80/20

80/20 At Madison

Making the world safer, healthier & more productive.

MADISON® INDUSTRIES


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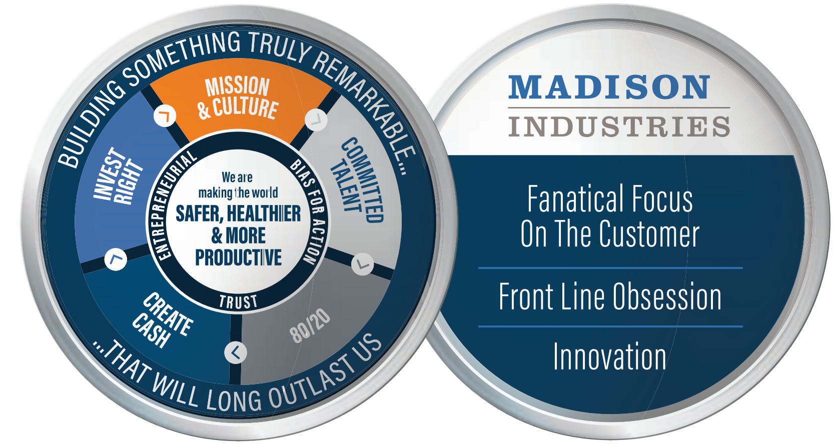
BUILDING SOMETHING TRULY REMARKABLE...
MISSION & CULTURE
COMMITTED TALENT
INVEST RIGHT
We are making the world
SAFER, HEALTHIER & MORE PRODUCTIVE
ENTREPRENEURIAL
BIAS FOR ACTION
TRUST
CREATE CASH
80/20

Contents

Fellow Entrepreneurs

We are building something truly remarkable that will long outlast us! The technologies and innovations you create and the way in which you engage those around you is making the world safer, healthier and more productive each day. You're doing this by creating entrepreneurial safe havens with a bias for action in an environment of trust. But growth brings with it complexity which, paradoxically, makes continued growth harder to achieve and sustain. Enter 80/20...

Madison Flywheel



80/20 is first and foremost a thinking process that challenges us to focus on the critical few things as opposed to the trivial many. We spent several years considering a variety of performance systems to really get our flywheel spinning. We focused that search on systems that would help us further our culture and maintain our decentralized, entrepreneurial operating model. While there are many systems out there, 80/20 stood out for its ability to accelerate growth across a diverse set of businesses in the most entrepreneurial way possible. Interestingly, we found the 80/20 model aligned with who we are and how we naturally think. Who wouldn't want more time to focus on the best ways to create more of our mission?!

80/20 is not a strict rule set or construct but rather a resource that allows us to achieve remarkable outcomes. You must decide what is best for your business. At Madison, we will continue to place immense trust in the entrepreneurs leading our businesses in leveraging the right 80/20 tools and methods to deliver the outcomes we're after everywhere — a fanatical focus on the customer, front-line obsession and market-leading innovation — that ultimately helps us create cash, invest right and deliver more mission in more places that matter.

Throughout the many incredible, diverse ways that our entrepreneurs will use 80/20, there are six shared principles that will be evident in every 80/20 journey. This book describes those principles, shares the stories from across Madison in how those principles and some of the enabling tools were brought to life and provides the basis to begin to understand 80/20 and what it means to have an 80/20 mindset at Madison.

Please realize though, there is no book that can teach you 80/20. It must be learned, applied, mistakes made, and resulting pivots taken which will lead to more learning and new applications. As you work through our performance system with your teams, implement what makes the most sense first. Celebrate the small victories and raise the bar to push your organization even further! This is how our mission and culture will last the test of time. Together, let's make the world safer, healthier and more productive!

WE HAVE YOUR BACK,

Larry Gies, Rob Carpio and JJ Foley

Madison 80/20 Principles

You're Probably Not That Different

So, you read the forward. And now you are sitting there thinking: "This could be interesting, but I am not sure it applies to my business. I don't really know how to get started, and we don't have time to take on another priority right now."

Let's start with some facts. And yes, go ahead and fact-check us for your business. 80% of your revenue comes from 20% of our customers; 80% of your revenue comes from 20% of our products. If you only had to support that 20% of your products and customers that generates 80% of your revenue, and reallocated your remaining overhead and resources to unlock more growth, you would deliver more growth (sales, profit, cash) faster and in a manner that would improve the lives of the people on your team.

Convinced? Well, don't take our word for it. Run the math on your company. Then read through our foundational principles and some of the stories that have come out of implementing 80/20 across Madison.

80/20 is not a one-size-fits-all performance system. We believe each business is unique and that each should apply 80/20 the way that best fits your business. There is freedom in determining stylistically how you want to get going with 80/20 (e.g., pace of implementation; getting an outside coach; where you decide to start; what tools, methods and metrics to apply). But there are six 80/20 principles that should be evident across every Madison business as you embark on your never-ending 80/20 journey.

Virtually everything you do here can be reversed, changed, or altered as you continue learning. So, be brave on paper, set a plan, excite your team, experiment, learn together and pivot accordingly. Oh, and have fun!

Can't wait to add your stories to our 80/20 journey!

How these principles appear in your business is up to you:

1. ***80/20 is a thinking process and a shortcut to being an entrepreneur***
2. ***80/20 is all about profitable growth***
3. ***All journeys begin with a plan***
4. ***Data and facts drive decisions***
5. ***Separate to create focus***
6. ***80/20 is a committed talent supercharger***

1 80/20 Is A Thinking Process & A Shortcut To Being An Entrepreneur

80/20 principles enable you to better implement the owners' mindset that's core to **entrepreneurship** while driving incredible **growth and front-line obsession** that's befitting of a world-class organization. It's not a prescription, however. There is no one way to "do 80/20." Leadership therefore matters. Success requires leaders who "get it" and take the necessary steps to build sufficient perspective and expertise. Leaders are also expected to think through and debate with their teams how best to apply the 80/20 principles throughout their journey. Further, while much emphasis is placed on the 20% of things driving 80% of the result, we must be as committed to defining what we are going to stop doing or deprioritize to enable that focus. Bottom line, we use this principle — above all else — to ultimately ensure we're delivering results that **help us make the world safer, healthier, and more productive while building something truly remarkable that will long outlast us** in a way that also makes Madison a great place to work!

80/20 tools and KPIs to consider with this principle

- *BU leader training*
- *One to Perfect*
- *Incremental pricing*
- *eNPS*
- *Performance vs. jumping-off point (JOP)*

2 80/20 Is All About Profitable Growth

Whether to grow the top line, expand margins, **create cash**, or some combination of the three, 80/20 is fundamentally designed to unlock growth. 80/20 recognizes that not all growth is good growth which is why we use the 80/20 principles to drive outsized improvement in our businesses by delivering profitable growth (i.e., increased profitability on incremental revenue compared to an actual baseline period), **fanatical focus on the customer,** which leads to product and/or service innovation, and superior resource allocation approaches that enable us to create fulfilling and impactful experiences for our teams. It's, therefore, not a project or an implementation or something that you're ever done with; it's an ongoing methodology for continuously improving your business month after month, year after year! In so doing, 80/20 enables our flywheel at Madison. It enables us to move closer to the point of impact with our largest existing and target customers, **innovate** faster than our competition, provide more opportunities for committed talent and generate more cash which enables more mission. By adopting 80/20, we make fast, educated decisions that drive our results while giving us a way to measure success and pivot quickly when needed.

80/20 tools and KPIs to consider with this principle

- ***One Thing***
- ***Moat creation/innovation***
- ***Reverse-engineer the key ratio***
- ***Top five accounts you wish you had***
- ***Target selling***
- ***Trade focus***

3 All Journeys Begin With A Plan

While acting with a **bias for action** is a must, and we must all recognize that we'll make mistakes along the way, starting your 80/20 journey without a plan is a recipe for disaster. As the adage says, "if you don't know where you're going, any road will get you there." You add considerable purpose and efficiency to your journey when you have a plan (i.e., goals and objectives for how to achieve them.) The plan should acknowledge the business' strategic imperative (e.g., grow revenue, expand margins) and establish one or two KPIs with which we will create improvement targets and monitor progress. It's essential that the KPIs align with the business imperative and that progress against the target remains a guiding light across the journey. It's also essential that, as we seek to grow, we accept the reality that complexity doesn't scale and is one of the biggest barriers preventing growth today. To generate the capacity for growth, our plans must address the complexity in the business today. 80/20 helps us do that.

80/20 tools and KPIs to consider with this principle

- *"A" customer on-time delivery (OTD)*
- *"A" customer/"A" product growth*
- *Material margin and contribution margin*
- *Key ratio over prior 12 quarters*
- *Revenue per employee*
- *Year-over-year (YoY) incrementals/decrementals*

4 Data & Facts Drive Decisions

We will ground our decisions based on data and facts, not on what we think we know. With data, we can experiment and be bold on paper. It costs us nothing yet enables greater bias for action and more entrepreneurial thinking. We must get comfortable with what we think we should do and the likely consequences (good and bad) before we charge ahead! To that end, we must view our business segments through quads and quartiles. Think about quads and quartiles as merely another lens through which you evaluate your distinct business lines. They're as critical to successfully focusing on the things that matter most as your income statement, balance sheet, cash flow statement, sales funnels, and operational bowler charts. Just as we wouldn't expect to run a successful business using only a baseline income statement, neither should we consider to successfully reap the benefits of 80/20 by using only a baseline quartile chart. They must be updated annually or semi-annually to ensure progress versus plan.

80/20 tools and KPIs to consider with this principle

- *Overall business quad and quartile*
- *Segment quads and quartiles*
- *Address Quad 4 until complexity is removed*
- *"A"/"B" product and customer thresholds versus opportunity pipeline*
- *Changeovers per week, orders per week, revenue per order*

5 Separate To Create Focus

We will view our unique business lines as such and create bright lines around them. This often results in the formation of stand-alone segment P&Ls with a dedicated team led by a dedicated general manager with an incredible **front-line obsession**. We call this a segment. If a particular business line isn't large enough yet (or won't be for the foreseeable future), it's okay to create an internal category team to systematically focus and cultivate the potential that exists without the full autonomy and accompanying cost structure of a segment. That means that we may (and very likely will) have one-segment businesses. That's okay. But seeing unlike portions of the business as such enables us to see each element for what it is (and isn't). It also enables us to unleash the potential that exists within our teams today by providing autonomy and focus to the entrepreneurs across our business as they overserve our top customers and **innovate**.

