

THOMASGROUP 

Boost Your Operating Profit 30 Percent with MarginMax™

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In the current economic environment, 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 improvement, the company's financial performance often still suffers. The CEO is left with a dilemma. More 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 the economy begins to recover.

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 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.

Realize a 30-Percent Increase in Operating Profit

MarginMax is a comprehensive, integrated gross margin management platform that can turn your enterprise into a high-performance business. The typical goals of a MarginMax implementation include:

- A gross-margin boost of anywhere from five to 10 percent
- A significant increase in operating profit



30% Increase in Operating Profit

Even a small increase in gross margin can have a sizeable impact on operating profits, as much as 30 percent.

A Holistic Solution

Thomas Group's Breakthrough Process Performance expertise gave rise to our unique MarginMax profit margin solution. MarginMax is holistic in its approach by integrating the four key drivers of improved profit margin:

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

Rapid Results

MarginMax is the fastest and most effective way to help your organization realize bottom-line improvements. It turns gross margin management into an ongoing business process your enterprise can track and manage. This unique system also 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
 - Enforce price compliance
 - Implement strategically aligned value-based pricing
 - Optimize pricing process, measure, and enforce compliance
- Product management: With the objective of increasing customers' value perception, MarginMax helps you:
 - Manage the entire product portfolio to produce the highest possible perceived customer value
 - Implement a gross margin-based proactive product management process
 - Put in place a process that prioritizes new product concepts and helps you begin development
- Sales effectiveness: With the objective of improving sales, MarginMax helps your company:
 - Align sales force behavior with corporate strategy and gross margin objectives
 - Measure customer profitability
 - Develop a customer survey process to assess and track customer satisfaction on an on-going basis

- Operational performance: With the objective of maximizing efficiencies, MarginMax enables your company to:
 - Deliver products customers perceive to be of good value—there when needed, at a good price
 - Obtain strategic sourcing for the purpose of lowering product costs
 - Execute an internal product management initiative designed to deliver the right products in the right sizes at the right time to the right locations

MarginMax improves customer-facing performance, enhances management teamwork, and instills continuous process performance. As Thomas Group clients using this methodology testify, MarginMax is a transformative solution that yields a fundamental, long-lasting shift in financial performance, potentially resulting in a five to ten percent gross margin improvement.

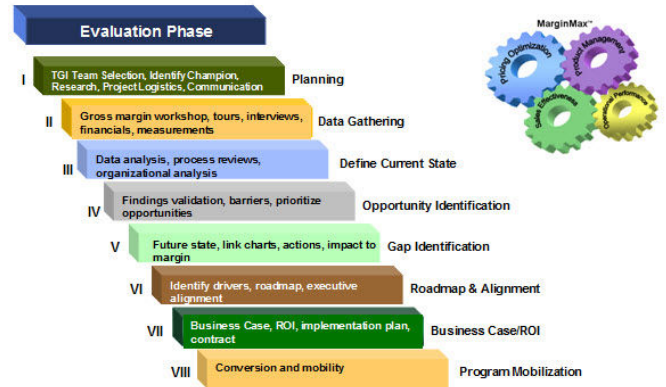
Transforming the Organization for High Productivity

Adopting a MarginMax solution in your organization will help break down silos that pose barriers to your success. MarginMax aligns people and processes across the organization for enhanced results. Due to its comprehensive nature, MarginMax improves both the convenience and confidence of executives as they make day-to-day operational decisions. Simultaneously, they gain process transparency, a paramount value in today’s corporate governance structures. Most importantly, MarginMax drives out non-value-added activities for enhanced efficiencies, while providing an end-to-end performance view and decision-making apparatus that cannot be easily duplicated anywhere else. You get real-time metrics that put you in direct control of your profit margin. MarginMax provides you with the methods to define how your company can win in the marketplace and equips you with the tools to help you realize success.

Phased Implementation for Cost Control and Convenience

MarginMax is designed with an evaluation phase (one to two months) and a rapid implementation phase (six to 12 months).

