Sevendots Growth Series / **Volume 13** / Key Highlights

Effectively Navigating Complexity

New Portfolio Management Growth Series

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Effectively Navigating Complexity

New Portfolio Management Growth Series

More complex portfolios are required to cope with the forces impacting the CPG industry

The forces impacting the need for a more active portfolio management remain valid and, to a certain extent, have even accelerated from our previous observation in 2019. Consumers are getting used to and demand for more personalization from brands and companies. Virtual shelf is becoming more relevant as e-com, even if its development has slowed down after the pandemic, now represents a significant portion of sales across different categories. Speed to market has also increased supported by digital enablers and by the impact of AI that can only grow in the future. Complexity is still the name of the game as more articulated and thought through portfolios are needed to excel in the marketplace.

The key forces of personalization, virtual shelf expansion and increased speed require a flexible and dynamic portfolio strategy to avoid that new and small brands continue to steal share form the big players.

Portfolio management decisions continue to be linked to the relevant framework identifying the three main levels of categories, brands and skus and are triggered by strategy, financial, consumer and customer demand/considerations. Having clear the trigger/decision process can improve the efficacy and the return of portfolio decisions.

For a more in-depth exploration of our findings, including further analysis, case studies, and our Category Growth framework, please contact opportunities@ sevendots.com.

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01 Complexity remains the name of the game

A few forces are impacting portfolio management strategies.

These strategies are centered around decisions affecting the three main layers being Categories (where the company wants to operate), Brands (that a company chooses to have in a given category) and SKUs (for each brand in the portfolio). Decisions should not be opportunistic and must be triggered by the correct and specific motivations around Corporate strategy, Financial Returns, Consumer Demand and Retailer Pressure.

PERSONALIZATION

54%
of consumers claim personalization allows them to buy products that best suit their personal taste and needs.

VIRTUAL SHELF

There are over
600 million
products listed on Amazon marketplace.

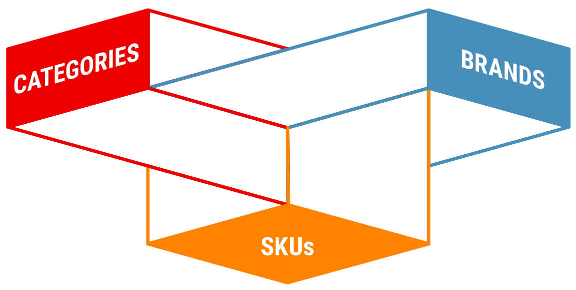
SPEED

53%
of US CPG and retail executives are concerned with keeping pace with constant shifts in consumer preferences and behaviors.

Source: MOMENT10, 2024 , Amazon, 2024, EY, 2024

Different motivations drive each layer of the portfolio

Main drivers for portfolio management



	Corporate Strategy	Financial Returns	Consumer Demand	Retailer Pressure
CATEGORIES	★	★	●	
BRANDS		★	★	●
SKUs		●	★	★

☆ Primary
○ Secondary

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02 From passive to reactive

Over the years multinational companies had different approaches to portfolio management that moved form being more passive to be more active.

In the last few years, due to the different crises and lately the strong inflationary pressure, a new era started. This is what we define as the “reactive era” where large companies tend to cope with the crises looking at ways to support value and focusing mainly on portfolio rationalization (both at SKU but sometime also at brand level) and on investing in higher margin categories vs. lower margin ones.

Companies are moving back to a more reactive approach

Evolution of major CPG companies approach to portfolio management over the years

The Heritage Era
Portfolio as a consequence expansion and acquisitions
PRE-2000

The Big Brand Era
Focus on fewer brands to reduce complexity
AROUND 2000

The Proactive Era
Recognizing the need to manage a broader portfolio
BEGINNING OF THE CENTURY

The Reactive Era
Reacting to the crises looking at ways to support value
POST PANDEMIC

Reactive era is characterized by two major initiatives from large CPG companies

Portfolio rationalization

Reduce portfolio complexity mainly at SKU level but then also at brand level

Focus on higher margin categories

Divest lower margin and/or lower growth categories in favor of more remunerative ones

03 Portfolio and growth

Growth and portfolio decisions are strongly linked. In fact, they help to prioritize investment, optimize the product mix and steer the strategic direction.

