

## The MarginMax™ Solution:

by John Stasz

### Increase your Operating Profit 30 Percent

#### Executive Summary

In the current economic, most companies have implemented cost-reduction programs focused on facilities consolidation, headcount cuts, and reducing manufacturing and SG&A expenses. While these traditional cost-reduction programs have resulted in some bottom-line improvements, the company's overall financial performance often continues to suffer. The CEO is then left with a dilemma. Additional arbitrary cost reductions can cut into the muscle of the company, endangering its long-term future. In the current dynamic marketplace environment, companies need to be properly positioned to take advantage of the business upturn as business conditions improve.

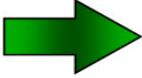
MarginMax is an integrated gross-margin management solution from The Boulder Group, a consulting company known for its innovative solutions that deliver long term value measured in financial terms. Successful client engagements have proven that this approach is a cost-effective answer to increasing margins at any point in the economic cycle. It provides companies with a way to rapidly generate significant profits without embarking on major business transformation programs that can take years to bear fruit.

A MarginMax profit improvement program is the ideal next step after implementing a cost reduction program. MarginMax unlocks the dormant profits in a company that reside in the key drivers of gross margin, without requiring additional headcount reductions or cutting into the financial infrastructure of the company. These drivers include the pricing process, product management, and sales effectiveness. A MarginMax program will also provide the foundation to position organizations toward future growth and profitability.

The MarginMax methodology is effective because it is a comprehensive solution to gross margin management that takes a holistic approach by integrating all four key drivers of improved profit margin:

- Pricing optimization
- Product management
- Sales effectiveness
- Operational performance

Improved gross margins are one of the most powerful levers of financial performance. To illustrate, a \$400 million company that can increase its gross margin by 3 points (a 7.5 percent increase) will add \$12 million to their gross margin...a 30% increase in operating profit.

<u>Before</u>	<b>MarginMax™ Program</b>	<u>After</u>
<b>Company XYZ</b>	<b>7.5% Improvement</b>	<b>Company XYZ</b>
Sales                    \$400M		Sales                    \$400M
Gross Margin (%)    40%		Gross Margin (%)    43%
Gross Margin (\$)    \$160M		Gross Margin (\$)    \$172M
Operating Profit(\$)   \$40M		Operating Profit (\$)   \$52M

### 30% Increase in Operating Profit



Adopting this integrated gross margin management solution in your organization does far more than improve your margins; it helps break down silos that can present barriers to business success. It also aligns people and processes across your organization by focusing the senior team on gross margin as the key leverage point in the business. And because MarginMax is comprehensive, it improves the ability and confidence of the managers to assist them in making day-to-day decisions based primarily on gross margin. At the same time it helps introduce more transparency across the functional organizations to the gross margin impact of these decisions. You get real-time metrics that put you in direct control of your gross margin. In short, MarginMax helps you define how your company wins in the marketplace going forward.

### **MarginMax at a glance**

As already mentioned, MarginMax is an alternative to expensive and long-term corporate transformation programs. It is the profit-margin platform you can implement rapidly and expect measurable near-term results.

MarginMax Program benefits include:

- **Strategic alignment:** Businesses report enhanced alignment of their operations enabling them to better deliver on high-level strategies.
- **Fully integrated:** Comprehensive and inclusive with one interface that gives you integrated metrics for convenient margin management.
- **Customer facing:** Effective because its methodology emphasizes the value delivered to the end customer.
- **Rapid payback:** An investment with a positive ROI that begins to pay off in months, not years.
- **Accelerated implementation:** You don't have to wait long before you begin to see positive results.
- **Top-down driven:** Instead of immersing itself in tactical-level issues, the program is designed for executives who wish to drive top-down margin improvement in their companies.
- **C-level-experienced consultants:** The Boulder Group professionals have been C-level executives; they are experts in corporate performance improvement.

