

Value Creation Strategy Sets Direction for Management Team and Investors

Industry & Client Situation

Leader in retail fashion category having just been purchased by a new investor group wanted to develop strategies to maximize returns over the next three to five years. Needed to determine where the highest growth and profitability would come from:

- Expansion in the traditional business: While the company had a dominant position in its category, they had not added a major new customer in several years. There was a need to articulate and quantify the value proposition to prospective and existing customers to drive revenue growth and profitability.
- Acquisitions and alliances in adjacent categories: Given the companies strength in sales and service, their channels could serve as a platform for adding categories that have the right characteristics.

Improved profit management: The overall profitability was reasonable, but there was some concern that discounts, concessions and other customer specific costs could be creating significant differences in profitability.

Approach

Through analysis of store level sales, inventory, and space allocations, we were able to quantify the Gross Margin Return of Investment (GMROI) as well as the margin per square foot of retail space. As a result we were able to show the superior financial returns that retailers were experiencing with our clients products, and determine which best-practices drove the results in the highest performance stores.

Based on the result of understanding and quantifying the value proposition we were able to prioritize new accounts to be targeted and help develop a business development story to take to the target accounts.

In terms of expanding into new markets through alliances and acquisition, we started with market assessments of size and growth, analyzed competitive positions, and determined fit with potential candidates along with expected synergies and valuation analysis.

By more accurately measuring margins and using Activity Based Costing to attribute indirect costs, we developed actual customer and channel profitability. The results showed large differences in profitability that were not previously known and formed the basis for improving profitability at specific customers.

Results

This work identified opportunities to more than double the operating profit of the business over the next three to five years. Our client is in the implementation stage: approaching target customers, as well as potential alliance and acquisition candidates.