



# CREATING PROFITABLE GROWTH WITH THE 80/20 PRINCIPLE FOR MANUFACTURERS

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# With you today



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# Creating a culture with an 80/20 mindset

## Benefits of the process:

- ▶ More Time
- ▶ More Focus
- ▶ More Competitive
- ▶ More Money
- ▶ Less Stress

**An 80/20 mindset  
enables you to take control!**

# Questions we will answer today:

- ▶ What is 80/20?
- ▶ Why should I care?
- ▶ How does it apply to the challenges manufacturers face?
- ▶ What are the key 80/20 strategies that can help my business?



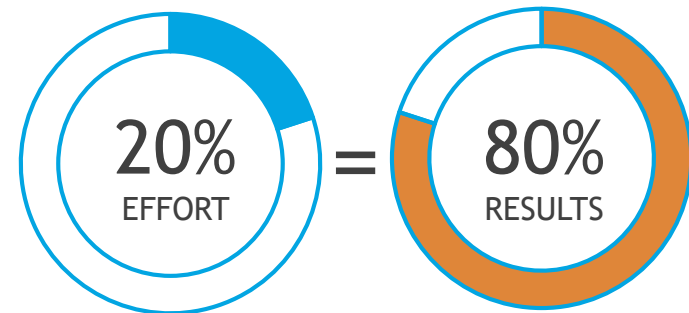
Are you already an expert in 80/20?



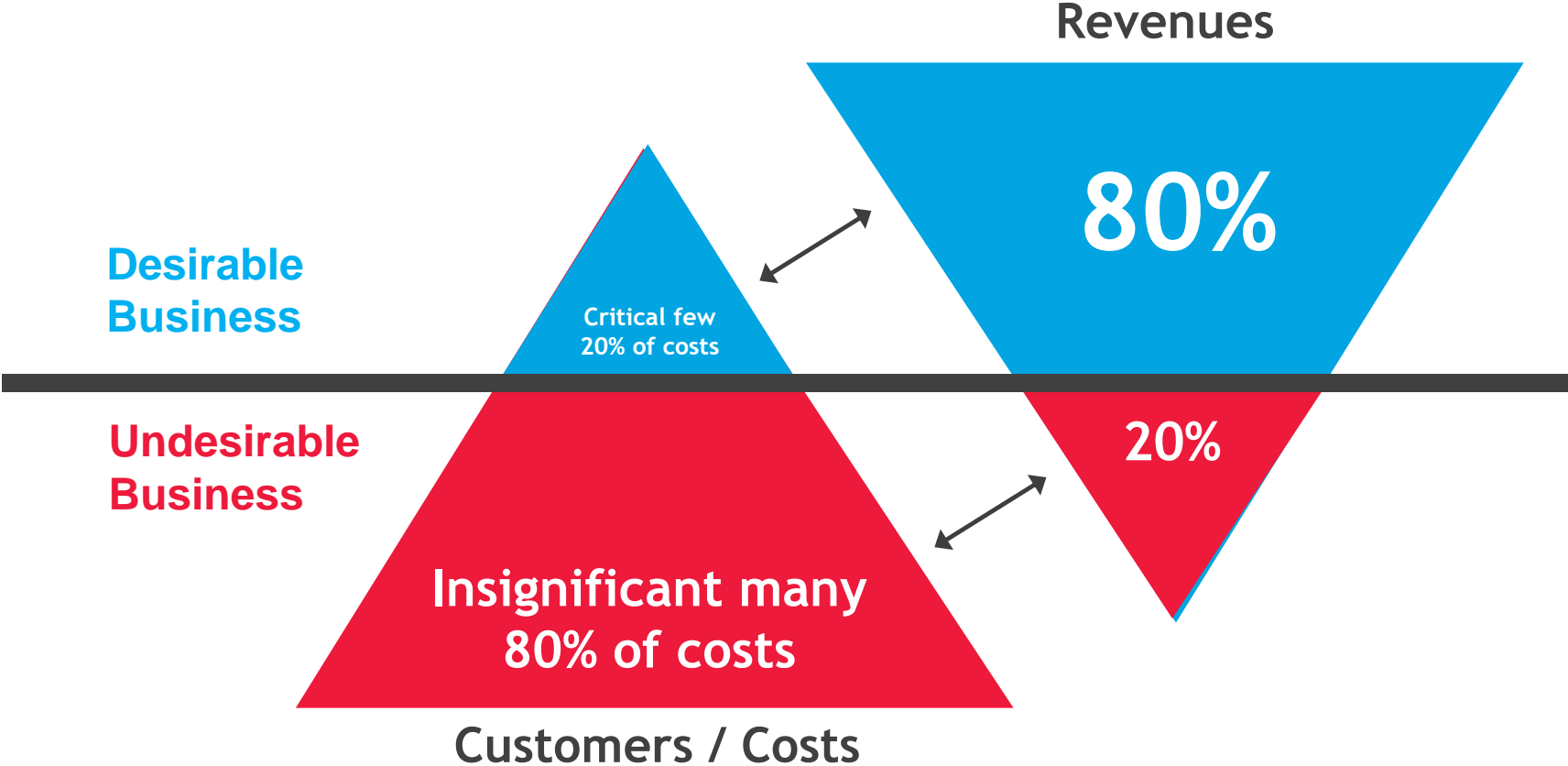
**Treat  
Them**

***Differently***

# What is the 80/20 rule?



# The BDO 80/20 hypothesis in manufacturing







## Why 80/20?

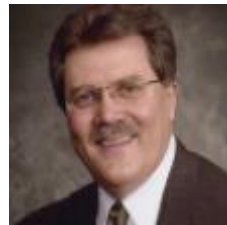
Proven results



19% compound shareholder return for 25+ years!

