



Enhanced Profitability Management for Short Product Life Cycles

In today's fast moving, ultra competitive markets the ability to demand premium prices and grow margin is under constant pressure. Competitive advantage and the ability to achieve and sustain profitability in the modern manufacturing industry come from product innovation and operational excellence.

Product differentiation is both difficult and expensive. Companies must maintain a deep focus on process innovation and have a comprehensive understanding of the cause-and-effect relationships that span the multiple participants across a supply chain network. They also need the domain expertise to understand which activities are the critical few that contribute to rapid results. Product innovation will create top-line growth through a differentiated runway where premium margins can be realized for a period of time. Companies can achieve bottom-line improvements through operational innovation, enabling them to maximize that runway as the innovator, or minimize the runway of a competitor.

The ability to improve financial performance through operational innovation is rooted in the ability to drive costs down while improving overall margin. To achieve this, companies must design their processes with a deep understanding of the interdependent elements of their operation so that they can gain accurate, actionable insight into the true costs and profitability of the business as a whole. This enables an organization to get a deep understanding of the discrete cost-to-serve elements across its product portfolio.

The Challenge

Many companies design and introduce products so rapidly that they don't have a genuine understanding of the real-world risks and rewards associated with each new product or the ability to set and achieve long-term strategic goals. Enormous investments are made in design, tooling, manufacturing, and inventory, often without a well-defined plan for maximizing profitability over the entire product life cycle.

Existing measurements of margin and cash flow are based on quarterly/yearly financial calendar and in many cases, organizations fail to gain the true insight into the costs and profitability of the products in a given portfolio. This occurs because analysis of margins is often incomplete and limited to gross margin, which does not reflect true profitability. Business managers who are measured at gross margin performance are at risk of making less-informed, sub-optimal decisions as they manage demand-supply across the end-to-end supply chain. They may have no visibility or control over other cost-to-serve components, such as marketing costs, promotions, price protections, channel subsidies and discounts, and other fulfillment-related costs that directly affect the true profitability of a product/portfolio of products across its life cycle. Continuous margin and cash flow management is required across the life cycle of a product considering the total "life-cycle cost" components at multiple stages in the end-to-end supply chain to monitor and manage costs, pricing, and true profitability.

The Solution

The i2 Short Product Lifecycle management solution is part of the i2 Sales and Operations Management Solution suite and enables enterprises to get a view of the profitability of a product or group of products in a portfolio across the develop, launch, sell, and liquidate stages of the product life cycle.

It allows business managers to proactively identify risks and opportunities associated with products and recommend actions and levers that can be applied to mitigate risks and maximize opportunities, with an overall goal of maximizing profitability.

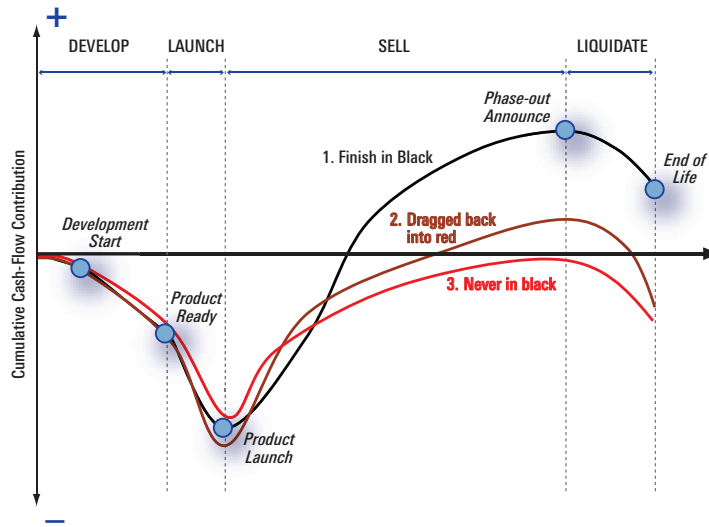


Figure 1
Products fall into three categories of performance.

A timetable of life-cycle costs and pricing helps determine strategies and actions that need to be taken at various stages of the cycle so that product margin and cash flow across the product life cycle is maximized. Proactive analysis and a view of life-cycle cash flows allows business users to implement levers and drive decisions for the products to finish in the black, and prevent a majority of them dragging into the red (Figure 1).

The i2 Short Product Lifecycle management solution is offered as on-demand reporting and analytics service that will arm business users with:

- Cash flow and margin analysis of a product or a group of products in a portfolio across its life cycle based on the forecasted/actual demand considering all the cost-to-serve buckets of: cost to develop, produce, market and promote, sell and fulfill, and after sales and warranty support
- Root-cause analysis and recommended actions for decisions influencing: volume, pricing, channel allocations, cost of goods sold, channel costs, marketing costs, critical component allocations, capacity allocations, supplier flex and other critical operational performance functions
- Playbook to analyze and manage uncertainty of demand at various stages that are critical to the life-cycle success, e.g. launch playbook for underperforming/over-performing products
- Product phase-in/phase-out decisions with a view of overall profitability across the life cycle
- “What-if” and scenario analysis capability to assess and establish control points for decisions across the lifecycle of the product

The i2 Short Product Lifecycle management solution can enable companies to significantly improve pricing strategy, enhance inventory control, and engage in more informed negotiation with channel partners. In addition, companies can maximize margin at launch, better plan end-of-life, and improve allocation of critical material and capacity to high runners — all of which lead to bottom-line improvements that reflect true profitability.



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