Customer & Product Profitability

Simulations for Product Cost and Customer Profitability Analysis

While there are a number of business systems and analytical tools that allow business users to perform backward-looking performance monitoring, simulation capabilities are required to anticipate the effect that future changes in material or component costs may have on product and customer performance.

pVelocity's sophisticated Profitability & Cost Simulation Software employs predictive capabilities *built on actual cost data* to simulate multiple, detailed alternative scenarios and assess their possible impact – answering questions like:

- What can be done about the "Top 10" profit destroying customers?
- How will next quarter's margins be affected by changing material costs?
- How much of a price increase, by market, customer, or product is needed to offset the cost to serve?
- Will my sales and pricing strategies produce the desired results?
- Where should I focus my investment strategy based on the relative profitability of markets and territories?

"Most organizations are struggling to move beyond backward-looking performance monitoring..."

Gartner: The Next Wave of Process Improvement (Nov 2009)

pVelocity's Profitability & Cost Simulation Software performs product and customer segmentation in real time:

In this example, pVelocity's configurable segmentation tool shows the top 80% of products by pounds sold in column A broken into three groups by revenue per hour.

Drill down on the lower left cell to discover the details and identity of the lowest performing products and the customers who buy them.

Gain Immediate, Detailed Insight into Your Product and Customer Portfolio with pVelocity

- First identify your strongest and weakest performers in terms of profitability
- Then simulate alternatives, tactics, and strategies based on actual cost data
- Follow with the collaborative actions that will improve the contribution of the weakest members of the group

With Actual Cost Data, You Can Take Action On

- Pricing strategies based on fluctuating production costs
- Margin opportunities currently concealed in silos across the enterprise
- Product portfolio optimization and future product development
- Supply chain improvements - materials, packaging, freight etc.
- Asset utilization, production processes, and planning

WHAT TO STOP

WHAT TO CHANGE

WHAT TO GROW

Take Immediate, Corrective, and Strategic Action through Segmentation Analysis

Using pVelocity to drill further into your data, you can identify what products your low performers are buying, and segment them to reveal the best and worst performers in the portfolio. In addition, you could also dig deeper to retrieve the P&L of a low-profit customer and discover why its margin contribution is so low.

Whatever your path of discovery through pVelocity, segmentation will quickly uncover multiple insights and help key operational roles make informed decisions and create collaborative workflows that lead to margin building actions:

> "Financial executives view their inability to measure customer and product profitability as their major technology constraint."
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> GARTNER, FINANCIAL EXECUTIVES INTERNATIONAL (FEI) TECHNOLOGY SURVEY, 2009

	IMMEDIATE & CORRECTIVE	STRATEGIC
PRODUCT & PRICING MANAGEMENT	• Establish price points based on predictive cost analysis • Decrease or rationalize production of unprofitable products • Product Portfolio realignment	Align strategy to focus on: • Profitable lines of business • New market opportunities
SALES & MARKETING	• Align prices with other similar customers • Expand business portfolio with profitable customers by increasing account investment levels • Sell via distributors or leave to competitors to serve	• New Business expansion via pricing strategies consistent with product competencies and profitability targets
SUPPLY CHAIN	• Adjust upstream service level agreements on delivery performance, return rates, etc. • Optimize enterprise-wide internal routing, plant-to-plant transfers, etc. • Seek competitive suppliers or renegotiate supply contracts for existing products	• Make vs. buy decision analysis • Initiate product engineering collaboration discussions with downstream and upstream partners • Seek new material supply channels
PRODUCTION & ENGINEERING	• Rationalize lot size and production schedules • Modify production plans to reduce waste and scrap • Reallocate production to underperforming assets	• Plan for production modifications that enhance performance such as shifting to other facilities or engaging third parties
CORPORATE	• Validate pricing on a customer, product and, market basis • Evaluate revenue, discounts, and costs that influence profitability	Create business cases for • new product investments • plant expansion, • geographic focus • acquisition or divestment decisions

To learn more about how other companies have benefited from immediate, detailed insight into projected product and customer profitability, visit www.pVelocity.com for case studies and sample simulations.