*“The cornerstone of ITW’s Toolbox is known around the company simply as ‘80/20.’ What started out as an analysis of product profitability in the 1980s has become an essential management tool that today permeates every area and function of ITW and allows it to grow successfully and profitably while remaining decentralized.”*

# Real world experience with over 400 businesses



# BDO three-year KPIs - manufacturing

## Revenue

Average Revenue Growth

**17%**

Effective Target Selling Programs

Increased Sales Force Productivity

Increase Existing Customer Wallet Share

Improved Service to Key Customers

## Cost

Average Gross Margin Rate Improvement

**9%**

Average SG&A Rate Reduction

**8%**

Resources Aligned with Strategic Areas

Leveraged Sourcing

Increased Efficiencies

Elimination of Waste in the System

Improved Inventory Turns

Increased ROI on Robotics

## Operating Income

Average Operating Income Increase of

**101%**

Empowered Team that is Accountable

Focus Throughout the Business

Monetization of Added Revenue and Margin Dollars

Reduced Stress on Talent Pool



# Proven results for XYZ Company

## Before 80/20

- ▶ Revenue Growth = Market
- ▶ **5% Operating Income**

## After 80/20

- ▶ Revenue Growth = 3X Market (46%)
- ▶ **14% Operating Income**

# We often hear...

*“Strategy? What strategy?”*

*“My growth is stagnating.”*

*“We need to reduce business complexity.”*

*“Our service levels are lagging.”*

*“We struggle to attract new talent.”*

*“We don’t have enough time to treat our best customers how they should be treated.”*