There is value in trying to understand how different growth strategies impact the portfolio management decisions both in terms of the primary level they need to focus on (categories, brands, SKUs) and the triggers (strategy, financial, consumer, customers). Four prevailing CPG company growth strategies can be related to portfolio decisions.

Strategic portfolio management supports growth through relevant decisions

Prioritize investment

Allocating resources more effectively among the different products investing in high-growth areas while divesting from under-performing ones.

Dynamically adapt to changing market conditions.

Optimize product mix

Ensuring a balanced mix of products at different stages of their lifecycle.

Identifying innovation needs and opportunities.

Mitigating risk related to external factors.

Steer strategic direction

Shedding non-core assets to concentrate on areas with the most potential for growth.

Acquiring assets that can expand growth opportunities.

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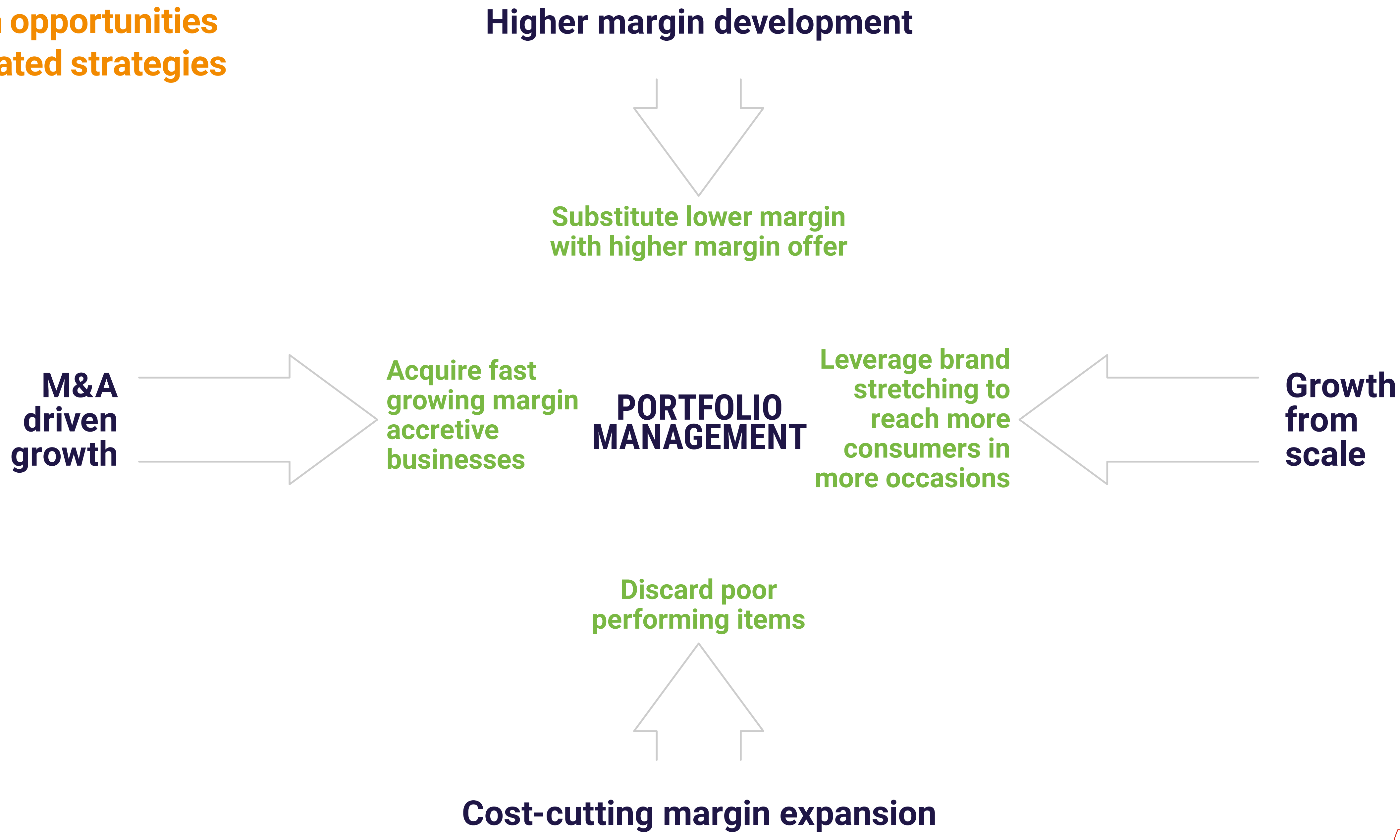
Portfolio management as a central way to implement growth strategies

