

Streamlining Product/Service Portfolios

S streamlining portfolios of offers/services constitutes an important lever for increasing profitability. However, in our experience, this level frequently remains under-exploited by industrial companies and services.

Many companies have to manage portfolios that have a very wide range of products or services. This high number of products/services is the result of several factors, for example, a company's desire to develop a product/service to suit each customer's specific needs (segment of one marketing), the need to stand out from the competition, or as a result of a company being organised by Business Unit, Products or Customers, where each Business Unit aims to develop its own products or services. While having a highly diversified offer is not necessarily a problem, it is still necessary to ensure that this diversity is managed in such a way as to create a real competitive advantage. However, this is not always the case, given the additional costs caused by such complex situations. In fact, there are two classic problems:

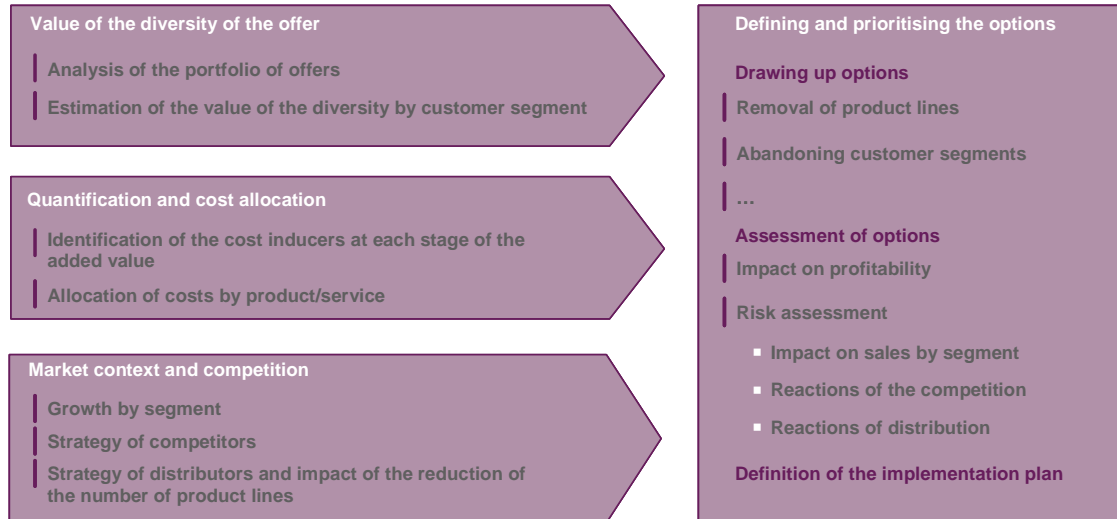
1 The costs arising from the complex situation are hidden:

- On the one hand, the number of product lines is under-assessed: only products/services currently on sale are taken into account, whilst those that are in stock, and those that have been discontinued but which still require after-sales service are "overlooked",
- On the other hand, the various products/services' profitability is not monitored, or monitored in a too simplistic way. Therefore, all too often costs are allocated pro rata to sales generated, which works to the relative benefit of low volume products/services. A more detailed analysis, based on the allocation of costs actually generated at each stage of value added (production, logistics, sales, customer service, etc), often reveals that low volume products/services produce insufficient return: costs resulting from this complex situation that are generated in respect of these products/services are not offset by the price premium put forward by the Marketing teams.

2 The true value of the diversity of products/services is not known, or is frequently over-estimated:

- Customers fail to give a value to certain of a product's components , that are often costly,
- Faced with too much choice, the customer can become "lost",
- In the case where indirect distribution channels are used, only a part of the package is available at each point of sale, and is therefore seen by customers.

The Hemeria approach



This was the case of a telecommunications operator who has recently undertaken to streamline its portfolio of services, after having noted that 50% of its income was generated by only 10% of its current products. It has discontinued more than half of its low volume products, after a comparative analysis of marketing risks against anticipated profitability gains. In this way it has obtained a 70% reduction in costs on this section of its products portfolio.

In a similar way, a cardboard packaging manufacturer undertook a programme to streamline its products and simplify manufacturing. This programme made it possible to reduce both the number of reel widths and the number of types of paper required in the manufacture of cardboard. By holding sales constant, production costs were reduced by an amount equivalent to 1.5% of sales, and the level of paper stocks fell by 30%.

This is not the first time that Hemeria's teams have developed and implemented a method to achieve this level of results (cf. below). Such methodology is based on an analysis of the value of the diversity of the product portfolio, a detailed estimation of each product's costs, and takes into consideration the competition. Various options for changes to the product portfolio are then defined and assessed according to their impact on profitability and any risks they might generate.