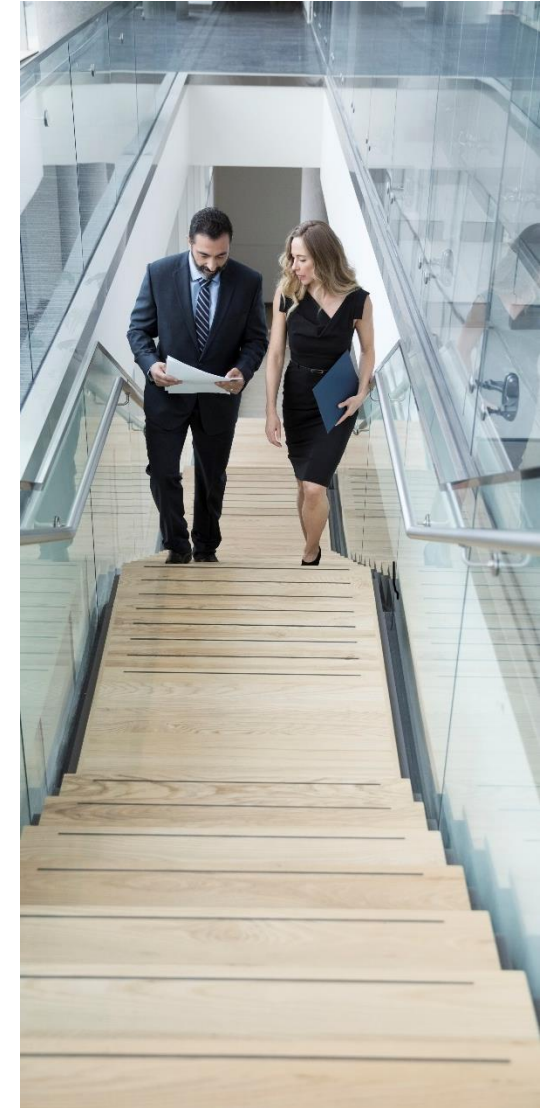
*“We’re burning out our best people.”*

*“We’re experiencing margin pressure.”*

*“We’re not acting, we’re reacting.”*

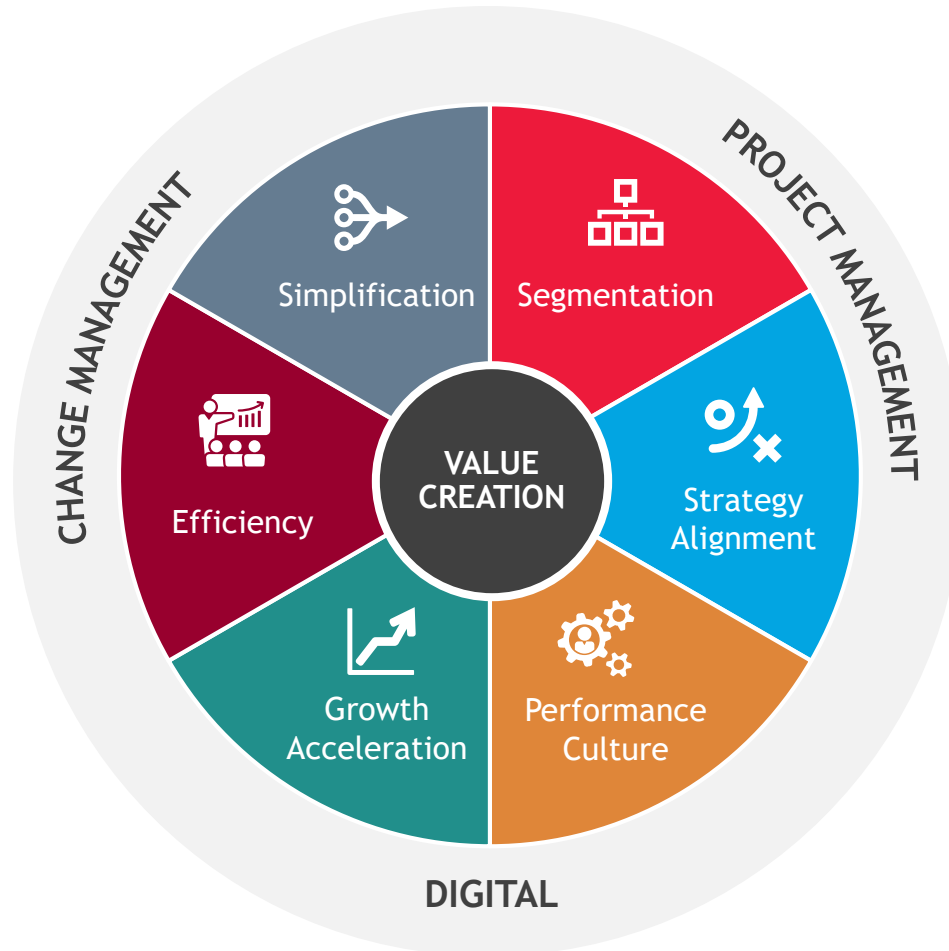
*“We lack focus.”*

*“We are constantly fire-fighting”*



# The BDO Value Creation Drivers of 80/20

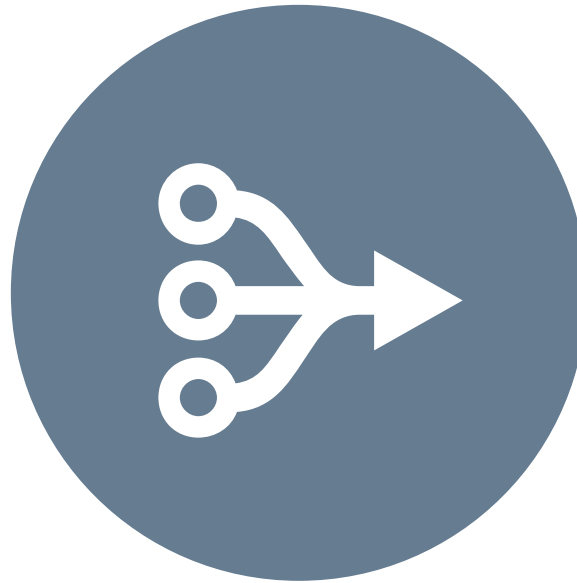
A framework for manufacturing and sustaining profitable growth



# Value Creation Driver #1

## SIMPLIFICATION

Customers, Products, Processes, Services & Vendors



COMPLEXITY LIMITS SCALABILITY AND PROFITABILITY.



# Over time businesses become complex

## **Manufacturers often have too many:**

- ▶ Vendors
- ▶ Inventory
- ▶ Products
- ▶ Policies and procedures
- ▶ Customers
- ▶ Stacks of reports



The foundation of 80/20



LISTEN TO THE DATA.

# Quartile report

|    | Number of customers or products | Sales | Effort | Profit |
|----|---------------------------------|-------|--------|--------|
| Q1 | 250                             | 89%   | 25%    | +++    |
| Q2 | 250                             | 7%    | 25%    | +      |
| Q3 | 250                             | 3%    | 25%    | -      |
| Q4 | 250                             | 1%    | 25%    | - - -  |

Is Quartile 1 subsidizing Quartile 4?

# Quartile report

|    | Number of customers or products | Sales | Effort | Profit |
|----|---------------------------------|-------|--------|--------|
| Q1 | 250                             | 89%   | 25%    | +++    |
| Q2 | 250                             | 7%    | 25%    | +      |
| Q3 | 250                             | 3%    | 25%    | -      |
| Q4 | 250                             | 1%    | 25%    | - - -  |

Is Quartile 1 subsidizing Quartile 4?



## Any objections?

- ▶ Some of our small customers will become big
- ▶ All of our eggs will be in one basket
- ▶ We have better margins in Quartiles 3 and 4



# Simplification Case Study

## XYZ Marine & Powersports



# Simplification

## XYZ Company

### WHAT WE DID

- ▶ Get the DATA!
- ▶ Eliminated one entire business segment
- ▶ Remaining segments → eliminated 600+ SKU's
- ▶ Customer & Product filters
- ▶ Yes, but...



# Simplification (cont'd)

## XYZ Company

### WHAT WE DID

- ▶ Get the DATA!
- ▶ Eliminated one entire business segment
- ▶ Remaining segments → eliminated 600+ SKU's
- ▶ Customer & Product filters
- ▶ Yes, but...

### RESULTS

- ▶ Inventory reduced \$3.3M
- ▶ Production efficiency up 23%
- ▶ NPD projects on time 22% → 95%

# Value Creation Driver #2

## SEGMENTATION

Unlike Businesses and Resources





# Segmentation

## XYZ Company

### SITUATION

- ▶ Moderate growth; declining profitability
- ▶ CI diminishing returns
- ▶ Strategic plan ineffective
- ▶ Key leaders ‘focused’ on entire business

