

Managing the challenge of product proliferation

A survey by the Economist Intelligence Unit
sponsored by the George Group



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Preface

Managing the challenge of product proliferation is a survey and executive summary created by the Economist Intelligence Unit and sponsored by the George Group, part of Accenture. Our thanks go out to the 186 senior business executives who participated in the survey. Dan Armstrong at the Economist Intelligence Unit's New York office was the editor and project manager. Richard Zoehrer did the design and layout.

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Executive summary

Product proliferation is a growing problem as companies expand product portfolios without considering the effects on customers and costs. A growing economy lifts all companies – even those with bloated product portfolios. But when the economy turns and consumer spending is curtailed, the damaging effects of strategies based on rampant product proliferation become far more apparent.

To learn more about the challenges of product proliferation, the Economist Intelligence Unit was asked by the George Group to undertake a global survey on product development practices in three industries: consumer goods, financial services and manufacturing. Conducted in 2007, the survey reached 186 senior executives with responsibilities in marketing, sales, strategy, business development, general management, and finance. Over one-third of the respondents came from the C-suite; 27% were VPs or heads of business lines. About a quarter of the companies surveyed were based in North America, a quarter in the Asia-Pacific region, and a third in Western Europe. Half had revenues of over \$1 billion, with an average company size of \$6 billion.

The survey focused on four questions:

- How common is product proliferation?
- How do companies analyze their product portfolios?
- How well do companies understand customer buying behavior?
- What are the costs of supporting a larger number of products and services?

How common is product proliferation?

In a word: very. Once a new product is introduced, it tends to stick around. Over half of the respondents phase out less than one in 20 products each year. On the other hand, a significant proportion of revenues tends to come from products introduced relatively recently. The implication is that many older products outlive their profitability.

A number of the reasons for new product introductions have little to do with customer needs. Just over 60% of respondents say that they release products in response to the actions of competitors – despite the fact that less than 20% of revenue is generated from products/services launched in response to the introduction of a competitor's new product or service. About half point to trend analysis as a driver of new product introductions. And about one-quarter cite pressure from retailers or other middlemen for new features or packaging. Despite the lack of sound financial metrics, companies are eager to introduce new products because they think they need to keep their company relevant.

How do companies analyze their product portfolios?

Companies recognize the need to manage the product portfolio. All but 7% of companies conduct evaluations of their existing products and services to determine which should be eliminated. But these evaluations often fail to consider all of the relevant factors. Many companies do not consider cannibalization or gross profit contribution when phasing out products. This is a telling indicator of the hold that product proliferation has on companies.



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- Over 40% of companies do not consider gross profit contribution or loss from an existing product/service.
- Only one-third of companies consider the effects of new products in cannibalizing the sales of old products.
- Thirty-eight percent of companies said that over half of the products/services introduced in the past two years have been unprofitable.

How well do companies understand customer buying behavior?

There is frequently a disconnect between companies and their customers. More often than not, market research does not enter into decisions to launch new products and services. Among the surveyed companies, 38% failed to cite market research as a factor in their launch decisions. Moreover:

- On average, only one-third of products are launched in response to documented customer needs.
- Forty-nine percent of companies have an “adequate,” “limited” or “very limited” understanding of customer buying behavior and preferences.

Some of the beliefs expressed by respondents also seem questionable. Most respondents think that a higher number of products translates into greater customer loyalty. They say that customers expect them to introduce new products/services at an increasing rate. In other words, they believe that customers like choices, even if the customers are not necessarily gravitating toward the new choices that are available to them.

What are the costs of supporting a larger number of products and services?

Complex product portfolios may drive higher costs in areas such as logistics, service, manufacturing

set-up, carrying inventory and service changeover. Unless all of these costs are considered, companies are likely to underestimate the costs of product proliferation. However, many companies pay little or no attention to these costs.

- Forty-four percent of respondents say their company gives limited or no consideration to costs associated with new product introductions or with continuing to produce loss leaders.
- Fifty-two percent of respondents say their company phases out less than 5% of products per year. (9% of respondents of companies phase out none of their products per year.)
- About 37% of respondents say that their companies take an “aggressive” approach to eliminating underperforming products/services.
 - Among respondents from financial services companies, 72% say that they are reluctant to pull underperforming products.

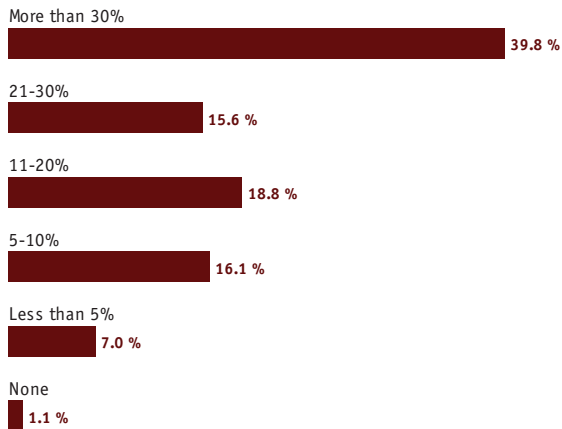
Equally important is a company’s ability to understand when to introduce new products (even when existing products and services are satisfactory and generating profits).

Conclusion

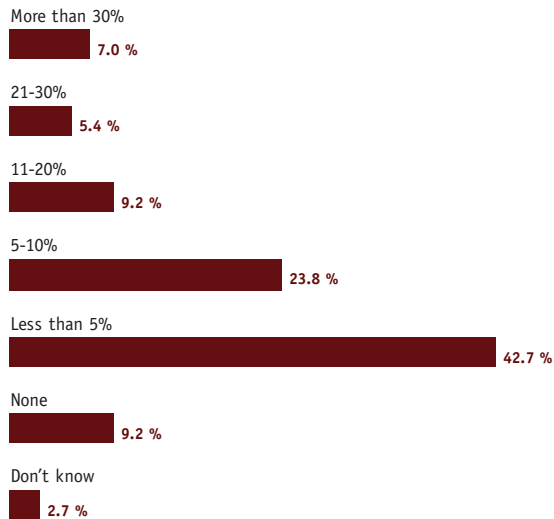
Companies do not always introduce new products for the right reasons. When consumer spending rises, companies may expand the number of products to make sure they share in this growth in spending. However, the proliferation of products may disguise fundamental issues in how complex portfolios are managed and their impact on overall profitability. Optimizing the product portfolio may require companies to more closely scrutinize products in terms of customer needs and the true costs of supporting complexity.