### **The MarginMax Strength: Focus and Alignment**

The strength of the MarginMax solution is its integrated focus on gross margin management and its alignment with all the elements of your business. Business processes like disciplined pricing and product management may seem easy to implement but the undeniable fact is that few businesses are able to achieve them on their own. It is the fastest and most cost-effective way to achieve bottom-line improvements. It turns gross margin management into an ongoing business process you track and manage. And, it integrates and leverages all four gross margin drivers:

**Pricing.** With the objective of achieving the highest sustainable prices, MarginMax can help your company:

- Accurately assess contribution margins to ensure your costing system is providing accurate data
- Enforce price compliance. How often do you see lack of discipline on this crucial issue erode business results when selling value instead of price would place your company on a more solid financial footing? MarginMax gives you control over this area you likely never had before.
- Implement strategically aligned value-based pricing. Pricing policies don't have to be haphazard; with the help of MarginMax, your value-based pricing will be aligned with high-level strategies and organizational incentives for business success.
- Model price elasticity by customer segments based upon customers' perceived value to maximize both revenue and gross margins
- Establish and optimize your pricing process by utilizing a cross-functional process with ownership, metrics and aligned incentives

**Product Management.** With the objective of increasing customers' value perception, MarginMax assists you so you can:

- Analyze product line gross margins utilizing the MarginMax analyses tools
- Develop an optimal product life cycle model
- Implement a cross functional product management process to rationalize existing product line
- Manage your new product innovation process by installing a process that prioritizes new product concepts and helps you schedule development



**Sales Effectiveness.** With the objective of aligning sales force behavior with corporate strategy and gross margin objectives and dramatically impacting sales:

- Enables you to align sales force behavior with corporate strategy and gross margin objectives
- Measures and manages customer profitability utilizing a customer profitability model. Imagine being able to make a rational decision as to whether an account or client is worth saving!
- Improves customer service by developing a process that aligns with customer objectives and manages customer expectations.

**Operational Performance:** With the objective of delivering products that customers perceive as good quality and value...on time and at the right cost:

- Analyzes identifies and corrects performance gaps between your customer requirements and operational performance
- Sales and operations planning tools ensure the synchronization of demand with production, procurement, and supply chain management
- Strategic sourcing can assist your sourcing efforts as you find comparable parts or ingredients at reduced costs.

### **Synergy Adds Value**

As each key-margin driver is improved, it has a direct, positive impact on your gross margin, but the synergy that results when you implement MarginMax produces results that are greater than the sum of their parts. As operational performance improves, for example, customer response times are shortened; on-time delivery improves as does overall quality satisfaction. As a result, sales effectiveness is enhanced. The sales force can now spend more time selling because it no longer has to expedite orders, process returns or address quality challenges. As customer turnover declines, sales increase—all thanks to MarginMax.

### **Easy Implementation in your Company**

MarginMax is a top-down process improvement solution directed by your company's senior management team and implemented by driver teams. The evaluation phase (which takes three to six weeks) is designed to be transparent. The evaluation identifies your company's gross margin improvement potential and provides the executive team with a plan of action.

The evaluation phase includes:

- Gross Margin Workshop for key executives
- An analysis of your gross margin drivers and related processes
- An in-depth definition of the results your company can achieve with MarginMax
- A gross margin/profit gap analysis and prioritized opportunities going forward
- A MarginMax business case development customized to your special circumstances
- The calculation of a MarginMax pay-back (ROI) schedule
- A MarginMax implementation roadmap
- MarginMax program mobilization plan

### **The Maturity Model: A Key Decision Tool**

The MarginMax Maturity Model is an important tool used by The Boulder Group during the evaluation phase to determine your company's gross margin improvement opportunity in the four key-driver areas. During the implementation phase the cross functional teams use the Maturity Model evaluation results to develop action plans to close current gaps. The Maturity Model is utilized to determine a company's current level of maturity and outlines the steps required to optimize their capabilities. An example of a maturity model is the following pricing maturity model.