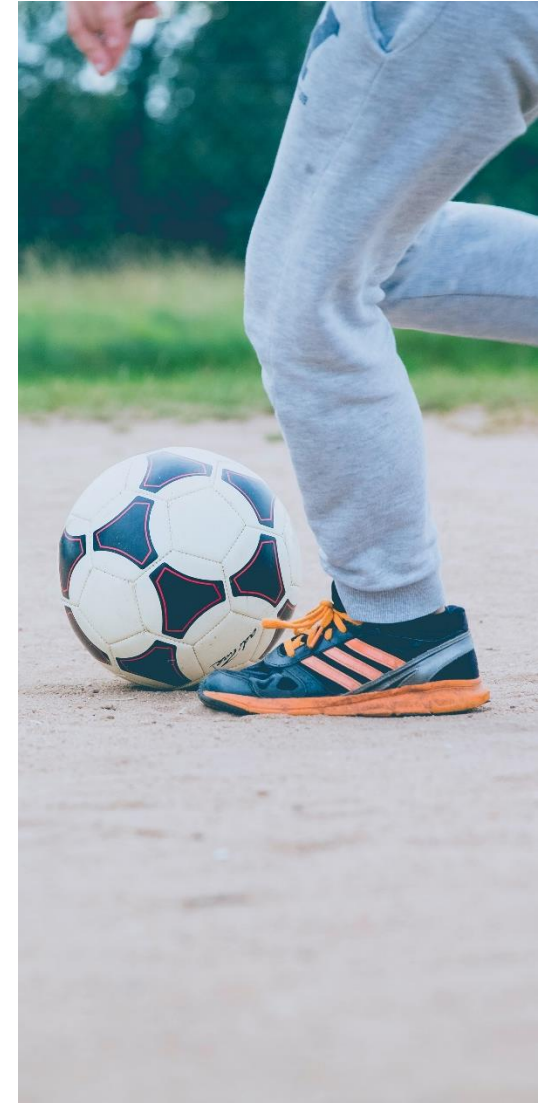


# Segmentation (cont'd)

## XYZ Company

### WHAT WE DID

- ▶ One overall business → three business segments
- ▶ GM for each segment (full P/L)
  - Dedicated Sales, NPD, Ops
- ▶ Strategic plan for each segment
  - KPI's aligned with corporate objectives

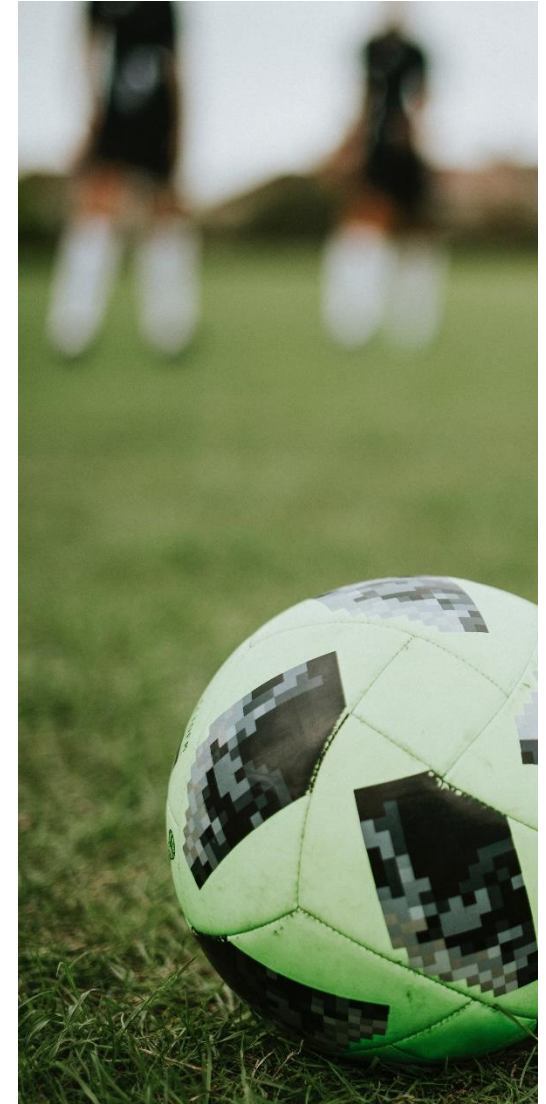


# Segmentation (cont'd)

## XYZ Company

### RESULTS

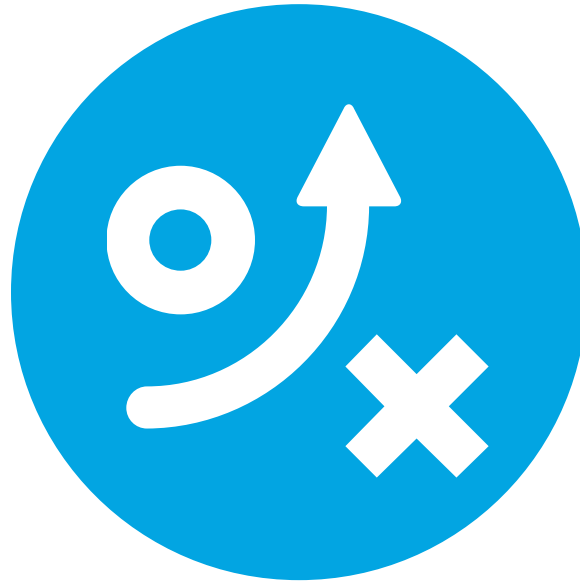
- ▶ Greater FOCUS
- ▶ Accountable teams
- ▶ Stronger relationships with top customers
- ▶ Empowered, engaged employees
- ▶ Leadership strategically elevated