80/20 tools and KPIs to consider with this principle

- *Business unit (BU) leader training*
- *One to Perfect*
- *Incremental pricing*
- *eNPS*
- *Performance versus jumping-off point (JOP)*

6 80/20 Is A Committed Talent Supercharger

80/20 enables our decentralized operating environment by providing the basis for data-driven decision making and focus for the entrepreneurs across our business to thrive in an environment of trust. In so doing, 80/20 supercharges the talent base across all levels of our organization by freeing up valuable time and resources to focus on the growth, customers and improvements that will have the largest impact on our mission and our businesses. As we segment, we generate P&L leadership roles, which not only allow us to develop our next generation of general managers, but also creates opportunities across all other functional areas much sooner than in other operating models. This kind of unbureaucratic approach to value creation and value delivery enables us to win the war on talent and ultimately perpetuate the virtuous cycle of committed talent. We're able to create career opportunities for our team members at all levels, promote more from within, and drive that fanatical focus on our largest customers, products and opportunities.

80/20 tools and KPIs to consider with this principle

- BU leader training
- Red/Yellow/Green, Up/Down/Flat talent assessment
- Sales and marketing training
- Ops training

Misconceptions

Misconception
80/20 Is About Cutting Costs

Reality
80/20 Is About Focused Growth
80/20 is about resource allocation to our most significant areas of growth. Cost reduction might be a byproduct, but only because we're focusing on what matters most to the business and deploying resources to move that needle.

Misconception
80/20 Doesn't Matter For My Department

Reality
80/20 Involves And Impacts Every Part Of The Business
80/20 is a holistic business methodology. If implemented correctly, it can significantly impact every team, from finance and operations to engineering and product management to sales and marketing.

Misconception
Eliminating Quad 4 Means Getting Rid Of A Bunch Of Customers

Reality
The Goal Is To Eliminate The Complexity From Interfering With Quad 1
Eliminate if you can; don't if you can't (i.e., too profitable and can be shielded from "A" product on dedicated machines). Evaluate your quads to identify and address complexity in a manner that's appropriate for your business. Price up Quad 4 product to the point that it either becomes worth it for the overhead to support (i.e., becomes an "A" product) or goes away. Keep in mind that price is but one of the "Magnificent 7" (Mag 7) simplification actions. Choose the right tool for your business!

Misconception
People, Things, And Customers Can Be 20s, And You Don't Have To Care About Them

Reality
It's All A Matter Of Perspective
Ultimately, you have to ask: what business are you in? How do you compete, and why do you win? How does that translate to your priorities? If it's not at the top list of your priorities, then decide if it is worthy of being someone else's top priority. If it is, make it one of their 80s. It's all a frame of reference. Would Filtration Group be an 80 if it was sitting in Walmart? I don't consider our wonderful business a 20. It's all a matter of perspective.

Misconception
80/20 Adds Reporting Complexity/ Bureaucracy

Reality
80/20 Decentralizes Madison's Already Decentralized Model
80/20 brings a level of "local" authority and entrepreneurialism that is, quite frankly, a much more fun and dynamic operating environment.

Misconception
80/20 Is Anti-Customer

Reality
80/20 Helps Improve Service To All Customers
The changes that result from 80/20 help make us better partners/suppliers for our "A" customers and ultimately lead to better experiences for "B" customers who can receive more attention from one of our distributors.

Misconception
There's Only One Way To Implement 80/20

Reality
Every Implementation Is Different
Some tools and principles apply across all businesses. But each journey is entrepreneurial in the way we implement and find more 80 customers on which we can fanatically focus our teams to grow.

Misconception
More Customers/ Products = More Money

Reality
Lots Of Low-Impact Customers/Products = Less Money
We don't need to retain every customer. Some 20s actually cost us more in the long run due to their disproportionate needs. More focused product offerings give us more time and capacity to innovate and drive growth.

Misconception
Small = Bad

Reality
Small Often = Niche, Which Also Often = Differentiated Margin
Excelling in small niches is a competitive advantage for many of our businesses. The key is to resource appropriately for the growth those segments are entitled to, no more and certainly no less. What is a reasonable share we can achieve in those niches? Are we truthful about whether we need to put our resources towards a different niche?

80/20
Success Stories

The following are stories from Madison businesses who are on their 80/20 journeys. These stories illustrate a specific component of 80/20 and can be used as references as you embark on your 80/20 journey.

Each case study falls into one of the following four categories as seen at the top of each page in this section:

- ***Getting Started***
- ***Simplification***
- ***Segmentation***
- ***Operational Excellence***

Overcommunicate To Ensure A Smooth Transition

Nortek Global HVAC manufactures high-value heating and air solutions for residential and commercial HVAC markets.

Expanded

They expanded the sphere of influence for key leaders and associates across the business.

For more information on this story, contact
Philip Windham, President and CEO, Nortek Global HVAC: philip.windham@nortek.com

> Open and upbeat communication is critical to keeping your teams confident and excited about the inevitable business transitions.
>
> **Philip Windham**
> President and CEO, Nortek Global HVAC

Goal

Nortek Global HVAC (GHVAC) wanted to effectively manage the launch and communication of 80/20 and segmentation across the business without allowing misconception or speculation to run rampant.

Process

Prior to 80/20 training, Nortek GHVAC immediately scheduled interviews and data pull training to establish a stable baseline. Then they assigned a couple of people who were great with data and a few people who were on the radar as potential segment general managers to work on the data. Those people then chose teams to grab natural data breaks. Over the next two weeks, the 80/20 data shifted the team's focus to product and customer line simplification (PLS/CLS).

Nortek GHVAC got around the bias that can creep into PLS/CLS data analysis by involving people from multiple areas or parts of the business. For example, it had its residential group reviewing Reznor data; its manufactured housing team looking at residential data; Reznor employees assessing manufactured housing data; and demand planners and sales, inventory, and operations planners (SIOP) examining parts data.

During the entire process, communication was key. Nortek GHVAC shared the why behind 80/20 before the training and explained how the process would include multiple business groups. They sent out updates and held multiple live chats with the business to keep it top of mind and maintain momentum. Throughout, they were open and honest about the possibility of PLS and CLS. They let everyone know that as long as they were committed to the mission and conscientious and diligent in their roles, they would have the ability to excel in the business. Nortek GHVAC thought it extremely important that no one saw 80/20 as a force reduction in disguise.

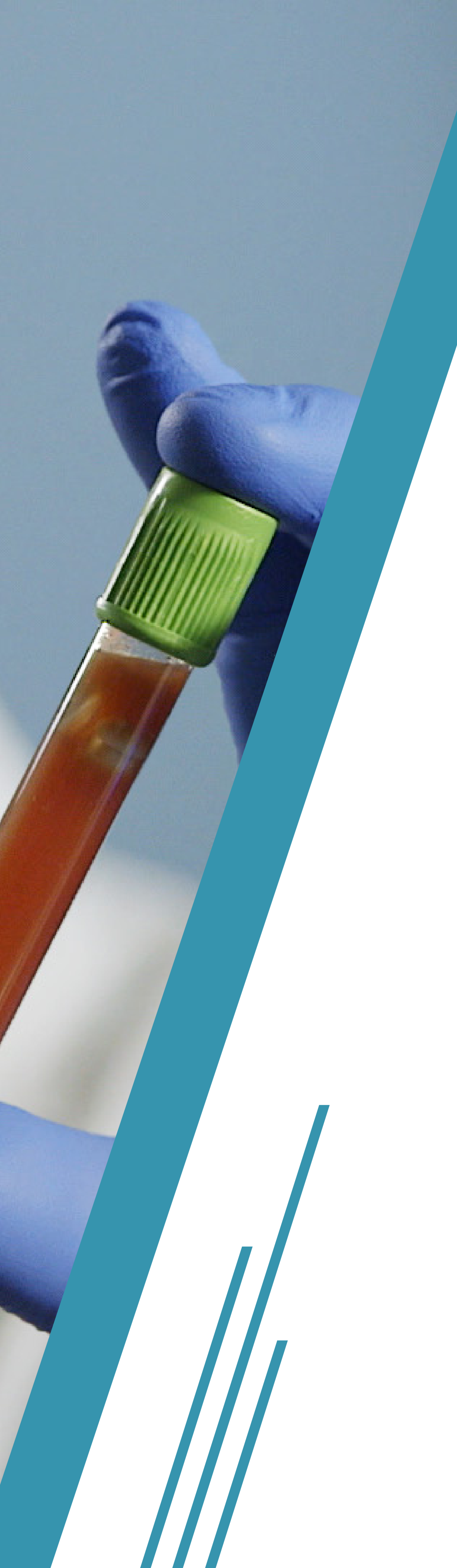
Once they were ready, segments and general managers were announced to the entire organization. Then, after Zero Up and segment draft, Nortek GHVAC celebrated the announcement of segment teams. Finally, any associates left without a team post-draft were treated with dignity and respect.

Results

By overcommunicating and pulling teams together across the business, Nortek GHVAC maintained a positive buzz through the PLS/CLS, segmentation, draft time window, and launch segmentation. They expanded the sphere of influence for key leaders and associates across the business. Keeping the mystery out of the madness, they let leadership control the message instead of allowing fear and innuendo to take over.

Key Learnings

- *Get key players and leaders involved early.*
- *Be transparent and communicate frequently.*



Simplify & Focus To Drive Results

Drucker Diagnostic's wide range of laboratory centrifuges products help diagnose and treat patients in hospitals, clinics, laboratories, and physician offices in more than 80 countries around the world.

Goal

Simplify the company product portfolio to eliminate underperforming products and shift focus to capture rapidly growing platelet-rich plasma (PRP) niche with the Boost centrifuge line.

Process

A review of sales and earnings by product lines showed poor performance of three product lines: ParaLens Advance (PLA), QBC F.A.S.T. AFB, and Sample Safe, which required dedicated and unique production and operational resources to support due to the nature of the products. Combined, these three product lines provided less than 2% revenue in 2019 and 2020.

For more information on this story, contact
Tom Mallison, President, Drucker Diagnostics: thomas.mallison@druckerdiagnostics.com

> Keep product lines simple to move quickly on opportunities then focus resources to drive growth and performance.
>
> **Tom Mallison**
> President, Drucker Diagnostics

Drucker Diagnostics

The PLA and F.A.S.T. AFB products used fluorescence microscopy that were unique products for Drucker Diagnostics operations in mainly international markets, didn't have strong margins, and required dedicated training and technical support. Sample Safe was an add-on product to centrifuges that help store and maintain laboratory samples at appropriate temperatures prior to courier pick up. However, the manufacturing process caused the product to be significantly more expensive than the current industry standard and was difficult to scale effectively.

Based on these challenges, they decided to remove the product lines from their offering and shift focus to the rapidly expanding PRP niche market to become the centrifuge provider of choice. For the PRP niche, they developed the Boost centrifuge line as their primary offering and were starting to see sales accelerate with several customers growing into Quad 1 accounts.

After the decision was made, the team worked together to discontinue product lines while maintaining customer relationships, including some Quad 1 accounts, by providing alternate solutions and last-time buy options as needed.

Next, they shifted existing and added new commercial resources to drive PRP revenue growth while building reputation in the market for quality, delivery, and value. Additional product management resources were also able to help customers understand how the Boost centrifuge solution would give them flexibility to run multiple sample sizes with a single centrifuge and helped develop an insert solution to expand the Boost capabilities.