- **M&A driven growth** which requires mainly a focus on the categories where the company decides to operate
- **Growth from scale** based on further leveraging existing assets through stretching an existing brand across different categories, mainly adjacent ones.
- **Higher margin development** which is an ongoing premiumization strategy where the company periodically substitutes in its portfolio the lower margin units in favor of new higher margin ones. This can normally be played both at a brand and SKU level.
- **Cost-cutting margin expansion** which is focusing mainly but not only on the bottom line as in reality it is trying to exclude from the portfolio those items that not only have a low margin but also a low rotation. This is mainly focused on SKUs but can affect also brands.

Each growth opportunity has an impact on the portfolio strategy

Growth opportunities and related strategies



04 Productive complexity

Not all the complexity is hitting negatively the performance

Avoiding complexity is not a value per se as it is important to link it to the potential payback this brings. Good complexity is showing a lower cost than the payback it brings. This in terms of consumer and customer perceived value and ability to monetize it.

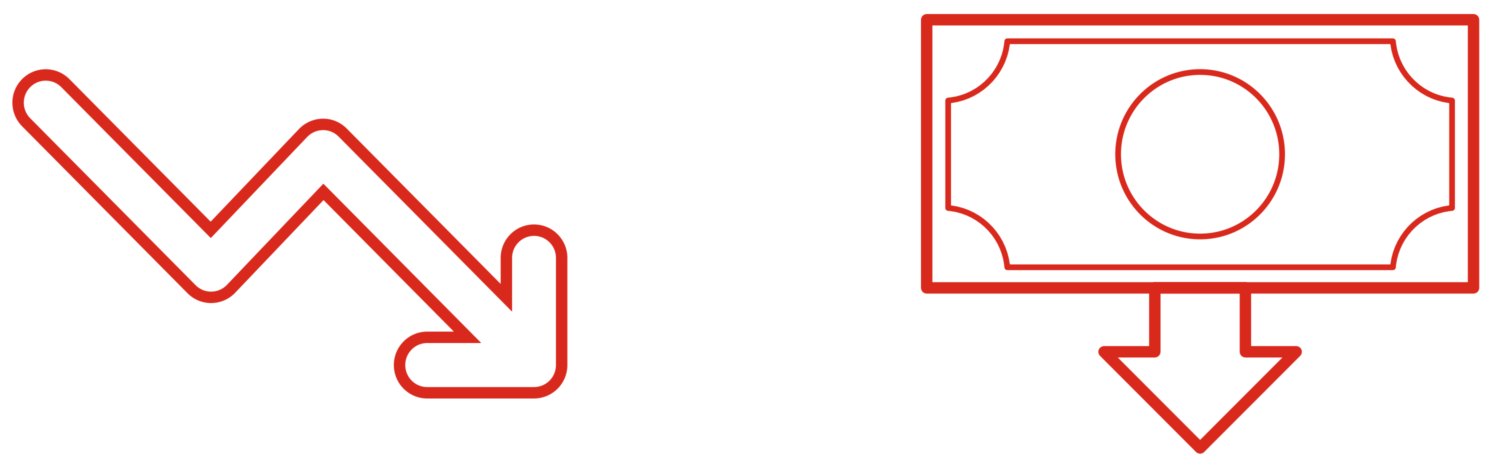
Both at a brand and SKU level it is important to better understand the role of the different items in the portfolio.

For example, at an SKU level there could be a very long tail represented by items that have a very limited contribution to sales and absolute margin. However, sometimes the slower moving SKUs are the ones recruiting new consumers into the category, trading up the category or impacting the category and brand equity.

At a brand level, the introduction or presence of multiple brands within the same category can allow to reach new consumers or different consumer clusters.

