OUR VISION AT SOLVENTURE

Building Winning Portfolios

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SOLVENTURE

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WHAT ARE WINNING PORTFOLIOS?

What are winning portfolios? These are portfolios that **deliver growth, improved profitability, improved working capital and fixed asset efficiency**. They may fill a need in the market that has not been addressed or with limited competition. They may be attracting a growing circle of increasingly global buyers, because of premium features and functionality or because of the branding and the customers' appeal to it.

Every new product or product range we introduce, we launch with this ambition. But as organizations we are often in denial that only a minor part is really delivering on all three dimensions: driving sales, improving profitability and delivering working capital and fixed asset efficiency. As organizations, we really **struggle to reveal** which parts of the broader portfolio **are contributing to a winning position, which ones are not**, to **define actions** on how to manage that, and to **follow-up** on those actions and their resulting impact.

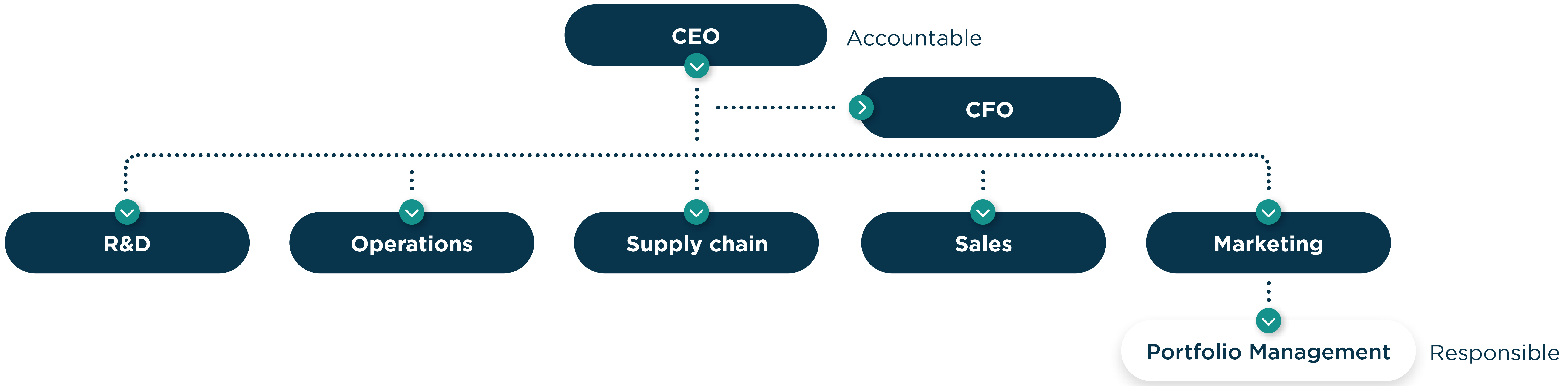
Figure 1 - Winning portfolios - growth, margin improvement, increased working capital and fixed asset efficiency

WHERE TO POSITION PORTFOLIO MANAGEMENT?

In line with our Solventure DNA, we review and execute optimization from 4 different angles. We call it our people, process, tools, and analytics approach.

To zoom in on the 'people' perspective. What we have learned throughout the many conversations and projects we had and did with companies since 2005, is that sponsorship by the P&L owner is key. At the lowest level, your P&L's may be on a product line level, or on a business group, a division, or the company level. **If the P&L owner doesn't see portfolio management as a key to success, driving profitable growth while managing working capital and asset efficiency, the process is doomed to fail.** The P&L owner is not necessarily the process owner. They will often delegate the responsibility to somebody in the organization. This is a tricky situation. If the process is owned by operations or supply chain, be certain to face resistance from sales. As managing the portfolio from a broader perspective, it may conflict with the growth targets of sales. The process could be owned by finance, who would have all the numbers, but finance will be faced with skepticism. As people will push it back as a number game, not accounting for the complex situations being faced in operations or the market. We have met sales managers that are aware of the complexity and have a natural tendency to focus not just on sales but also on the margins and the impact on inventories and operations. If that is the case, a portfolio management process and tool will be helpful instruments for them to manage exactly that challenge. But the **optimal situation** is to have **somebody responsible for portfolio and/or product management**. Somebody with sufficient tactical/strategic skills and positioning in the organization, not somebody taking care of the master data as we have seen in some organizations. That portfolio manager could be part of the marketing organization, or independently report to the P&L owner. He or she will drive a portfolio management process and portfolio management discussions as we will explain next.

