

A N A L Y S T C O N N E C T I O N



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Good Ideas Are Not Enough: Execution Is the Key to Sustained Product Success

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As the economy begins to show signs of recovery, consumer goods manufacturers are again recognizing the inherent complexity of their businesses. Many consumer goods manufacturers are seeking to improve a number of core processes around product development, forecasting, marketing and promotion, and collaboration.

The following questions were posed by Oracle to Simon Ellis, practice director of Supply Chain Strategies at IDC Manufacturing Insights, on behalf of Oracle's customers.

- Q. What is the key challenge consumer goods companies face in bringing new products to market?**
- A. The success rate for new product introductions in the consumer goods industry is quite poor. Fewer than 20% of introductions meet expected performance levels, and even those that do often do so at the expense of cannibalizing the existing portfolio base. While there have been many discussions on the topic of "flawless" innovation execution (i.e., supply chain, trade promotion, or merchandising) over the years, the primary reason for the poor performance of new products is that the brand owners have brought the wrong product to the marketplace. There can be many reasons for this. Perhaps the market potential or consumer appeal for a particular product was misjudged (focus groups can be notoriously imprecise), perhaps the product failed to deliver the consumer benefits touted, or perhaps the product simply failed to differentiate itself from the existing competition. Regardless of the specific reasons for a product's failure in the marketplace, the reality is that consumer goods companies need to do a better job of managing the life cycle of the innovation portfolio. Far too frequently, products that should never have been launched are allowed to reach the marketplace. Even when manufacturers stop working on products prior to final launch, they do so late in the process, consuming resources and time that could have been better deployed for products with greater potential.
- Q. How can consumer goods companies collaborate more effectively with their partners to improve innovation delivery?**
- A. Certainly consumer goods companies do a better job of collaborating with suppliers today than even five years ago. This is partly a result of a consistent and continuing trend toward outsourcing capabilities, including elements of the innovation process. However,

collaboration, more than most things, is a journey, and there is a lot more progress that can be made. Consumer goods companies are not as mature, for example, as high-tech companies in terms of collaborating with suppliers on innovation. In high tech, key suppliers are brought into the innovation process very early and are often intimately involved in the product design process. Consumer goods products are not as complex as high tech, but the concept of early supplier involvement is a good one — particularly for suppliers that will be used to source a key ingredient or packaging component. In my experience in the industry, the early involvement of key suppliers is the best way to ensure that last-minute input constraints don't imperil a critical product launch.

Q. What problems do consumer goods companies face in terms of anticipating demand for new products, as well as for existing products, and what are the consequences of reacting poorly? How are these problems being addressed?

A. Demand forecasting is an inexact science, at best, in this increasingly volatile marketplace. To the extent that forecasting is problematic for an existing product (where there is demand history to help refine the demand projections), it is even more imprecise for innovation. Consumer goods companies use all kinds of tools to help them estimate the potential demand for new products: focus group size estimates, similar product performance, and/or pilot performance (if available). Once a best-case demand forecast has been developed, many companies build in a level of supply flexibility — by using either more variable capacity contract manufacturing or postponement techniques. For existing products, the situation is both easier and more challenging. Data is available for existing products, but that data is at retailers — outside the four walls of the consumer goods company. These consumer goods companies need to reach into the supply chains of their customers to get a read on demand as quickly and accurately as possible, and they need to consolidate and analyze this mountain of data to understand trends and quickly react to demand pattern changes. Leading consumer goods companies are investing significantly in the advanced demand-signal management tools required to gather data from multiple distribution channels and then applying scalable demand forecasting tools to identify specific actionable intelligence. The failure to do this will result in gradually deteriorating relative forecast levels and erosion in customer service and, more importantly, on-shelf availability levels. While both on-shelf availability and out of stock have tended historically to be something of a zero-sum game (where the vast majority of manufacturers are at about parity), the investment in modern demand sensing and insight tools is driving incremental volume for leaders and share erosion for laggards.

Q. Consumer goods companies are unique in needing to both buy shelf space for new products and execute continuous promotions to move their products. What trends do you see companies exploring to improve efficiency and profitability in these areas?

A. Retailers have been successful in selling shelf space to their suppliers and in moving much of the responsibility for marketing the products to the brand owners. Trade promotion expenditures represent the second largest cost item on the consumer goods company profit and loss statement behind cost of goods manufactured and, along with advertising, represent over 95% of a typical company's marketing budget. Suffice it to say that the performance of trade promotion funds has a direct impact on company profitability, and while some companies are focused on reducing expenditures, over 85% have the goal of improving the performance of trade promotion programs while maintaining current levels of funding. Accordingly, understanding and managing trade promotions is critical. Consumer goods companies must have transparency into the performance and ROI of their trade expenditures so that they can make informed trade-off decisions between competing alternatives. To do this, they need to know, for example, how promotions cannibalize future sales or sales of

related product, as well as how much real uplift a promotion provides versus baseline sales. Thus, consumer goods companies need demand and sales data from all of their promotional activities, or certainly from the major ones, and they need effective and usable tools that can model and analyze the results.

Q. In terms of managing demand for new products and then executing delivery flawlessly, what do you see as the best practices from leading consumer goods companies?

A. As I mentioned earlier, leading consumer goods companies are investing significantly in the advanced demand-signal management tools required to gather data from multiple downstream distribution channels and then applying scalable demand forecasting tools to identify actionable intelligence specific to both the product forecast and the levels of system inventory. While the demand for new products does not have the luxury of existing sales and/or demand data, consumer goods companies are able to apply the experience from "like" products to innovation and provide a "best guess" as to the initial demand profile. Once a new product starts to move through the distribution system, this "best guess" can then be augmented through the use of actual demand data like warehouse withdrawals, initial store shipments, and point-of-sale data. Although the failure of new products is mostly about customer appeal, there is no question that poor launch execution — particularly initial out-of-stock problems — can have a negative effect on the success of a new product introduction. Leading consumer goods companies not only do a better job of anticipating demand for new products but also build a level of flexibility into their sourcing capabilities to scale up and down quickly as changes to the demand forecast dictate.

ABOUT THIS ANALYST

Simon Ellis currently leads the Supply Chain Strategies practice area at IDC Manufacturing Insights, one of IDC's industry business units that address the current market gap by providing fact-based research and analysis on best practices and the use of information technology to assist clients in improving their capabilities in key process areas. Within the Supply Chain Strategies practice, Mr. Ellis specializes in advising clients on low-cost sourcing (LCS), Lean, Six Sigma, and more. Mr. Ellis also contributes his supply chain expertise to IDC Retail Insights research.

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