



Growth through simplicity: How the best consumer goods players are getting bigger by getting smaller

The root cause for everything from low growth to high overhead to sluggish organizations is often the same: too many SKUs. By focusing only on winners, consumer goods companies are finding a way to outperform.

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The two companies had different goals. A leading meat producer wanted to expand across many countries in Europe, so it set out to build scale and create efficiency in its supply chain. A beverage company wanted to close six plants throughout Europe and focus on improving the performance of its top-selling brand. Both companies quickly realized that their extensive product assortment had created complexity that was keeping them from achieving their goals. There was no getting around a nagging fact: They needed to streamline their portfolio of SKUs.

By smartly doing so, the meat producer not only improved its supply chain and the beverage company not only reduced its manufacturing footprint, but both also incurred a benefit they didn't set out to achieve: With fewer products to push out to the market and support on the shelves, they were able to turbocharge growth.

(For their full stories, see the sidebars “Are 63 different bottles really necessary?” and “Simply too much sausage.”)

Like those two companies, many consumer goods players, particularly in developed markets, suffer from a host of painful aches that can include stagnant growth, unwieldy supply chains and out-of-control organizational costs. Companies may choose different terms to describe their symptoms. We hear everything from “low marketing ROI” to “complex and ineffective trade terms system” to “an inability to effectively deploy commercial strategies at the point of sale.” In addition, we hear “high conversion costs,” “high overhead” and “low-capacity utilization.” Despite these different descriptions, when we dig deep we often find the same root cause for these symptoms: the overabundance of brands, SKUs and product specifications—and constant changes to what consumers are offered (see Figure 1).

Figure 1: Portfolio complexity is often the root cause of symptoms faced by consumer goods companies in developed markets



Source: Bain & Company

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For consumer goods companies, however, assortment simplification can dramatically change things. When done right, it can unlock significant benefits. First and foremost—and contrary to conventional wisdom—selling less often leads to selling more. Revenues for a food category in Belgium grew by 17% despite a 42% reduction in SKUs. Similarly, a candy category in Sweden achieved a 19% increase in sales despite selling 18% fewer items (see Figure 2). In addition to achieving such revenue gains, a simplified product portfolio often translates to significant supply-chain savings and organizational efficiencies.

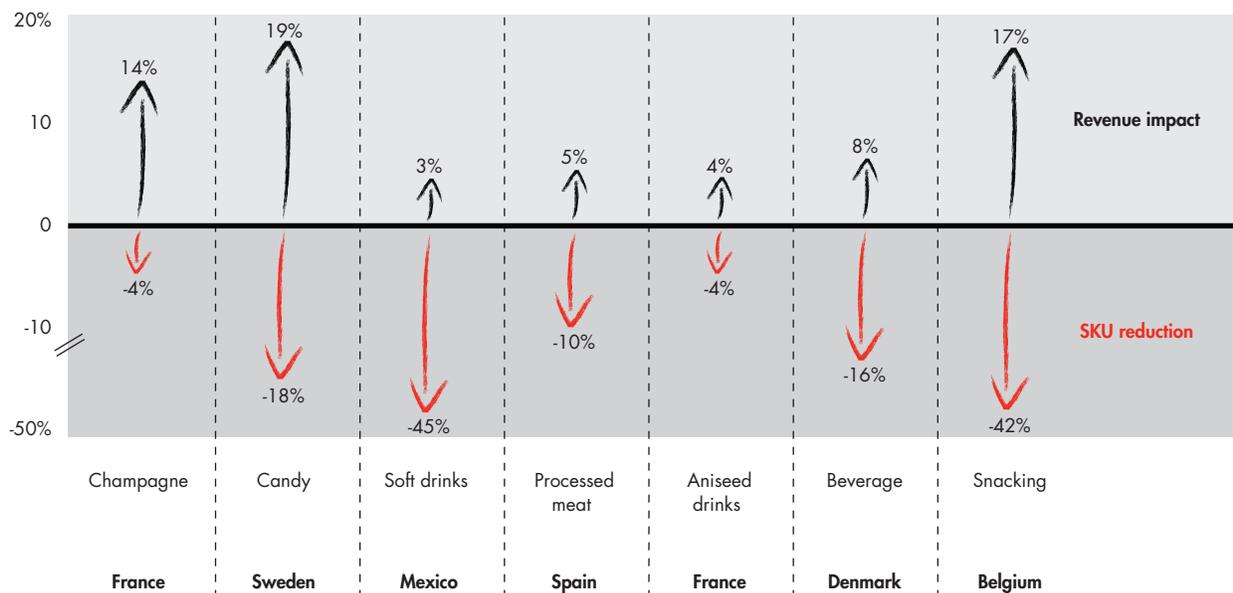
The trouble is that unlocking such benefits takes time, patience and careful planning. Perhaps more important, it requires a new way of thinking. Assortment simplification, unfortunately, still comes across as counter-cultural in many consumer goods companies.

