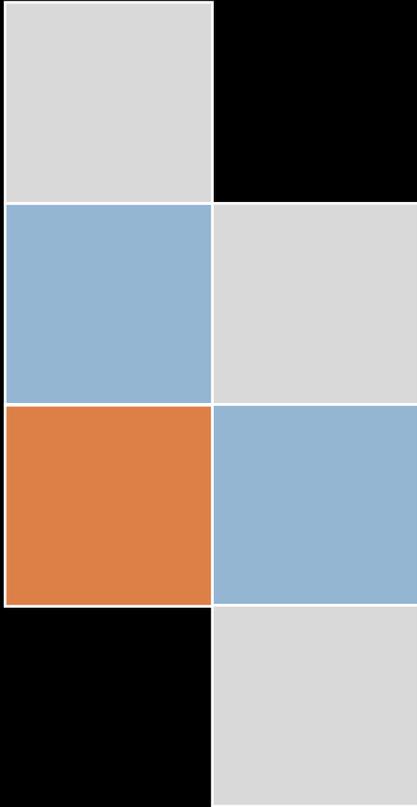


Product Management Process Improvement

Identifying and improving product market performance while reducing waste.



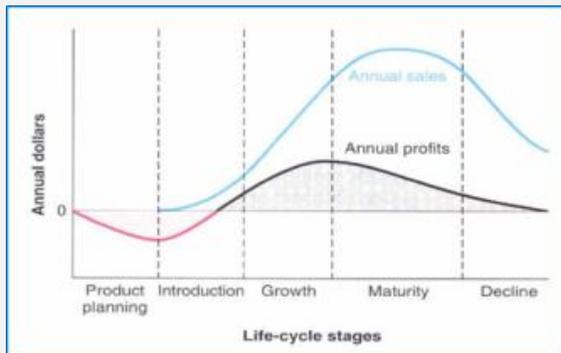
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Process improvement has rarely been a topic of discussion within marketing departments. We've all heard the comments that you couldn't apply any techniques to something which has little data available, which is a good way to avoid the issue. Having spent close to twenty five years in marketing I can say that this function has many unmapped processes. The challenge is to understand them and use an approach best suited to an environment in which there is a perception of having less "hard data".

This short article discusses and proposes the use of a process designed to help the marketing function link market product performance with that of the organization. Traditionally, improvements have centered on internal activities while outside activities close to customers have been left out (logistics being an exception). An opportunity therefore exists to reduce waste and improve company performance by using better product performance management processes.

"...use an approach best suited to an environment in which there is a perception of having less "hard data"."

I would argue that half of our economy is based on mature and declining products. In other words companies can wilfully decide to relegate some of their products into the declining stage and never retire them from their offering. This is a business decision based on rational analysis and



insight, right? Well, for most companies that is not the case. I've worked with companies in which 70% of their SKU's contributed less than 20% of their gross margins. They had accumulated decades of product numbers that were still available to customers.

Imagine a customer sending in an order for a product that had last been made five years ago. The company has to set up the manufacturing line, order the raw materials, and update the costing, find new suppliers of raw materials, and so on and so on. Is this a good deal for the business? It seems a good one for the customer. Unfortunately, it's not since the product can only be delivered past the customers required date. Yes the dreaded backorder in which the customer is unhappy because of a late delivery. -So much for a positive customer experience-. Internally, the supplier doesn't understand how keeping a product available to satisfy customers, could result in the opposite state, an unhappy one. The sales manager's solution is to ask for the inventory to be built in case

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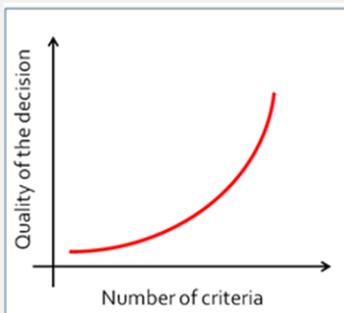
another customer ordered the products. Great idea, stocking a product that sell's once every five years and increase our warehousing space for it! Sales and marketing doesn't want to lose the top line sales, the actual cost of making the products is not captured, and operations is unable to build a case concerning the issue. Although finance complains about the high level of inventories, it aggregates the numbers and top management concludes that overall the business is doing well. The money is coming in the front door but an unknown amount is escaping from the back. This type of not so uncommon situation brings along important questions for a business:

- Why do SKUs proliferate over time?
- At what point does a product become obsolete to a company?
- What process do you use to identify and focus on those products?
- Who owns the process and has the ARA (accountability, responsibility, authority) for it.
- How do you replace those revenues and margins?
- What do you do with the obsolete inventory?
- How do you keep stakeholders involved in the process?

