



INDUSTRY X: DESIGN TO MARGIN

VIDEO TRANSCRIPT

Tracy Countryman:

My name is Tracy Countryman. I'm a Senior Managing Director at Accenture and I lead our Industry X practice. You might be wondering what is Industry X. Industry X is our services focused on building intelligence into the things we make and how we make them. And so today we're going to talk a little bit about both of those combined in what we call 'Design to Margin'. We did have on January 19th our first Springboard summit, which was focused on the Digital Manufacturing or the make part of that equation. And if you would like more information on that you can find a link in the window, Sally, if you could put in there, on Accenture.com. The videos and the content in that session was extremely well-attended and we're really looking forward to today's discussion. So your host for the day is Russ Rasmus. Russ is one of our global managing directors who leads our strategy practice within Industry X. I'll turn it over to you, Russ, and I hope you guys have a wonderful rest of the session.

Russ Rasmus:

Awesome. Thank you Tracy for the kickoff here. Let's go ahead and go down to the next slide. Welcome everyone, my name is Russ Rasmus as Tracy said I'll be your moderator today and we'll be covering off some of the content. Let's go down to the next slide.

Industry X video announcer:

What does an industrial revolution feel like?

Well, just like this, like this moment right now. It doesn't feel momentous until we see it in the rear view mirror and we don't feel its full impact unless we have new intelligence to realize it. Intelligence changes not just how we think, but industry itself and the very products it makes. Intelligence is Industry's X, the element that unlocks its full potential, the potential for factories and plants to talk to one another across vast distances, for manufacturing networks to run themselves, for products to be created virtually, to think for themselves, to learn every day.

Right now, we have the power to make industry more impactful for the world. More efficient, more sustainable, inclusive, meaningful, and safer. We can drive change, fuel economies, and improve lives. Yes, this is what an industrial revolution feels like. Like the others that came before it, like the promise of technology and human ingenuity, first, we help you see it, then we help you seize it. So you can always be ready for change. Change that is here today. Welcome to Industry X.

Russ Rasmus:

Great video, thank you. So yes, what we're going to be talking about today is something we call 'Design to Margin' and it's at the intersection of innovation, pricing, and operational costs so it's right at the heart of that Industry X conversation that we just saw in that video.



Before we dive in however we've got some rules of the road. This is just from we have a lot of probably competitors and collaborators on the call today. There some general rules for the call. Topics that we'll avoid are our price-related data related to your businesses, anything around your strategic plans or marketing information and then obviously any agreements that you guys have amongst competitors, et cetera. I'll leave this up for just a few seconds so you can read through these. If you are not on board with any of these rules of the road we would ask that you leave. However, I think these are pretty easy to play by. The other thing I will let you know is that we are being recorded this morning, so again if you have a challenge with being recorded we would have to ask you to leave as well. But again, please stay, it's going to be a great session here today. And again, we're going to be very interactive today. If you can to go onto the next slide, please.

Russ Rasmus:

So today's agenda. We're going to start off with going into just describing what design to margin is, how that impacts the consumer goods industry. It's got three major components to it. We're going to deep dive into those three core themes. We'll do three deep dives, one for each theme, and then we're going to end with a round table discussion around what we learned, what your perspectives are on design to margin and how it might be impacting your business. We're going to have some interactive Menti sessions and networking sessions throughout the day as well. So again, the theme here is interactive. Even while someone is presenting today, if you have a question or a comment please do not hesitate to jump in here. We really want this to be more of a working session than a road presentation.

All right, great. Let's dive in. We're going to start off trying to get that collaboration going here with our first Menti. So hopefully everyone is familiar with how to use Menti. I'll give some quick instructions here. You can either go to a website, www.menti.com and put in the user

code that you see there, 178956. Or if you do it on your mobile device you can scan the QR code with your camera. It will pop up a webpage and actually take you and log you in immediately to our Menti. If you could do that, go on in and answer this first question around what it would take to optimize margin contribution from your current product portfolio. We'll give you a few minutes to do that and then we'll start pulling up the results here.

