue doing business throughout 2020.

Inventory

Average levels of safety stock inventory were not equipped to handle the onset of the coronavirus pandemic due largely to a shift in the way businesses have been thinking about them since the Great Recession in 2008. When the stock market collapsed, it caused a massive slowdown in spending all across America. Many businesses, especially those selling more frivolous goods, were suddenly caught with large inventory surpluses and nowhere to move them. Since then, many companies developed just in time inventory platforms; this means less inventory on hand at any given time with an increased focus on more liquid assets. Technologies and algorithms dictate how much inventory should be on the ground as well as on the move at any given time to optimize cash flow in the company based on recent sales data. A market disruption (such as a pandemic) can throw off these algorithms. When the pandemic first came to the United States at the end of the first quarter of 2020, many consumer goods stores like Target and Wal Mart experienced massive inventory shortages in essential household goods – the most notable example of this was toilet paper. American businesses have since had to find ways to predict demand with a very limited and inconsistent set of market data.

Conclusion

COVID-19 has changed the world in the short and long term, and companies that are not adapting will not be successful in this “new normal.” A tumultuous supply chain, which has become commonplace, can either be detrimental to businesses or an opportunity. One of the best ways to maintain profitability as a business is to rationalize SKUs. Every product must be analyzed top to bottom from the perspective of profitability, demand, raw materials, and inventory in order to make wise business decisions on a very limited and ever-changing dataset.

Liberty Advisor Group has extensive experience with supply chain automation. Let us help you realize your highest ambitions. [Contact us](#) for more information.

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