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## Portfolio Optimization for Consumer Packaged Goods Companies

### The business problem

Consumer packaged goods companies need continuous innovation to remain competitive and relevant. Indeed, Accenture's High Performance Business research shows that profitable innovation is a key element of success: high-performance businesses introduce more new products than competitors and they bring them to market five times faster. Yet, maintaining profitable growth while expanding a product portfolio remains difficult. Why? Some companies' product portfolios become too complex—too complex to manufacture, to get on the shelf and to sell to consumers. Moreover, new offerings may cannibalize rather than augment sales of older items or they may lead to additional costs across the value chain—from ideation through marketing and merchandising. An ever-expanding array of undifferentiated products leaves consumers so confused they turn away. Accenture's broad client experience combined with insights from our High Performance Business research, can help companies develop product portfolios that are profitable and distinctive enough to build revenue as well as enhance the company's reputation for innovation with consumers and retailers. It also simplifies and improves the cost efficiency of processes and asset utilization.

While most consumer packaged goods companies aim to optimize their portfolio and related processes, as well as identify products that should be discontinued or developed, their efforts may not yield optimum and sustainable results. In Accenture's experience, a

variety of factors usually contributes to this suboptimal outcome. Not enough may be known about the actual performance of each product, for example, or the consumer it is targeted for, to strike the right balance between profitability, efficiency of production and differentiation. In addition, many companies may not be able to calculate the true costs of producing an item so profitability is inaccurate. Furthermore, Accenture has witnessed the tendency for companies to focus portfolio optimization efforts on a specific business unit or functional group, missing broader implications—and opportunities—across the product value chain. Consequently, they do not target the right product for elimination or addition, do not generate deep enough reductions in the number of products offered and are not able to obtain significant benefits from their product line optimization. Other contributors to suboptimal portfolios are internal company politics that militate against eliminating a product championed by a brand team, the understandable reluctance to remove a product and possibly cede hard-won shelf space at the retailer to a competitor and misalignment across various functions.

### The solution

Accenture's holistic portfolio optimization solution offers a unique approach to helping consumer packaged goods companies and retailers increase profitability by keeping the right products in their portfolio and the right processes, methodologies and strategies as part of their product life cycle management efforts. The solution identifies product attributes that are valued by consumers, and uses them as a basis for

refining the mix and size of product lines to improve sales. By combining the consumers' view on product attributes, in-depth analytics on portfolio optimization, retailer insight, supply chain and industry cost-to-serve data, and product life cycle management, Accenture provides an end-to-end solution for product and process complexity management. This holistic approach allows consumer packaged goods companies to make sure they offer the right products or services, for the right reasons, to support profitable and sustainable growth. See Figure 1.

Accenture's portfolio optimization solution offers unique capabilities that consumer packaged goods companies need to achieve high performance. Our work with leading consumer packaged goods companies has

allowed Accenture professionals to design and combine in-depth econometric analytics and state-of-the-art methodologies with our global industry, process and functional expertise to assess portfolio performance both on strategic and tactical levels. In addition, because our approach to incrementality is based on identifying the value of product attributes from consumers' point of view, it can eliminate some of the guesswork that has become inherent in new product development processes and portfolio reviews at many companies. By weighing incrementality of the portfolio versus its complexity (including component and vendor complexity and commonality), Accenture can help consumer packaged goods companies invest in a way that broadens and grows their overall business and improves their margins. See Figure 2.

By collaborating with our consumer goods industry professionals and leveraging Accenture's business process and functional expertise, our clients have improved top-line profitability by eliminating underperforming products, while building necessary capability. Call Accenture today to discuss how we can help your company get the most from its product assortment and innovation efforts.

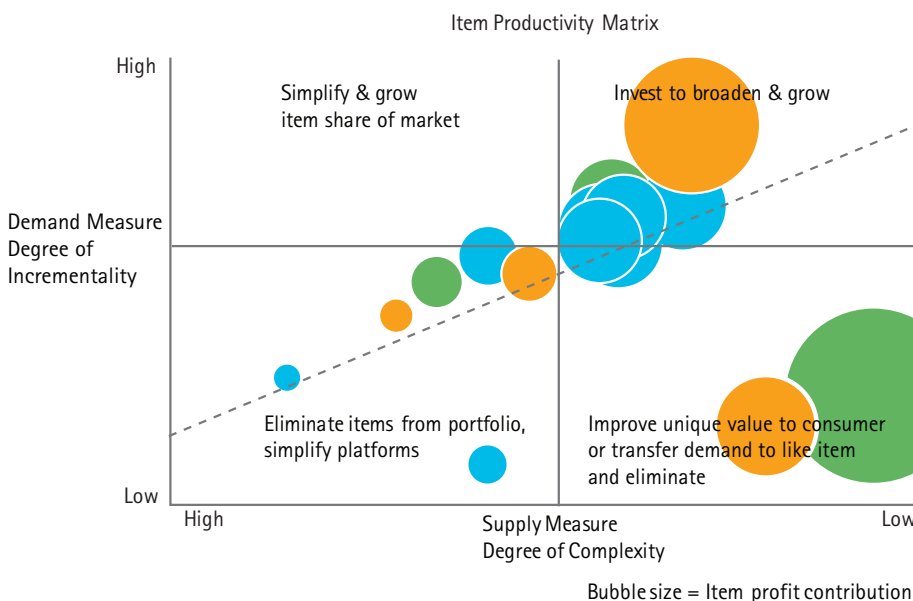
## Case study

A global office supply manufacturer and retailer, experiencing erosion in both sales and profitability due to increased competition, engaged Accenture to develop an end-to-end solution that included developing a portfolio strategy; transforming core supply chain capabilities; and identifying, developing and implementing more effective marketing and merchandising strategies. A team of specialists in areas such as supply chain strategy, order fulfillment management, marketing return on investment, assortment and shelf space optimization, and product life cycle management analyzed product portfolio and process performance, and designed and implemented plans and processes to overhaul the client's product strategy and implementation approach. The solution led to more than \$100 million growth in profitability, more than \$200 million in inventory reduction, and improved in-stock availability, inventory turns, marketing effectiveness and selection of available items to highlight in circulars and product promotions.

Figure 1. Accenture's holistic approach to portfolio optimization



Figure 2. Balancing item incrementality and portfolio complexity



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