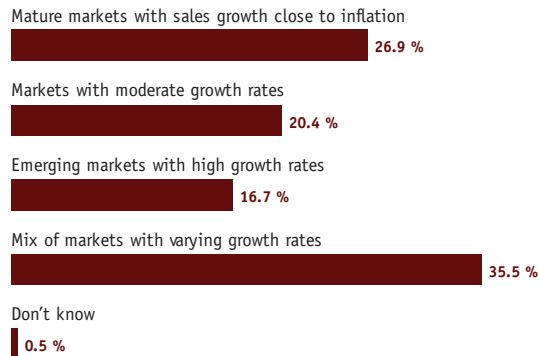
1. Approximately what percentage of your company's total revenues is attributable to products/services introduced in the last five years?
(% respondents)



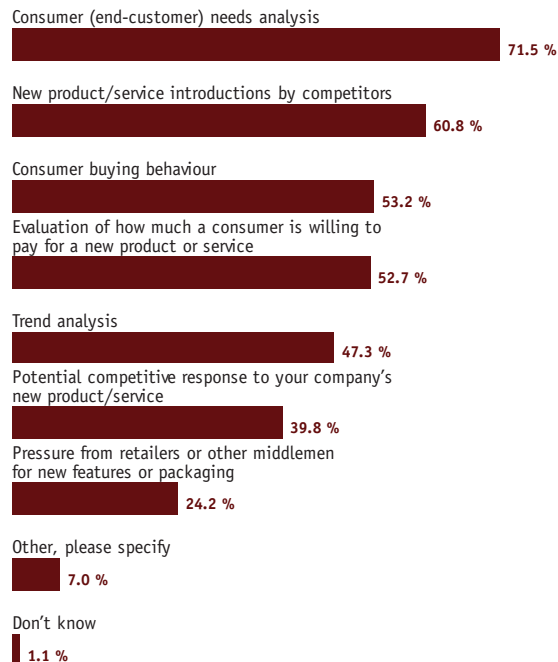
2. What percentage of your company's total products and services are phased out during the course of a typical year?



3. In which of the following markets does your company primarily compete (ie, the market where the greater part of your revenues are derived)? Select one.



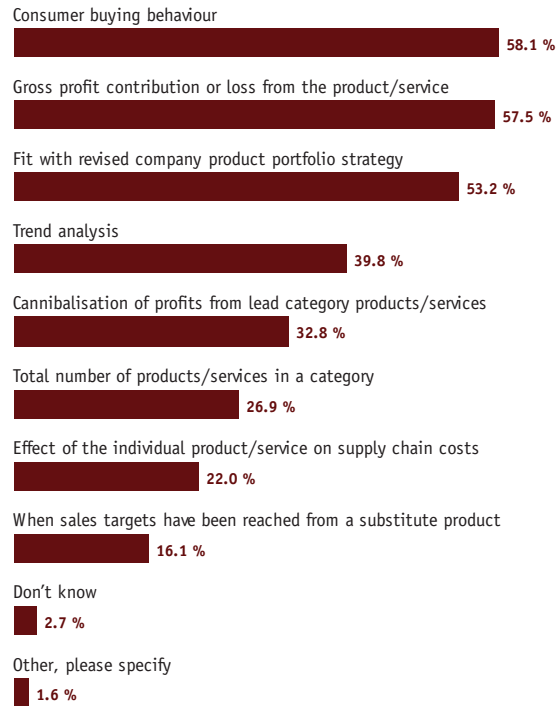
4. Which of the following factors does your firm consider when introducing new products/services? Select all that apply.



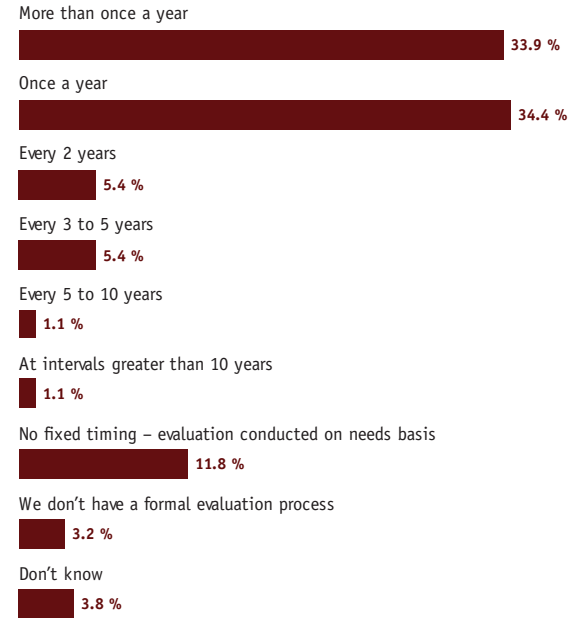


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5. Which of the following factors does your firm consider when discontinuing products/services? Select all that apply.



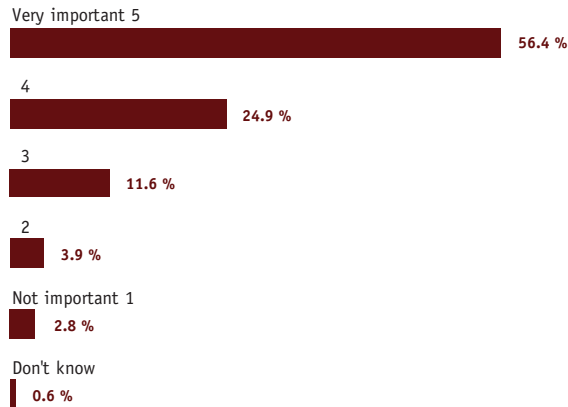
6. How frequently does your company evaluate its existing portfolio of products/services to determine which ones to phase out or eliminate?



