External 80/20: customers, products and markets

External Portfolio 80/20 — module 2. Worked example with synthetic data invented for teaching.

External eighty-twenty for markets, products and customers. The companion to the internal module on manufactured parts. A Compass Performance learning session. Portfolio choices decide Strategic Intent.

Which markets you serve, which customers you pursue and which products you offer set the demand your plant must carry. The internal module asked which parts earn their place on the constraint. This module asks where that demand should come from. Start with the same twelve months, now as two hundred twenty-four sales lines, each one a part sold to one customer.

Every customer belongs to one market, and every part belongs to one product family. So each dollar is counted once, and the market, customer and product views all add up to the same ten point oh eight million dollars of revenue and two point nine one million of contribution. Then subtract cost to serve: freight, expedites, small orders, special packaging and service effort. It totals six hundred forty-three thousand dollars, which leaves two point two seven million of net contribution.

Add what the ledger cannot show: market growth, strategic fit, each product family's lifecycle, and concentration. One customer, C-02, carries twenty-two percent of net contribution. Now rank each view on its own, by net contribution. Three Paretos give three different answers.

Customers: five of twenty carry eighty and a half percent. Products: four of eight families carry eighty-two and a half percent. Markets: four of five are needed to pass eighty percent. Two customers lose money after cost to serve, and they are reported separately.

So eighty-twenty is a question, not an answer. Customer value is concentrated, and market value is spread. The quartiles agree: the top customer quartile holds eighty-two percent of net contribution, the top market quartile only twenty-eight. With five markets, quartiles are coarse, so read each market on its own facts.

Next, the Compass quad, with the same rules as the internal module. The first letter is value: A for the top two quartiles by net contribution, B for the rest. The second letter is complexity, scored from zero to twenty-five on the tool's own drivers for each view. Customers use five: customization, order variability, delivery demands, returns and service effort.

Markets and products use four, plus, in this example, their load on the constraint cell. Growth, strategic fit and lifecycle are not axes. They are tests you apply before any decision. Here, Agriculture and Industrial automation are AA markets, and Aftermarket distribution is BB.

Hydraulic manifolds and pump housings are AA products, and shafts and cover plates are BB. Six customers are AA, and four are BB. AA: invest and defend. Industrial automation grows eleven percent a year, and customers C-01 and C-04 have quoted work worth two hundred constraint hours that the plant declined for lead time.

That is the demand the internal module plans for. Defend C-02 as well, but watch the concentration: grow without letting one customer pass a quarter of net contribution. AB: improve the margin or the service model. C-03 and C-07 are valuable but costly to serve.

Offer standard options and fixed order windows, and price the special requests they keep. Valve bodies and gear carriers get the same treatment from engineering: fewer variants and fewer changes. BA: maintain efficiently. Construction and Energy, and six small customers, are simple to serve.

Keep them on standard terms, and do not add sales effort. BB: reprice, rationalize or exit, with risks and strategic exceptions named. Aftermarket distribution moves to minimum order quantities and order windows, to cut its cost to serve by a quarter. Cover plates go from five part numbers to three.

Now read the views together. C-16 and C-19 lose money because they buy parts the internal module releases. Without those parts, both are profitable, so exit the parts and offer a distribution partner. After cost to serve, that release is worth seventy-five thousand dollars, twice the internal estimate.

C-05 is an AA customer in a BA market, and it buys S-1367, the safety-critical part that stays at a new price. Decide at the line, not the label. This is the strategic dialogue from market choice to operating design. Commercial chooses markets, customers and products.

Operations translates that demand into parts, constraint hours and complexity. Where the two disagree, price, terms or the service model change. The intent is written once, for both. Strategic Intent: within twelve months, grow net contribution from two point two seven to at least two point seven five million dollars, led by Industrial automation, while the plant reaches one thousand dollars per constraint hour and five-week lead times.

The portfolio lifts the AA markets' share of net contribution from fifty-four to fifty-eight percent. Sales wins the two hundred quoted hours by month six. Product management cuts cover plates to three part numbers. The aftermarket lead cuts cost to serve from nine point one to six point six percent of revenue.

Operations owns the internal targets. Each goal has a baseline, a target, an owner and a date. Close with ARC. Analyze the three views and the plant together.

Refine the decisions with sales, product and operations in one room. Commit them to one program charter with two linked projects: portfolio focus, and the constraint-cell simplification from the internal module. The end decision here: grow Industrial automation, defend Agriculture, restructure

aftermarket, exit three parts, and keep one at a new price. Watch the companion module on internal eighty-twenty for manufactured parts.

To apply this to your business, Schedule a Conversation with Compass Performance.

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