Is there anyone having issues with Menti? Is everyone good? Thumbs up. Comments. Okay, there we go, we got results. All right, good answers. Breaking silos. We're going to talk about that today for sure. Right price. Trade-offs. I see some things on speed. Surgical visibility, nice language, I like that. Better integration. You're seen a lot around silos and the functions and integration. I liked that. See if we get one more refresh here with any other great terms.

Tracy Countryman:

Yeah. I like the surgical visibility. Russ, we're going to use that, I'm going to use that.

Russ Rasmus:

Oh, I know that's going into marketing material now. That's good stuff. Okay, great. A lot of good responses here. These are all words beyond the surgical visibility but we're going to be working on these things. We're going to talk about breaking down silos, we're going to talk about being agile. Different levels of collaboration that we've done before with data that in one function we not may not have been used to working with or even having access to. So great mindset as we head into this. Let's go ahead and let's talk a little bit about what design to margin is, and maybe the impact that it's having within the consumer goods industry. Next slide, please.

All right. So today's consumers are greedy. It's we've trained them well and it's great but we've got some mega trends going on around



individualization, mass customization, digital everywhere, we've been spoiled. We expect things fast, we expect it now, we want information and transparency. And then we've seen this sustainability topic that I think over the last several years we've really thought about sustainability as it's a good thing, it's the right thing but now it's becoming the thing. And it's really going to become important in everything that we do both within our company and what we do in the marketplace.

What that is doing is it's driving heightened expectations against consumer goods companies and consumer goods manufacturers. Everything's got to be digital now, so consumers expect information about the product, the ingredients in the product, where those ingredients were sourced, et cetera. They want services wrapped around your products that you're sending to them into marketplace so again, all new digital opportunities but also challenges and how we operate our business.

They want variety, they want customization, they want it their way, they want their name on it and their color, et cetera. Causes all sorts of cost challenges and how we start to serve them through manufacturing the supply chain. We talked a little bit about trust. Consumers expect you to be able to trust who they're buying their goods from and the products that they have. That goes back to just transparency of what might be in the product, how it was manufactured, where it was manufactured, but also how a consumer goods company represents itself in the marketplace as well.

And then eventually everything is consumer-centric. Everything we do in design, manufacturer, pricing. What we're going to talk about today is we're all focused on that single end consumer and the groups that they fall within. And what is doing is it's increasing the pace at which we need to innovate, the pace at which we need to make product changes and get them to market. And then obviously how we want to take those to market and price them is as dynamic as it's ever been. Next slide.

So as we look at that, our supply chains, manufacturing, and our design organizations within our companies have really been designed historically around the left-hand side of this slide. We're used to having runners. We built our factories in our supply chains to be able to design a product and I'm going to create a million in an amount of time. Minimal changeovers, minimal product or packaging changes, et cetera, and that's really changing. So our infrastructure is set up for a lot of runners, however, how the consumers are changing the way they want to buy and how they expect us to react is pushing us into these other columns on the right-hand side here. We've probably been doing some mid-volume and some customer promotion stuffs for many years here but really getting into these niche products that might only be out for a specific event in time, very personalized products where they choose color, names, et cetera. And we're going to now have a mix of these different segments in our business for the foreseeable future. And the challenge is, is that it is more expensive to actually operate on the right-hand of this spectrum. Now, our theory is, is that we can price higher and we can control margins to help us manage the right-hand side of all of this unique capability that the consumer is requiring us to have. But again, that's just theory, you really have to have information data and you have to be... Sorry, I'm getting a bad network quality here. But you have to have a lot of information to be able to make sure that that margin potential comes true. And what we're seeing with a lot of our consumer goods companies is they don't have that right collaboration, the right level of data, the right transparency to actually make those correct pricing. Next slide, please.