Figure 2 - Where to position portfolio management



THE PORTFOLIO LADDER

The idea of portfolio management is that we **increase the % of our customers and products that are in the winning segment**, the triple U segment, or the golden core, where sales is up, margins are up, and our working capital and fixed asset efficiency (in short: capital employed efficiency) is up. Figure 3 shows the ‘portfolio ladder’. The goal of portfolio management is to move products up. When we can’t stop products from falling, that is your cue to consider strategies to move them out, preferably before they are in the triple D segment.

Supported by proper tooling, which we will discuss next, portfolio managers should manage the full portfolio and its behavior through the **portfolio ladder**.

	Sales	Margin	CE Efficiency	Action
1	UP	UP	UP	Nurture
2	UP	UP	DOWN	Increase Agility
3	UP	DOWN	UP	Pricing/Efficiency
4	UP	DOWN	DOWN	Pricing/Agility
5	DOWN	UP	UP	Growth Tactics
6	DOWN	UP	DOWN	Growth/Agility
7	DOWN	DOWN	UP	Cure or Kill
8	DOWN	DOWN	DOWN	Cure or Kill

U^3 = Golden Core

D^3 = Phase Out zone

Moves products up ...

Or move them out ...

Portfolio Guidelines

Figure 3 - The portfolio ladder, where we move products up or out!

COST OF COMPLEXITY & MARGIN VARIANTS

Margin is an important factor in understanding and driving winning portfolios. Every organization has a profitability reporting and analysis. Linked to the nature & evolution of companies we see differences in how costs are grouped and where they are integrated in the P&L statement.

The role of profitability in Portfolio Management is to understand the relative profitability across either the product and customer portfolio. To interpret margins correctly a first need is to understand **how costs are grouped, how the P&L statement is structured** and hence **how costs are allocated** to either the product or customer dimension.

Direct variable costs are typically the easiest cost components and are well managed as part of the standard product costing process driven by the Finance department. Typical pain points on cost allocation occur mostly with changeover costs, transportation costs, warehousing & picking costs, brand, or customer specific sales & marketing costs. These factors, which are important sources of complexity, often are not translated to the product or customer dimension. Typically, they differ significantly between products (low & high runners) as well as customers. Hence the importance of a deliberate but pragmatic allocation. Some costs like transportation costs are solely linked to the customer dimension and lead towards the definition of a customer margin variant next to the product margins.