# Value Creation Driver #3

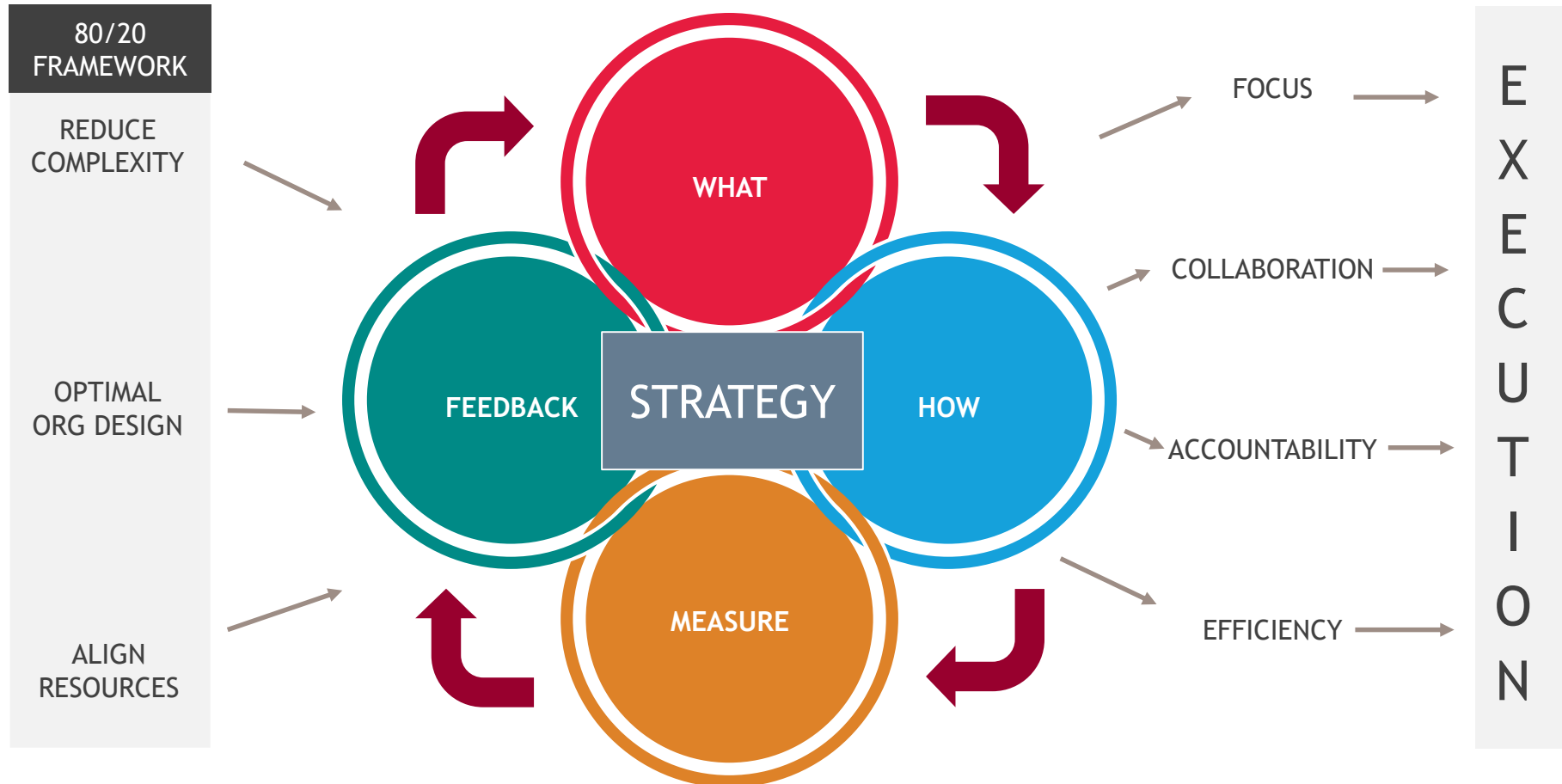
## STRATEGY ALIGNMENT

Preparing to Succeed

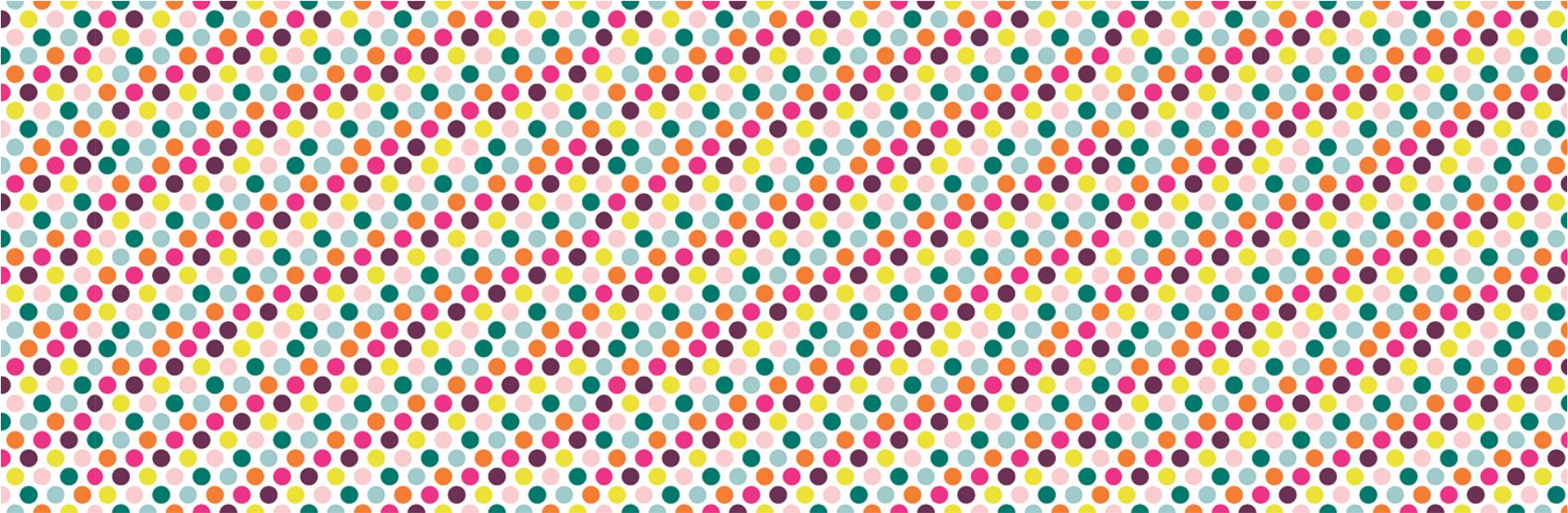


# 80/20 Framework

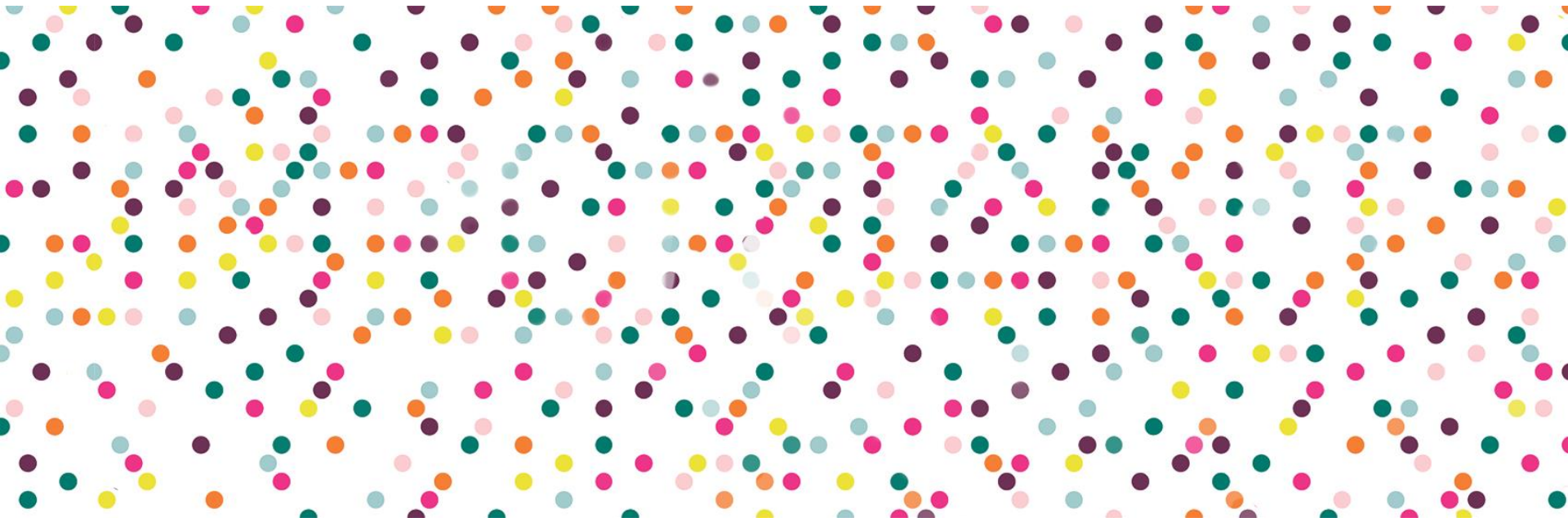
