WHITE PAPER

Portfolio planning process to find incremental and break-free growth for FMCG* companies, into the longer term

How to enable brand planning, avoid share cannibalisation and up-skill Managers

August 2012

Fast Moving Consumer Goods

Please read this white paper in conjunction with B4P's Brand Planning Process white paper

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B4P Benchmarking for Performance

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Executive summary

Portfolio planning has so far only been used in a few categories of FMCG and is still an opportunity for many companies. Figure 1 shows how, for example, a vodka portfolio can be planned and developed in a large global spirits firm.

Portfolio planning identifies numerous opportunities for growth in both horizontal and vertical segments, so it is often used as a key driver of new product development, incremental and break-free growth. Numerous opportunities exist for growth into adjacent competitive sets in the market.

Figure 1: Vertical and horizontal segmentation – vodka example

Horizontal segmentation (e.g. flavour)		**Vertical segmentation** (e.g. strength or price)	**Horizontal segmentation** (e.g. absence of negatives)	
		super premium		
		premium		
		mainstream		
		value		
		economy		

In Figure 1 the vertical segmentation is shown as *price*. It could be: *quality, strength, authenticity, efficacy, presence/lack of ingredients.* The horizontal segments could be: *size, flavour, with/out a feature such as sugar.*

Portfolio planning is also used for prioritisation. In the Figure 1 example, a company may need to increase its profitability significantly in a particular planning period.

Therefore, it would focus investment in the more premium vertical sets, and their adjacent horizontal sets, and sacrifice some volume in the more mainstream and value sets, and sacrifice some volume as a result.

A process-based approach to portfolio planning evaluates all 22 ways that products can be innovated to grow into the adjacent vertical and horizontal competitive sets. This step-by-step analysis ensures that none of the competitive, retail, environmental, social, or stakeholder requirements are ignored. Metrics for broad and deep analysis are used in the formation of strategy.

In companies which are not process-orientated, or that have processes which are under-developed, portfolio planning is often skipped in favour of brand planning, or is often under-done as part of the marketing strategy. Brand planning operates at a more technical level, and the marketing strategy operates at a more top line level than portfolio planning.

Figure 2: Investment prioritisation tool

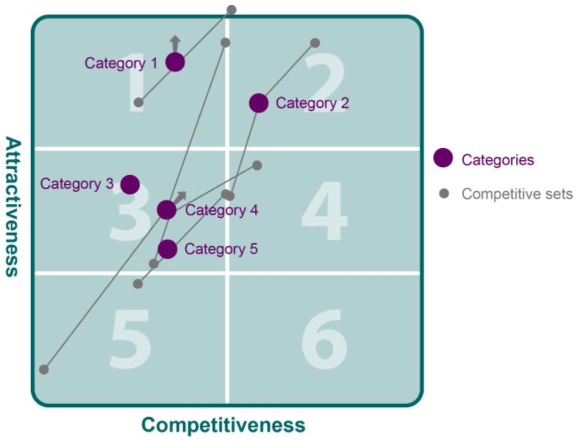


Figure 2 shows a key output from the process. Categories and competitive sets are prioritised for investment – people, time, materials and data. Attractiveness is evaluated for profit, volume, competitive intensity, and access to new consumers.

Introduction

Where it fits

In high-process firms, as Figure 3 shows, portfolio planning takes place shortly after company planning. It is a two-way process that should feed the company plan with growth, and send investment and priorities to the brand planning process.