**Pricing Maturity Model**

**The MarginMax™ Maturity Model is one of the tools used to determine the gross margin opportunity and the steps to close the gap**

Pricing Levels	Level 1	Level 2	Level 3	Level 4
Strategy	• The pricing strategy is not clearly articulated or understood by the pricing decision makers	• The pricing strategy exists, but is not well communicated or understood	• The pricing strategy is understood but not always applied in setting pricing	• The pricing strategy is clear, understood and applied by the pricing decision makers
Compliance	• Pricing compliance is not proactively managed as evidenced by major variances	• Pricing compliance is managed sporadically	• Pricing compliance is managed but with large variances	• Adherence to pricing guidelines are clear and actively managed
Value based pricing using models	• Cost based pricing is used • No modeling or cost analysis is done or used • Customer segmented pricing is not utilized	• Pricing is a mix of cost and value based pricing • Some cost analysis is used for pricing decisions • Customer segments somewhat understood, no specific value propositions	• Value based pricing is utilized for most pricing decisions • Cross functional pricing team exists • Customer segments and value propositions understood, but no differentiated prices	• Value based pricing is used • Customer segmented pricing is utilized • Modeling and cost analysis is used regularly for pricing decisions • Cross functional pricing team is empowered
Pricing Process	• No formal pricing process exists	• A pricing process exists however it is bypassed for fast customer quotes	• A pricing process exists however there are no measurements	• A formal pricing process is in place with owners and with measurements • Measurements are in place and used to decide actions

**The Workshop Sets Business Objectives**

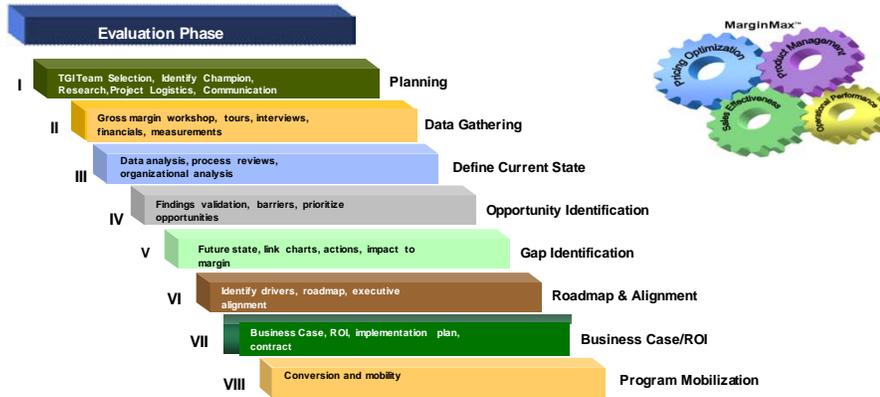
The first step in the evaluation phase is to conduct a Gross Margin Workshop which articulates the company's gross margin as well as other key objectives, the critical success factors to achieving these objectives, and an initial identification of the opportunities. The results of this workshop provide management and The Boulder Group the framework for the evaluation. The following is an actual client example of the first page that solidifies the objectives and critical success factors.

**Example of client's gross margin workshop results that provides the framework for the evaluation phase**

Core Budget = \$208M Revenues		
<p><b>VSI Objectives</b></p> <p><b>Business Objectives:</b></p> <ul style="list-style-type: none"> <li>• Grow company as fast as industry (estimated 4%)</li> <li>• Increase gross margin from 56% to 57.1%</li> <li>• Achieve operating margin of 28.8%</li> <li>• Maintain existing high level of customer satisfaction</li> </ul>	<p><b>Critical Success Factors</b></p> <p><b>Sales Effectiveness:</b></p> <ul style="list-style-type: none"> <li>• Build a stable, productive sales force</li> <li>• Align sales force with gross margin goals</li> <li>• Create comprehensive GPO sales process</li> <li>• Rationalize sales channels</li> </ul> <p><b>Product Management:</b></p> <ul style="list-style-type: none"> <li>• Establish proactive product management</li> <li>• Expand respiratory line</li> <li>• Craft compelling value proposition by market</li> <li>• Improve New Product Development process</li> </ul> <p><b>Pricing:</b></p> <ul style="list-style-type: none"> <li>• Implement value based pricing</li> </ul>	<p><b>Critical Success Factors</b></p> <ul style="list-style-type: none"> <li>• Install a pricing management process</li> </ul> <p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Reduce manufacturing costs</li> <li>• Continually improve quality of products</li> <li>• Continue to improve customer satisfaction</li> </ul> <p><b>Customer Management:</b></p> <ul style="list-style-type: none"> <li>• Develop GPO customer management model</li> <li>• Alignment of customer facing organizations</li> <li>• Customer/distributor profitability</li> <li>• Develop customer/distributor feedback process</li> </ul> <p><b>General:</b></p> <ul style="list-style-type: none"> <li>• Implement IGMM process with linkage to incentives</li> </ul>