The need of proper perspective and analytics

Distinguishing between low performance and low sales



Low Performance **Low Sales**

Source: McKinsey, 2020

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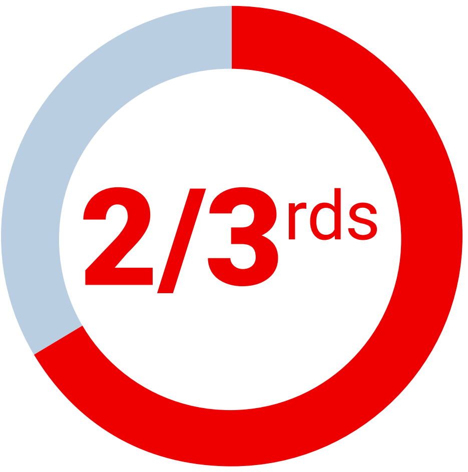
SKU proliferation linked to bad complexity?

50% to **70%**
of the entire available assortment present in the market **delivers only 2% of total category sales.**

Source: Bain & Company, 2021

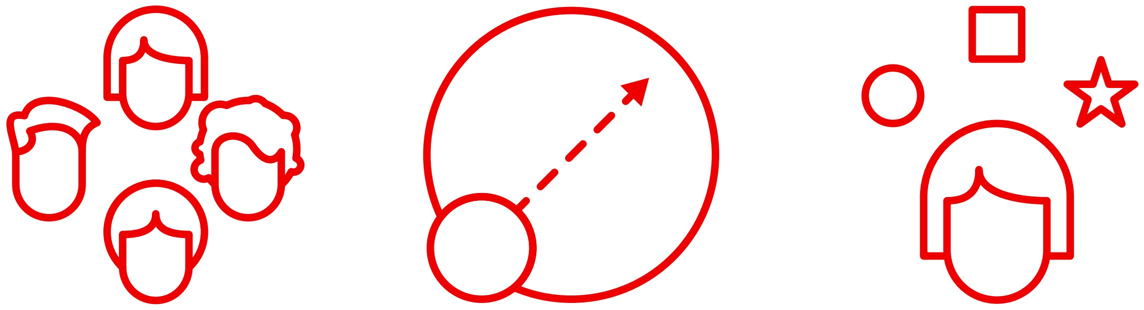
Yet, an average of
120 new items
are **launched every day** in the **top five European markets.**

However, fast moving SKUs are not always the most incremental



of the time, the **slowest moving SKUs** within a line are **more incremental** than some faster moving SKUs

Source: NielsenIQ, 2022

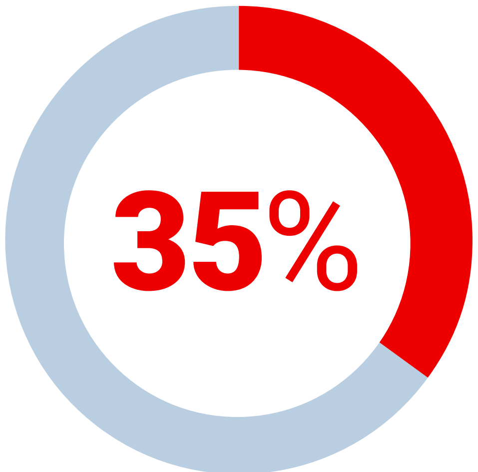


Bringing new buyers to a category

Trading up existing category buyers

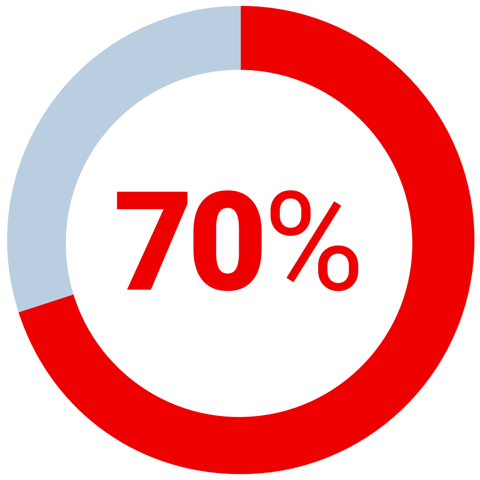
Catering to different needs or usage occasions