Why more isn't more

Over the years, consumer goods companies have instinctively beefed up their portfolios as a way to grow, amassing offerings to serve every conceivable consumer preference. In doing so, however, they've often just added two different forms of complexity: above-the-skin and below-the-skin. Above-the-skin complexity is the proliferation of brands, products and SKUs that's apparent to shoppers on the store shelf. Below-the-skin complexity is the abundance of product features and specifications—variations and nuances in recipes, ingredients, packaging materials and the like—that are not necessarily discernible to shoppers.

In the past decade, both forms of complexity have steadily crept into the portfolios of consumer goods companies. In Spain, for instance, Bain research has shown that the total number of SKUs offered in the consumer packaged

Figure 2: We have seen repeated evidence that "less is more"



Source: Bain & Company

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goods market grew by 40% between 2000 and 2011. Sales per SKU per square meter of store surface, however, did not grow commensurately. In fact, most branded goods experienced productivity declines, with average sales per SKU per 1,000 square meters eroding by more than 2% over the period.

Similarly, below-the-skin complexity has somewhat spiraled out of control, as demonstrated by one of our clients. The company, which we'll call FoodCo, recently came to the shocking realization that between 2010 and 2013 its number of recipes grew by 12% and its number of containers grew by 36%. Container caps increased by 28% and its number of labels grew by 51%. But during the same period, its volume shrunk by 2%.

In a robust economy, the costs of complexity often are offset—or ignored—by impressive top-line growth. But when the economic environment cools, as it has in Western Europe and other mature markets, complexity's problems become more evident and the impact of those problems can become deadly. Companies that initially set out to grow by offering meaningful product diversity with more consumption occasions are starting to realize that they have created only minor variations of a similar product or overlapping versions of complementary products. Eventually, the resulting complexity attacks growth and profits in its own devious way.

The proliferation of brands, products and SKUs, for instance, confuses shoppers at a time when studies show that they make more purchase decisions in stores but prefer to spend as little time there as possible. Above-the-skin complexity also allows low-rotating SKUs to steal valuable shelf real estate from best-selling SKUs, slowly but surely eroding their performance—a problem that's further aggravated as shelf space for branded goods shrinks with the rise of private labels and smaller-format channels like convenience stores.

Below-the-skin complexity, on the other hand, results in low procurement scale, excessive changeover times or low utilization in manufacturing plants. To top it all, managing an inflated product portfolio also often causes overhead to grow. Over time, eroded sales and incremental costs harm profits.

If the stakes are so compelling and the downsides so evident, then why are companies still reluctant to take action?

An inability to move

We see two groups of companies out there: those that are afraid to do something about it or don't know where to start, and those that have tried to simplify but have failed to obtain significant and long-lasting results.

Even when some companies are aware that SKU and specification proliferation can be damaging, they can't seem to make the dramatic moves they need to make to extricate themselves from the situation. The biggest reason: consumer goods players believe that their retail partners favor broad variety—every possible flavor, formulation and pack size—and continuous new SKUs on the shelves. They also fear that if they suggest removing SKUs from their shelf space, that space will be allocated to other, more prolific branded players.

Other factors also contribute to the inertia: The more-is-more thinking is deeply ingrained in marketers and sales representatives through incentive systems generally geared toward adding SKUs to shelves. Many supply-chain decision makers continue to wrongly believe that all volume counts—that each added SKU ultimately enhances manufacturing capacity utilization.