Convergence tactics

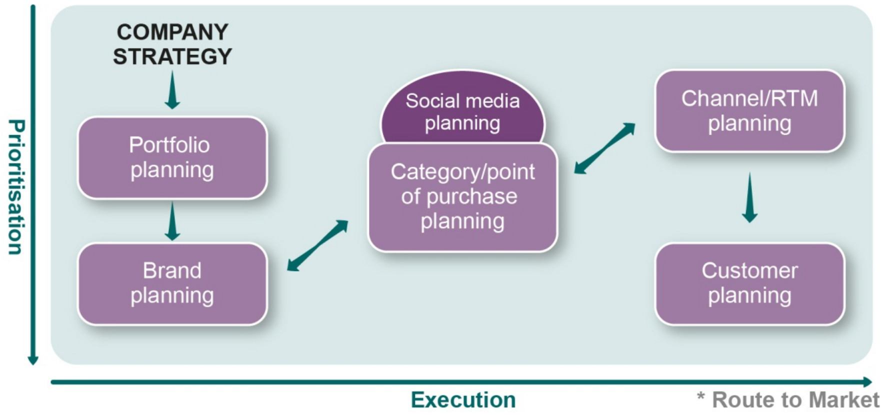
A common reason companies require a portfolio planning process is that they are running out of sustainable growth, and over-relying on share steal.

Another justification for running a portfolio planning process is the amount of *convergence* in FMCG…a lot of companies in this industry sector are competing using the same tools, leading to a lack of success. A good example of *convergence* tactics is the unsuccessful line extensions around the world each year, with a failure rate of 98%.

Convergence tactics also include *deep discounting and consumer promotions* that fail to increase consideration or trial, and which encourage down trading. The implications of these two areas are that the so-called *execution gap* will grow, rather than shrink. The gap in this instance is caused by a number of tactical brand strategies each year falling somewhat short, and the following year more activities (and spend) being required to fill the ever-increasing gap.

Therefore portfolio planning provides: new competitive sets, consumers, usage occasion and untapped growth.

Figure 3: Where portfolio planning fits



Proliferation

Since Procter & Gamble "invented" brand planning and management, much has changed:

- More competitors; more fragmentation
- More SKUs
- Consumers' needs have evolved
- Traditional media not reaching segments so cost-effectively
- Social media promotes products differently

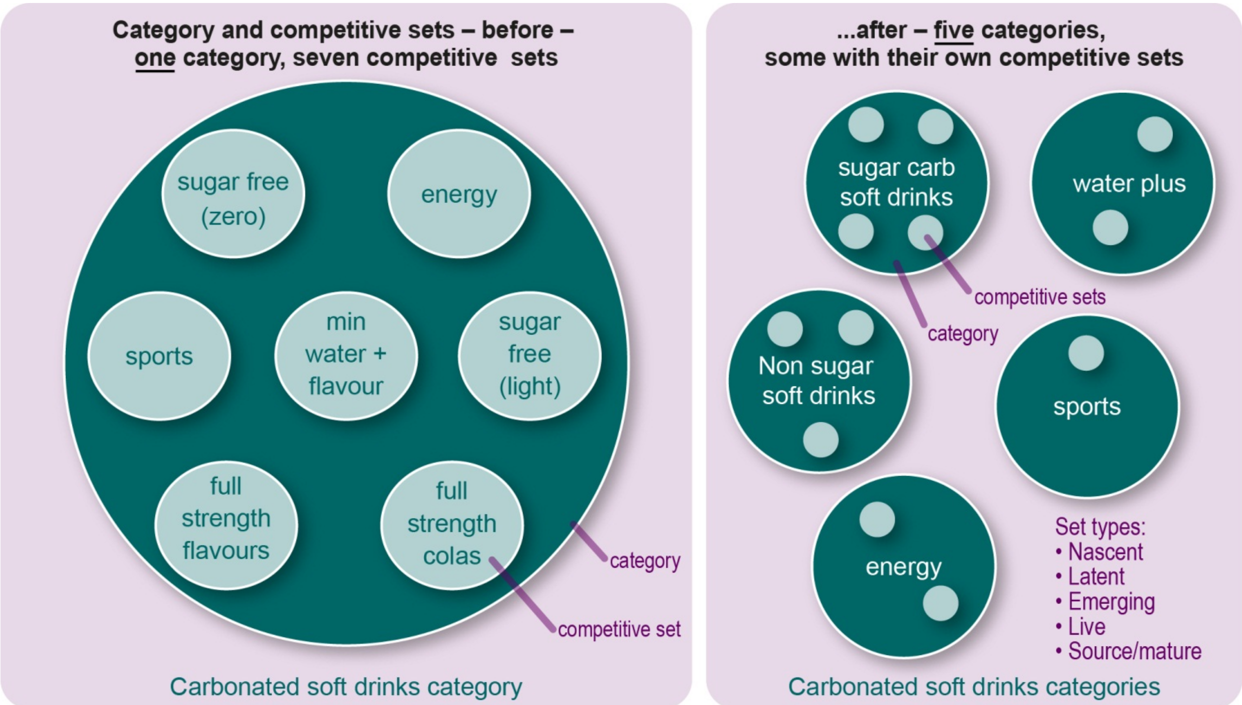
The concept that supports quantitative identification, tracking and modelling of brand and SKUs performance is shown in Figure 4.

