

WP Advisory

Case Study: Consumer Products - Business Turnaround

George DiRado
September 2019

WP Advisory provides best-in-class management consulting services to middle-market companies. We are a small team of senior executives with significant industry experience.

Introduction

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Summary

- A global technology and manufacturing company wanted to divest a consumer products business that was no longer a strategic fit.
- During the sales process, the business suffered a 75% (\$75 million) drop in profitability from the prior year, substantially reducing its valuation.
- Its parent company put a new leadership team in place to restore profitability and lead a successful sale process.
- The leadership team identified three main issues eroding profitability:
 - Significant increase in commodity costs not offset by customer price increases or internal cost cutting
 - A factory move that was mismanaged and much costlier than expected
 - Inventory control issues that resulted in substantial write-offs

Role and Responsibilities

Role

- Chief Financial Officer, installed as part of the new leadership team alongside the President and VP of Manufacturing

Responsibilities

- Identify opportunities to cut costs and deliver savings
- Develop a disciplined process to lower and control commodity costs
- Minimize inventory write-offs by finding and fixing control issues
- Design repeatable plan for future factory/product moves to ensure delivery against financial expectations

Challenges

- Significant pressure from the parent company to turn results around quickly and get the sale process back on track
- Declining profits led to management layoffs – the new management team had to quickly build credibility across the organization
- Business processes and execution were weak in a number of areas which had to be fixed quickly
- Market weakness made it difficult to address higher commodity costs by raising prices to customers so the management team had to ramp up cost cutting to compensate for lower margins caused by higher commodity prices

Outcome

- Within 18 months, profitability was restored and exceeded the business's previous high profitability levels. The business was sold at a higher price than the parent company had originally sought.
- The company cut \$50 million of costs through product design modifications, supplier initiatives, additional factory consolidations, labor productivity, manufacturing and inventory management process improvements, and SG&A support cost reductions.
- Factory move/consolidation process drove a successful product-line move and generated \$9 million in savings.
- A commodity quotation process was implemented, including an approval matrix based on size and margin rates and escalation clauses to manage pricing risk, and performed a product and customer pricing analysis to explore price increase opportunities.
- Generated a \$10 million improvement in profitability through a combination of price increases and customer/product exits.

Contact

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