Finally, they shifted available production and operational resources to build supply chain and production capacity while maintaining quality and improving operational efficiency by taking the floor space used to manufacture the Sample Safe and dedicated it to manufacturing Boost centrifuges.

Results

- Became centrifuge provider of choice for PRP market
- Grew PRP segment from $3.3M in 2020 to $4.6M YTD in 2022
- Increased PRP unit output capacity from 32 units per week to over 100 units per week while maintaining efficiency and quality

Key Learnings

- *Use strong product management function to connect commercial and operational resources to drive operational efficiency.*
- *Move quickly to discontinue products that aren't selling; waiting doesn't fix the problem.*
- *Maintain relationships by talking to customers about products that are going away and help them understand and manage the transition.*

Simplify Products & Customers Successfully

Clear Edge supplies quality filtration solutions to high-volume industrial businesses largely focused on process yield improvement, primarily in the mining and minerals and chemicals industries.

Goal

Clear Edge wanted to simplify its extensive woven portfolio because its weaving supply chain accounted for more than 50% of COGS and almost 80% of its global inventory. They knew simplification had transformative potential for the business because they had a broad product range, and each changeover between product families required a weaving setup time of up to two days.

Process

They began with product line simplification (PLS). They reviewed their portfolio for warp systems of similar technical specifications, hoping to merge or substitute similar products into a smaller,

For more information on this story, contact
Xavier Benz, VP Marketing and Technology, Clear Edge: xavier.benz@filtrationgroup.com

> People have emotional attachments to customers and products regardless of how much value they provide to the business. That needs to be recognized, addressed, and ultimately pushed through to succeed.
>
> **Xavier Benz**
> VP Marketing and Technology, Clear Edge

CLEAR EDGE
Filtration Group

consolidated range. Drilling down into the 20s products, in particular, they reviewed the customer base of each warp system and assigned actions based on which quad the business fell into.

If a substitution was possible and an 80s product could be used to supply the same business, this resulted in:

- 20s product / 20s customer (Quad 4) — > 80s product / 20s customer (Quad 3)
- 20s product / 80s customer (Quad 2)

If substitution was not possible:

- 20s product / 20s customer (Quad 4) — Delist, no questions asked!
- 20s product / 80s customer (Quad 2) — Sales risk analysis to quantify the impact of delisting a specific product. If the impact was minor, they would push for delisting in terms of revenue and customer relationship.

If the effect was anything more than minor, the product would be kept as a necessary evil.

Clear Edge then moved on to customer line simplification (CLS). By the end of the quarter, they had completed additional 80/20 analysis and quantified the sales risk of potentially exiting a large section of their customer base. They decided on the following path of action:

- 80s – Core business, leave as is.
- 20s Quartile 1 — Case-by-case price review to ensure Clear Edge was being paid for its complexity.
- 20s Quartile 2 — 50% price increase and $3K MOV in all segments.
- 20s Quartile 3 — 100-200% price increase, $3-$10K MOV and CIA depending on the segment.
- 20s Quartile 4 — 100-300% price increase, $3-10K MOV and CIA depending on the segment.

Results

PLS and CLS proceeded far more smoothly and were much more successful than Clear Edge expected. Despite aggressive simplification in 2021, they simultaneously realized stellar financial performance improvements. They reduced their warp system portfolio (product families) from 616 to 208 (-66%) and the fabric portfolio (products) from 1,012 to 434 (-57%). Clear Edge's customer base was reduced from 3,352 in 2020, to 2,141 in 2021 (-36%). Early modeling for the fully realized impact of CLS indicates closer to -50%. Revenue grew from $107M to $117M (+9%) and EBITDA margin expanded from 15.3% to 17.2% (+190 basis points).

Key Learnings

- *The short-term financial impact of cutting off the tail of a business is much lower than the emotional one.*
- *The teams enacting simplification and, in particular, the commercial teams who are having to communicate with their customers, need diligent reassurance and support. If our own teams are convinced that simplification and 80/20 is the right thing to do, our teams become force multipliers.*
- *Focusing on the 80s makes the whole business run better. Our factories run leaner, our sales teams are leveraged where they can make the most difference, and our conversations at all levels are focused on what really matters.*

Make The Move To Fanatical Customer Focus

Task Force Tips (TFT) helps save lives and protect property by designing and manufacturing equipment primarily used by firefighters, including nozzles, monitors (water cannons), and ball in-take valves.

27% Reduction

They reduced customer count by 27%, creating capacity to focus on the 80s customers with no fall-off in the business.

For more information on this story, contact Don Morton, President and CEO, Task Force Tips: don.morton@tft.com

Simplification: CLS / Task Force Tips

> Now "A" dealers get TFT's best support, pricing, and service.
>
> **Don Morton**
> President and CEO, Task Force Tips

Goal

TFT has worked with thousands of different dealers over five decades to serve end-users on six continents. While multiple outlets helped create a very successful business, it also led to complexity. Every dealer had its own way of ordering, communicating, and paying. They also placed non-recurring, small orders that could be challenging for TFT's operations and supply chain teams. Over the last two years, the TFT team endeavored to reduce some of that complexity to allow for a better customer experience for its best customers.

Process

First, TFT classified its customers into "types" based on what they did. For example, did the account manufacture or just resell fire trucks? Are they loose equipment dealers that sell to fire departments or engineering firms that sell to petrochemical facilities? TFT also assigned priority levels to each reseller and identified a select group of dealers that were noted as strategic ("A" dealers). TFT then implemented a "Customer Constitution" that formalized what each type and priority level meant in terms of resource allocation, cooperative advertising, sales support, and discounts. It also formalized a structure of how a new dealer would get added into the system to eliminate potential "workarounds."

Results

TFT redirected over half of its former resellers to strategic reseller partners. Ultimately, this changed TFT's relationships with 602 dealers, allowing them to focus on the top 438 dealers around the globe. Now "A" dealers get TFT's best support, pricing, and business partnering efforts.

The company is now in the next phase of customer product line simplification (PLS) to drive even more business to its strategic dealers. Providing "A" dealers with better customer service will enable them to supply immediate stock and service to those smaller dealers no longer working directly with TFT. This will also help streamline internal operations, from order entry to production scheduling to financial services.

Key Learnings

- *Define what matters and what constitutes "A" versus "B" customers.*
- *Don't stop after round one; act, reap the benefits, celebrate and continue.*

Make Room For New Products & Revenue Growth

AMKUS Rescue Systems develops and manufactures a wide range of hydraulic and battery-powered tools and accessories for fire rescue teams.

28% Growth

They experienced 28% growth in year-over-year sales.

For more information on this story, contact Kyle Smith, President and CEO, AMKUS: kyle.smith@amkus.com

> By eliminating some products, AMKUS could focus exclusively on promoting and selling those that customers wanted most.
>
> **Kyle Smith**
> President and CEO, AMKUS

AMKUS RESCUE SYSTEMS

Goal

As AMKUS Rescue Systems introduced multiple new products, sales of legacy products quickly dropped. Maintaining the legacy product line created complexity for AMKUS' operations and negatively impacted key metrics like customer on-time delivery and gross margins. It was time for product line simplification (PLS).

Process

First, AMKUS separated saleable finished good items (rescue tools) and aftermarket parts and accessories (service parts). The wide price spread and corresponding revenue between these categories would have skewed the 80/20 results if they were analyzed together. Next, AMKUS gathered the last three years of sales and margin data by product and customer. They used product quartiles, customer quartiles, and quads to assess which SKUs and customers were most important and which had little impact on company results. Not surprisingly, only a handful of products generated the majority of revenue and margin. The other SKUs were simply consuming precious resources (assembly time, support from indirect employees, working capital, etc.).

Multiple finished good items were discontinued. There were obvious replacements for some of the obsoleted products, but not for others. AMKUS decided to walk away from those sales. Fortunately, sales and margin data showed that the growth driven by new products would more than offset any lost revenue or margin. Additionally, maintaining both legacy and new products would have required additional direct labor. By discontinuing the legacy products, they could reallocate current direct labor resources to support growth.

Results

"By eliminating some products, the AMKUS sales team and dealer network could focus exclusively on promoting and selling the products that customers wanted most," said Kyle Smith, President and CEO, AMKUS. "The resulting growth far outweighed any revenue lost due to PLS."

In the first phase of PLS, AMKUS reduced saleable finished good items from 121 SKUs to 42 SKUs with an estimated negative revenue impact of 2%. Meanwhile, year-over-year sales grew 28%, and EBITDA grew 780 bps despite discontinuing multiple products!

Key Learnings

- *Trust the data and use it to guide PLS decision-making. The decision to maintain low-volume products can become an emotional one if data doesn't drive the decision-making process.*
- *Eliminating some products, the AMKUS sales team and dealer network focused their efforts exclusively on promoting and selling the products that customers wanted most and the resulting growth far outweighed any revenue that had been given up during PLS.*

Overserve Your 80s At The Expense Of Your 20s

Nortek Global HVAC manufactures high-value heating and air solutions for residential and commercial HVAC markets.

200 Customers

They fired more than 200 customers, about 2% of the business.

For more information on this story, contact Philip Windham, President and CEO, Nortek Global HVAC: philip.windham@nortek.com

We stood in front of our top 20 customers and shared what we did. The room went silent. We were taking these actions to better serve them.

Philip Windham
President and CEO, Nortek Global HVAC

Goal

Nortek Global HVAC (GHVAC) wanted to simplify its business and create more time to focus on targeted growth strategies and major customers.

Process

Through a robust customer line simplification (CLS) process, Nortek Global HVAC analyzed and selected customers for reassignment or termination. Looking at twelve to eighteen months of data, they eliminated as many Quad 4 customers as possible. They determined if anyone on their full list of "B" customers had legitimate potential to grow or were part of a larger relationship that touched their "A" customers. The team considered support or coverage alternatives for certain "B" customers, including moving them to e-commerce or turning them over to one of its "A" customers to serve.

Next, they reviewed the data, findings, and recommendations with their sales leads and key sales influencers. While considering feedback, they made sure they remained on course. After finalizing the list, the team focused on a plan of action, including communications. If "B" customers were being moved to sub-distribution, the team aligned with the "A" customers on things like pricing and rules of engagement. Members of the sales team then sent letters to the "B" customers who were being let go.

Results

Nortek Global HVAC fired more than 200 customers (2% of the business) after their first 80/20 review. "We stood in front of our top 20 customers at a live event and shared what we did directly with them. The room went silent. And that was the point," said Philip Windham, President and CEO, Nortek Global HVAC. "It allowed us to tell them we were taking these actions to better serve them. And it also made them think, if they're willing to do that, then we need to step up and be better partners ourselves."