In the 1950s and 1960s (in this example), there was a new category: carbonated soft drinks. In 2012 there are at least five categories. The change is explained like this:

1. A brand innovates, e.g. sugar free.
2. Competitors follow and a new competitive set is born in the category.
3. It grows to maturity while the original set flattens or declines. It becomes fragmented and therefore a new "category" is born.
4. In the new category, a brand innovates…and so on.

Brand management and planning does not typically address the challenges created by proliferation.

Figure 4: Competitive set evolution



Problem definition

Problems

In addition to key challenges of *convergence,* the *execution gap* and *proliferation*, a number of problems are directly associated with a lack of portfolio planning are:

1. Over-reliance on line extensions for incremental and break-free growth.
2. Over-reliance on line extensions to increase usage amount, usage occasion, or weight of purchase.
3. New products often not nurtured long enough for them to become part of a consumer repertoire – due to the lack of effective prioritisation at portfolio level.
4. The willingness of retailers to develop vertical competitive sets, when manufacturers will not, has resulted in private label. *Private label* is just a *value* or *economy* segment to companies who embrace portfolio planning. In those categories in which manufacturers decline to innovate in *value/economy*, a gap exists which retailers can and should fill if consumers' needs are being ignored.
5. No corporate competence is being developed in the majority of large FMCG firms.
6. No specific skills are being nurtured via processes and training to ensure succession management.

Implications

- Execution gaps will grow. In the case where there is an adverse health trend and the category is somewhat unhealthy or off-trend, it can get very difficult to get growth through brand strategies alone.
- Managers will churn, and talented senior Brand Managers will get promoted to Marketing Director, but no legacy capability or better plans will be in place, as most of the intellectual capital left behind will be in the form of brand planning addressing the opportunities and threats of the marketplace one level below portfolio.
- Mega trends such as healthy eating, premium-isation and masstige will continue to be addressed by line extensions where the Brand Manager thinks the brand can be stretched. Ad hoc defensive line extensions may also increase where Brand Managers *blink* and see an issue with the product. Examples of the *blink* would be:
  - Light chocolate
  - Low-alcohol beer in the 80s and 90s
  - Early attempts at 'gourmet' dried packet soup
  - New Coke
  - Pepsi a.m.

Need

Therefore, as the problem is multifaceted, and the implications suggest it cannot be pragmatically ignored, the solution needs to address all of the various aspects of the problem, not some. The idea of a *process* is more likely to be successful than the existing solutions. *Processes*, by definition, are designed to address as many controllable aspects of the problem as possible. The next section of the white paper looks at those in more detail.

High-level solutions

There are a number of observed existing solutions in place in high-process firms to ensure a strategically developed portfolio.

Training

Generic training courses are numerous and available both on the open market and in-house. These will typically take the form of marketing strategy modules, with a sub-module which addresses portfolio planning and development.

Pros	Cons
▪ Effective at the time	▪ Not sustainable
▪ Empowers one or more managers	▪ No succession management or development of team
▪ Quick and remedial	-

Set up project; form committee

Companies often recognise they are remedial in portfolio planning. The response is to leverage existing resources and put in a project team of internal people to resolve.

