UNIVERSITY OF GLOUCESTERSHIRE

Building A Customer Profitability System Based on OLAP Technology

'Customer Profitability: FMCG

Vision in Business
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London

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Presentation Structure

1 Bulmers: Company Profile.

2 Building The Customer Profitability System.

3 System Demonstration.

4 Future Directions/Lessons Learnt.

5 Profitability Analysis (focus on Promotional Spend).

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1   Bulmers Profile

* Location: Hereford, UK
* Turnover 1996/7: £300m
* Profit 1996/7: £30.1m
* Employees: 850

STRONGBOW

WOODPECKER

SCRUMPY JACK

H P Bulmer Pre Tax Profits 1992-1997

£M

Year	Profit
1992/93	19.6
1993/94	21.4
1994/95	25.0
1995/96	27.5
1999/97	30.1
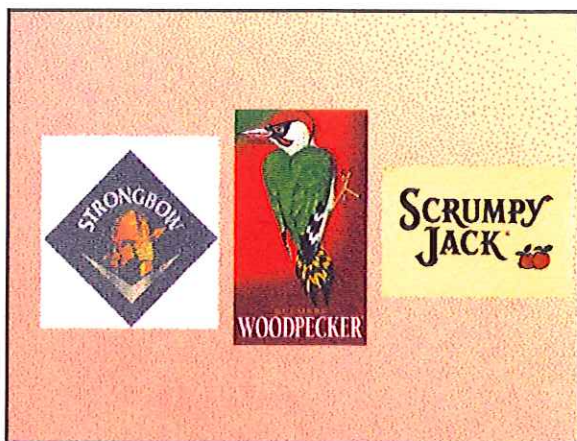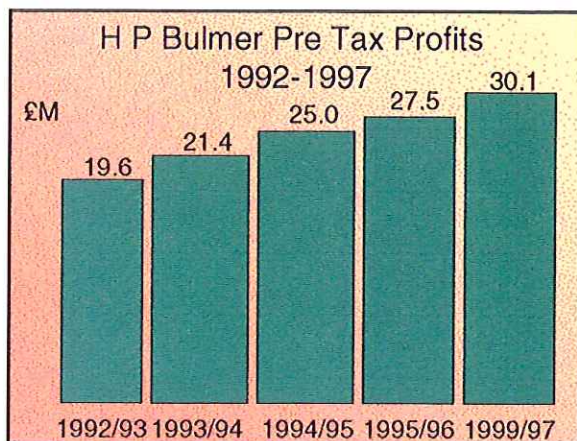
Market Dynamics

* Margin pressure and market segmentation.

* Challenge of alcopops and other product innovations.

* Increasingly viewed as another drink in the LONG Drinks market.

* International growth is an important component of future strategy.

H P Bulmer Manufacturing Key Facts

* 400 product lines.

* 5000+ order points.

* 800+ statement points.

* Make to stock; stock to forecast.

* 48 hour delivery cycle from order take.

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2 Building The Customer Profitability System

Profit Management Project
Key Drivers

* Brand and account management by profit.

* Tracking account performance against forecast.

* Field to HQ communications, word processing etc.

Profitability Analysis → Account Engineering, Overhead Reduction, Product Rationalisation → More Profitable Enterprise; ABC Analysis → Profitability Analysis

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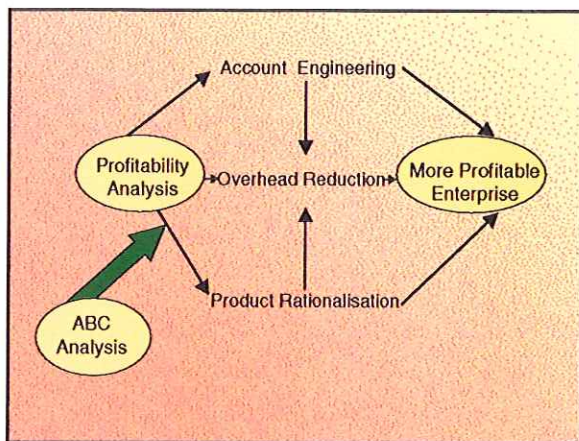
Customer Profitability Profiling
Why Do It?