Nortek Global HVAC segmented its customer care team swiftly and successfully. Bandwidth issues that existed before customer line simplification (CLS) and segmentation have been remedied. "A" customers received faster resolution to inquiries, spent less time on hold, and experienced fewer dropped calls. The sales teams were dedicating meaningful time to prospecting. And the parts and manufacturing teams were no longer tied up satisfying one-off orders from small customers that didn't invest the same amount of time or effort back into Nortek Global HVAC.

Key Learnings

- *Take full advantage of the oxygen this creates for your teams. Make sure they are spending more time with your "As" and are now hunting more whales, not minnows.*
- *Celebrate your team's collective efforts, courage, and survival through one of the hardest exercises an organization has to complete to situate themselves for new, smart, and profitable growth.*

Eliminate Extra Parts For A Big Impact

Big Ass Fans brings industry-leading airflow and energy savings to customers worldwide.

$460,000

They will save an estimated $460,000 annually on material margin.

For more information on this story, contact
Jim Flickinger, SVP and Chief Commercial Officer, Big Ass Fans: flick@bigassfans.com

> Standardizing downtubes will increase production rates of the most popular SKUs, simplifying inventory and purchasing.
>
> **Ray Hawkins**
> Production Supervisor, Big Ass Fans

Goal

Big Ass Fans wanted to evaluate which elements of its product line had the biggest opportunities and identify any simplification recommendations.

Process

The company's residential simplification team included members from sales, production, marketing, and product management. They analyzed "A" and "B" products and customers to determine which SKUs drove the majority of residential revenue and which created unnecessary complexity for production, sourcing, and sales.

The team considered the composition of product kits across four main product lines and looked for ways to create uniform offerings, standardize major parts, adjust pricing, and remove long-tail SKUs. Their first recommendation to executive leadership in December 2021 was to level set pricing on foil finishes (colors) for two different fan lines—essentially creating a tiered pricing structure that could increase margin by $3M annually.

After evaluating different downtube lengths across the residential product line, the team saw an opportunity to standardize downtubes included in fan kits. In one product line, two downtubes (the material that connects the ceiling fan body to the mounting hardware to ensure a secure and efficient installation) were included to provide options during fan installation. The team analyzed which downtubes were the most popular and the implications of offering one instead of two, which would reduce the cost of production, packaging, and consumer waste.

Results

By standardizing the downtubes offered in the initial purchase of the fan, Big Ass Fans plans to eliminate 300 SKUs from the system, 80% of which are "B" SKUs. This will save an estimated $460,000 annually on material margin and produce a more sustainable package. In addition, it will increase production rates of the most popular SKUs, simplifying inventory and purchasing. Additional downtube lengths will be available for purchase separately.

Big Ass Fans anticipates a positive consumer reaction to eliminating the second downtube, because customers won't have to discard a redundant item. The residential line production team has also shared positive internal feedback. Since each downtube has to be wired and put together before assembling the full fan, packaging two downtubes required twice as much work and could cause line delays. Therefore, the elimination of the extra downtube should boost production efficiency significantly.

Key Learnings

- *Follow the data, it will help inform the thinking process that's the foundation of 80/20.*
- *Leverage input from channel partners and customers to evaluate the impact of proposed simplification actions. It will help ensure win-win outcomes.*

When It Comes To SKUs, Less Is More For Customer Service

Nortek Global HVAC's parts business provides residential and light commercial customers with parts for repair, replacement, and warranty claims.

38% Increase

They reduced SKUs by 71% and estimate a 38% increase in gross margin.

For more information on this story, contact Philip Windham, President and CEO, Nortek Global HVAC: philip.windham@nortek.com

Sometimes, less truly is more.

Philip Windham

President and CEO, Nortek Global HVAC

Goal

Nortek Global HVAC (GHVAC) parts business needed to simplify its product line.

Process

The parts business simplification team completed a quad analysis on customer sales and product SKUs for residential and light commercial. On the residential side, the team found that 11% of their SKUs made up 75% of the gross margin dollars, while 48% accounted for only 2% of the gross margin dollars. On the light commercial side, 8% of their SKUs made up 73% of the gross margin dollars, while 47% accounted for only 4% of the gross margin dollars.

The parts team identified SKUs with no to minimal sales and without warranty claims. Additionally, the team identified products that are not key to Nortek Global HVAC's business and mission, including washers, screws, and PVC pipes that are not required for installation or that can be purchased from wholesale distribution partners. These were marked as excess/obsolete and removed from the parts offering.

They also reviewed order policies and fees to reduce the number of individual orders received. With residential and light commercial parts combined, they found that 85% of orders accounted for only 20% of revenue.

Results

The parts segment SKU reduction and subsequent terms and conditions exercise resulted in fewer orders, higher dollars, higher margins, less complexity, and a higher key ratio with less internal effort for its teams. Overall, the parts team eliminated 9,913 SKUs and significantly increased prices on the remaining low-selling SKUs. Fewer SKUs helped eliminate unnecessary costs associated with buying, stocking, and selling these products and freed up time and resources to better serve top customers.

By applying 80/20, the Nortek Global HVAC parts team simplified their parts offering with a 71% reduction in SKU count. By eliminating these SKUs and raising prices on the remaining low-selling SKUs, the Nortek Global HVAC parts business estimated a 38% gain in gross margin dollars.

Key Learnings

- *Follow the data.*
- *Be bold first on paper and then bold in action.*
- *Don't be constrained by what you've always done (e.g., selling washers, screws, and pipe that are not core to your business when they can be easily procured elsewhere).*

Set New Standards For Custom Products

Nortek Air Solutions is the largest family of custom HVAC brands in North America.

52,000 To 256

They went from 52,000 to 256 potential cube sizes.

For more information on this story, contact
Jonathan Peters, Operations Project Manager, NAS: jonathan.peters@nortek.com

> Just because the product is custom doesn't mean we can't utilize standard parts.
>
> **Jonathan Peters**
> Operations Project Manager, Nortek Air Solutions

Process

After embarking on the product line simplification (PLS) journey for its custom line of air handling units (AHUs), Nortek Air Solutions (NAS) started to gather data across all the custom units sold over the past three years. They looked at the components in nearly all custom units. They determined that one of the most used fans was their FANWALL TECHNOLOGY®, which allows customers to specify multiple areas of the fan for customization.

NAS pulled all data on fan selections and started to visualize the data in Pareto charts and matrices in Power BI. They sliced the data set in multiple ways until key indicators and tendencies appeared. It became evident that although customers could specify the height, width, and depth of the cubes in half-inch increments, over 90% of cubes were landing on two-inch increments. Most customers who selected sizes outside those increments didn't need to choose those odd increments. They could have gone up or down to a two-inch increment and everything would have fit.

Results

The data was so compelling that NAS started to think beyond what customers had selected. They explored why customers made those selections. Were some people choosing odd sizes because they didn't know any better? Digging into the data further, NAS discovered that small increments were even less necessary for the depth of the cube. They agreed to move forward with four-inch increments for depth.

Once all the sizing decisions were made, NAS went from 52,000 potential cube sizes utilizing 105 dimension lengths (which required the plant to be ready to cut any of those 105 different lengths at any time) down to 256 permutations using eight dimension lengths. Now, the bill of materials team can use standard parts numbers, something rare in the business and in their organization. And the operations group can stock standard parts based on historical usage and demand.

"Just because the product is custom doesn't mean we can't utilize standard parts," said Jonathan Peters, Operations Project Manager, Nortek Air Solutions. "This single unified decision based on compelling data is driving the team to see what else the data will reveal so clearly."

Key Learnings

- *Follow the data.*
- *Don't be constrained by what you've always done (e.g, offering all options when just a few options can fulfill customer needs).*
- *Custom products can be assembled with standard parts.*
- *Understanding the customer's needs is just as important as understanding historical buying habits.*

Reduce Resources While Increasing Sales

IBS Filtran GmbH, based in Morsbach-Lichtenberg, supplies all renowned automotive and transmission manufacturers worldwide with filter system solutions for automatic transmissions.

15% Reduction

They reduced overhead costs by 15% while increasing sales by 5%.

For more information on this story, contact
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Segmentation: Zero Up / IBS Filtran

> It's not rocket science to master, but you have to discipline yourself to say NO to less important things!
>
> **Wolfgang Stausberg**
> Managing Director, IBS Filtran

FILTRAN
Filtration Group

Goal

While Filtran had been a very successful market leader in a niche application for decades and had grown continuously, it found itself confronted with new challenges, including the industry's technological transformation towards electrification. As a result, they knew they needed to establish a more economically sustainable approach to their business. Previously, it had defended market share "at all prices," taking on even less lucrative projects as market-entry opportunities. Unfortunately, this led to the accumulation of excess resources.

Process

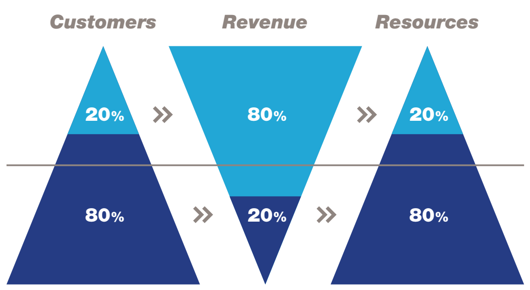
80/20 came at the perfect time for Filtran. They used quad analysis to determine which customers and projects (80s) they wanted to serve in the future with the appropriate resources. They identified five accounts as significant key customers.

Filtran's zero-up analysis defined the resources needed to serve the top one customer above the industry average. Then, they analyzed the remaining customers in declining order (top two to five, and others) in terms of additional resources. In doing so, they found they could save significantly on overhead costs while focusing on future growth.

To bring this "do more with less" mindset to life for employees, Filtran developed a "service tier matrix" for all departments. It showed how services for less critical customers could be reduced or completely terminated to focus on more important customers. It became clear that overall effort could be reduced while improving relationships with key customers, especially in terms of growth.

Results

IBS Filtran reduced total overhead costs by 15% while increasing sales by 5% (Q1 2021 versus Q1 2022), which positively impacted operating profit.



Key Learnings

- *80/20 trade-offs help extremely to focus on what is relevant.*
- *It's not rocket science to master, but you have to discipline yourself, especially to say NO to less important things!*

Start From Zero & Move On Up

Porex is the developer and manufacturer of porous plastics, sintered PTFE, porous polymer fiber, porous polypropylene, and porous membranes.

Goal

Porex started segmentation in 2020 by allowing its PTFE and Porex Life Sciences Institute (PLSI) organizations to operate as separate entities with dedicated resources. During Q1 2021, Porex migrated to a full 80/20 operating model for the entire organization. After simplification, it segmented the business into ten segments. As outlined in 80/20 training, Porex had to be brave on paper and start from zero while ensuring that segments had the necessary resources to begin their journeys.

For more information on this story, contact Dan Gutierrez, VP and GM, Specialty Products, Porex: dgutierrez@filtrationgroup.com

Segmentation: Zero Up / Porex

Zero Up is not just a financial exercise. It requires leadership to boil down complex strategic imperatives for each segment into a simple format so they can design an organization that will win.