Pros	Cons
▪ Cost effective	▪ Team may not have access to tools
▪ Customised and tailored to the local market	▪ May not leverage best practice from other firms/industry
▪ Relatively quick as external expertise and input not used	-

Templates

In FMCG, templates have been a popular substitute for process and training in recent years. The belief of many Marketing Directors is that these templates are in use in a more process-orientated company, and therefore the success of that company can be replicated by using the same templates in other companies.

Pros	Cons
▪ Keeps approach standard	▪ Not able to provoke thought as training would do
▪ Effective in an environment with little change or very competitor threat	▪ Focus on standardisation means that plans written in templates are likely to be ignored when circumstances/ environment changes
▪ Maintains status quo	▪ Poor at addressing change
▪ Cost effective	▪ Less effective in developing strategy than training and process
▪ User driven, and saves Marketing Director time	▪ May not generate more than a few opportunities to grow
▪ Works well when R&D and overseas parents provide pipeline of new products, and tools to respond to competitor threats	▪ May not be customisable or useable in local market situations

Solution details

Figure 5 maps the three main steps required to introduce a sustainable approach. There are three steps:

1. Identification and use of analytical tools which includes scorecards, templates, checklists, process flows, and instructional design.
2. Training in the use of these tools.
3. Making it stick.

If one is used without the other (see earlier references to a template-only driven approach), then Senior Brand Managers tend to do the analyses that they are comfortable with, to a level that reflects their expertise. This can result in an uneven outcome.

Instructional design is important in the workshop step. If the tools and processes do not have complementary coaching approaches to help people think, the templates cannot be filled in by people to the best of their ability. Therefore, the two-pronged approach of process tools and instructional design caters to both *skills* and *motivation*. When both of these factors are present then the outcome will be optimum.

A typical large FMCG company will be able to analyse up to 15 data scorecards to complete successful portfolio planning. Firms with highly developed processes have a further 10-based analyses, in addition to the scorecards, seeking to find new ways of measuring the effectiveness of past activities, and therefore refine and plan better investments at the portfolio (as opposed to the brand) level. Scorecards are dealt with in more detail in the fact sheet, ***Scorecards for portfolio and brand planning***.

Figure 5: Portfolio planning process

Step 1 also makes sure that there are people to write plans for the key investment categories. In multi-category companies such as L'ORÉAL, Unilever, Nestlé or Kraft, there may be more categories than there are Senior or Group Managers to write plans. The key outcome of the first step of a process introduction is to reallocate these managers according to the investment grid shown in Figure 2 on page 2 of this white paper.

Step 2 is generally cross-functional.

Cross-functional attendance by Category/ Channel and Operations/Field Managers is key. It ensures:

- More opportunities/threats are surfaced
- True prioritisation (no fibbing about what a “bronze” priority really means!)
- Buy-in and sign-off

The workshop will usually use the standard strategic planning process flow of:

- Where are we now with this category versus our competitors, resellers/retailers, consumers and macro-environmental threats?
- What are our goals and objectives (where do we want to be)?
- What are the critical paths, milestones and action grids required to get us there?

The workshop will write, get sign-off and submit as an outcome one or more portfolio plans for the entire company.

The effectiveness of the workshop phase of a planning introduction is measured by the number of sustainable opportunities and threats that the Senior Brand Manager can identify. The best recorded is 25, and an average performance with an unexperienced Senior Brand Manager, or one who may be new to the company or category, would be around 15. It is important that these 15-25 are sustainable and not just brainstormed or derived from creative thought. They must be derived from analysis and they must survive the question: *Could a direct competitor copy these in less than 18 months?* If the answer to this question is *yes*, then it is unlikely the Senior Brand Manager has found a sustainable opportunity.