So what is that doing? It makes us start to think about, do we truly understand the true cost of manufacturing, deliver the products on the middle to the right-hand side of this spectrum? Do we truly have that transportation transparency and operational cost? Once we understand that cost is the consumer willing to



pay a price premium for all of this selection and customization that they may want in these niche or personalized products? And then if they are, or if they're not, what are the tradeoffs as we start to balance between cost and price and market share?

And then most important, let's not forget about engineering and design, how do we innovate in a cycle that's fast enough to meet the trends of these right-hand segments on this slide while keeping in mind trying to make money at the end of the day with a reasonable cost and getting it out to market at the right price? So again you should be getting this feel that there's this cycle of innovation to market to consumer and that feedback loop is going to become faster and faster and faster. And do we have the ability, both capability standpoint, and transparency internally to be able to pull that off? Next slide.

So what are top consumer goods companies doing to try and deal with this new dynamic that they've got out there? If we go to the next slide we'll talk a little bit about this concept that we've come here to talk about today and it's called design to margin. And design to margin is this strategic mindset that we're taking our clients through at this intersection of customer-centric innovation, contextual pricing, promotions, and marketing, and then intelligent cost-appropriate operations. And it's at this intersection point is where design to margin sits.

Most companies are pretty good in each of these three core themes. However, when we start to interact with them we saw in the initial Menti, functional silos, lack of transparency, et cetera. Surgical visibility is something we're going to need. Surgical visibility is design to margin. We've got to understand from an innovation, a pricing and an operational cost basis at the same time what's happening with this product and we're actually getting the margin that we expect out of it. Next slide.

So as we look at these three legs, so customer centric innovation, these are pretty straightforward but the innovation side is really

how do I get through an innovation cycle very quickly with the right feature combinations, the right ingredients, et cetera? What is the makeup of this product that's going to meet consumer expectations and can I meet them at a price point and a cost point that allows me to make money for my business?

Then we go over to the contextual pricing and promotion side. Very good. All of us do very good pricing analysis for the marketplace. There's probably work we can do there around that, but more importantly then how can we take what we think the price sensitivity curves are in the marketplace for a product in a segment and actually compare that back to what it might cost us to actually deliver that feature function of a product into that segment in that part of the world. The cost could be entirely different from one part of the world to another part of the world or one segment versus the other. And do we have that transparency to allow us to be smarter in how we try and price into that segment?

And then finally, intelligent operations. Think of this as end to end should costing here on the bottom. Do we truly have the total cost of ownership around how we're going to get a product sourced, manufactured, and delivered to that customer? A lot of times when we talk should cost we talk about material costs. What we're trying to do here now is extend that to really talk material costs, manufacturing, our operating costs, and then a delivery cost or fulfillment cost as well.

And then if we happen to have a product that gets serviced in the marketplace, the ongoing service and maintenance costs of that asset potentially in the field. And then our goal around design to margin there where the diamond is in the middle is we want to be able to bring all of these insights, the analytics that we have from each of these three core themes and bring them together to make smarter, more effective decisions around driving margin for our business. I'll pause here and just see if there's any comments from the rest of our panel or any comments or questions from the



attendees on design to margin. Okay. Well, great. Let's move on to the next slide then.

So as we think about design to margin, this gets back to some of the Menti inputs that we had earlier. Is that, man, this is complex, this is hard. This is an intersection within my company that doesn't happen naturally. As we think about design to margin we really need to be thinking holistically. I'm going to start on the right-hand side of this slide first here. And obviously there's a lot of digital, a lot of analytics and data investments that are going to have to be made not only in the three legs here of design to margin independently, but then how do I start to bring that data together in a manner or a format that allows me to make better decisions and correlate that data against each other at the center of design to margin? Really tough. So at first we've got to clean up the data and have control of it in each of the three legs, but then I've got to bring it and correlate it in a contextual way in the center.