Successful slower moving SKUs offer specific benefits



more likely to be targeted

Source: NielsenIQ, 2022



more likely to be premium

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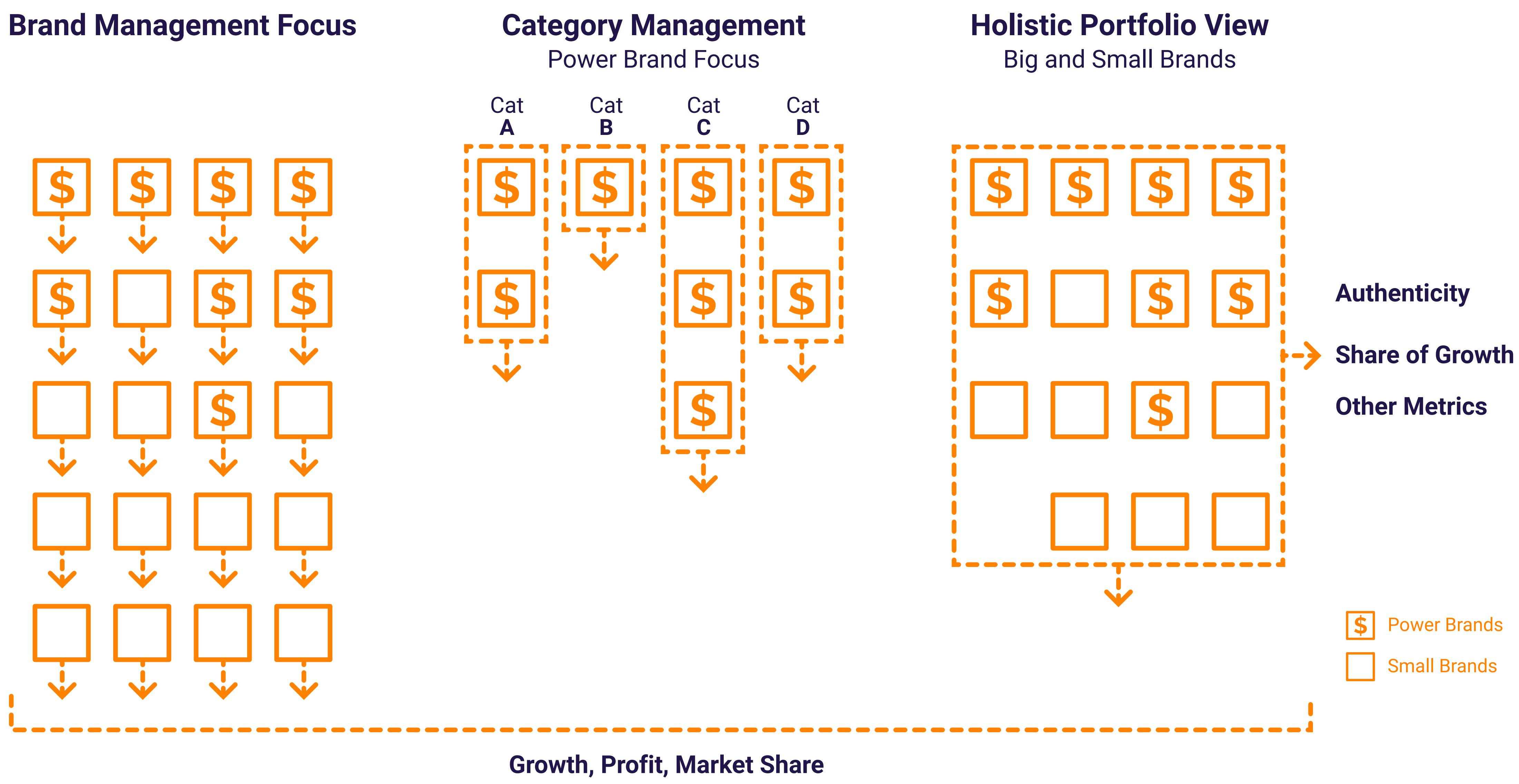
05 New approaches and new metrics

Flexible governance models and holistic portfolio metrics for better success

A more complex portfolio requires more flexibility in the brand governance and more holistic measurements to track progress and performance.

There is the need is to go from a brand management to a portfolio management approach. This is triggering new metrics like share of growth or overall capital investment but also softer elements like perceived authenticity.