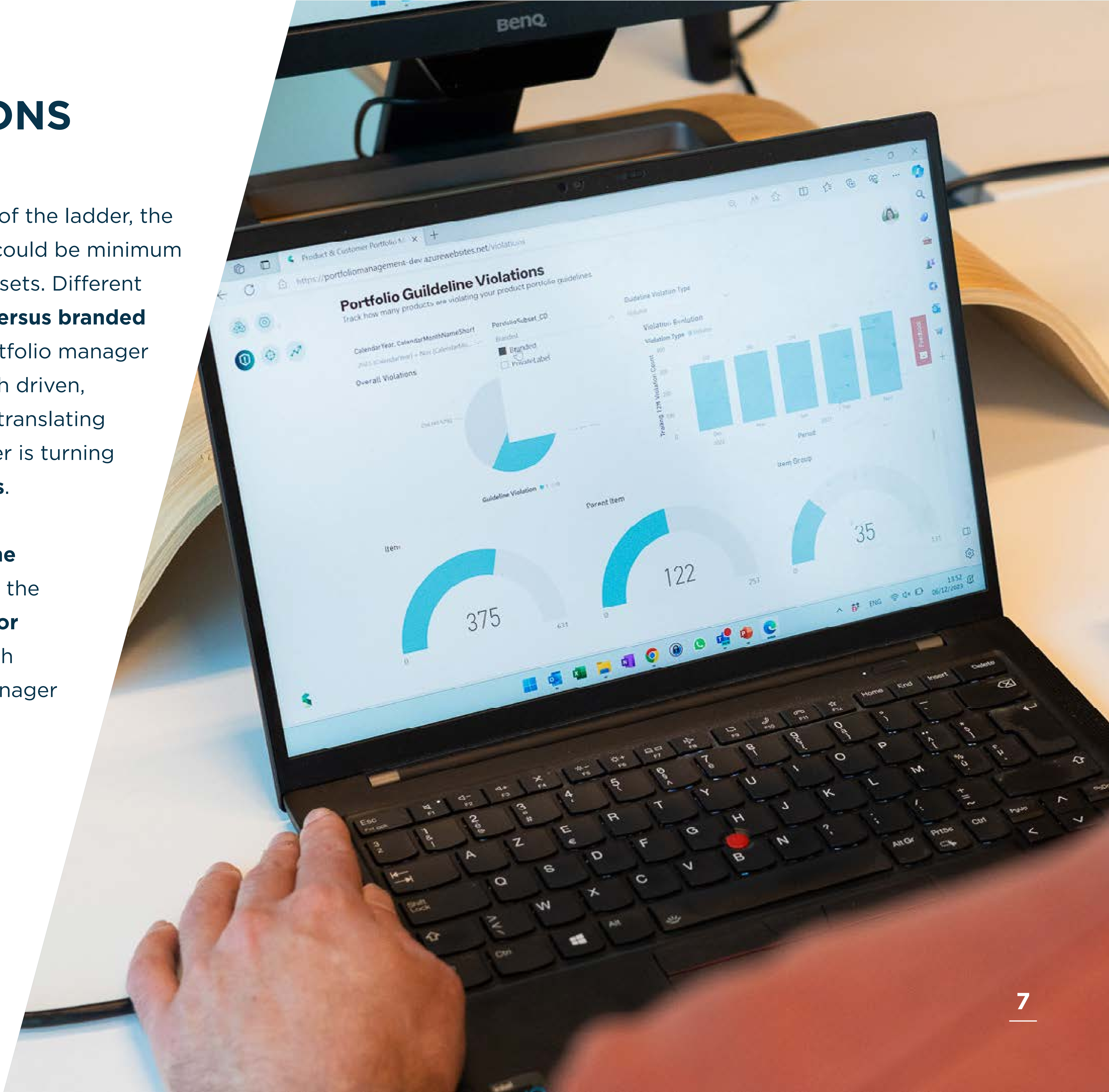
For successful implementation of Portfolio Management decision-making, it is key to have a **pragmatic cost allocation approach** for these different cost components which allow to create a Product Complexity Margin and Customer Margin as addition to the net sales margin based upon standard product cost. The tool that we will discuss next facilitates these profitability variants by pragmatic cost allocation models that are automated and hence easy to maintain.

PORTFOLIO GUIDELINES AND ACTIONS

To help the organization with keeping the portfolio healthy at the bottom of the ladder, the portfolio manager needs to define so-called ‘**portfolio guidelines**’. These could be minimum volumes, minimum margins or a minimum return on inventories or fixed assets. Different product groups may have different guidelines. Think about **private label versus branded products**, the margin on those two could be structurally different. The portfolio manager may also account for the **overall company objectives**. Are we more growth driven, margin driven, or do we need to free up cash by reducing inventories? By translating the company objectives into the portfolio guidelines, the portfolio manager is turning the portfolio into a **tactical process supporting these company objectives**.

The **benefit of the portfolio guidelines** is that these allow us to **identify the percentage of the portfolio that is in the danger zone**. The percentage of the portfolio that violates the agreed upon guidelines allows us to set a **goal for improvement**. E.g., reduce the violations from 35% to 20% over a six-month period. Portfolio guidelines and guideline violations allow the portfolio manager **to translate portfolio subset objectives** to individual items that **require a portfolio action**.

To define actions the different dimensions, need to be analyzed; what can be done to increase sales and or prices, to cost down the product and or reduce operating costs, or to reduce inventories. If one of the three is an issue, we may still find a way out. In the triple D segment, we may think of phase out plans or substitutions as overcoming the three of them concurrently would require a maybe unlikely breakthrough.