Dan Gutierrez
VP and General Manager, Specialty Products, Porex

PORREX Filtration Group®

Process

First, Porex created a focusing document to scope and drive its zero-up exercise. It was a simple 8.5-inch x 11-inch segmentation blueprint that included the following elements: revenue and margin profile, top customers, pipeline, 80/20 customer breakdown, strategic imperatives, manufacturing plan, product development plan, and key leadership traits.

Secondly, Porex chose GMs, acquainted them with the segmentation framework, and gathered and incorporated their input. Above all, it was critical to gain full buy-in from the GMs who would bring these segments to life. Its importance could not be underestimated. When required, the broader leadership gathered to address any differences in strategic imperatives. Then, the team developed a minimally viable design to resource a segment, referring to the focusing document as needed.

Next, leaders reviewed the existing employee roster and drafted them into segments. They started by establishing a draft order for segments based on strategic and growth importance. Then, individual names were marked off a draft board during each segment's draft session. The focusing document served as a critical reference to ensure leadership was within scope and that individuals had at least a 90% chance of succeeding.

Finally, the team built a full P&L using the draft list they'd created plus other known expenses developed during preparation and alignment. Finance and HR reviewed it to ensure accuracy. The goal was to determine if the work up to that point would foot to acceptable financial performance.

Results

The end deliverable was a zero-up P&L by segment, supported by a roster of key positions matched to the right talent within the organization to ensure the successful execution of each segment's imperatives. This would serve as an initial comparative for financial measurement early post-segmentation.

Through the zero-up exercise, consolidated Porex designed in a reduction of 3.0 points of overhead costs as a percent to sales on an annualized basis. Leadership concluded that Porex could deliver a sales target of 10% better than plan at nearly the same cost structure as plan. In 2021, Porex operated in a segmented model for only half the year, achieved a 2.0-point reduction of overhead cost as a percent to sales, and delivered sales of 18% better than expected.

Key Learnings

- *The zero-up exercise is not only a financial exercise. It requires leadership to boil down complex strategic imperatives into a simple and easy format so that leaders can design an organization with confidence.*
- *The focusing document is the control mechanism for productive conversations. Without a set of guard rails, conversations and ideation will wander out of control.*
- *The zero-up exercise led to individuals being stretched and cultivated growth. Be bold on paper to stretch what you should expect out of the roles and not necessarily what they deliver today.*
- *Buy-in from GMs and key stakeholders is critical. Reduce debating on the draft sessions and accept that there may be gaps.*

Empower Teams Through Separation

Holmatro provides innovative hydraulic equipment for rescue, industrial, and special tactics applications worldwide.

Ownership

Segmentation gave the industrial team a sense of ownership and entrepreneurship.

For more information on this story, contact
Ben van der Knaap, Managing Director, Holmatro Industrial Equipment: b.vanderknaap@holmatro.com

> Separation was not painless, but it gave the Holmatro Industrial team the sense of ownership and entrepreneurship needed to enable sustainable, profitable growth.
>
> **Ben van der Knaap**
> Managing Director, Holmatro Industrial Equipment

holmatro
mastering **power**

Goal

For years, the Holmatro industrial products business operated with its own sales, service, marketing, and R&D teams while sharing manufacturing, procurement, logistics, IT, and finance departments with its rescue tool business. Holmatro wanted to solve the issues that resulted from this structure, including unclear financials, internal competition for shared resources and services, and an inability to manage or optimize the industrial business.

Process

The solution was to segment the industrial and rescue business to understand the financial performance of each and allocate the proper resources to support each one to run independently. First, they had to determine which products and customers they would continue supporting. They did this through product line simplification (PLS) using 80/20 quads.

Next, Holmatro created a preliminary zero-based budget to determine if segmentation would be viable financially. They discovered that some cost-cutting was necessary for it to work, so they devised a plan to reduce headcount. In the Netherlands, this meant informing and cooperating with a Work Council. Specifically, the company had to demonstrate that 80/20 was about creating sustainable, profitable growth and not just a way to reduce costs. Likewise, it was important to explain the 80/20 approach to the remaining team members and demonstrate how it would drive business growth and offer them new opportunities. Keeping the team motivated and excited about the future was key to the successful segmentation of the industrial business.

The physical separation of manufacturing involved relocating some CNC machining equipment, assembly benches, and staff members from Holmatro's primary manufacturing facility to their own building. In doing so, they had the autonomy to operate independently from the rescue business. With that said, separation was not painless. Each side had to adapt to not having access to previously shared services.

Results

Segmentation gave the industrial team a sense of ownership and entrepreneurship. They were proud to be part of Holmatro Industrial. And they were equipped with the clear financial information they needed to optimize the business and benefit their most important customers. Now the team is leveraging product innovation to benefit customers and create a stronger moat in the market. This will enable sustainable, profitable growth with existing and new customers.

Key Learnings

- *Separating the production and processes from the Rescue unit was not painless. Rescue had to adapt to not having access to some resources that were previously shared across both business and likewise for the newly segmented Industry business.*
- *It was important for the executive team and the entire organization to support the strategy to segment the businesses in order be successful.*

Segment For Greater Efficiency

Dehumidified Air Solutions (DAS) is home to the industry's most respected HVAC semi-custom dehumidification brands, including Dectron, PoolPak, Seresco Dehumidifiers, Agronomic IQ (Ag), and Dehumidified Air Services. These brands create optimal indoor air quality (IAQ) conditions through temperature and humidity control.

Segmentation

Two rounds of segmentation created distinct, site-specific lines of business that have allowed each business to focus more and be more responsive to customer needs.

For more information on this story, contact Danny Fitzgibbons, VP and GM, Agronomic IQ: dfitzgibbons@madison.net

> As an integrated business unit, we can act much more swiftly and nimbly to connect customer needs to operational requirements.
>
> **Danny Fitzgibbons**
> Vice President and General Manager, Agronomic IQ

Dehumidified AIR Solutions

Goal

DAS had two distinct businesses across three locations that, despite similar product architecture, had very different customer needs and expectations, market growth trajectories, and commercial support requirements. There were two sales groups (Quest and Agronomic IQ), with the Ag group spanning two Madison operating companies (Therma-Stor and DAS). They relied on a centralized DAS support structure spanning numerous departments, from engineering to finance to supply chain. Unfortunately, this model had several challenges, including unfocused support functions, product development/specification complexity, and customer service issues.

Process

DAS created a DAS Ag commercial group (separate from both pools and the Therma-Stor Ag group) and a distinct Pools commercial group during its initial segmentation. DAS also segmented engineering within each group.

Customer requirements within DAS Ag proved to be distinct, and as a result, the DAS Ag channel structure and the brand were revised to better reach customers. Deploying a more focused target selling approach yielded a reexamination of DAS Ag's priority audience (e.g., cultivating relationships with engineers and specifiers in addition to end-users).

The enhanced commercial focus moved the business forward, but internal communication challenges and lack of clarity around priorities persisted with a large, shared operations structure. Product line simplification had the potential for significant downstream benefits, particularly in a supply-chain-constrained environment.

Additionally, the product architecture had become increasingly distinct between the two DAS groups, presenting different operations requirements. A second round of segmentation commenced, creating two site-specific operations groups to support each segment.

Results

With the newly formed operations group, DAS experienced a significant change in responsiveness and ownership. In addition, it improved its ability to dynamically schedule production, which is increasingly important in a world where construction projects are encountering delays and scope changes. Thanks to a more focused, repeatable production process, DAS Ag projected a significant reduction in unit cycle time. The early stages of its initial build have yielded positive outcomes. The company also anticipates a higher degree of inventory turns with a simplified set of components and repeatable build models.

Key Learnings

- *As an integrated business unit, we can act much more swiftly and nimbly to connect customer needs to operational requirements.*
- *We didn't have enough confidence in the sustainability of the Ag market's growth trajectory at the outset of this process to "take the bet." But the market has continued to grow to a point where our operational segmentation exercise catalyzed the change required to accommodate the growth.*

Combine To Simplify & Segment Businesses

Porex is the developer and manufacturer of porous plastics, sintered PTFE, porous polymer fiber, porous polypropylene, and porous membranes.

Sometimes Simplification Comes From Combining, Not Breaking Apart

The power of 80/20 lies in helping organizations better understand their businesses. We use data to help us get a picture of which customers and products are most valuable to our businesses and then segment those customers and products into quadrants. Those quadrants help us understand where our business strategy is most impactful and challenges us to identify how to maximize resources where opportunities are most pronounced. The focus that comes from simplification and segmentation gives us a competitive advantage as we organize in a way that gives our strategies the highest probability of success.

For more information on this story, contact Rob Carpio, Group President, Filtration Group Life Sciences: rcarpio@filtrationgroup.com

> The combination of our two consumer life science businesses into one larger, more formidable segment supports today's needs, tomorrow's growth, and our long-term ambitions.
>
> **Rob Carpio**
> Group President, Filtration Group Life Sciences

But after a business is organized into segments and after teams are put in place to lead those segments, the real fun begins as it did with AG Industries (AG). Going through a second round of segmentation helped them to reflect on what is working and where there is more value to be gained. What AG learned was that effective segmentation and max probability of success may come from combining things versus breaking them apart.

AG has two aspects to its business: filter manufacturing for OEMs and buying and reselling components for home care providers. Over the last year, AG developed a third business offering: contract manufacturing. The team quickly realized that there was more value to be gained by better serving its Quad 1 (i.e., OEM) customers as well as further developing its contract manufacturing capability to support growth within the Porex Life Sciences Institute (PLSI). AG had been a contract manufacturer to PLSI in making finished product for PLSI's Saletto product. In the case of Saletto, FDA-regulated quality manufacturing is paramount which AG excels at but which requires focus.

To achieve that focus and provide for the control needed, the team realized that the structure of the business needed to change. AG is in the process of shedding the buy/resell business to a competitor in exchange for increased Quad 1 business and building the capability needed to make Saletto a market success. With that increased focus, and the need to allocate resources in a way that maximizes success, it made sense to merge AG with PLSI under the leadership of Avi Robbins who has led PLSI from its inception.

"While we need to be mindful of change for the sake of change, we also can't be constrained by decisions we've made in the past," said Rob Carpio, Group President, Filtration Group Life Sciences. "There is beauty in simplicity as it provides clarity; with AG now a much simpler business combining it with PLSI gives both teams the greatest chance of success in executing their strategy."

Segmentation Leads To Combining Consumer Life Science Businesses

In some cases, segmentation shines a light on how businesses and segments are structured. In Porex's case, it had two segments that had the potential to be stronger together. Its Air Care business is a relatively small ($27 million) business with high growth potential. Its Writing Instrument Component (WIC) business — while larger at $42M — shared commercial, operational and innovation similarities with Air Care. With price being a factor in these more mature markets, the team realized that it needed to add scale to better compete and maximize its chances of success.