Variability of Cost Total Sales	Customer Driven Variations in Costs as a % of Sales
Discounts & Adjustments	0-25
Selling & Order Taking	2-20
Storage & Distribution	2-35
Production & Purchasing	20-70
Marketing & Advertising	1-20
Gen. Admin & Fixed Costs	10-30
Profit	Scope for Massive Profit Variations

Profit Management System (OFA)

	Product Info	
Sales Volume, Values		OFA Database (OLAP/PC Express)
Terms Disc Prom Disc Adv Allow Misc Exp Over-Riders Prime Co	Data Repository (RDBMS)	
	Customer Info	

National Account Communications Systems

- Cost Information
- Sales Volume & Value
- Sainsbury
- Product & Customer Maintenance
- Major Accounts
- Ad Hoc Queries
- National Account Manager
- E-Mail
- Brand Planning
- Graphics, Word Processing
- Account Plan: Sales Contribution By Product & Customer Over Time

Profit Management (Oracle Financial Analyser) Project Phasing

			Office Automation Rollout & Training		
	New Customer and product structures & system built			Follow up Training	Redefinition and validation of Cost Data Feeds
			OFA rollout & training programme		
		Supplier Selection	System Pilot	UNIX Migration	
	System Specification				
Strategy Study					
1993	1994	1995	1996	1997	

Profit Management Implementation Problems

* Data issues
  * Full profitability figures not robust because of lack of validation.

* Software Faults
  * Version 4.5 of OFA not robust and couldn't handle data volumes. Forced migration to 4.6. (UNIX version).

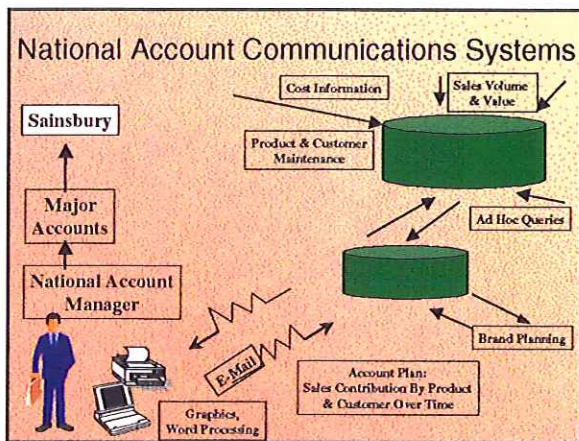## Profit Management Implementation Problems

* Communications Instability
  * Bulmer pioneered the use of remote working using OFA. Mobile functionality engineered with Bulmers, but initial use of e-mail for file transfer was unreliable. Replaced by use of LANDIAL (dial up). Now remote comms part of package.

* Education and Training
  * Overall step change, but some account managers still struggling.

OFA Project - Current Status

* 35 field based Account Managers and 15 Brand/Finance Managers at HQ.
* Volumetric reporting of top 60 customers.
* Cost Drivers identified - and the means to report them.
* Account and Brand planning and forecasting capabilities - in the field and at HQ.
* 4 data 'cubes' for account brand data - Budget, Actual, Forecast, Plan.
* HQ profitability reports and promotional spend analysis.

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3 System Demonstration

National Account Communications Systems

Sainsbury

Major Accounts

National Account Manager

Cost Information

Product & Customer Maintenance

Sales Volume & Value

Ad Hoc Queries

Brand Planning

E-Mail

Graphics, Word Processing

Account Plan: Sales Contribution By Product & Customer Over Time

Customer Profitability from Oracle Financial Analyser System To Follow

4 Future Directions/ Lessons Learnt

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* Agree consistent product and customer structures:

    * Bulmer Score: **8/10**

    * Remedial Action:
        * **Tighten up on procedures**

OFA Credibility Examples - 1

Major Brewer sales volume update

<u>Symptom</u>
The Major Brewer monthly sales volume figures were extremely low in OFA.
<u>Cause</u>
Account numbers were reorganised within the Customer Maintenance area - the main account number for the Major Brewer was then not attached to the "Major Brewer Total" affiliation. Thus the bulk of the Major Brewer sales volume was not picked up when data aggregation took place within Sales Analysis and OFA.
<u>Remedial Action</u>
i) Training within data maintenance area for extra vigilance when maintaining Customer Account numbers.
ii)Exception report now in place to print all account numbers that are not attached to the corporate hierarchy.

