Why portfolio health matters more than ever

A product analysis that is data-driven and ruthlessly robust will aid the growth of promising products and instil confidence in knowing when it is time to wind down underperformers.

In the current climate of disruption, traditional cycles of supply and demand in Australia's CPG sector are contracting. Rapid change is occurring at the consumer demand level and supply challenges are upending the usual lifecycle of a wide variety of products. Margins are tight and inflation is causing cost of production pressures to surge. Brands must respond dynamically or risk losing market share.

This new world order forces CPG companies to be tough in their portfolio reviews. However, even prior to these headwinds gathering speed, most CPG companies were not undertaking portfolio reviews with enough frequency or thoroughness. Often there are thought to be more pressing priorities in day-to-day business operations. Also lacking is a genuinely critical approach to the assessment: to make it a worthwhile undertaking, there needs to be a certain level of rigour and discipline when assessing the data. The performance of a product must be held to account.

A review requires a firm understanding of the correct starting point – which is being across the true cost to serve, channel performance and category share. The risk of lacking clarity on the true cost to serve is an unprofitable product range and a diminished ability to make the right call on overall portfolio health. It happens more often than many companies realise.

What comes next for an underperforming product?

Companies who undertake successful product reviews understand that supply and demand drivers and the procurement cost remain as important as ever, but they also dig deeper into often-neglected aspects of the cost to serve. Often, brands are unclear about what cost to serve means. A product and portfolio manager may evaluate the costs of creating a product without factoring in the ongoing costs of getting it to market, such as shipping and merchandising costs and then the full sales channel costs. They skim across the impact of tight margins, inflationary pressures and increasing operating costs. The resulting picture is incomplete. An enterprise-wide view is essential.

Once a review has been completed and it is clear that a product is not meeting desired profitability or its addressable market is declining, it is not merely a question of discontinuing it and finding a replacement. Alternatives to retiring a product include choosing whether in fact it is time to renovate, innovate, reframe or recycle a product or even brand.

Determining which is appropriate requires more than a qualitative assessment. Data is essential. There are more data sources available than ever before, however many brands are not using data sources to the extent possible. Limiting an analysis to historical statistics regarding sales and revenue and traditional stats of addressable market forecasts and year-on-year growth will not provide a complete picture.

A common mistake is for a brand to look at data concerning the specific format rather than the product range as a whole. Overall, there has been a lack of innovation around formats in Australia's CPG sector. For example, the 'shrinkflation' trend involves reducing the serving or package size rather than altering the price. In so doing, it is possible to offset increased supply chain costs and higher wages without affecting customers' perceptions of the product. However, more innovation is needed because this is not a viable method of long-term portfolio management. New ways to manage cost pressures are needed.

There is, of course, a cost lens to innovation, and this should be factored into new product development plans. Companies need to ask how much they are willing to spend on achieving true innovation, as opposed to refreshing or recycling existing ideas. This commonly includes changing the packaging designs or attempting to create more occasions for that product to be used as part of a 'reframing'. Sometimes, too much time and energy goes into product 'renovations' when a more robust assessment on performance would have ended the product's lifecycle.

Leverage local data or find a proxy

Brands that develop successful growth strategies have undertaken reviews that are data-led. They leverage local data where possible or have identified the best proxy in its absence. This could include data from North America for a new growth category such as alternative proteins. There is often a lack of local data because Australia's market is small by comparison, and many new products have not been in market long enough for substantial results to be collated. Or there may not be enough comparable products on the market yet.

Success is also far more likely when a global brand's strategy has been localised. One of the challenges for global brands with an overarching, global strategy and product suite is an inability to tailor products to local preferences. Without a localised lens, a new product is almost reverse engineered to make it fit within Australia, as opposed to using local insights to respond to demographic demands. Australia has a higher proportion of overseas-born people (26 percent) than the United States (14 percent) and it has one of the world's largest Asian-born populations. Australia's increasingly multinational community has unique portfolio requirements that need to be thoughtfully considered when developing an offering.

Global brands are well served by extrapolating pillars of the global strategy that suit the Australian market, and to then identify the territories where those pillars are experiencing growth.

Finally, the growing importance of Environmental, Social and Governance (ESG) issues should be woven into the process of new product development. It needs to form part of the lens of a product review because it affects everything from procurement to selecting ingredients and materials, as well as governance framework reporting and risk management. Getting this right will help to ensure success in a constrained, high-cost operating environment.

Today's bold moves

- **Find the right starting point. This may involve expanding pre-existing definitions of the cost to serve to include every aspect of getting a product to market.**
- **Be tougher when assessing a product's performance. In the CPG category, underperforming products often continue despite requiring innovation or even retirement.**
- **Use local insights wherever possible as the basis for developing a product or creating a joint venture. It is more likely to be successful than reverse engineering a product from overseas.**

KPMG is specialised in helping CPG companies. From defining and operationalising customer driven strategies, to driving improvements and growth across end-to-end operations, we work with our clients to ensure they're able to not only respond, but thrive, in today's dynamic market.

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