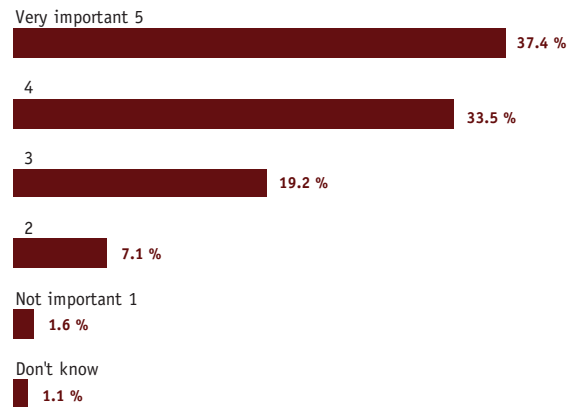


7. How important are each of these factors for your company when evaluating new product or service introductions? Rate on a scale of 1 to 5, where 1=Not important and 5=Very important.

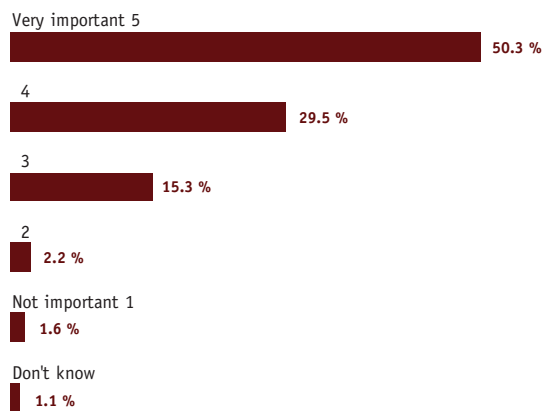
Increasing market share in a growing market



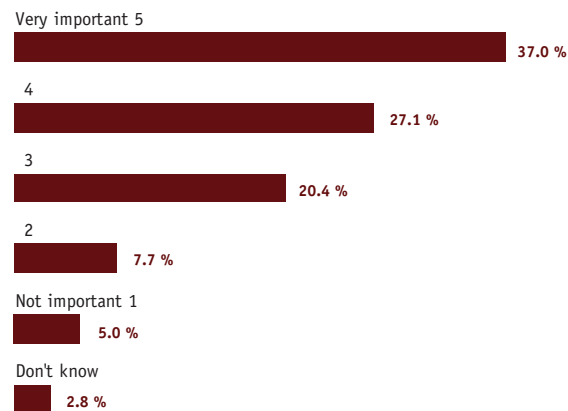
Maintaining profitability in a mature market



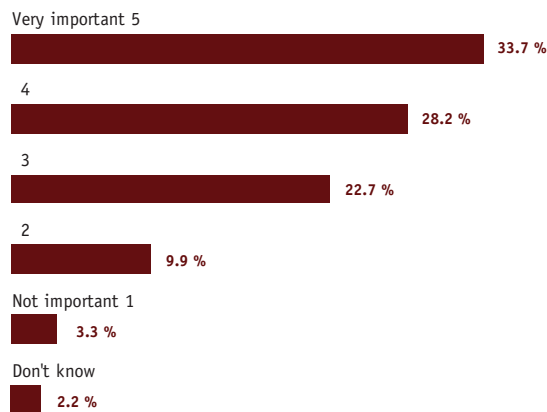
Increasing profitability in a growing market



Increasing sales through the introduction of new technology



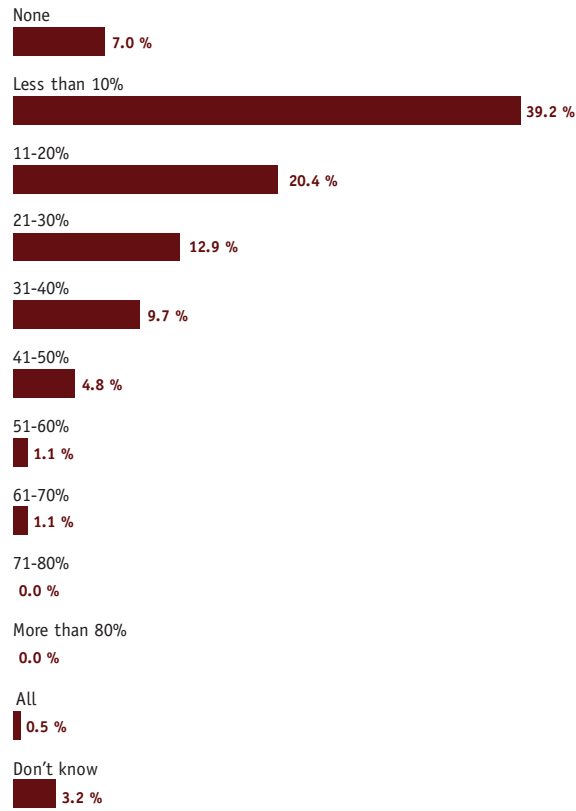
Maintaining market share in a mature market



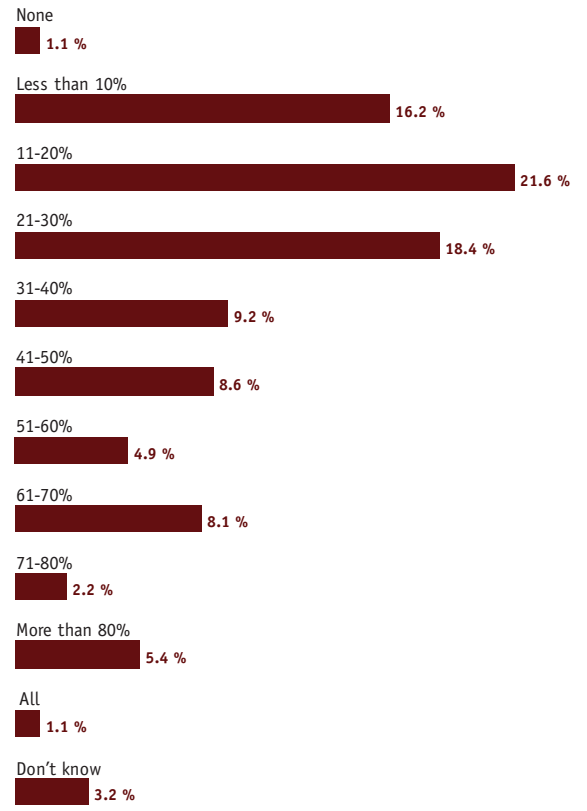


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8. In your estimation, what percentage of your company's revenue derives from products launched in response to a competitor's new-product introduction?