Products for both Air Care and WIC are made on similar machines with similar processes. So, the team asked itself: Could we put both business plans in a better spot by bringing the teams together and maximizing leverage at these points of impact? The answer was a resounding yes.

The team made Ashley Barefoot, segment lead for Air Care, the leader of the combined business. The commercial strategies for the segments have not changed, but how they operate will as the teams work together to be the most successful, low-cost producer in their market.

Promote Talent Through Segmentation

Air Quality & Home Solutions (AQH) is an $875M global enterprise that Madison purchased in 2021 as part of the Nortek acquisition.

30 People

More than 30 people were promoted into new or extended leadership roles.

For more information on this story, contact
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AQH realized there was tremendous opportunity in segmentation to expand leadership roles for high-potential and emerging leaders.

Julie Geyer
VP Global Human Resources, Broan NuTone

Goal

AQH was traditionally structured by technical expertise, with functional leaders such as vice presidents of marketing, engineering, sales, etc., reporting to Frank Carroll, President and CEO. AQH's Zephyr and China businesses already ran independently as stand-alone segments. It had more than 2,000 global employees, about 85% tied to its larger North American operations facilities. AQH needed to define segments, assign leaders, and establish teams. But many questions arose. Could they use internal talent? Or would they have to recruit new employees to lead the organization through this change while also simplifying the business and growing it?

Process

AQH spent many hours building channel segment options, conducting Zero Ups, and trying to complete simplification from that angle. Ultimately, at the end of 2021, they agreed they needed a different approach. They decided to break the business down into smaller product/category segments before staffing and simplifying each.

They selected segment leaders based on their demonstration of AQH's core leadership competencies: effective communication, building effective teams, driving results, and possessing a strategic mindset. Then they assessed potential candidates through talent reviews, focusing on functional or business acumen for newly identified segments. AQH also considered candidates' ability to manage through change and ambiguity.

They realized there was tremendous opportunity in segmentation to expand leadership roles for those with high potential and emerging leaders. They had a relatively strong employee evaluation process and began utilizing the nine boxes and talent assessments.

Results

In early 2022 AQH announced seven segments and leaders for each, including five for Broan North America (Exhaust Ventilation, Kitchen Ventilation, Fresh Air Systems, Direct to Consumer, and Overture™), plus Zephyr and China. By March 2022, they'd assigned segment teams and reorganized the entire business. Overall, through segmentation, AQH promoted more than 30 people into new or extended leadership roles.

Key Learnings

- *The quicker you can align on segments, the faster you can get the right leaders in place, organize segment teams, and release the natural organizational anxiety present in this exercise.*
- *It can be easy to forget that not everyone has the insight that you do, so you need to be purposeful to communicate early and often.*
- *Having a set of competencies that you hold leaders accountable for can help with the selection process.*

Segment To Expand Into New Markets

Universal Air Filter (UAF) designs and manufactures custom air filters and electromagnetic interference (EMI) shielding products to protect commercial equipment and electronics enclosures.

$21 Million

The total addressable market for 5G cabinet filtration is $18M in North America, and it's likely to increase to $21M.

For more information on this story, contact
Senior Director of Sales and Channel Development, Multisorb: nkovacic@filtrationgroup.com

Segmentation / Universal Air Filter

> Dedicating resources to focus on specific targets and opportunities allowed us to see the true market potential and resource it correctly.
>
> **Nick Kovacic**
> Senior Director of Sales and Channel Development, Multisorb

Universal air filter
Filtration Group®

Goal

UAF provides replacement filters for OEM's telecommunications network equipment and that of their service provider partners (T-Mobile, Verizon, and AT&T). The company already dominated the network equipment filter OEM market and aftermarket. Now they were ready for new growth opportunities within telecommunications.

Process

UAF had two segments: telecommunications (OEM network equipment and service providers via central offices) and "other," which included end-markets such as medical devices, transportation (EV charging stations and motorcoaches), and industrial (power generation/renewables).

Company leadership assigned teams to seek new market or market expansion opportunities. Each group included commercial and engineering leads. They sought answers to the following questions about the "other" segment: Why do these current customers buy UAF products? Are there similar customers in "other" markets UAF should target? What is the market potential for "other" markets?

UAF discovered either market dynamics with existing blue-chip OEMs or converting service providers to the change-out service program would drive telecommunications growth. So, UAF wanted a new high-growth opportunity in their most profitable segment to offset market unknowns.

UAF's core business involved protecting indoor routers and switches in older central office buildings. But telecommunications was evolving, and all major cell phone carriers were deploying 5G technology. As a result, traditional networking equipment was leaving central offices for deployment at the network's edge. UAF assigned Nick Kovacic to discover what opportunities lay in protecting exterior networking equipment.

Nick looked at T-Mobile's outdoor needs. He found that some enclosures purchased for newer 5G equipment didn't provide adequate protection. Similarly, he found some replacement filters were costly and hard to get from the OEM. The result was poor preventative maintenance. UAF addressed both pain points by designing add-on protection solutions to existing enclosures and supplying reverse-engineered filter replacements.

Results

After four months of product design and testing, UAF received their first orders for the newly designed 5G cabinets in April 2022. The total addressable market for 5G cabinet filtration was $18M in North America and would likely swell to $21M as the technology was adopted and infrastructure installed.

Key Learnings

- *Becoming more deliberate about what we work on or where we hunt leads to fewer overall opportunities but a larger chance of conversion with a greater size per win.*
- *Dedicating resources to focus on specific targets/ opportunities allowed us to see the true market potential and resource it correctly.*
- *Increased customer intimacy with your 80s can lead to opportunities you may not have known existed.*

Three-Prong Strategy Development & Execution

Reelcraft is the market leader in industrial hose, cord, and cable reels in North America.

$15 Million

Reelcraft believes OEM sales will rise from $8M in 2021 to $11M in 2022 and $15M in 2023.

For more information on this story, contact
Scott Cassidy, President, Reelcraft: scott.cassidy@reelcraft.com

> We created a significant moat for any competitor to enter the market.
>
> **Scott Cassidy**
> President, Reelcraft

REELCRAFT

Reelcraft estimates its market share to be 25%+ of the industrial market, with an exceptionally high share (40%+) of the spring-retractable segment (as opposed to hand-crank or motorized). Independent brand surveys reveal that Reelcraft's brand is easily the strongest in the market, emphasizing product durability. Reelcraft is the price leader and sets market expectations for product design in the spring-driven category.

Strategic Deployment

Reelcraft developed three business strategies to win market share in distinct segments. These strategies were developed by sorting customers by two factors: complexity to service and annual purchase volume.

Shift To Segments

The segments that were developed from this process include:

- Strategy 1: Key OEM Segment
- Strategy 2: Distribution Segment
- Strategy 3: Self-Service E-Commerce Segment

Summary Of Results

Reelcraft is growing by 100%+ with "launch" customers of each segment since starting these strategies in January 2020.

Strategy 1: Key OEM Segment

Reelcraft previously had success (10% of 2019 sales) with OEM customers, primarily through standard product sales (red reels bolted to work-truck chassis). However, this business was always at risk to a competitor with matching bolt patterns.

The company assigned a small team to target this business in late 2019. It only had ten accounts and was dedicated to overserving them. The Key OEM Segment strove to win high-volume, custom business through engineer-to-engineer relationships, dedicated customer service, and operational prioritization. There was previously no strong player in this niche market. They responded quickly to add value to OEM engineering, sales, and operational requests. As a result, Reelcraft started supplying work-truck reels like boom reels that control hydraulics and signal cables on Altec digger derricks. This created a significant moat for any competitor because these sales could take years of testing and verification.

Reelcraft believes OEM sales will rise from $8M in 2021 to $11M in 2022 and $15M in 2023. This is a $40M long-term segment. Also, product enhancements derived from OEM designs were incorporated into standard red reels moving forward.

Strategy 2: Distribution Segment

Until 2020, Reelcraft sold primarily through 27 third-party sales rep agencies throughout North America and leveraged buy-groups extensively.

Reelcraft had few stocking distributors. Instead, it was beholden to a few dominant national distributors like Grainger and MSC that held stock and significant price power. As a result, Reelcraft had to set up new distributors for weekly small high-margin orders to counteract low-margin sales at national accounts. After COVID began, Reelcraft recognized an opportunity to switch to a direct sales model and target larger stocking regional distributors as loyal partners.

Reelcraft ended all sales representation agreements, saving $2.8M in commission payments for 2022 (compared to 2019). It also ended all buy-group contracts for an annual rebate savings of more than $200K (compared to 2019). Finally, the company reduced national account sales rebates and co-op marketing contracts by $200K (compared to 2019).

Through channel and product simplification, Reelcraft converted two inside sales positions to external sales manager positions in 2021. It moved to a direct sales model (and saved more than $2M) by adding just three new positions. These sales manager positions were filled externally and brought extensive market experience.

Reelcraft built a network of loyal stocking partner distributors throughout North America. Early success with the partner distribution program and confidence in the direct sales model allowed the company to execute a relationship-altering negotiation with Grainger. Grainger took a 30%+ off-cycle price increase (including 90% increases on highest-running models), allowing for regional distribution growth. The regional distributors, by agreement, did not carry Reelcraft's competition and were incentivized to gain share on large projects and with local OEMs. Reelcraft partner distributors were up 100%+ from 2020 to 2022.

Reelcraft expects this segment to remain flat as market share increases with partner distributors (+15%) will be offset by the general market shift to e-commerce (-15%).

Segmentation: Strategy Development / Reelcraft

Strategy 3: Self-Serve E-Commerce Segment

Previously, Reelcraft thought e-commerce sales were limited to known e-commerce distributors and represented less than $2M and 3% of revenue. However, in 2020, it realized that national accounts (Grainger/Zoro, MSC, Uline, and Global) primarily sold online. In fact, Reelcraft's Amazon sales were primarily driven by Grainger resellers. The best estimate was that more than $25M of Reelcraft's revenue (30%+) was ultimately sold to end-users online, and that trend was accelerating.

This realization led to a complete shift in marketing resources towards e-commerce. For example, Reelcraft decreased its trade-show presence from 30 to five. It reassigned a product manager to focus only on this transition. Reelcraft.com was reorganized around just 12 "fast lane" products with better packaging, end-user instructions, and digital marketing tools. A digital content position was created late in 2021, and a content creation room was funded and built in early 2022. These tools were deployed to national accounts.

Instead of building an internal team, Reelcraft sought an e-commerce partner distributor in late 2020. After meetings and presentations to six potential partners, the company signed a mutual agreement with Fastool for 2021. Reelcraft added a "where to buy" tool in 2021 that allowed two-click purchasing from Reelcraft.com to distribution partner product pages. It was designed to drive business to Fastool and succeeded quickly. Fastool grew from $200K in 2020 to $1.7M in 2021. It expected to grow another 35% in 2022. Fastool was adding warehouse space to support the growing partnership. Its pricing from Reelcraft was 15% higher than the national accounts competing for share, but its market pricing to end-users was typically 10% less. Fastool also provided discount codes to small distributors that Reelcraft would no longer set up directly.

