The Bodycote Margin Model
Improving the mix
The big unknown
Which customers are profitable?

Share of revenue vs. number of customers

Example plant:
- In this plant, top customers represent >85% of total turnover – the distribution varies by plant
- High potentials are customers with higher margin potential
- Small customers are defined as those with less than €10,000 annual turnover

| 1 | Top-customers |
| 2 | High potentials |
| 3 | Small customers |
Digging deeper into the product mix…
…we discover even more margin differences

A typical Classical Heat Treatment division of Bodycote:

- **120,000 products**
  - Over 12,000 customers
  - On average 10 products per customer

- **Efficiency**
  - Identical parts can be treated at different cost
  - Factors such as efficiencies and utilisation matter

- **Pricing**
  - The same product has different value to different customers
  - Selecting the customers that value our services is key
Understanding the profitability

Product: Gearbox component
Market: Automotive
Treatment: Hardening and Tempering
Pricing: Identical in both plants

Plant 1
Margin: -5%

Plant 2
Margin: +25%
Understanding the profitability

Key questions

- Where do we earn our profits?
- Where do we have potential for growth?
- How do we do our pricing?

A systematic approach for mix and margin improvement is needed
## Improving the profitability

Driving the Bodycote margin process

<table>
<thead>
<tr>
<th>Define</th>
<th>Calculate</th>
<th>Review</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Alignment of cost data with production processes</td>
<td>▪ Process data</td>
<td>▪ Analyse share of customer’s wallet</td>
<td>▪ Challenge the results</td>
</tr>
<tr>
<td></td>
<td>▪ Identify and adjust for inefficiencies in the existing process</td>
<td>▪ Review profitability at customer / product / component level</td>
<td>▪ Action plan: ‘Improving the Business’</td>
</tr>
<tr>
<td></td>
<td>▪ Calculate the margin scenarios and create margin analysis charts</td>
<td>▪ Create inefficiency analysis report and initial proposal for action plan</td>
<td>▪ Transfer from project team to line management</td>
</tr>
</tbody>
</table>
Improving the profitability
Bodycote margin model

Case 1: NEW CUSTOMER
Not part of analysis

Case 2: PENETRATION
Increase penetration
Increase profitability

Case 3: HIGH PENETRATION
Increase penetration without loss of profitability

Case 4: SECURE
Secure position

Case 5: IMPROVE
Increase prices
Restructure processes

Case 6: IMPROVE OR REDUCE
Improve margin
Selective price increases or Exit

40%
30%
20%
10%
0%
-10%
-20%

0 % 20 % 40 % 60 % 80 % 100 %

Margin analysis
Share of customer’s wallet
Improving the profitability
The result: Up or Out…

Example Analysis

- Size of circle = Revenue volume
- Margin
- Share of customer’s wallet
- Up
- Out
Improving the profitability
Mapping the different ways to improve profit

Optimised pricing, terms & conditions

- Higher efficiency
- Fully optimised
- As is situation
- Increase volume

Bodycote Margin Model
There is more than one margin dimension when comparing processes between plants

**Plant 1**
- Utilisation and load density are low
- Standard heat treatment process
- Bad furnace management
- Flows not optimised
- Poor profitability

**Plant 2**
- Utilisation and load density are optimized
- Customised heat treatment process
- Energy management in place
- Lean manufacturing in place
- Excellent profitability
The Bodycote margin model

Why is it so successful?

Understanding where the profits are

Improving the processes & benchmarking across plants

Action plan

A defined and repetitive process

Robust and long term portfolio profitability
CAPITAL MARKETS DAY
2019