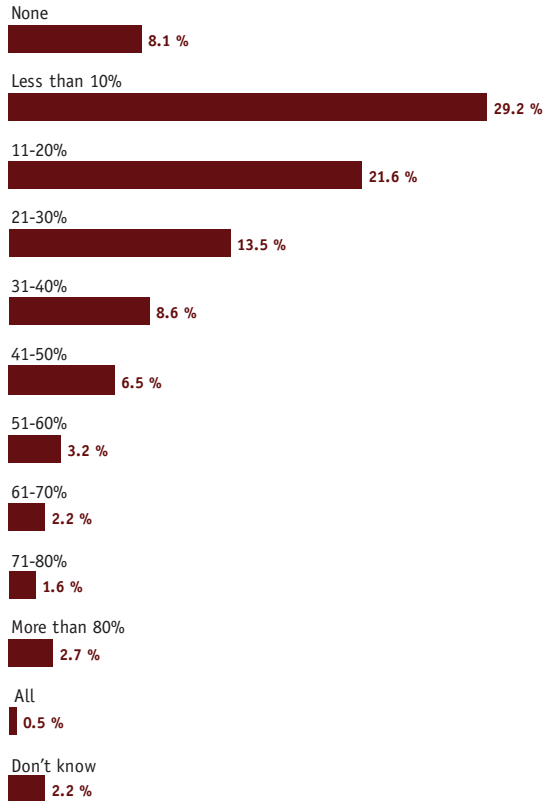


9. In your estimation, what percentage of your company's revenue derives from products launched in response to a documented consumer/customer need?

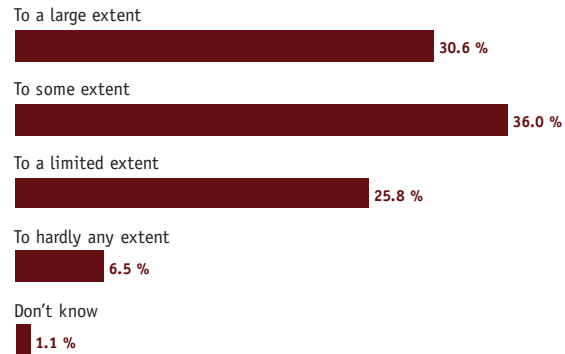




10. In your estimation, what percentage of your company's new-product development projects are reactive to requests from business-to-business customers (eg, retailers for CPG companies) or middlemen (eg, packaging changes, promotions, displays)?



11. To what extent do your company's new-product introductions result from in-depth marketing research (eg, focus groups, purchasing decision analysis, conjoint analysis)?

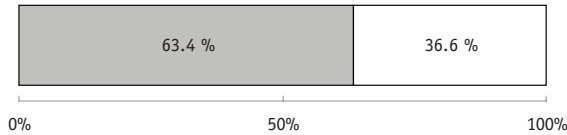




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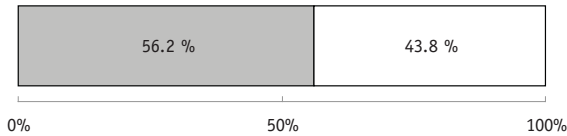
12a. In the past five years, how have your company's end-customers' purchasing habits changed with the introduction of greater product/service variety in the marketplace? Select one statement for each pair.

- Our customers are willing to pay more for value-added features
- Our customers are not willing to pay more for value-added features



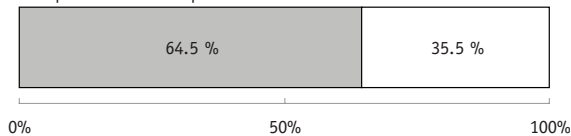
12b. In the past five years, how have your company's end-customers' purchasing habits changed with the introduction of greater product/service variety in the marketplace? Select one statement for each pair.

- Customer loyalty to our products/services has increased
- Customer loyalty to our products/services has decreased

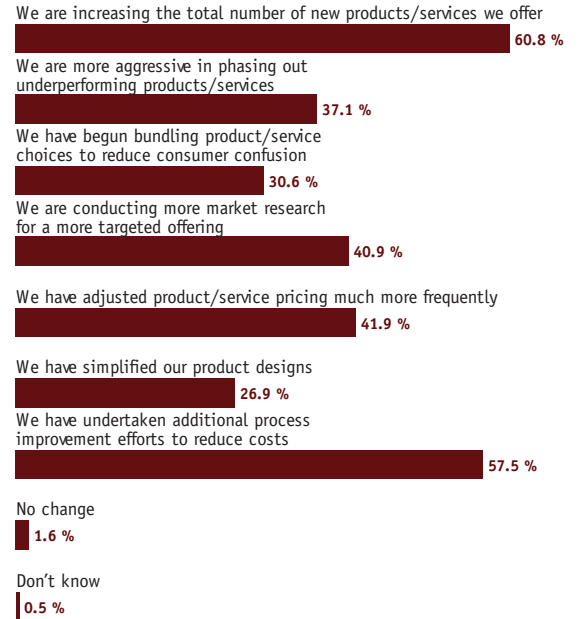


12c. In the past five years, how have your company's end-customers' purchasing habits changed with the introduction of greater product/service variety in the marketplace? Select one statement for each pair.

