



INSTITUT FÜR MARKENTECHNIK
GENEVA

Dynamically Streamlining the Product Range

Reallocating the company's resources to support the strongest products

International business consultancy for
strategic and operational brand management

When the product range gets out of hand

The company can't let go of weak products

“Weak products need support to become strong.” This may sound reasonable, however in corporate reality things are not that simple. One of the difficulties is that even weak products contribute towards sales that are held to be irreplaceable, no matter how small the amount. On the other hand, programs to promote weak products inevitably take resources away from the strong ones. The reassuring explanation that “the strong ones will remain successful anyway” is simply false. In today's fiercely competitive markets, even the best and strongest products need continuous attention and support.

Which products does the brand cover ?

Often, the brand's product range continues to expand, but the number of listed articles per outlet keeps decreasing. Weak and strong products end up competing with each other. As the selling space per brand is more or less fixed, the slow-moving products take space away from the faster moving ones. The result: stock-outs. Which products make their way on to the shelves is left to chance, and often depends on the personal preference of the individual sales person as much as on arbitrary decisions by each retailer. The haphazard presentation of the products at the point of sale begins to irritate and confuse consumers.

10% of products generate 90% of turnover

An excessive product range increasingly absorbs and thereby dilutes a brand's power. Retailers focus on the weakest parts of the product range to negotiate better purchasing terms. Sales and marketing staff waste time and money on them. Loss-makers are classified as “strategic products” and are subsidized – the real profit-making products, meanwhile, are believed not to need any looking after, and are thus neglected. According to the principle that “each product contributes to turnover”, the number of articles builds up dramatically. In most cases, the products making up the majority of sales are those upon which the brand has built its reputation. The imbalance of profit and loss-making products reaches a staggering level: 10% of products generate 90% of turnover.

Product inflation reduces profits

The general assumption is that growth will come from new products. For each quantity, regardless how little, contribution margin accounting is applied. And almost instantly, with the increasing number of articles in a company, a new goal develops: to offer a complete product range. The brand soon begins to lose its product range-specific profile and its efficiency on two fronts. Wanting too much at once leads to reduced competitive power in distribution, and production suffers from decreasing quantities and increasing complexity. The company's financial results automatically deteriorate.

A solution to this situation is described on the following pages.

Dynamically streamlining the product range

This model builds on the experience that the systemic effects of product inflation are much worse for a company's profitability than the sums seem to indicate. The biggest threat for a product range that has got out of hand is that the competitive power of the profit-making products is increasingly undermined by the great number of loss-makers because, inevitably and without conscious agreement, the majority of the resources (management, investments, production capacity, etc.) are shifted toward the weak products. Every effort is made to make them strong because no one will admit that they have flopped.

Taking the fear of turnover loss seriously

The method begins by reinforcing the strong products while at the same time gradually taking the loss-makers out of the product range. For this psychologically painful process to work successfully, the prevailing concerns in the company need to be taken seriously and proved wrong. Marketing and sales are typically afraid of losing turnover from each product that is taken out of the product range. And, due to the many unsuccessful attempts in the past, the production department no longer believes that such an optimization could possibly work. It is therefore important that all those involved experience each step of the streamlining process as a stimulating success. Therefore each measure must visibly strengthen both the company and the brand.

Rules that stimulate a dynamic selection process

In streamlining the product range, it is important to avoid radical solutions such as those associated with ABC analyses. The key to a successful turnaround lies in concentrating all resources on the strong products, i.e. the ones bringing both turnover and profits. In fact, this is where the resources will develop the greatest impact. At the beginning of the project, strong products will be given absolute priority in areas such as development, production, advertising, sales, stock keeping and distribution. The systemic effect resulting from this measure alone will be astounding: strong products, previously perceived as not requiring any support or having reached their limit, will become even stronger.

Simultaneously, at the edges of the product range, products with potential will be identified and supported. Consequently, a dynamic selection process will be initiated at the expense of the weak products. This process is based on one of the fundamental principles of evolution: that not the strong ones will survive, but that those that will survive are the strong ones.

Streamlining and strengthening go hand in hand

These processes alone will mobilize so many "hidden" forces that the apparent "loss" of turnover from the eliminated weak products will be more than compensated for by the profits generated by the strong. The company will thereby quickly regain its efficiency. Economic streamlining and increasing the brand's competitive strength go hand in hand. As the complexity within the company decreases, the sales force can once again focus on the successful products. In turn, trade partners notice positive effects in terms of sales volume and stock turnover, and will no longer burden the brand with unsuccessful products.

To successfully streamline the product range, management will need to demonstrate and exercise strong willpower across all departments. Throughout the project, a common understanding will therefore be established on how to build and manage a powerful product range based on the brand's specific structure. It will soon become clear to all involved that the insights developed in this project can be directly implemented in day-to-day business; some of them even while the project is still running. If desired, the Institute can provide coaching to ensure successful implementation.

Remaining strong: how to ensure that such a situation will not occur again

The Markentechnik rules that have guided the selection process also provide a roadmap for managing the product range in the future. The principle that each product needs to be regarded as an individual economic case remains the rule.

- Resources will be allocated to products depending on their respective turnover and profitability. Strong products will thus be supported to a level that reflects their contribution to profits. Management will need to ensure that they always remain powerful and up-to-date.
- Products with potential will be supported. These programs will have to be strictly monitored and controlled according to the payback principle like any other investment made in the company. Products without economic potential will weaken any brand and must be dealt with accordingly.
- Products making losses in the long-term will no longer be euphemized as “strategic products”. Without contributing to the economic success of the company, a product will always be incapable of achieving strategic objectives.
- Successor products that already exist will have to clearly demonstrate their potential in order to “move up into the front row”. The same will apply for new products. Based on the payback principle, they will need to prove their profitability in a fixed time period.

Product range management based on these Markentechnik rules will protect the company from repeating the same mistakes it made in the past; and it will direct all resources and forces to the brand's overall economic objective: sustained profitability.

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