## Driving Profitable Sales Growth



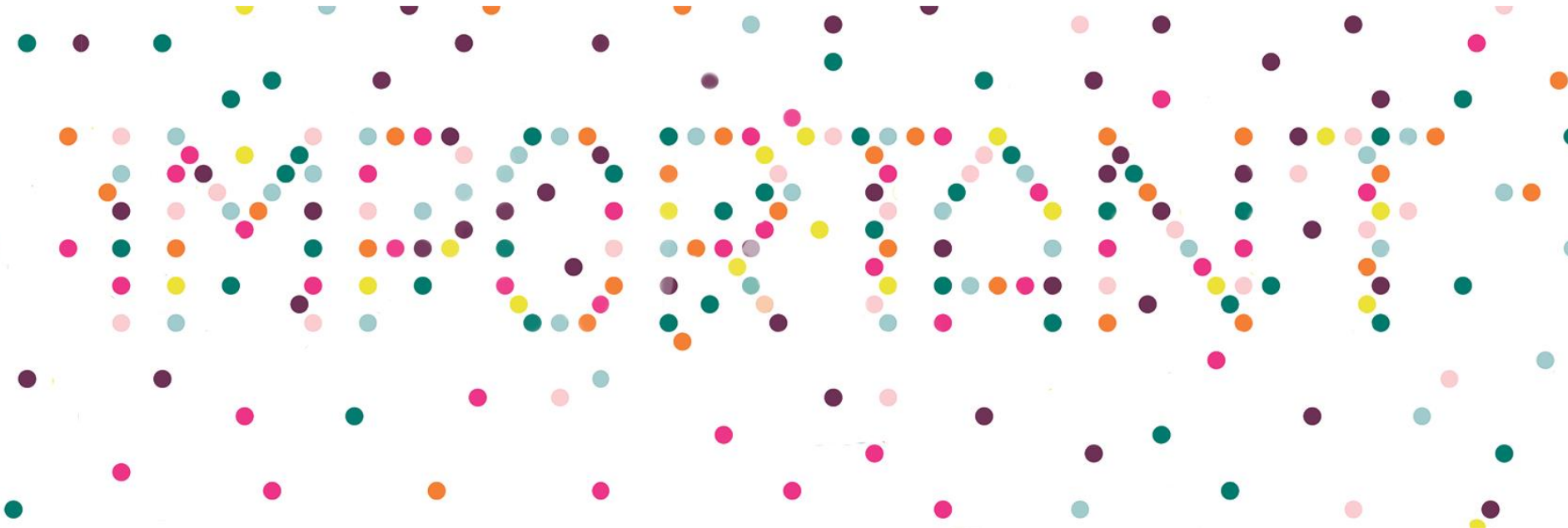
# Seeing what's important



(before 8020)



(after 8020)



(after 8020)





(after 8020)

