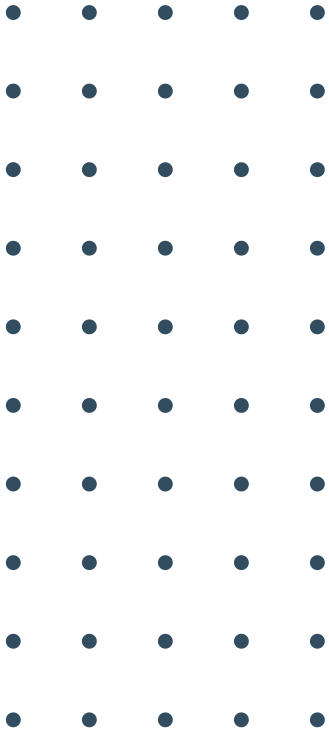WRITTEN BY:
CALLICOTT JONES

SKU
RATIONALIZATION

VUE™ WHITEPAPER SERIES

In procurement organizations, SKU (stock-keeping unit) management is crucial to successful product life cycle management. Understanding the impact of SKU proliferation on the business can lead to making cost-effective decisions when evaluating products and developing category strategies.

Countless companies have too many SKUs, which harms their business. Many procurement professionals are aware of this problem but may need more resources, technology, or support from other areas in their organization to tackle it.

UNDERSTANDING THE PROBLEM

A root cause is an imbalance between the rapid pace new products enter the market and the slow trickle-down of old products. In the age of Amazon, Alibaba, and other large companies with a seemingly infinite inventory, customers have rigorous expectations for a company's responsiveness to new technology and demand greater product availability than ever before.

It is easier for an organization to add SKUs than to cut them. SKU growth can lead to more revenue for a company, but it can negatively affect the business, too. The pressure to add SKUs frequently arises from other areas, such as Sales and Marketing, driving sourcing managers to continually add new products while holding on to outdated, cost-heavy items that account for minimal revenue. Too many outdated, expensive, or storage-heavy products can lead to greater complexity and costs, bogging down procurement organizations' ability to develop cost-effective strategies for categories and manage supply-chain operations.

So, how can procurement professionals confront this problem? This is where SKU rationalization enters the picture.

SKU rationalization is the procedure that identifies products at a SKU level basis to determine if they should be discontinued or prioritized. Reasons for suspending products include poor sales, high input costs which exceed an item's profit, and degree of value delivery.

BENEFITS OF SKU RATIONALIZATION

Narrowing the scope of products for sourcing managers to oversee

Freeing up physical storage space by reducing inventory

Improving material handling

Eliminating wasted spend

Unlock working capital

Removing extraneous items allows procurement leaders and their sourcing managers to focus on essential SKUs that drive their business. It eliminates the noise of products that negatively affect or don't contribute to their bottom line.

To perform SKU rationalization, procurement teams must evaluate the negative impact of SKU proliferation before they can identify which products to cut. Determining which products to keep, remove, or mediate through SKU rationalization provides procurement leaders with evidence to back up critical decisions by providing more visibility into the effects of unmetered SKU growth within the business. To start the process, companies must gather vital inputs that inform decision-making.

REQUIRED INPUTS INCLUDE:

- Detailed and accurate margin data.
- Raw material and packaging costs.
- Average order quantities.
- Annual volumes for products.

ADVANCED INPUTS INCLUDE:

- Labor and overhead costs
- Market data
- Variable costs and fixed costs
- Cost to serve
- Predictive costing

These inputs must be accurate; better data leads to better decisions. Once sourcing managers have assembled these inputs, they can determine which products can stay and which they can cut.

OUTCOMES

The SKU rationalization process begins with procurement and operations teams, but alignment from other areas within a company is crucial to its success. By gathering data-backed evidence on low-performing SKUs and the reasons behind their subpar performance, procurement professionals can acquire buy-in from leaders and carry out the proposed changes.

Procurement departments must trim the fat as the economy heads towards a recession amidst high inflation and turbulent markets. C-Suite executives will ask their procurement counterparts to cut costs and maintain or increase profit (for the optimistic). To that end, why waste time, money, and other resources to keep unnecessary products in stock?

ABOUT PROCUREVUE™

ProcureVue™ works with its clients to analyze their spend data. The first step is to cleanse the data, as any analysis exercise using dirty data will, by default, deliver muddled results. Once cleansed, the data is then harmonized, categorized, and enriched.

ProcureVue can transform this data into easily digestible visualized insights and provide a list of quick-hitting items that procurement can engage on immediately.

The bionic approach that ProcureVue offers means we can work with senior leadership and stakeholders to develop the best strategy that fits the business needs at that time, supporting your organization from concept to negotiations to completion.