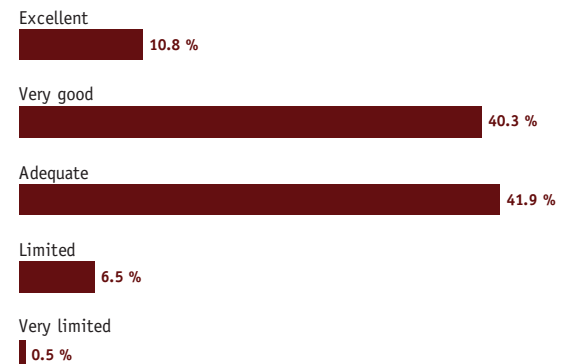
- Our customers expect product/service introductions at an increasing rate
- Our customers prefer that product/service introductions be pared down to help them avoid confusion



13. In the past five years, how has the change in your end-customers' purchasing habits affected your company's product portfolio? Select all that apply.

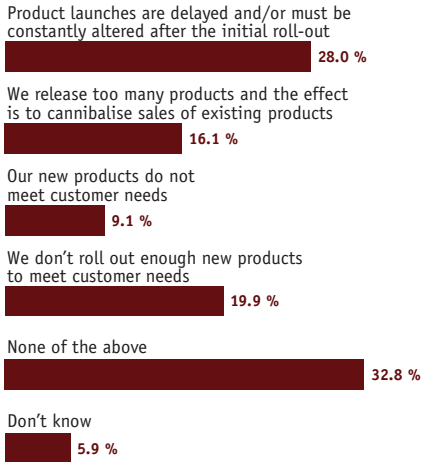


14. How would you rate your company's understanding of its customers' buying behaviours and preferences?

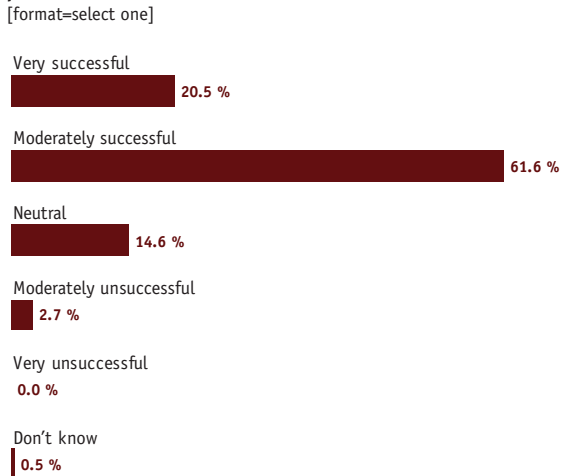




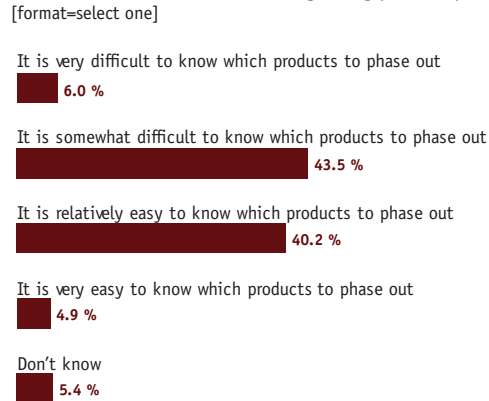
15. How does the extent of your company's understanding of its customers affect product launches? Select all that apply.



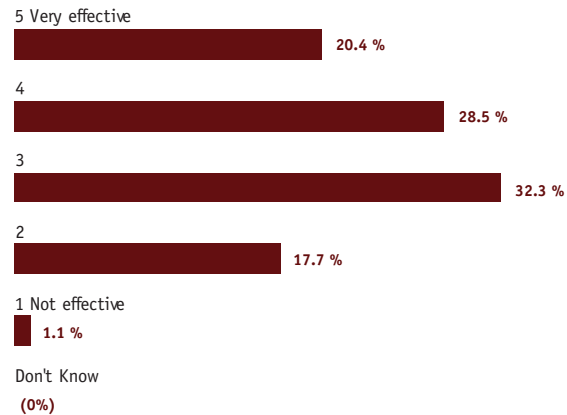
16. Generally speaking, how successful are your company's product launches?



17 How does the extent of your company's understanding of its customers affect decisions regarding product phase-outs?



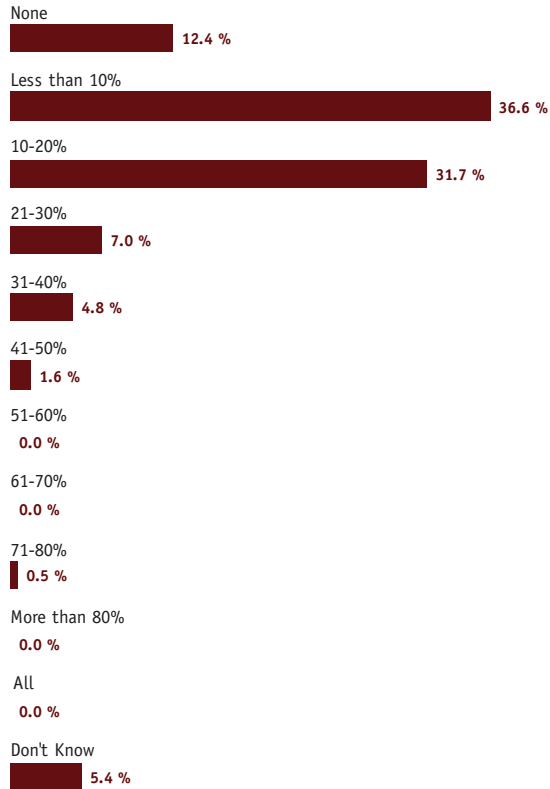
18. How effective is your company at measuring the potential financial return of each product? Rate on a scale of 1 to 5, where 1=Not effective and 5=Very effective