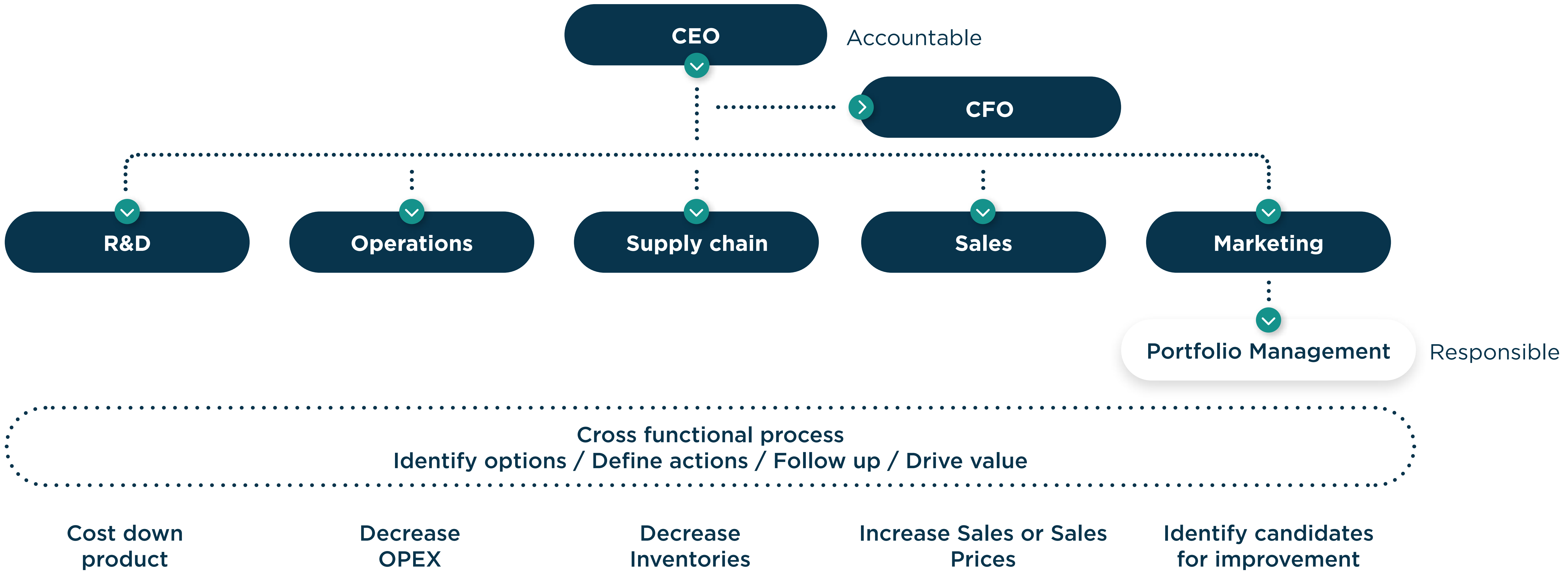


PORTFOLIO MANAGEMENT AS A CROSS-FUNCTIONAL PROCESS

This **process** is clearly **cross-functional**. Increasing sales or sales prices will involve sales. Redesigning a product for a lower cost will involve R&D. Being more efficient in operations will involve operations. Reducing inventories will most likely involve supply chain. Revealing the options on what can be done and what will most likely have the biggest impact will be a cross-functional effort. Key in any process, as in Portfolio Management, is to **follow-up on the decisions** and the ability to **measure the impact**.

Too often we see that only 20% of the decisions are followed through within a 3-month period. With the right process and ownership, we believe this can be increased to 80%, which has a very direct impact on our business output.

Figure 4 - Portfolio Management as a cross functional process



INSTALLING AN EXECUTIVE PORTFOLIO MANAGEMENT PROCESS

As highlighted earlier **executive sponsorship is key for a successful recurring Portfolio Management process**. Our belief is that the best way to keep the executive engagement is to integrate what we call executive portfolio reviews. These reviews would follow a **quarterly cadence**. The goal of the executive portfolio review is to monitor the realization of the innovation plans and/or promotion plans, the portfolio evolution of the last quarter, to perform a root cause analysis and to decide on portfolio actions for the next quarter.

