Complexity Reduction Part 3: SKU Portfolio Optimization & Brand Strategy

by Mick Broekhof and Scott Gamble

The first article of this series, Complexity Reduction Part 1: Governance Sets the Foundation for Success discussed two critical elements for laying the groundwork for a complexity reduction initiative — sustaining the involvement of the C?suite and establishing a process owner. The second part of the series, Complexity Reduction Part 2: The CFO's Imperative to Drive Growth focused on the specific role of the CFO in complexity reduction: expectations, key success factors, and types of savings.

This third viewpoint focuses on the need for a more holistic approach to complexity reduction to achieve the strongest competitive advantage. For most companies, complexity or SKU reduction initiatives still start and stop with transactional data, focusing on turnover, profit, and volume by customer and channel. For a more balanced outcome, consumer product companies sho uld create a holistic view of complexity reduction that includes brand demand view and complexity rating.?

Brand Demand View

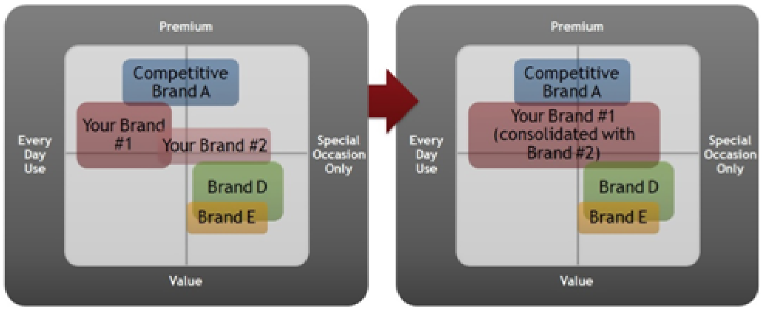
Brand demand view is an external view of the ideal product portfolio from a consumer, customer and competition perspective. To create the demand view, companies must gather information from consumers and shoppers about how they perceive the brand and ideal product portfolio. Consumer products companies should also ask their retailer customers about the ideal portfolio from a category and shelf perspective. An analysis of what the competition offers (and why) completes the brand demand view.

During a recent SKU portfolio rationalization at a confectionery company, several actions were taken to create their brand demand view. Consumer insights experts canvassed shoppers in a supermarket and asked them about the ideal portfolio, category managers met with their peers at retailers to gain an understanding of key buying drivers, and the company's researchers checked the shelves to gain competitive insights. Insights from the three sources helped the company create an ideal profile of the product portfolio that was easily measured against the existing portfolio.

The brand demand view includes the extent to which a SKU delivers on the brand positioning and strategy. The confectionary company further broke down brand fit into brand differentiation strategy, brand personality, and even brand expansion strategy. A SKU has high brand fit when it fully supports the brand on all of these aspects.

Brand fit also applies to retailer 'Own Brands.' Leading retailers develop a quality/sensorial profile for each product category and price point in order to differentiate themselves from the competition.

Brand Consolidation Example



To position the brand portfolio for future growth, companies should optimize the brand portfolio through a deep understanding of emerging consumer needs, customer category expectations and competition. In most cases, brand consolidation – resulting in fewer, stronger brands in the marketplace – results in improved margins and stronger overall market share. After optimizing the brand portfolio, it's easier to evaluate the optimal SKU assortment.

Complexity Rating

Complexity rating profiles the internal and external complexity of a SKU. Internal complexity factors include recipe, process, batch size, equipment utilization, filling, packing, inventory and logistics. This information comes from supply chain, R&D and operations groups.

External complexity includes commercial complexity and risk, and is typically provided by sales and distribution teams. Ideally, activity-based costing (ABC) provides information about all the costs allocated to a product. But in reality, it's too complex to extract the real cost of a SKU from the total cost of a company.

Brand Demand Fit vs. Complexity

Companies that want to understand how complexity affects cost without using ABC can use the complexity rating as a proxy. By rating each SKU on its internal and external complexity, the confectionery company found a large group of products with hidden cost of complexity.

If a SKU has high complexity and low brand fit, it is a greater candidate for review than a SKU with low complexity and high brand fit. Plotting complexity and brand fit is especially interesting when there are multiple brands with a similar profile, as would happen when merging two companies with similar product lines.In addition to transactional data, consumer products companies should consider brand fit, demand view and complexity rating when rationalizing the SKU portfolio. This provides management with a macro view of brands within the portfolio, a view of SKUs within the portfolio/brand, and a micro view of SKUs within the organization. As with our confectionery company example, these additional dimensions have proven to deliver a more balanced and profitable outcome.

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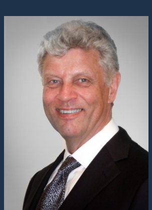

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