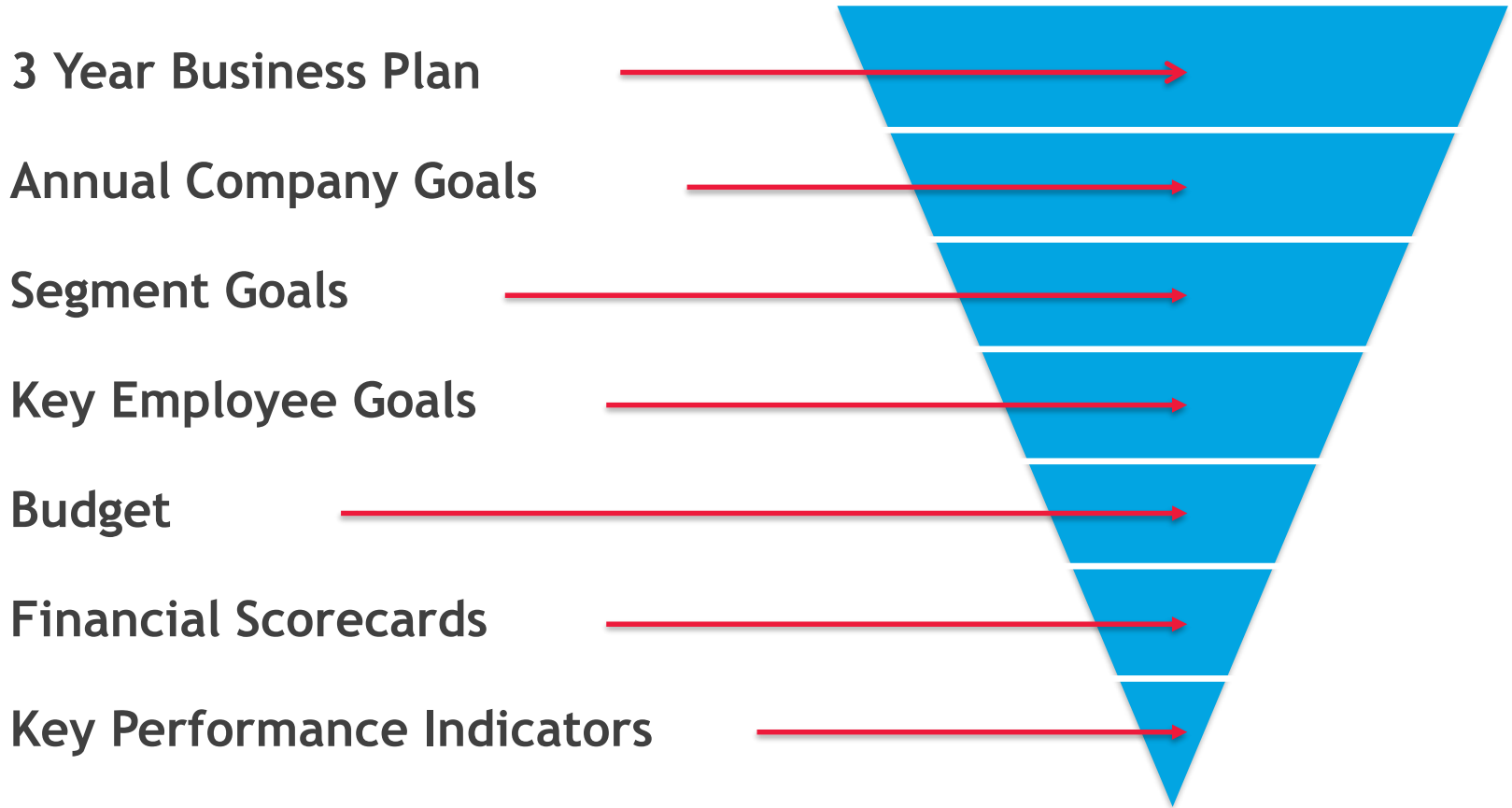
# Value Creation Driver #4

## PERFORMANCE CULTURE

Lay the Foundation For Driving Goals  
Throughout the Organization



# BDO operational toolbox



# Value Creation Driver #5

**GROWTH ACCELERATION**  
Driving above market sales growth



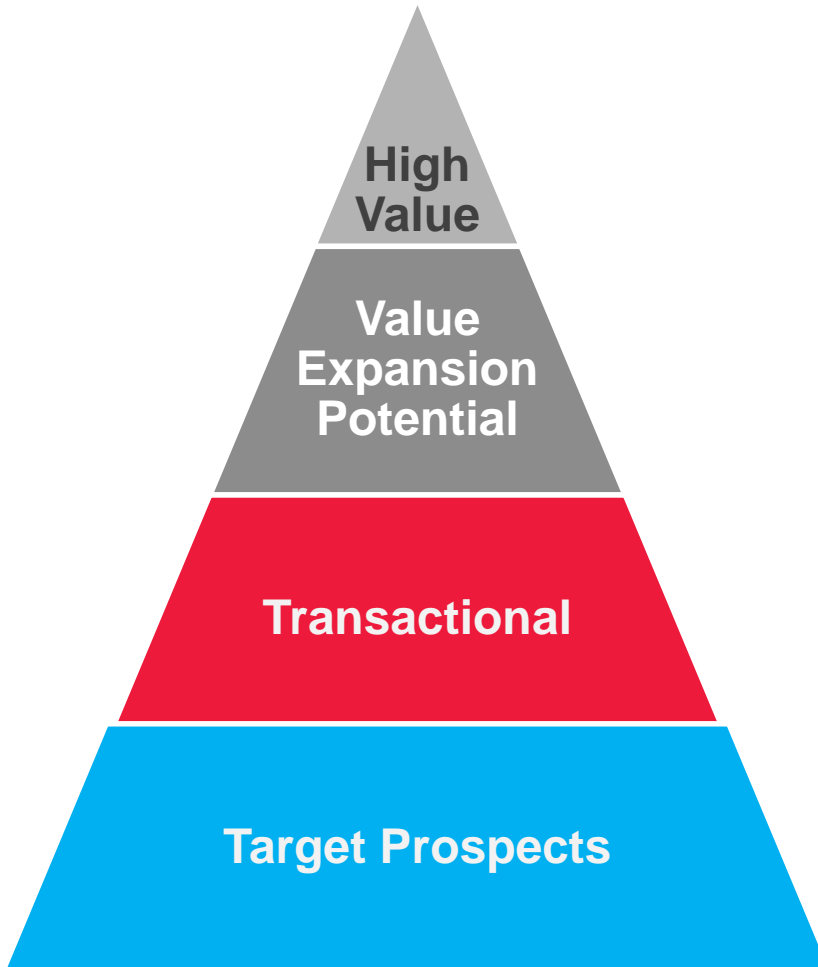


Your best customers

**MUST BE**

**“RAVING  
FANS!!!!”**

# Precision Selling



| Strategy  | Outside Sales Intensity |
|---|-------------------------|
| Overserve<br>Defend<br>Grow                             | High                    |
| Aggressively Grow                                       | Moderate to High        |
| Efficiently Serve and<br>Support Growth<br>(e-Commerce) | Low                     |
| Strategic Selections<br>High Potential                  | High                    |

# Value Creation Driver #6

## EFFICIENCY

Streamline processes



# 80/20 on the plant floor

## Separate and focus



### **HIGH VOLUME**

- ▶ Lean, in-lining, robotics, real-time info, etc.
- ▶ \*Price advantage\*



### **LOW VOLUME**



# Wrap-up



# Proven results for XYZ Company

## Before 80/20

- ▶ **5% Operating Income**
- ▶ Revenue Growth = 1X Market
- ▶ % of Revenue from New Products = 0%
- ▶ Patents = 1 in 40 years
- ▶ Leaders “focused” on entire business

## After 80/20

- ▶ **14% Operating Income**
- ▶ Revenue Growth = 3X Market (46%)
- ▶ % of Revenue from New Products = 45%
- ▶ Patents = 11 in 12 months
- ▶ Dedicated, segmented teams

Before 80/20



After 80/20



# A holistic business program



# The results of our engagements

In the first 12 months, our clients see a...

**6.28%**

average increase  
in annual revenues