It is up to the process owner of Portfolio Management to prepare the **executive portfolio reviews** as well as track and drive progress on the portfolio actions. Every month the process owner should align with the different sales, operations, supply chain & finance stakeholders to ensure progress is made.

On an **annual cadence** the executive team should define a **portfolio plan** where clear targets are set for the upcoming budget year, in line with the strategic direction and goals of the company and the role the different product categories have in realizing those ambitions.

The monthly follow-up, quarterly executive review process and annual target setting make up a **recurring, sustained portfolio management process**.

Figure 5 – Executive Portfolio Reviews

Annual

- Portfolio Plan (target setting)
- Prepare Promotion Plan & Calendar

Quarterly

- Monitoring realization innovation plan (new articles, ...)
- Monitoring promotion plan (actual vs plan)
- Perform root cause analysis & prepare actions
- Decision on portfolio actions

Monthly

- Data gathering and analysis KPI evolutions
- Analyze portfolio guideline violations
- Progress tracking portfolio actions

LINK TO THE S&OP OR IBP PROCESS

Portfolio Management also has a link to the broader **S&OP cycle**. It was put there under the name of “Product Management Review” 30 years ago, by Oliver Wight, as part of their Integrated Business Planning or IBP process. The **portfolio actions have an impact on the forecast of the products**, so preferably the “Product Management Review” precedes the demand planning step in the S&OP cycle. The process owner will facilitate the monthly status & progress tracking meeting as part of the S&OP or IBP process. As such the outcome of the Portfolio Management process is, on a monthly basis, integrated into the S&OP process.