The key evaluation phase outputs are determining the gross margin targets, identification of the opportunities to achieve these goals, and an implementation roadmap and a ROI summary. The planned evaluation steps ensure that MarginMax™ is focused on the high leverage gross margin drivers. The following is an example of the steps in the evaluation phase.

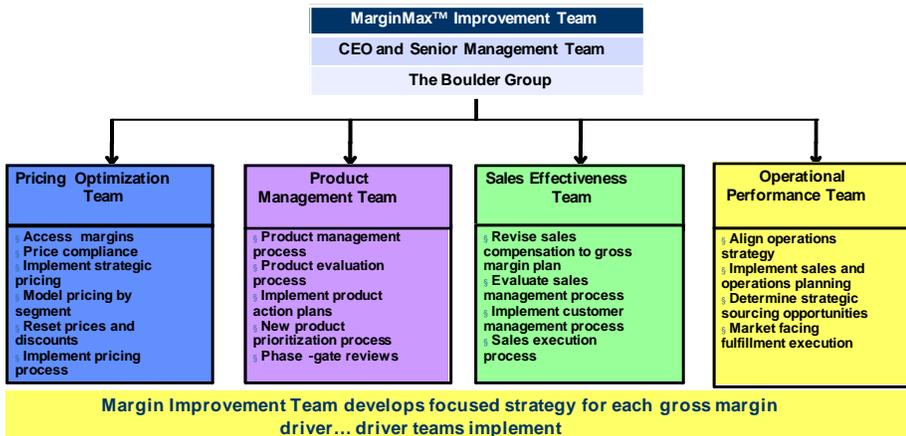
The planned evaluation steps ensure that MarginMax™ is focused on the high leverage gross margin drivers



**Implement for results**

The implementation phase begins with a workshop with the senior management team to review the results of the evaluation phase, solidify the key objectives, and finalize the implementation plan. A MarginMax™ program focuses on selected actions that drive optimum and early financial impact. The MarginMax Improvement Team develops focused strategy for each gross margin driver and the role of the driver teams is to implement. An example of a team structure is as follows:

MarginMax™ is directed by the senior management team and implemented by driver teams



The implementation phase includes installation of the MarginMax dashboards that measure both key drivers and gross margin results; they literally track the impact the program is having on overall enterprise financial performance. The MarginMax dashboards are hierarchical at both the senior management team and driver team level; thus, they play an important role in assisting the entire organization to align their efforts and focus on the key drivers of gross margin.

The program will achieve financial results beginning in the third month with substantial results in six to nine months.



### **The MarginMax Promise: Results**

The MarginMax solution is a holistic, comprehensive approach to gross-margin management that integrates pricing optimization, product management, sales effectiveness and operational performance, the four key drivers of gross margin. Some of the benefits of participating in a program:

- Ease of use due to completeness and integration of the solution
- Eliminates silos and other barriers to success
- Aligns people and processes across the organization
- Provides an end-to-end integrated performance view

The most important reason for implementing MarginMax: the potential for your company to achieve a five-to-ten percent increase in gross margin, which can translate into a 30-percent increase in operating profit.

The Boulder Group is a national consulting firm that is committed to providing enduring solutions that deliver long term value to our commercial and governmental clients.

To learn more about how we can help your organization meet their goals, contact us or visit our website.