Fastool's focus, deep knowledge, and market insights encouraged Reelcraft to take confident pricing actions with other national accounts (Grainger/Zoro, Uline, MSC, Global, and Northern Tool). It saw significant margin improvement across this segment through pricing and share shift. End-users saw minimal pricing compared to Reelcraft's price realizations. Market prices increased by 9%, while the company's average selling price was 21%. Reelcraft expects this segment to grow by 25% year-over-year through market share gains from marketing, share shift and pricing (10%), and the general shift to e-commerce (15%) from legacy distribution.

Results

Without the focus of segmentation, resources would have been spread across the three distinct business lines that now exist and execution would have been spotty as a result. Because of the added focus and the formalization of segments, Reelcraft is growing by 100%+ with "launch" customers of each segment since starting these strategies in January 2020.

Segment Resources For Stronger Strategy Execution

Therma-Stor manufactures residential, agriculture, and industrial dehumidifiers, as well as restoration equipment for dehumidification, air scrubbing, and evaporative drying.

Focused

Resources are now focused by segment, which has allowed segment teams to choose their own projects, utilize dedicated resources, and better serve internal and external customers.

For more information on this story, contact
Karen Geiger, General Manager, Professional Business Unit, Therma-Stor: kgeiger@thermastor.com

> The execution success rate increased dramatically when segments chose their own projects and did not have to compete for resources.
>
> **Karen Geiger**
> General Manager, Professional Business Unit, Therma-Stor

Therma-Stor

Goal

Therma-Stor had three market segments with different customer needs, expectations, and growth targets. Each one had its own sales and marketing team, but they all shared engineering, supply chain, and assembly resources. Growth strategies, primarily new product development, were formulated annually across all market segments and prioritized based on the effort required and revenue growth potential. For example, if one market had a couple of $5M strategic bets and the other two only had $3M bets, all engineering, supply chain, and operation resources would focus on the larger bets. As a result of this approach, Therma-Stor could start a year with about ten strategies and end it with only two or three successfully executed. The organization clearly needed an overhaul to better support each market segment.

Process

They started by segmenting engineering, sourcing, and assembly to align with each of the already segmented sales and marketing teams. This created focused business segments with full financial ownership and control. Therma-Stor used several tools to improve its strategy development process. It used a product-market matrix to understand where each market had the most growth potential for new or existing products and where there were gaps. In addition, each business segment answered the following key questions: Why do we have what we have? (Value chain) Who has the competitive share? (Market share data) Why do they have the competitive share? (Value canvas) How do we get what competitors have? (SWOT/PESTEL) Therma-Stor also used targeted selling and 4Ps. In the end, they developed potential strategies within each business called the Big Three.

Results

The execution success rate increased dramatically when the segments chose their own projects and did not have to compete for resources. There was also greater ownership with both internal and external customers. Finally, growth strategies went beyond new products. They emphasized channel, marketing, and operational strategies as well.

Key Learnings

- *With a narrowed focus and resources aligned accordingly, it's easier to keep everyone engaged, increasing momentum for strategies to be recognized.*
- *It's easier to communicate to our current and future customers who we are and where we are going.*
- *Communication is critical. Keep repeating the Big Three strategies and how each team member contributes.*

Boost On-Time Delivery Fast

Therma-Stor manufactures residential, agriculture, and industrial dehumidifiers, as well as restoration equipment for dehumidification, air scrubbing, and evaporative drying.

10% To 100%

On-time delivery of "A" products went from 10% to 100%.

For more information on this story, contact
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> We created a raving fan. Hawthorne noticed the drastic improvement in delivery and said, 'You are literally our best supplier.'
>
> **Sean Ebert**
> Group President, Madison Indoor Air Quality (MIAQ)

Therma-Stor

Goal

On-time delivery for Therma-Stor's largest customer, Hawthorne, was the worst in its company history. Hawthorne hit them with a massive order in July 2020, equivalent to almost an entire year's orders. Then, two months later, they received a second huge order. Lead times ballooned, peaking at 90 days for Therma-Stor's top two SKUs. After on-time delivery plummeted to 10%, the company gave itself 90 days to increase on-time delivery to 100% and decrease lead times to less than 30 days.

Process

Since Therma-Stor was not meeting delivery expectations for its largest customer, the entire company turned its attention to improving on-time delivery of "A"/80s products to Hawthorne. They made it the one and only thing they were going to strive to make perfect.

Therma-Stor used a combination of 80/20 and Lean Six Sigma tools to accomplish its goals. First, they conducted product and customer line simplification (PLS and CLS) to remove the noise. Then they used Lean Six Sigma's "Define, Measure, Analyze, Improve and Control" (DMAIC), 5 Whys, fishbone diagrams, and value stream mapping (VSM) to create an action plan. It was all-hands-on-deck, and everyone involved in the fulfillment pipeline helped get it done. Therma-Stor made the effort visible on the shop floor to ensure everyone understood what they had to do and exactly why they were doing it.

Results

Thanks to a narrow focus and top-down support, Therma-Stor took its on-time delivery for "A" products from 10% to 100% in three months. They also cut lead time from 90 to 30 days.

Key Learnings

- *Make what you are trying to accomplish really visible, especially on the shop floor.*
- *Make a BIG DEAL about it with your customer. It will win them over in the end.*
- *Celebrate early and often. We encourage others to acknowledge weekly, monthly, and quarterly milestones over the course of a One to Perfect project. It will drive momentum of the project.*

Optimize Your Supply Chain

Porex is the developer and manufacturer of porous plastics, sintered PTFE, porous polymer fiber, porous polypropylene, and porous membranes.

$1 Million

They achieved $1M in supply chain savings within six months.

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> Don't be beholden to materials you've always used if there is scarcity. Look for more readily available alternate materials that solve the same problem.
>
> **Joe Antonacci**
> CFO, Filtration Group Life Sciences

POREX Filtration Group®

Goal

Porex was primarily a made-to-order business due to the highly customized nature of the parts it produced. As a high-mix business with thousands of unique customers and SKUs, the company's complex supply chain made it difficult to maintain competitive lead times at an acceptable on-time delivery performance. As a result, its teams frequently had to intervene to meet customer needs quickly. Despite the efforts to sustain performance, it came as an unacceptable cost to the team, so Porex committed to solving the problem.

Process

Starting in 2021, lead times on critical materials for its 80s customers had increased substantially, along with costs and risks of disruption. Due to the number of customers impacted by a material, Porex had historically struggled to maintain material requalification. But in the environment that arose during 2021, requalification was critical to continuing supply.

To address this, first Porex identified and qualified alternative raw materials as risk mitigation to cover capacity shortages it had experienced with its largest spend supplier. It started with the most critical items that generated the largest revenue, identified the material gap against all customer forecasts, and created a sourcing matrix for confirming acceptable alternative raw materials. Then it put together a cross-functional team to help segments navigate customers and quickly switch out materials as needed.

Secondly, they focused on procurement. Porex Fairburn and Richmond had approximately 5,800 unique transactions under the MRO category annually. Fastenal, Office Depot, Amazon Business, and McMaster-Carr Supply Company accounted for 60% of all PO transactions for this category. Funneling this many POs through the team was countercultural. Porex required its entrepreneurs to go through the purchasing team to order a $10 item from an approved vendor. The company was not empowering them to act. So, Porex created an e-procurement model, enabling teams to place their own orders online within established approval limits. This was a huge win, freeing up teams to spend more time on value-add activities.

Results

Porex converted 45 customer items in Fairburn, Bautzen, and Malaysia in a very short time, increasing material margins and savings due to less expensive materials. Within six months, it achieved more than $1M in supply chain savings, reduced PO issuance by 60%, and increased on-time delivery to its customers. Most importantly, Porex created an environment that supports its culture and team.

Key Learnings

- *Don't be beholden to materials you've always used if there is scarcity. Look for more readily available alternate materials that solve the same problem.*
- *Don't be afraid to democratize the process (procurement for small purchases in this case).*

Segment Operations To Increase Line Capacity

Therma-Stor manufactures residential, agriculture and industrial dehumidifiers, as well as restoration equipment for dehumidification, air scrubbing, and evaporative drying.

Goal

Therma-Stor had three market segments with different demand patterns that helped level out the peaks and valleys from seasonal demand trends. But each segment fought for capacity within a centralized assembly operation. Assembly was performed in a long, serialized fashion that consisted of 20 people and required a large footprint to support line-side material storage. In addition, the assembly lines had strong product "platform" association with limited flexibility to support increased capacity for any other "platforms." Furthermore, there was no distinction between "As"/80s or "Bs"/20s anywhere on the shop floor. All SKUs were treated with the same urgency.

For more information on this story, contact
Sean Ebert, Group President, Madison Indoor Air Quality (MIAQ): sebert@thermastor.com

Operational Excellence / Therma-Stor

Shop floor morale also improved because team members could communicate more effectively.

Sean Ebert
Group President, Madison Indoor Air Quality (MIAQ)

Process

Using Toyota lean principles and tools, Therma-Stor redesigned the traditional long and linear conveyor lines to support a U-shape cellular manufacturing concept that offered flexibility for capacity increases as needed. They also stabilized labor, creating core crews for specific products. Therma-Stor invested in new technology that improved critical quality processes and reduced the total footprint of each traditional production line. They also set up production lines dedicated to each business segment.

All employees were educated about the importance of "A" SKUs versus "B" SKUs. Therma-Stor made it visual, color-coding customer orders to distinguish between the two, ensuring that "B" SKUs were treated with less urgency.

Therma-Stor reorganized operations support teams to focus on each market segment. They created dedicated value streams, each managed by a value stream manager and a team comprised of a dedicated quality technician and a manufacturing engineer to ramp up continuous improvement projects.

Finally, they completed product line and customer line simplification. Ultimately, this helped them transition from line-side material storage to a dedicated material delivery system, reducing the overall material footprint on a production line.

Results

Therma-Stor saw improvements in safety, product quality, and delivery performance which helped control costs. Shop floor morale also improved because team members could communicate more effectively on a U-shape line. With a line design that maximized production in a small amount of square footage, Therma-Stor increased line capacity by 30% and increased the number of lines for each segment.

Key Learnings

- *Go slow to go fast. We set up several trial-and-error production lines to perfect what we were trying to accomplish before scaling so we could ensure we had everything dialed in.*
- *Create dedicated, focused teams to drive efficiency.*
- *Ensure employees know the difference between "A" SKUs and "B" SKUs and treat "A" SKUs with more urgency.*
- *Communicate and create visibility. You'll be surprised how much this can transform the operation.*
- *Change management can be hard, but stick with the plan. You can always tweak as you go.*

Check & Adjust Tool

One size DOES NOT fit all, but there are commonalities across most 80/20 journeys.
Use this checklist to ensure baseline activities are covered and to calibrate progress and results.