The workshop instructional design needs to deliver against the Senior Brand Manager skill-set which is identified and detailed in the fact sheet that accompanies the brand planning white paper. These are:

- Critical
- Analytical
- Predictive
- Pragmatic
- Reactive
- Optimistic

Follow up, reinforcement and ensuring that the process is then used, is the toughest part of introducing any new approach. The typical behaviour of a large organisation is to abandon a new process, once the perceived value has been extracted. Generally the perceived value is at the workshop stage. Therefore the internal team or external consultant who is accountable for the success of the approach must put most of the emphasis on the first 60-90 days and then ensure trained trainers and knowledge transfer, so that it will sustain.

To ensure a high likelihood of success, the objectives written in the workshop are linked to KPIs and KRAs and are specific and at least 18 months in duration – reflecting the longer timeframe required to achieve portfolio strategies.

Business benefits

There are three expected business benefits from a new portfolio planning process. Within 60-90 days of the workshop, the investment prioritisation and utilisation by the marketing team should have increased in both efficiency and effectiveness.

The Marketing Department has five types of investment. These should be refined and reallocated in its portfolio plans:

- Money
- Time/focus of the organisation
- People and roles
- Data and research
- Any equipment such as merchandising materials that Marketing is responsible for

Examples of successes from process-orientated companies are as follows:

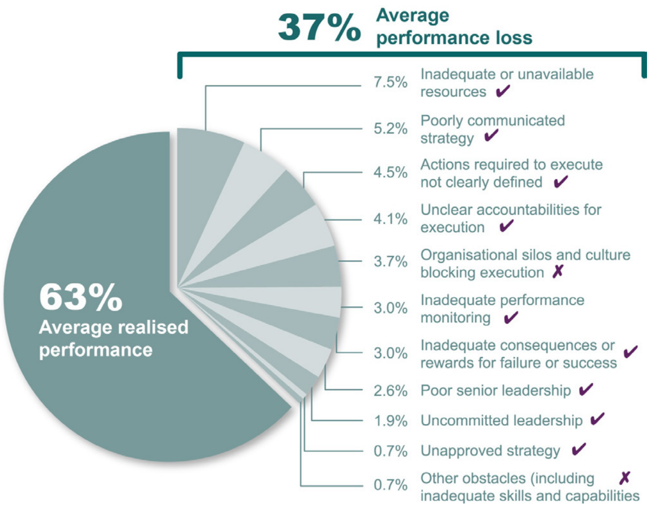
- Fewer priorities but significantly more execution in the first part of the cycle. The current average for FMCG is 63% of activities done in full on time early in the cycle, and portfolio companies can increase this to around 85% in Year 1.
- Fewer line extensions and more incremental growth initiatives such as innovation on the existing brands that takes share away from competitors that they find difficult to steal back.
- Growth that is not based on communications – not share steal growth, but actual usage increase or consumers using the product more often.
- More clarity in the organisation around priorities and focus.
- Reduction in unclear and trendy terms for prioritisation such as *gold-silver-bronze* with real clarity around what a gold priority means, and no slippage in how that is cascaded all the way down to the cycle planning meeting and the steps of the sales call.
- Formal plans written for all portfolios that are in box 1 or box 2 of the company's investment radar (see Figure 2) and *maintain* plan written for categories in box 5 and 6. No categories are ignored in a portfolio planning process. A clear focus on the latent and nascent categories, with a new interpretation of the strategic intent is agreed between the Marketing Department and the Category/Channel Heads, and the Field Staff Department. Few sales calls are wasted by companies that have a portfolio planning process.
- Reduction of missed targets each quarter as the growth is more sustainable and less easily yielded to competitors.
- Core competency in the Brand Management Department in the six skill types required to think strategically to find sustainable growth.

Summary

Closing the execution gap

Figure 6 summarises some of the benefits from a portfolio planning process. Done correctly, 9 of the 11 areas that result in 37% lost performance each year can be addressed with such a process.

Figure 6: The execution gap



Contact us

PHONE	+61 2 8005 0753	Facebook	Benchmarking for Performance
FACSIMILE	+61 2 9293 2930	Twitter	@bforp
EMAIL	info@bforp.com	LinkedIn	Benchmarking for Performance
WEBSITE	www.bforp.com		
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