**43.67%**

average increase in  
annual operating income

**10X**

return on  
investment





## Summary of what we covered today:

- ▶ What is the 80/20 platform? How does it apply to manufacturing?
- ▶ What are the key 80/20 strategies that consistently deliver profitable growth?
- ▶ What is the impact of creating an 80/20 mind-set in my business?



**FINALLY... THE ULTIMATE 80/20**

**YOUR**

**FAMILY**



# TIME IS A GIFT.



# TIME IS MONEY.



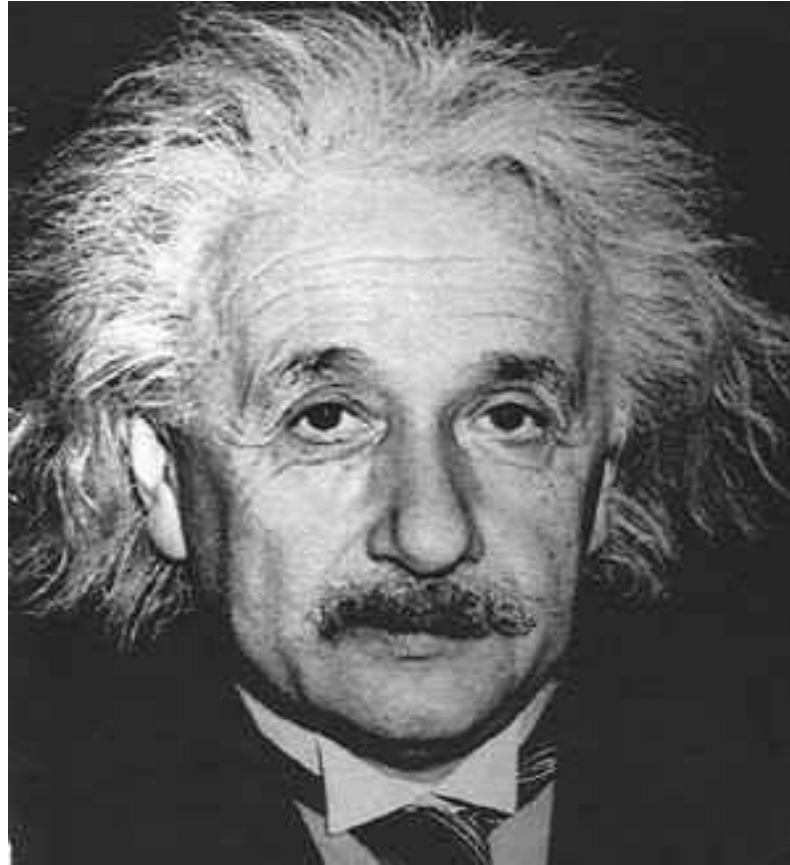


Does 80/20 apply to your world?

“ONCE YOU KNOW SOME THINGS,  
**YOU CAN'T UNKNOW  
THEM.**”

- *Alice Hoffman*

# The Definition of Insanity.....



# Reflection- How are you doing in each of these areas?

- Is sales growth dropping incremental income to your bottom line?
- Do you have a plan/process for creating "Raving Fans" amongst your top customers?
- Are you increasing workforce productivity?
- Are you consistently reducing business complexity, creating a less stressful operating environment?
- Is your management team aligning effort and resources on critical business drivers?
- Are you satisfied with the alignment of resources?
- Are your automation efforts focused in the right areas of the business and are you meeting the target ROI goals for these investments?
- Are you realizing the enterprise valuation objectives for your business?
- Are key decisions being driven more by opinions than data?
- Do you have a "healthy" culture of accountability throughout your organization?
- Are you meeting the service needs of your top customers?
- Are your target margins competitive?

## For more information




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