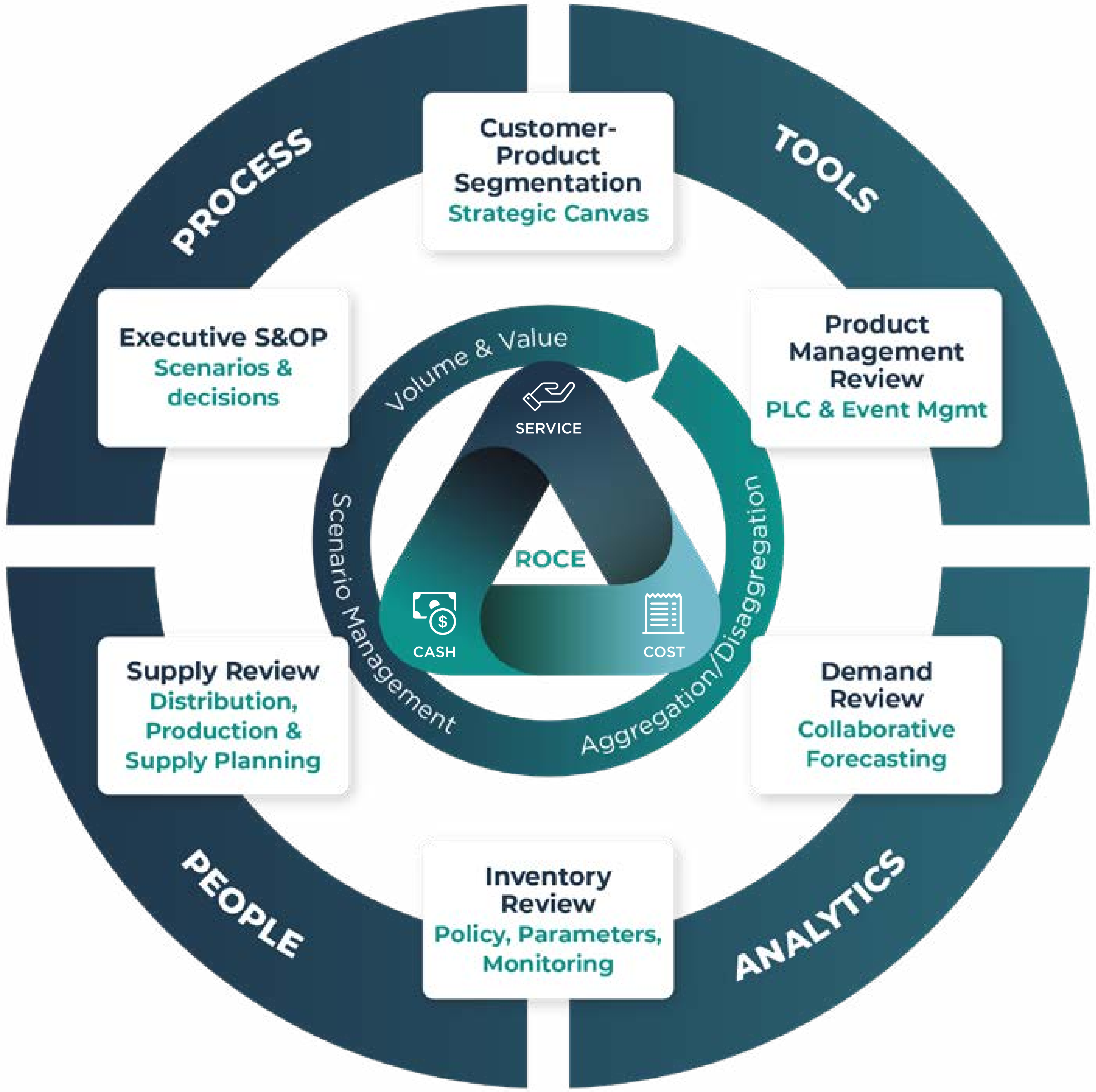


Figure 6 - Portfolio Management as part of the S&OP or IBP process

TOOLING FOR EFFECTIVE PORTFOLIO MANAGEMENT

Portfolio Management is a blind spot in the tooling landscape. It is not supported by default functionality of neither financial planning tools, supply chain planning tools, product lifecycle management tools or ERP tools. This is one of the causes **many companies do the portfolio analysis ad hoc, rather than as a structured process**. If companies build something, these will typically be BI reports which create the insights, but which **don't guide you on the different dimensions in our portfolio ladder**, cfr. Figure 3, **nor do they support the action management**. Which as a result makes you prone to the 20% follow-through on the actions defined and turns it into a weak and poorly adopted process that people will walk away from.

As Solventure we recognize the big opportunity to improve Portfolio Management in companies, and the big need for the appropriate tooling to kick-start the process and support it to keep the adoption right and the corresponding value being generated. Therefore, Solventure has developed a software, Solventure Perform, that fills this gap and allows you to power up your Portfolio Management process. It is **natively connected to your ERP system** so that your system always generates output based on the latest available data. **Leveraging AI**, which we will discuss next, examines the delivery of insights on parts which contribute to a certain type of value and on what can be done to improve.

To facilitate the awareness creation, it is crucial to include not only the product dimension but also the customer dimension of the portfolio. The analysis can start from either of the two dimensions and is interconnected. Considerations can start from the product or aggregated product dimension to impacted customers and vice versa. This **multi-dimensional and aggregation interactivity** is the unique design in slicing & dicing of data that is impossible to achieve in Excel. Understanding the customer behavior and profitability makes Solventure Perform a perfect fit with the (often annual) negotiations with customers.

Solventure Perform **supports the workflow and the action management** which is essential in realizing the value. Integrated value trackers allow you to monitor the value creation which will help you in driving the process adoption and the sponsorship of the P&L owner.