Meanwhile, some companies have tried addressing the issue but failed to generate material and long-lasting results. Among these, we typically see companies that embarked on a dire rationalization or cutting-the-tail

Are 63 different bottles really necessary?

A beverage company sold its products throughout Europe but its supply chain and manufacturing facilities were woefully local. Each site produced beverages for a single country. The company knew it could improve its utilization efficiency by consolidating volumes. Doing so would give the beverage producer enough scale to take advantage of multiple-country production and distribution, and would free up capacity to introduce new products that the markets would welcome.

The company set a course for rationalizing its operations. It started by investigating which SKUs were either costly to produce or nearly redundant from the standpoint of below-the-skin complexity, analyzing everything from recipes to bottle sizes to packaging options. The goal was identifying which were causing the biggest pain points in its manufacturing lines and to determine how to harmonize SKU specification so it could pool more volumes across markets in finished and sourced goods.

This exercise allowed the company to see just how inefficient it had become. For example, it sold one of its main brands in 63 different bottles across European markets, with some varying only slightly from others in size or color. It found ways to reduce that to 20 bottles—a step that allowed it to improve procurement options (it could consolidate volumes and use fewer suppliers) and boost productivity by concentrating production across fewer factories and producing larger batches. It also learned that it was using four slightly varying recipes for a specific beverage sold in four neighboring countries. By settling on a single recipe, it could enjoy benefits of scale by pooling sourcing and production, and could sell the same beverage to different countries by pasting on a single label that accommodated the different languages.

exercise that failed to effectively mobilize employees and was quickly abandoned. We also see companies that have a siloed, one-sided approach. A marketing executive may make the well-reasoned choice to delist a SKU but it won't really happen without the supply-chain decision makers on board—and vice versa.

Breaking the vicious cycle

The only way for companies to radically and successfully simplify their portfolio is to realize that they can benefit from growth and profit if they adopt a joint, all-encompassing approach. Companies can't beat complexity if they focus on attacking only one aspect: They can't just cut low-rotating SKUs in an attempt to

streamline or accelerate their portfolio, nor eliminate painful-to-produce SKUs in an attempt to reduce costs. Similarly, they can't beat complexity if they tackle it from only one side of the company.

For most consumer goods players to win over the long term, they must join forces across the organization to revive growth by focusing on better-selling SKUs while reinvigorating profits by reducing complexity. Eventually this should translate into fewer but fully supported brands; fewer but fully activated SKUs; fewer but better and longer-lasting innovations; and fewer but fully at-scale product specifications. It also should mean fewer changes initiated by fewer people (*see Figure 3*).

Even as it achieved these gains from attacking below-the-skin complexity, however, the company knew it was only scratching the surface. Despite the manufacturing and supply-chain improvements, it was becoming evident that there still were too many SKUs. For example, a convenience store cooler may have only had space for 10 SKUs. Distributors stocking the shelves, however, continued to load more than 50 SKUs in their trucks. By the middle of the day, they would run out of the best-selling SKUs and were left with only the lowest-selling ones to place in coolers.

The company tackled above-the-skin complexity by rationalizing its excess shelf offerings. A channel-by-channel analysis of its best-sellers allowed it to triage what to keep on the shelf and to zero in on where to stock which SKUs. Narrowing its portfolio to only the top sellers by channel in a given country eased the challenge of sales execution. In one country, the act of paring SKUs down to the best 12 allowed it to achieve perfect execution, which led the brand to gain market share. In another market, the company eliminated three entire brands and concentrated on two hero brands. In other cases, the exercise led to the elimination of entire pack types.

By diving into sales data, the company could identify the product innovations that were most successful in one market and that were transferrable to other markets. Because the company was freeing up capacity, it could produce more of those products and sell them elsewhere.

Only by approaching the challenge as a supply-chain, manufacturing and point-of-sale problem do companies like this beverage producer ease gridlock. All told, the effort led the company to shrink its overall number of SKUs by 10%. Tail SKUs were cut by nearly half. Focusing on the right products helped the company achieve 16% gains in revenues-per-SKU. By eliminating its most painful SKUs, the company also reduced complexity costs by 45%. Now it has a leaner and more flexible organization that keeps constant watch for creeping complexity.

