Margin Erosion

All businesses with diverse, competitive markets and multiple product streams suffer from margin erosion. Competitors constantly nibble around the edges of the product portfolio and force decisions to shave prices and reduce lead times to maintain market share.

Typically, profitability rests with a limited number of high-margin product groups and geographical markets; with a long tail of lower-margin or even loss-making products that either show promise or are needed to make up the portfolio. The trick is to raise average margins whilst maintaining growth.

Competition in manufacturing industry will continue at a pace and without a constant stream of new innovative product offerings that appeals to the market, probably the best way to drive up average margins is to reduce the key drivers of cost:

- Eliminate/reduce waste – in design, acquisition of materials, process and supply
- Combat product proliferation - profitability fluctuates by variant

Unless you trade in an industry such as automotive and electronics, where there are norms for year on year cost reductions, the driver for change must come from within.

Supply Chain Excellence's approach

In our experience, most businesses have a number of ongoing initiatives consuming the 'spare time' of key managers and individuals and design our solutions to be simple and effective – without the need for full time staff involvement. At Supply Chain Excellence we recognise that all businesses are different and have developed two methods designed to alleviate margin erosion:

Total Acquisition Cost (TAC) – focuses on the reduction/elimination of all non value-added costs associated with the delivery of a product or service to your customer, includes purchases, processes, stocks and supply through x-departmental team working and with suppliers and customers

Range Optimisation (RO) – establishes the true 'benefit' of selected product groups and markets and delivers a plan to address identified issues

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