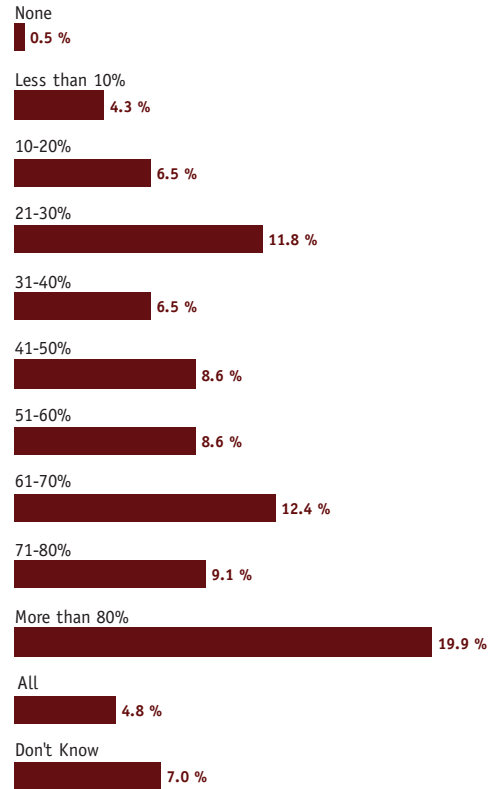


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19. Approximately what percentage of your company's products/services are unprofitable at a gross margin level?



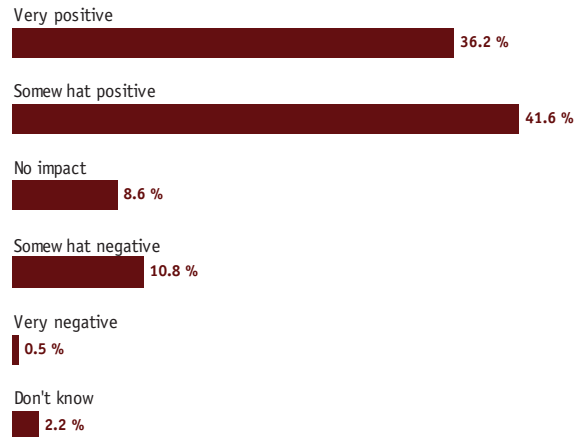
20. Approximately what percentage of your company's new products and services are profitable after the first two years?



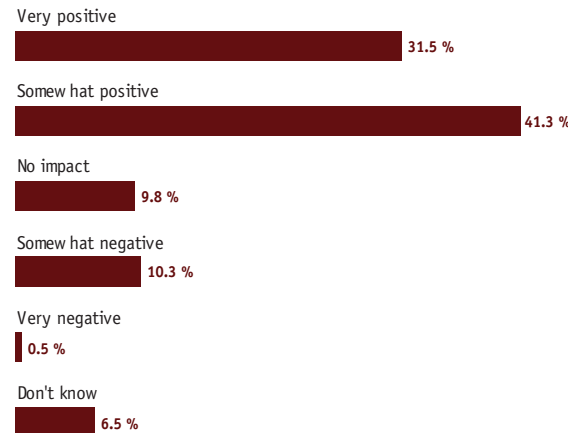


21. For your company, what has been the impact of the introduction of new products/services on the following factors in the past five years?

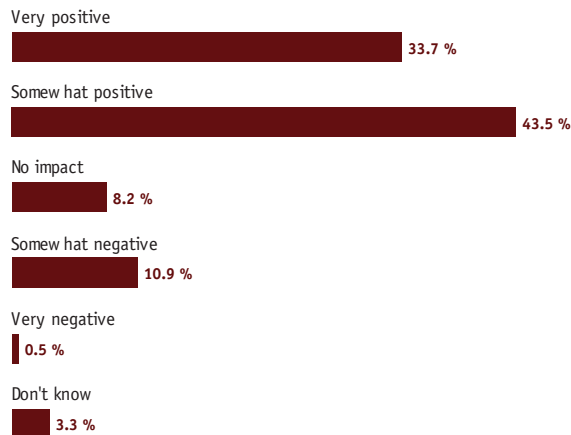
Gross margins



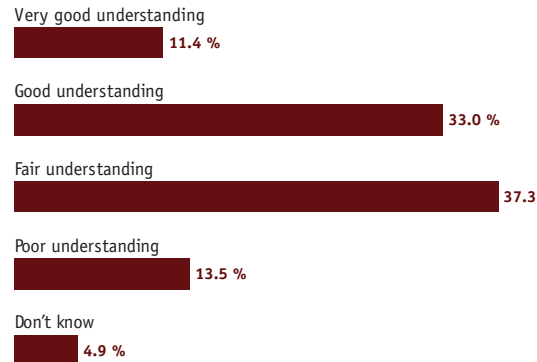
Return on investment



Profits



22. In your opinion, how well does your company understand the overall costs and benefits of carrying "loss leaders" to round out product offerings?

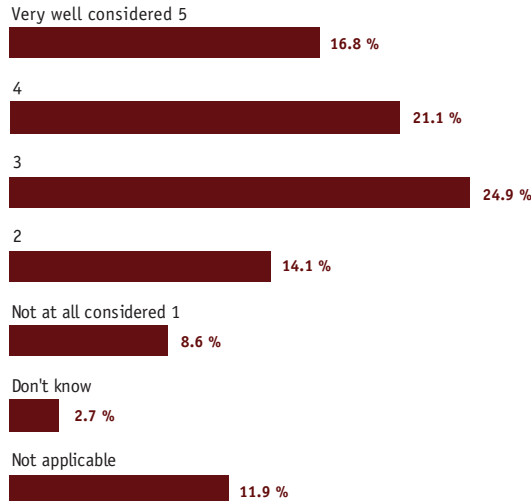




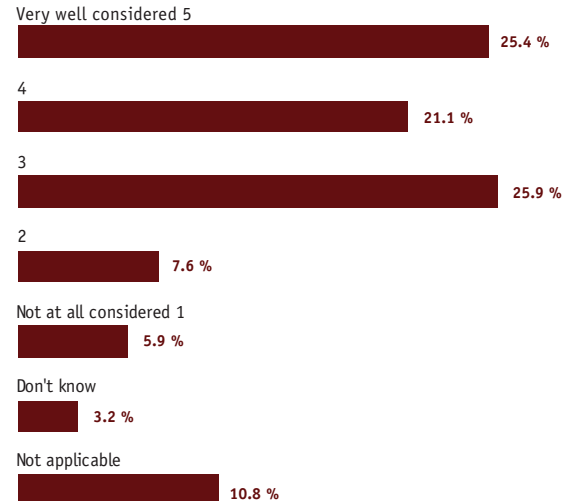
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23. To what extent does your company consider the following factors when introducing new products or continuing to produce loss leaders? Rate on a scale of 1 to 5, where 1=Not at all considered and 5=Very well considered