Heroes to the rescue

Rationalizing an assortment should start with bringing sales, marketing and supply-chain decision makers together to design the range that will win on the shelf. Most consumer goods companies that aim to simplify their portfolio act on instinct: They simply cut underperforming SKUs. But there's a fundamental flaw in this thinking: It does not generate growth. In occasional cases, some delisted SKUs may actually have been important for channel or retail partners.

Instead of concentrating on cutting off the tail, we counsel companies to adopt a more inspirational shelf-back view that focuses on the head. They identify critical

hero SKUs that have the highest potential to win with shoppers and retailers today and tomorrow.

In general, hero SKUs are not just those that are most important to a company's business (be it in size, rotation or profits). They also typically include SKUs that are most strategic to retail customers and most meaningful to shoppers. They are the products that help the category grow. Their success builds on itself. They generate higher volumes that increase scale, leading to bigger margins that finance investment to fuel growth.

Identifying such critical SKUs requires a careful understanding of shopper behavior in a category, both now and in the future. The fact is, in most categories shoppers

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Figure 3: The 10 commandments of best-in-class assortment simplicity

Above-the-skin simplicity			Below-the-skin simplicity	
Fewer strategic priorities, fully supported	Fewer SKUs, fully activated	Bigger, better, longer-lasting innovations	Fewer specs, fully at scale	Fewer changes made by fewer people
<p>1 Be crystal-clear on your strategy</p> <ul style="list-style-type: none"> - Set clear priorities (categories, markets, channels and brands) - Pick only the few brands that you can build to scale - Invest sufficiently behind your strategic choices 	<p>2 Design your assortment based on distinctive understanding of category rules</p> <p>3 Build year-on-year penetration growth of your hero SKUs</p> <p>4 Align with the trade on a definition of success to activate core SKUs by store type</p>	<p>5 Launch innovations that build brand penetration and improve shelf productivity</p>	<p>6 Achieve best relative cost position on hero SKUs through scale and harmonization across geographies, brands and categories</p> <p>7 Proactively identify and minimize assortment-driven pain in the supply chain</p>	<p>8 Put assortment high on top management's agenda to enforce cross-functional dialogue and processes</p> <p>9 Embed tools and rules to manage and remove complexity</p> <p>10 Control permissions to make changes, remove low ROI activities and ultimately the FTEs who create them</p>

Source: Bain & Company

want to choose from a complete range of products, so it would be ineffective to eliminate all but the single biggest seller. Companies also need to understand what specific product features contribute to actual growth in their category: Is it another pack size? Is it an extra flavor? Is the new mango pudding really adding incremental growth or would it be more effective to focus on the old strawberry flavor but sell it in different packs to tap into different occasions?

Identifying and prioritizing hero SKUs is a powerful way to overcome the typical trade objections. As we mentioned, many companies are afraid to move. They fear that retailers favor new and endless variety on their shelf and will retaliate against any company that tries to play by different rules. But what retailers truly want are products that bring traffic to the store (through scale or newness), rotate quickly and nurture some form of distinctiveness. A few hero SKUs, continuously reno-

vated and fully supported, fit the bill better than a long tail of low-rotating SKUs with limited differentiation, lifespan or impact over time. Companies that identify their hero SKUs are usually able to convince retail partners that stocking more of them while eliminating low-rotating SKUs will be a win-win for both parties.

After identifying the fewer core SKUs that can win, the next step for most companies is to craft a concrete plan for how to push and make them grow. We start by assessing their room for growth through a set of specific tools. For instance, a matrix that plots SKUs based on weighted distribution vs. rate of sales helps pinpoint SKUs that sell well but aren't fully distributed, or those that are largely available but could be refreshed to sell faster. We complement that assessment with a detailed analysis of store-by-store data for trade customers, including how to push distribution and grow shelf share in specific key accounts. This helps companies

Simply too much sausage

Did customers really care if a sausage was a few millimeters shorter or thinner than another available product? For a European meat producer, most of the time, the answer was no.

Still, this meat producer had grown steadily over the decades, regularly and liberally adding new varieties of sausage to its portfolio, which it sold in a few countries in Europe.