* User Ownership and Administration

    * Bulmer Score: 7/10

    * Remedial Action:
        * Consultancy 'Sense Check' for over complexity/
          attempting too much.

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* Validate all cost feeds

    * Bulmer Score: 5/10.

    * Remedial Action:
        * Finance validation.
        * Tighten procedures.

OFA Credibility Examples - 2

Beer - promotions Spend in OFA

Symptom

A beer brand off invoice promotional commitment of circa £55,000 for miscellaneous promotional expenditure in May did not appear in OFA.

Cause

Miscellaneous expenditure cost had been miscoded against a Royalty code. There were thus no transactions against this commitment within the Promotional System and thus OFA.

Remedial Action

Prevent miscoding of information at source.

* Clarity of purpose and benefit

  * Bulmer Score: **6/10**.

  * Remedial Action:
    * **Separate profit system from NAM planning and forecasting system.**

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* Don't overcomplicate

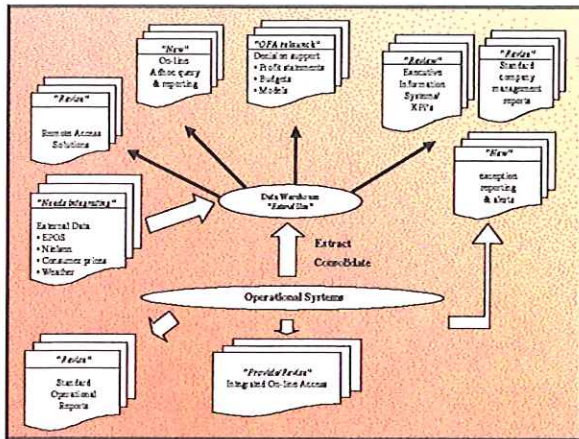 * Bulmer Score: **4/10**

  * Remedial Action:
    * **possible use of simple spreadsheets to complement/replace OFA for some NAMS.**
    * **Rationalise data cubes.**
    * **Rationalise back history.**
    * **Rationalise line items.**

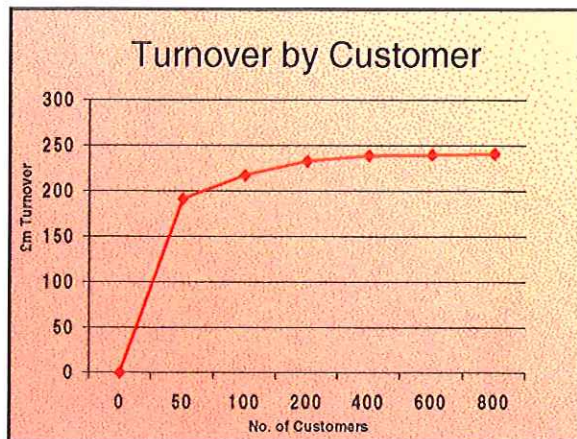* Don't pioneer new technologies

  * Bulmer Score: **5/10**.

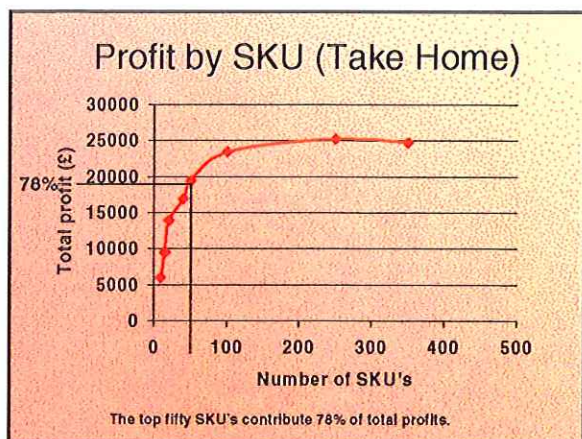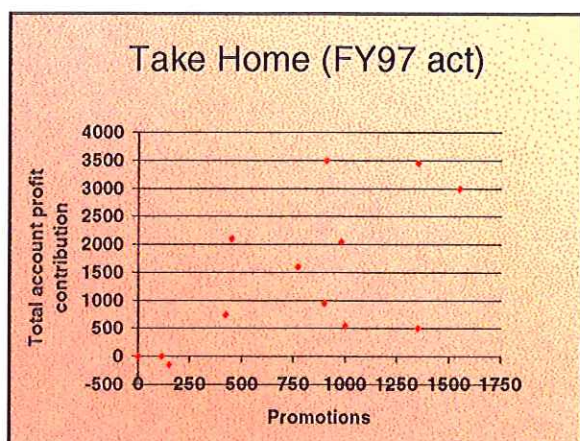 * Remedial Action:
    * **Email dropped as transfer mechanism.**
    * **On-line access rather than 'posting out'.**