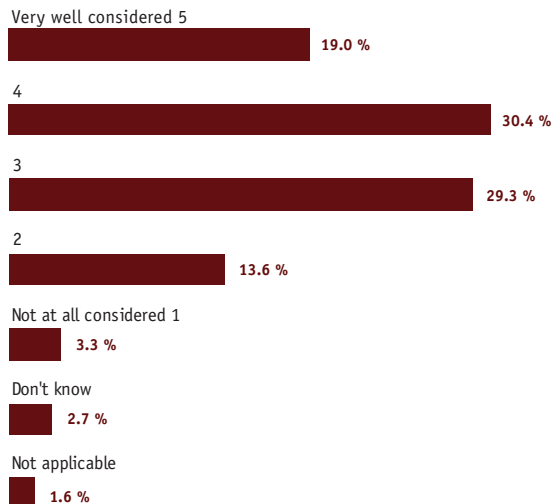
Incremental inventory carrying costs



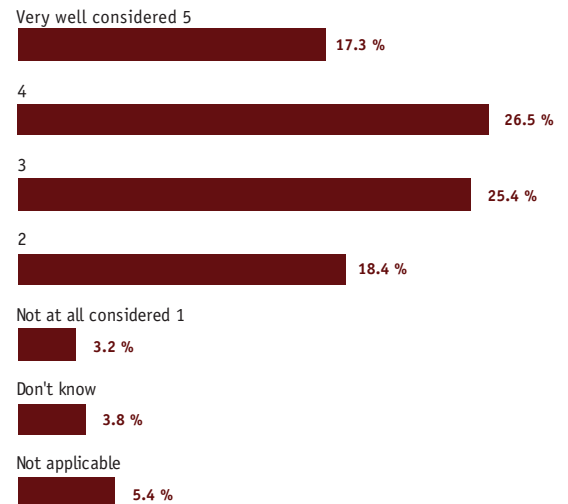
Effect on total company manufacturing set-up costs