Each of our businesses is unique and will go through a different 80/20 journey. As previously mentioned, no two 80/20 journeys are alike! However, there are many common activities along the way that contribute to delivering targeted outcomes that most companies implementing 80/20 strive to achieve.
This "Check & Adjust Tool" is meant to be a guide that invites questions that ultimately give you the confidence that you're covering all the right bases that make sense in your business. It also provides a picture of the kind of results you should expect along your journey to help you evaluate whether you're getting what you expected 80/20 to deliver in your business.

As the second 80/20 principle clearly states, 80/20 is all about unlocking profitable growth. What follows — together with the other concepts and examples throughout this book — is there to help you unlock profitable growth in your business. It is but one example of an 80/20 journey that led to incredible business outcomes in a manner that also created a more inspiring work environment. We hope it will serve as a thought-starter for you and your team as you pursue excellence in your business with 80/20!

	Get Started (Plan, Educate, And Simplify The Business)	***Finish First Phase (Results, Segment, And Resource Appropriately)***	***Streamline And Accelerate (Lean Operations, Commercial Execution)***
Activity	☐ Conduct baseline 80/20 training for all salaried team members ☐ Analyze the business using quads and quartiles ☐ Implement Mag 7 activities to address the complexity in Quad 4 ☐ Develop complexity prevention policy to prevent Quad 4 business from reentering ☐ Take on a One to Perfect; develop project charter to define objectives, team, roles, and responsibilities	☐ Engage ELT on segmentation options; align on go-forward approach ☐ Develop zero-up resource plans for each segment; evaluate roster and align talent to appropriate segment roles ☐ Facilitate transition to segments (e.g., org announcement/communications, trade focus/target selling training, 80/20 operations training, etc.) ☐ Ensure Quad 4 activities occurring per plan (price, MOQ/order frequency, terms) ☐ Simplify order patterns with 80s	☐ Separate manufacturing where it makes sense to overdeliver for "A" customers ☐ Implement rigorous process improvement to drive increased efficiencies across production footprint (e.g., scrap, velocity) ☐ Execute Quad 1 customer acquisition plans by segment leveraging trade focus, target selling, end-user intelligence ☐ Establish segment review cadence, including performance/talent deep dives and 80/20 adoption at the lowest level
Outcomes	▪ Plan for what senior leaders expect 80/20 to deliver in target business ▪ Aware, engaged, and motivated team; list of "A" customers sent to all team members ▪ Completed activity on Quad 4 (price increase, discontinuation, PLS phase 1) ▪ Top five customer accounts you wish you had identified and sized for growth ▪ Measurable service improvement for One to Perfect customer per charter	▪ Measurable EBITDA rate improvement relative to baseline (step 1) ▪ Fully formed segment teams along with segment P&Ls and three-year growth plans ▪ Sales incentive structures established to increase focus on Quad 1 growth ▪ Meaningful improvement in 80s service levels as well as cost to serve ▪ Fewer, bigger, better orders (Quad 4 elimination; Quad 2 PLS phase 2) ▪ More mature target selling underway with focus on relationships and innovation	▪ Additional EBITDA rate improvement (step 2) from price, productivity, eliminating Quad 4 overhead and above target incrementals ▪ Production organized and simplified by segment (e.g., dedicated factory, factory within a factory, Kanban, BTS) ▪ Commercial pipeline increase in line with growth plan objectives (fewer, bigger, better opportunities) ▪ Growing maturity across segments both in focus and entrepreneurial mindset

Glossary

80 vs. 20 (80/20)
80% of a company's revenue comes from 20% of its customer and product base, yet absorbs only 20% of its overhead cost. As such, "80/20" says to treat the 80s (the critical few) differently and much better than the 20s (the much less significant many), and organize the business in this way to maximize profitable share gain.

80/20 Pricing (Incremental Pricing)
A powerful way to win large customer business once the true costs are understood. Often, we fail to accept large customer business because we believe the margins are too low. Incremental pricing asks that we look only at what costs are incremental if we accept the business at the winning price. Often, the material margin percentage is equal to the op margin percentage, making this large volume business very attractive and easier to win than believed.

"A" vs. "B"
Merely another moniker for 80s ("As") and 20s ("Bs).

Customer Line Simplification (CLS)
Same as product line simplification (PLS), it must be done, but not as critical. Small customers who buy long-run standard items are acceptable. Small customers who buy short-run special items are not. When in any doubt, however, eliminate small customers.

Contribution Margin
Revenue minus all variable costs, where variable costs are material costs and direct labor costs.

Go West
Quads are prepared with Quad 1 in the upper left, and Quad 2 to its immediate right. A key strategy is to get our Quad 2 customers to buy standard as much as possible. This takes time, but when successful, the value of moving business from Quad 2 to Quad 1 is great. This act of going from Quad 2 to Quad 1 is, in the quad chart, the act of "going west."

Incrementals/Decrementals
A financial technique to measure the value of growth, or the cost of shrinkage. If, for example, growth of $1M generates $100K of extra profit, the incremental profit on the growth is 10%.

Jumping-Off Point (JOP)
When tracking progress over time, it is helpful to know exactly where we began—the "jumping-off point."

Key Ratio
Material Margin Dollars/Total Employee Cost Dollars (salary, fringe, bonus, temp, OT, etc.). A simple measure for checking how well a company leverages labor cost, usually calculated quarter by quarter. Its immunity to material cost fluctuations make it powerful. 3.0 and above is a good target.

Magnificent 7 (Mag 7)
Techniques used to provide customers with a "soft landing" while reducing the product line. For products being eliminated, we can price them higher, provide minimum quantities only, limit numbers of runs annually, combine like products into single options, etc. Seven such techniques exist.

Market Rate Of Demand (MRD)
After we've simplified, segmented and streamline our business MRD leverages historical demand data to help determine how to size our production capabilities with a demand-driven, variable mindset. In general, we size our production capabilities based on 80% of our historical demand patterns +/- any KNOWN, factual changes (e.g., an increased auto production build rate on select platforms on which our products are qualified). This tool sizes our production capabilities on factual data versus what we hope is going to happen and ultimately elevates service levels for our highest volume products and customers.

Material Margin
Also known as "value add," this is revenue minus material cost only.

Model Cell
The most efficient and powerful way to move a company to world-class performance. The idea is not to continually try to get a bit better everywhere, but to get absolutely perfect in one cell very quickly to demonstrate to the culture what perfect looks like and that we can achieve it. Once understood, the rest of the organization seizes upon the vision and rapidly mimics it.

One Thing
The concept and value of simplifying one's workload by focusing on the one most important task. Defined with help from the focusing question: What's the ONE thing I can do to make everything easier or unnecessary?

One to Perfect (1:Perfect)
It's essential that our top customers' metrics (QDC, or ISOTIF—in spec, on time, in full) are perfect, even at the expense of many of our smaller customers. One to Perfect is an initiative usually used early in 80/20 transformations that focuses the company on getting ONE customer (usually, customer #1) to a perfect metric status no matter what. The speed at which this can be accomplished and the value received from the client is culturally transformative.

Product Line Simplification (PLS)
Unarguably the most essential part of 80/20 and company improvement. Unregulated product proliferation can't be overcome by efficiency measures, and paradoxically, too many choices for the market makes it more difficult for customers to choose.

Quad
A more strategic look than quartile analysis. Breaks each transaction into four categories: Quad 1 (80 customers buying 80 products), Quad 2 (80s buying 20s), Quad 3 (20s buying 80s), and Quad 4 (20s buying 20s). Makes clear the specific strategies for each quad, and allows rapid execution of each strategy knowing the risk and reward in each quad.

Quartile
A method of analysis to assess complexity. Simply put, stack rank customers and then products from top to bottom by annual revenue. Divide the list into four equal "quartiles" (100 customers will have 25 customers per quartile), and see how much revenue is contained in each. For companies that have not been through 80/20, the quartile revenues will be 89%, 7%, 3%, 1%, by customer or SKU.

R40
Current profitability percentage + growth percentage (current period versus previous period). Should be 40 or above. An excellent measure to ensure the company balances focus on both growth and profitability.

Segment
The true value of 80/20 is the ability to economically structure ourselves into market-focused, self-contained business units. Non-80/20 businesses would love to be so nichey but can't afford the overhead. 80/20 businesses, after PLS and CLS, can "zero up" and do so. Allows us to win, niche by niche, with excellent margins that we truly understand.

Segment GM Role
An extremely powerful "hidden asset" of 80/20. The creation of multiple niche businesses creates a number of opportunities for people to become "mini GMs" and run their own business far earlier than they otherwise might. This creation of outstanding business leaders allows for much more rapid organic and inorganic growth, as we're able to plug in experienced 80/20 practitioners into newly created segments, and new acquisitions.

Segmentation
The process and mindset of breaking a given business into its unique business lines, typically smaller, more focused and manageable parts of the business (e.g., end market, channel, product type to name a few) which have unique requirements, value propositions, growth objectives, etc. that lead to distinctly different resource allocation needs across the segments.

Smart Sharing
While we work to minimize any shared resources, in some select areas it will make sense to have a single resource supporting multiple segments (e.g., financial controller, IT leader of the business). We would consider sharing these resources across segments to be "smart sharing." Generally the exception to the rule of dedicating resources where needed to deliver specific business objectives.

Target Selling
The art of defeating the competition at large customers by assigning overwhelming resources and focus on those few large customers at the expense of the small many. The goal is not to have the most customers, but to have all of the most valuable ones.

Glossary

Trade Focus
The art of creating and testing a 4P (price, product, promotion, place) plan for market penetration/growth in a very limited area we can focus on heavily before we invest completely in large scale rollouts. The ability to PDCA quickly, and ramp up efficiently, makes this method of organic growth extremely cost-effective and powerful.

USa
An acronym for Understand, Simplify and then automate — and in that order when evaluating and improving business processes. Too often we move to automate when in reality, that's only possible for well-defined, in control and value-added processes (thus emphasis on Understanding and Simplifying prior to automating).

Variable Margin
In some cases, the same as contribution margin. Sometimes calculated to include variable period costs such as oils, sandpapers, etc that get consumed as products are produced.

Whale
The best of our Quad 1 accounts, and those competitive accounts we target since, when we win them, become among the best of our Quad 1 accounts. Our goal is win, and keep whales.

Zero Up
A technique for establishing the pure profitability of small subsets of customers and aligning appropriate levels of labor to them. Usually, start with zero customers, zero labor, and zero facilities, then add the #1 customer, add only the labor and facilities essential to serve them well, do a P&L. Then add the #2 customer and keep going.

This carefully constructed book highlighting what it means to be an 80/20 company at Madison wouldn't have been possible (or nearly as good) without the contributions from committed entrepreneurs across our business. While there are too many individuals to name who played a part in making each case study truly noteworthy and helped to distill our principles down to those that mattered most, we'd like to thank a few folks in particular who played a key roles:

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