From brand management to portfolio management



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Traditional performance metrics will still have value, but broader metrics need to be considered

Traditional Metrics

Growth

Profit

Market Share

Return on invested capital (ROIC)

Source: Mondelez Website, 2018

Broader Metrics

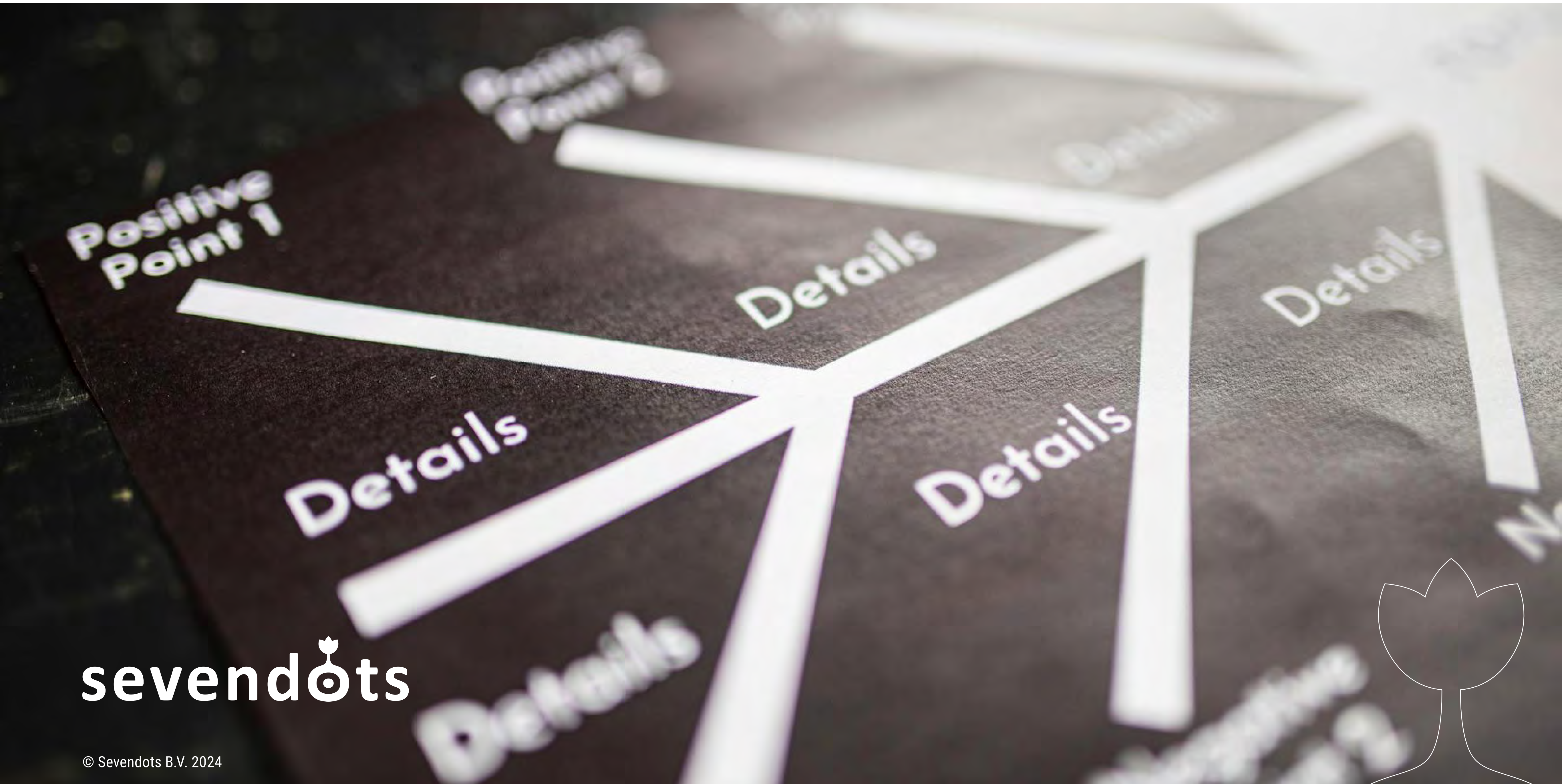
Share of growth

DTC share of business

Authenticity

GFY/BFY share of portfolio

Capital investment
(vs. outsourced manufacturing)