The evaluation phase includes a cost analysis to determine the contribution of each of your products to total margin. Also included is a rank ordering of products, territories, channels, and customers by their margin contribution.



MarginMax evaluation steps are designed to ensure focus only on highly leveraged gross-margin drivers.

The rapid implementation phase delivers the results of your MarginMax implementation. It includes a gross-margin workshop attended by your entire senior management team. It also includes the establishment of a MarginMax Improvement Team. Thomas Group simultaneously launches MarginMax *driver teams*, develops metrics, and prioritizes gross-margin levers for high-impact results. Within six to 12 months, companies implementing MarginMax can expect to see substantial improvements in their ability to control gross margins.

Let MarginMax Transform Your Company

Imagine what a gross margin increase of anywhere from 5 to 10 percent will mean to your company and to your stakeholders. Now, imagine that gross margin increase translating to a 30-percent boost in operating profit. The flexibility of a growth margin increase and a larger operating profit would not only transform your competitive posture in the marketplace, but enhance investor and employee relations. Let Thomas Group help you realize the benefits of MarginMax, and start realizing results.

Is it too soon to start thinking about coming out of the recession leaner, stronger, and structured to win more market share and earn better profit margins?

Smart companies, amid the panic and chaos prevalent today, will be looking toward the future even as they go into survival mode in the present. Many aerospace companies today are laying off workers and reducing production rates. The question is—are these companies slashing in a panic, or are they taking the opportunity to look at every facet of the business to achieve greater efficiency and productivity? If they do, they may find they can save money and retain more employees for the eventual upturn.

We help organizations, large and small, find efficiencies and put them into practice. Our work over an 11-year period for the Department of Defense (DoD), primarily with the US Navy, is a case in point. What matters most to the DoD is Warfighter Readiness and Effectiveness. DoD is effective, but it is not always efficient. Many silos existed when we first started advising DoD. We showed how to align them around critical processes that produce readiness. We then helped the Navy integrate these processes into corporate-like enterprise governance structures that owned all the costs associated with producing readiness.

As many of our clients, we did not work with the Navy to teach them Six Sigma principles. But we did conduct analyses of process effectiveness and of the change-management tools in use. Working in collaboration with the Navy, we applied our own change management experience and analytical tools to drive fundamental change from a consumption culture to a *Cost-Wise Readiness* culture. Our contribution was to help the Navy select the correct management tools, install the best governance methodology, and use the right process metrics to drive change. Over a five-year period, aviation readiness improved markedly, ship maintenance costs decreased, and the Navy, as a whole, obtained a financial improvement equivalent to the purchase price of a new aircraft carrier.

Can this experience translate into the corporate world? Of course it can. In our experience, the sheer number of black belts directed at a problem is not an indicator of success. Often the wrong tools are employed in the improvement process, and sometimes the right tools fail when applied only to a single functional silo within a complex organization. Indeed, 42 percent of business leaders in the US and Europe have said that their change management programs in the past five years have failed.

Now may be the best of all times to implement change. It is in the middle of crisis that barriers can be eliminated more easily. When the alternative is adapt or go onto the shop floor and hand out pink slips, managers will come around to new ways of thinking. That is why the consultant's role is highly relevant now and why, as a first step, we recommend to clients applying our maturity model to determine the extent to which Lean and Six Sigma processes are truly embraced across the company. Our assessment tool consists of 25 maturity elements to identify key improvement levers. To deliver results, we use our own PI Max proprietary continuous improvement process—a blend of Lean, Six Sigma, and other best practices.

The consultant's role, however, is not simply to impose narrow disciplines on a client's organization. It is to take a holistic view of the business—from segmentation strategies to sales, planning, forecasting, margin management, and operations—and help all disciplines coalesce on common objectives.

Growth hides a multitude of sins. Inefficiencies and unnecessary turf battles become more glaring in a period of contraction. That is why our message to corporate leaders is simple—seize this opportunity to make your organizations leaner and stronger (as opposed to thinner and weaker) and better geared for the opportunities to come. 