Then if we look at the other two points here on the slide, we need a collaborative operating model and a structure that allows us to do it. And then in the middle here there's going to be some cultural shifts to get us there. And we're going to need some shared performance measures. Quite frankly, right now these three legs, the DTM often have performance measures that are contradictory or competitive with each other as opposed to collaborative around margin. And that is something that is really going to have to be down.

There may be some organizational or op model changes that will need to be made to allow this to work in a more efficient manner. Just like we've done with things like sales and operations planning in the past, where we start to break down some barriers, this is taking that and putting that on steroids because now we're bringing in design and innovation, we're bringing in market pricing along with all of our operational capability that was usually a part of that same op. Next slide.

And to do that we're going to need a digital thread. I think everyone's heard about digital

threads out there and what that is, is how do I start to bring all of that data from its different source points and bring it together in a manner that allows me to thread decisions together between different organizations or different capabilities in my business? So as we think about a DTM, think of DTM as a collaboration platform that is going to bring all of this pricing analysis that your marketing teams are already doing, all of the innovation information, the portfolio, strategy, and the specific design information around feature and function of a product into this platform, and then the cost basis. Understanding great for any particular configuration of our product, here's what we believe that total cost is going to be to deliver, and then how does that impact and correlate against both the innovation side and the pricing side? Again, that innovation is getting to a collaboration platform where you can actually start to share this information correlated and make better and faster decisions around it. You're going to see a little bit of that in a couple of the demos here today where we've got some clients that are starting to bring these pieces together into that common platform so stay tuned for that. That'll be coming up in our deep dives. All right, next slide.

As we think about that, when we're dealing with operations, I'm an operations guy, so when I deal with operations most of the things I'm looking at are cost. I get into sustainability and I get into how I impact revenue but I really focus on cost. Obviously when I'm a pricing person I'm really thinking about that top line revenue and maybe a little bit about sustainability. When I'm in innovation I'm thinking about a little bit of everything there. Our innovators have always had to balance this equation.

But I think what design to margin is going to allow us to do too is allow operations to play a much larger role in the larger value equation for the enterprise. Because now the decisions we make and operations are going to be really impactful. And we're going to see the impact of those immediately in the revenue side of the equation or the sustainability side of the



equation. Again, DTM is about balancing all of these value levers at one time as opposed to trying to take care of them independently and hoping that they come back together at the enterprise-level effectively. Next slide.

That's a lot. You're going to learn a lot more about design to margin as we go through each of the deep dives here throughout the session today. And you know what? You may be partially down that journey, you may not have even started to think this way within your organization, but the first step that we typically start with, with our clients is understanding where are you on that DTM journey and what parts of that DTM journey are most important for you or most critical for you to get value out of that DTM journey.

Again, you're going to learn a lot today about design to margin. We're going to learn a little bit from you as well and where you are on that journey. But keep in mind that it doesn't happen overnight, it's important to get a roadmap put together which starts with understanding where your maturity level might be in each of those three legs of DTM today and then also where you might be at that intersection point where the magic happens within design to margin.

All right, one more slide here. Now that you've learned a little bit about design to margin in this concept and this mentality that we're going to try and talk about here over the next few hours, we've got another Menti question for you. So if you could scan the QR code here or go to the Menti site and enter the code. Our next question is we want you to think about your last product launch and how would you rate your organization's ability to design to margin, bringing together that intersection of innovation, pricing, and operational cost to make smart and efficient decisions around margin for your business? And you'll see it's just a slider scale in there.

Great. We got some people that have been working on this already, that's fantastic. And this can be verbal contribution too, you don't just have to do it through Menti if anyone has

comments here. Great. We're at about 1.9 is where we're coming out which if I remember from the scoring it's we've kind of started it but we're not very good at it. There's room for improvement in what we're doing around design to margin, which is great because that's why we're here today. Let's move forward. I think we're going to go into our first networking event and then we're going to go into each of our three deep dives to learn more about each of the three legs and how they contribute to that intersection between the three.