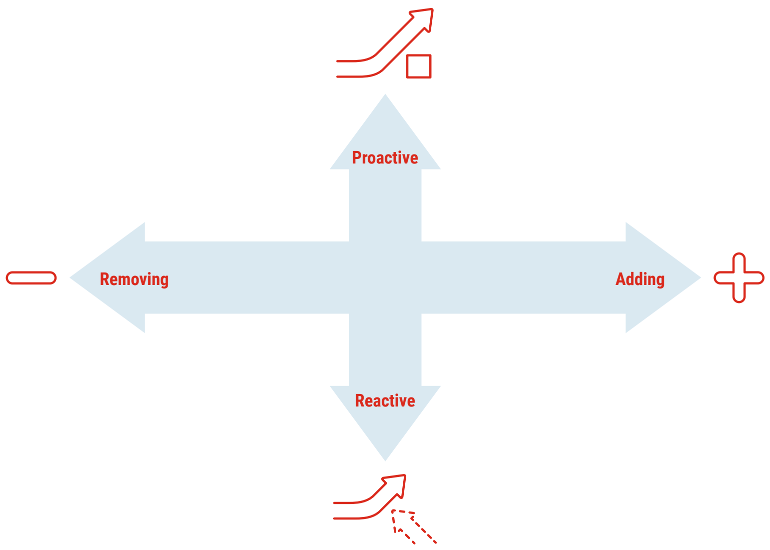
How can Sevendots help around portfolio optimization?

Sevendots capabilities support the whole portfolio management journey.

Assessment

Portfolio analysis and strategic assessment

- Performance analysis
- External benchmarking

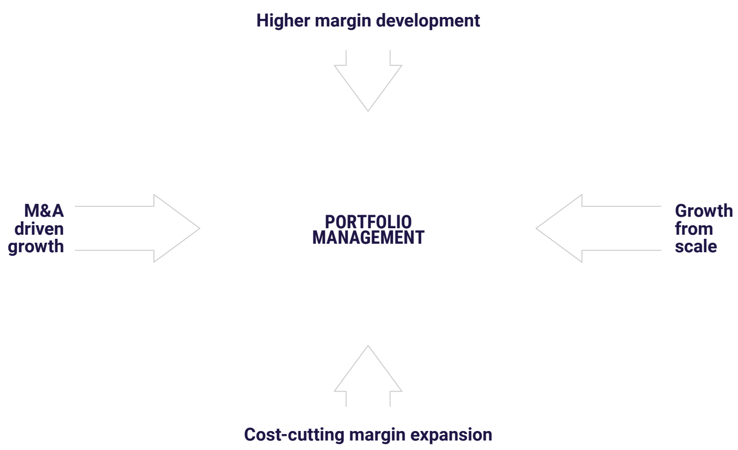


Opportunities identification

Strategy

Align growth strategy with portfolio decisions

- M&A Advisory
- Innovation support



Opportunities selection and development

Implementation

Identify key implementation activities

- M&A Development
- Innovation Design Criteria
- Value Chain Optimization
- Marketing Governance and approach

Opportunities implementation

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SO

What did we base these insights on?

Sevendots insights are always based on a robust platform of knowledge and, dissatisfied with just one source, we always cross-check our conclusions with other sources of information.

5 key stages of learnings fueled our final content:

1 A detailed search and review of all relevant information sources and cases about innovation processes and outcomes from academics, consulting firms and practitioners. Updated in 2024.

2 An internal survey among 20 Sevendots partners from 10 countries– with strong experience in brand and general management or in consulting and consumer research – collecting, structuring and distilling all their experience on innovation.

3 Qualitative interviews with 26 senior professionals in large CPG companies, including PepsiCo, Nestlé, Haleon, The Coca-Cola Company, Unilever, Ferrero, Kimberly Clark, Barilla among others, from functions such as global and regional CMO's and CEO's, International Marketers and Global CMI.