As the company attempted to define how to expand across the continent, however, it realized its current supply chain wasn't designed to support an acceleration strategy. With several plants serving local markets and equipped with generally old technologies, it ran at about 60% utilization. The company needed a new regional supply-chain model to consolidate its manufacturing footprint, provide technological upgrades and bring it to scale leadership.

However, the meat producer quickly realized that the new supply chain's benefits would be lost the minute it had to produce the company's existing sausage portfolio, with its host of minor variations in recipes, forms, sizes, pack types and the like. Portfolio complexity had never been an issue with underutilized plants and an excess number of lines. It would quickly become a headache, however, in a supply chain that had to run long batches at full speed to be efficient—and that had to do so without the possibility of stopping every hour to accommodate slight changes in recipe or product size. Producing the current portfolio would soon require the addition of new lines and capacity, which would diminish the entire point of the company's supply-chain initiative.

The company had no choice. It needed to reduce the number of SKUs it produced. More important, it had to simplify and standardize the number of unique features each SKU could have. To do this well, it first had to understand what product features created the biggest trouble in the line and forced it to stop production for the longest periods of time. In sausages, the answer was changes in recipes, link sizes and pack sizes.

The full extent of their SKU complexity—the vast array of sausage varieties and the toll it was taking—stunned leaders. Many sausages in the portfolio were only a few millimeters longer or thicker than others. Standardizing SKUs around common platforms—a path taken long ago by the car industry around common frames—became critical for a strategic overhaul that put the company on the path to rapid growth.

The meat producer, however, did not stop there. In sourcing and procurement, it reconsidered unique ingredients that were difficult to source and those requiring special treatment. In recipe preparation, it used more common ingredients, tried to lower the cost of formulations and harmonized recipes. It also eliminated packaging that needed special handling. In shipping and logistics it reevaluated SKUs that resulted in low truck utilization and potential space constraints. In addition to these cost-saving changes, it redirected investments, ensuring that hero SKUs received more support.

By modifying approximately 80% of its SKUs but eliminating fewer than 10%, the meat company can streamline its manufacturing footprint, operating with half the number of plants at higher utilization levels and reducing costs by 15%. With better margins to reinvest, trimming the fat from its portfolio is likely to lead the company to sell more sausage.

Growth through simplicity: How the best consumer goods players are getting bigger by getting smaller

figure out what they can do from a commercial standpoint to make more of their existing products and shelf assets. They typically realize that they'll need to free up shelf space and support resources to make core SKUs grow. This gives them incentive to delist slow movers and irrelevant variations in their portfolio. Unlike with the typical tail-cutting exercise, though, there is now a positive and inspiring reason to do it: It will unlock growth.

Finally, in addition to transforming their portfolio shape, they need to eliminate unnecessary or hidden complexity: The product overlaps in specific shopper consideration sets, multiple different pack types with high changeover costs, or nuances in formulation that take a big toll on procurement costs or plant utilization. When products are directly competing with one another or costs are too high, it's time to delist or reengineer. Again, the best way to do this is to bring together sales, marketing and supply chain decision makers, and have them agree on a number of standard platforms to share among brands and SKUs, whether they be ingredients, product forms or packaging materials. They will also agree on discontinuing SKUs that are too similar or too painful to produce and can't be fully reengineered. The only condition: that the changes don't harm shopper appeal or customer interest.

Making the organization fit

Companies must then make sure their organization reflects their simplified assortment. They won't require the same number of people to manage a portfolio that is now much simpler.

They must also elevate assortment discussions to the top management level to ensure continued alignment and collaboration among sales, marketing and supply chain on decisions to add, alter or eliminate products. They must put in place guidelines and tools to track and control complexity, ensuring, for example, that new products meet high performance hurdles and make the most of existing platforms, or that they stick to a one-in-one-out rule when introducing a new product.

The benefits of such an integrated approach are numerous: Companies reduce supply-chain costs and out-of-stocks on their hero SKUs at the points of sale. They gain more manufacturing capacity and create a more effective organization.

As many are surprised to learn, they also generate faster growth, outpacing competitors even in slow markets like Western Europe. Whether that region's economy continues at its sluggish pace or gains momentum, players that have simplified are prepared to win. 

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