“The money is coming in the front door but an unknown amount is escaping from the back.”

The decision to render a product obsolete should be based on multiple criteria. These are to be defined with the input from various departments inside the organization itself. In the absence of a clear process, the corporate culture will probably decide on the “natural” approach to use. One being proactive while the other is avoiding the issue and hoping it'll go away

I witnessed a meeting were a group had to decide on eliminating products following an acquisition. Since upper management wanted to show quick progress, there was pressure on the group not to delay decisions by asking for too much information during the proceedings. A



screen showed an excel listing of the products from both merging companies with sales and gross margins. As each product was called out, a discussion lasting a few minutes ensued. Not all the product managers were attending so that the products eliminated tended to be those of the absentees. The work was done but the questioned remained: Did they make the best selection? Were

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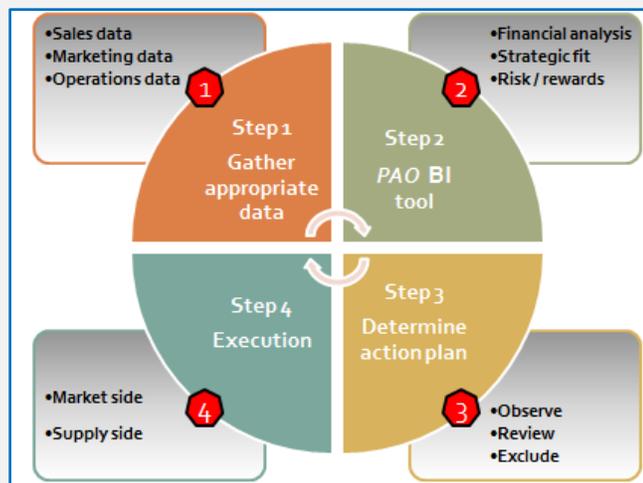
the customer, the suppliers, other departments considered (SIPOC)? The more information you have and the more elements are taken into consideration, the better the decision will be.

Why does this happen? Very few businesses have a clear product analysis process that starts with accumulating the proper data but that will also bring it to the point where the product will no longer exist in computer systems; there will be no inventory of finished goods, WIP or raw materials. Within organizations there is a strong focus on innovation. Developing a new product and launching it carries much more prestige than eliminating one. How many times have you seen awards for product deletions? Product rationalization is equated with cleaning up the mess from the past. In other words most of the energy and resources is spent on the left side of the product life cycle curve. We are advocating the better management of the right side of the curve, the one where we find mature, declining and obsolete products. The stuff we hide in the basement.

What is the cost to a business of carrying inventory of obsolete and inactive products? What are we to think about a sales force spending time on a declining product? You have talented and expensive people talking to customers about a product that perhaps has limited future with your company, is under price pressure and available through multiple vendors.

“What are we to think about a sales force spending time on a declining product?”

A solution does exist. Combining data and information from the various stakeholders within the organization is the key to an effective process that will make sure that the analysis will enable the identification of well performing products and more importantly those that are a drain on the activities. This process is designed around the input of objective as well as subjective information. The final results are only the beginning of the process since the actual financial gains can only be recouped in the execution stage. Focusing the company's resources and energies on the winning products is what optimization seeks to do. The analysis is really a snapshot of product



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performance at a given time. As time goes by, a regular analysis must be done in order to continue fine tuning the products. Sustainability and repeatability are some of the goals.

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Executing the optimization is in itself challenging if not the most difficult part of the exercise. Two initial problems must be addressed beforehand, lack of willingness to address the need for optimization and entrenched habits. Management must support the exercise and the consequences and insure the various departments work together to facilitate the outcome. This is why such a project must be driven by upper management since at some point trade-offs will be necessary.

Finally, the use of the analysis tool has given us the ability to uncover additional areas of business optimization. In essence a proper analysis helps to steer the solutions towards the proper causes. Considerable savings exist due to removing obsolete products which in turn eliminate the waste generated by supplying them to the market.