4 A quantitative survey of more than 80 brand owners around the globe, all from leading multinational CPG companies.

5 And finally, an extensive search and review of case studies providing vivid support to our findings. Updated in 2024.

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The role of penetration is gaining additional importance

Purpose and social focus should be upgraded while reinforcing the basics

Category definitions could be reconsidered and the role of intangibles expanded

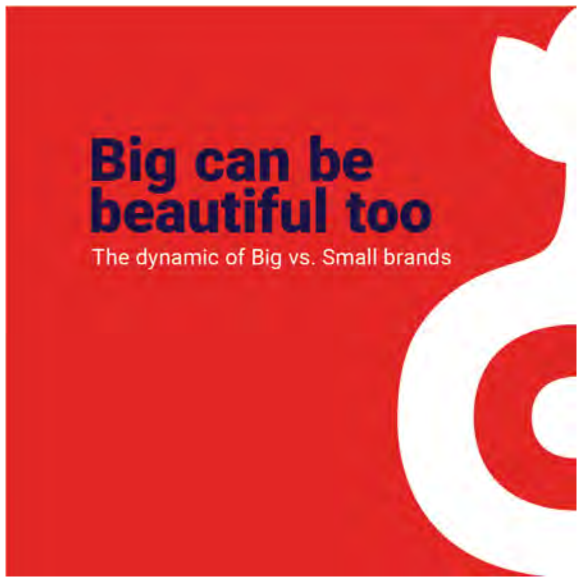
The need to evaluate and step into DTC with the right execution

The importance of a more proactive portfolio management

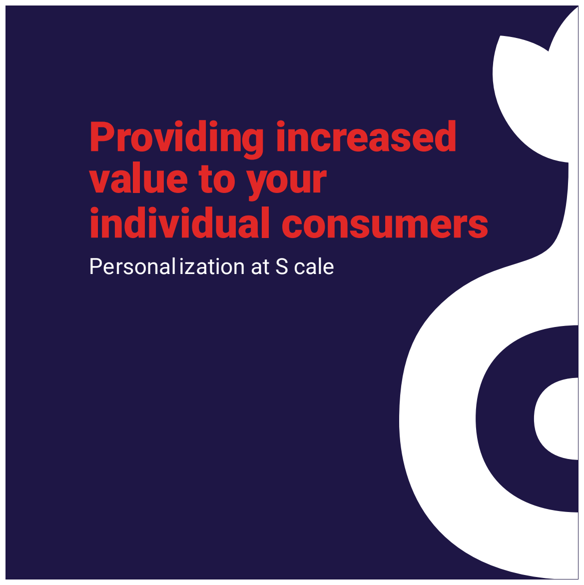
Companies and brands societal contribution is today more demanding and complex to manage

Developing the right mix of service and product as a key component of successful DTC implementation

Sustainability is a central asset and has to be managed through an effective value equation

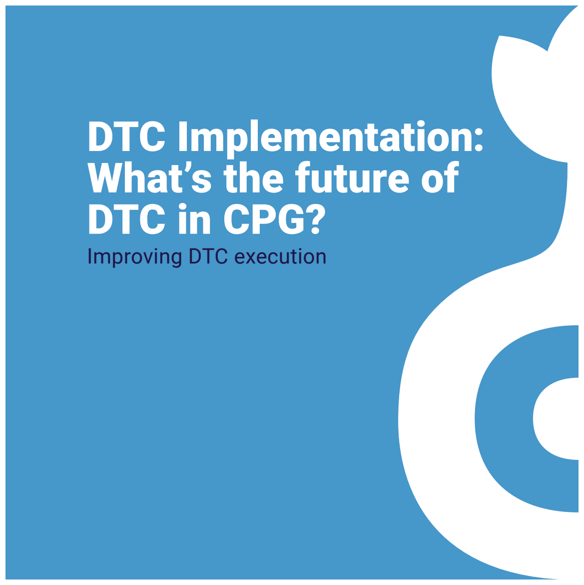


Managing the different benefits level is a crucial component for coping with small brands developments



Personalization can drive increased value and engagement but needs to be properly planned and executed.

To crack the innovation challenge, companies should be brave, and think solutions rather than products.



DTC has gone though a learning curve – the time is now to leverage its unique benefits.

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For a presentation of the
whole outcome of the project
please contact
opportunities@sevendots.com

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