Incremental service costs

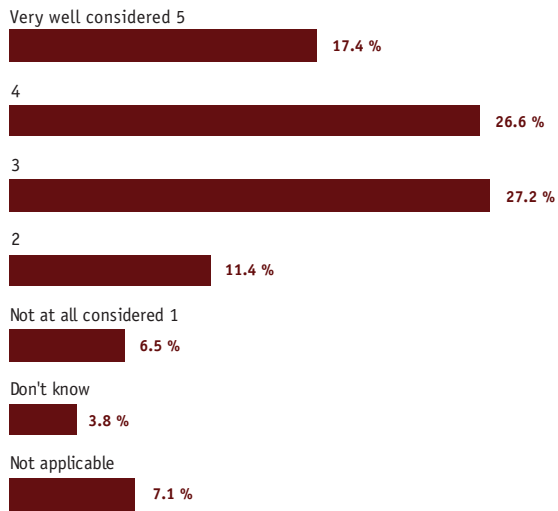


Effect on total company service changeover costs

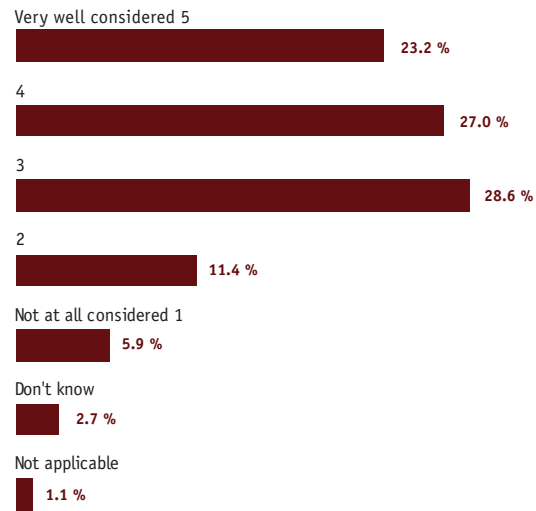




Incremental logistics costs



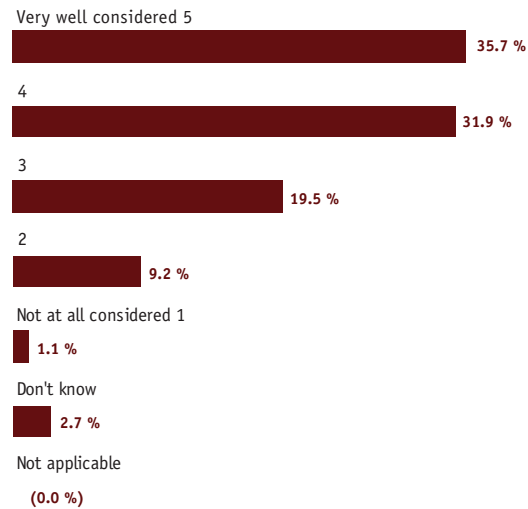
Potential response by competitors



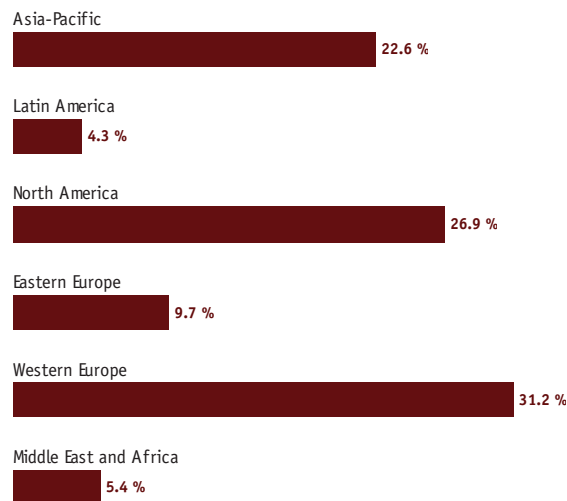


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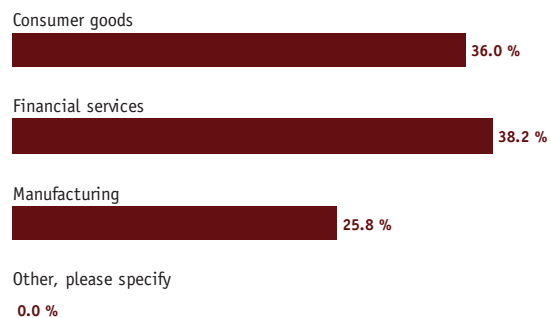
Potential effect on projected margins



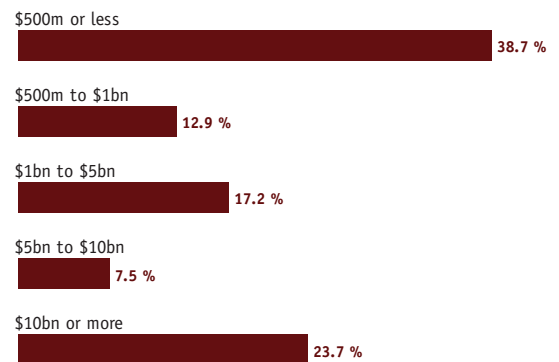
Where are you personally based?



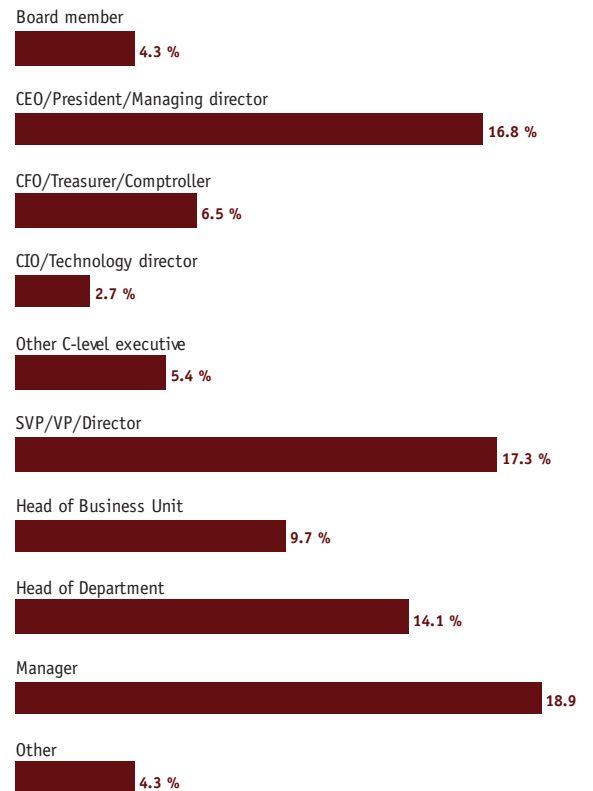
What is your primary industry?



What are your company's total global revenues?

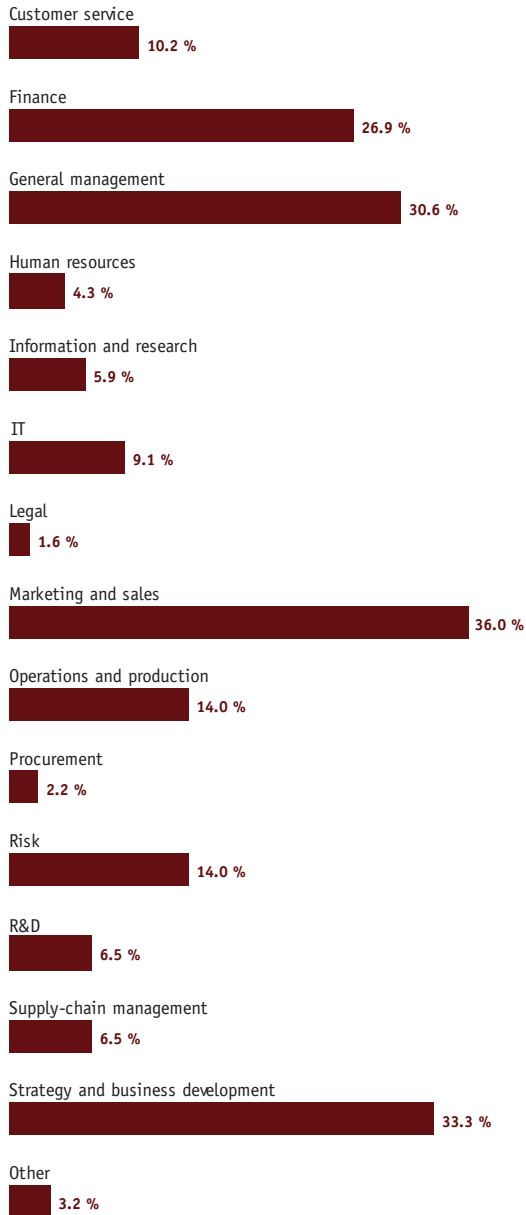


What is your job title?





What are your main functional roles? Select up to three.



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LONDON
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8476
E-mail: london@eiu.com

NEW YORK
111 West 57th Street
New York NY 10019
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
E-mail: newyork@eiu.com

HONG KONG
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com