5   Profitability Analysis

Turnover by Customer

Profit by SKU (Take Home)

78%

Total profit (£)

The top fifty SKU's contribute 78% of total profits.

Number of SKU's

Take Home (FY97 act)

Total account profit contribution

Promotions

Take Home Account Profitability

Account contribution (% of total)

Cummulative account contribution (£)

41.99%
58.07%
68.20%
77.16%
88.34%
95.63%
99.05%

top3 top5 top7 top10 top15 top20 top25

76% of Promotional Spend in Take Home

Promotional Spend as % of NSV vs Account Contribution in Grocery Multiples

Promotional Spend per HI and Account Profit Contribution in Grocery Multiples
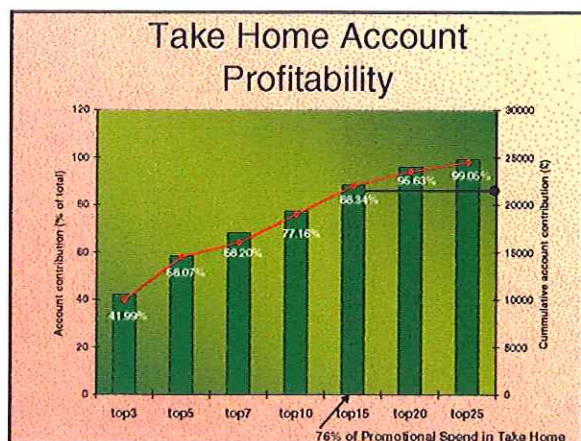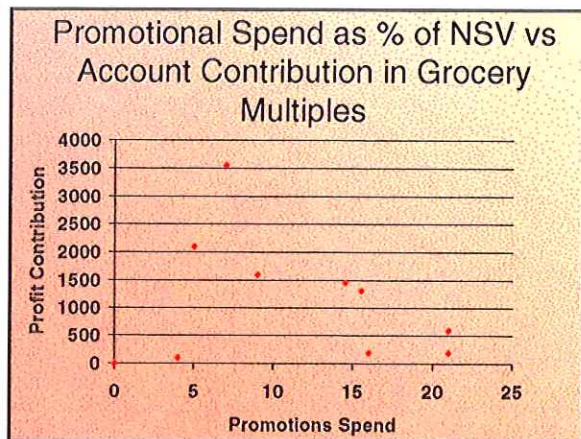

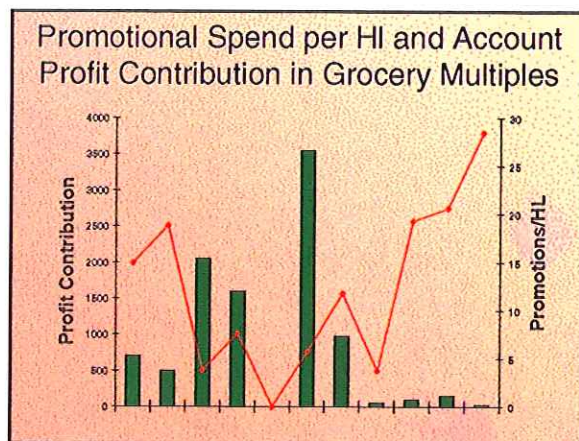## Final Thoughts

* 4 years since start of project.

* Many lessons learnt the hard way.

* Important that we now maximise potential and harness experience to date.

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