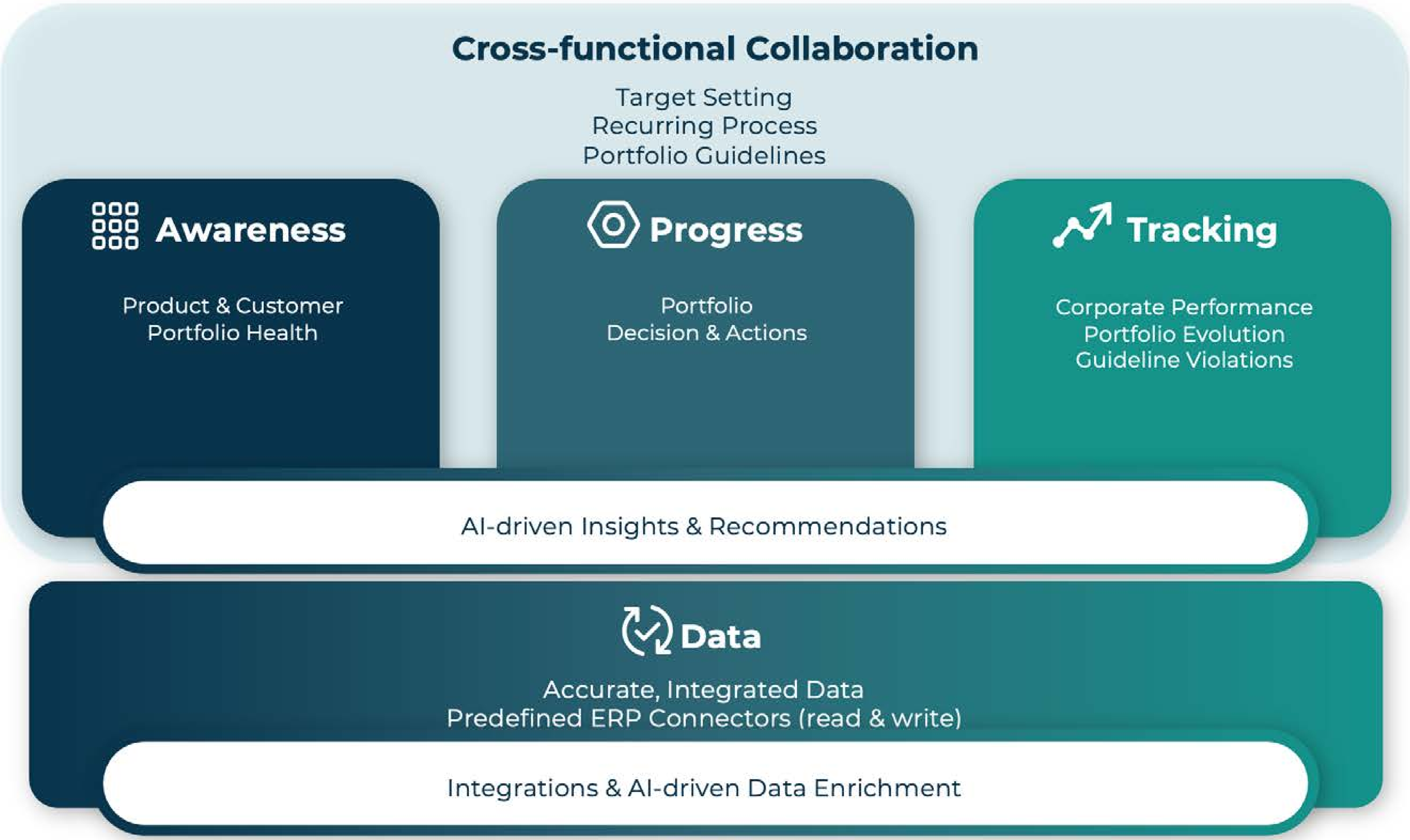


Figure 7 – Solventure Perform Approach

LEVERAGING AI FOR ENHANCED DECISION-MAKING

The **power of AI lies in prediction**. Warning you where things will go before, they happen. With VLAIO subsidies, Solventure has developed a proprietary AI algorithm that analyzes the historical performance on different levels of aggregation: SKU and different product hierarchies and based on recent evolutions and historical pattern analysis predicts a likely outcome for your current portfolio. For instance, in certain categories, we will first see sales go down, then inventories go up and ultimately margins start suffering as well. **This multidimensional analysis** works as a **warning signal** that gives you a heads up **at a moment you still have an impact**. As you **define actions** and **monitor the impact**, the tool is **self-learning** and will propose actions and will predict likely outcomes based on historical comparisons. Not only does it help you in **identifying on which parts of the portfolio to work**, it also helps you in identifying which **actions to take**. It augments your portfolio management capabilities and is a key lever to drive more successful and winning portfolios.

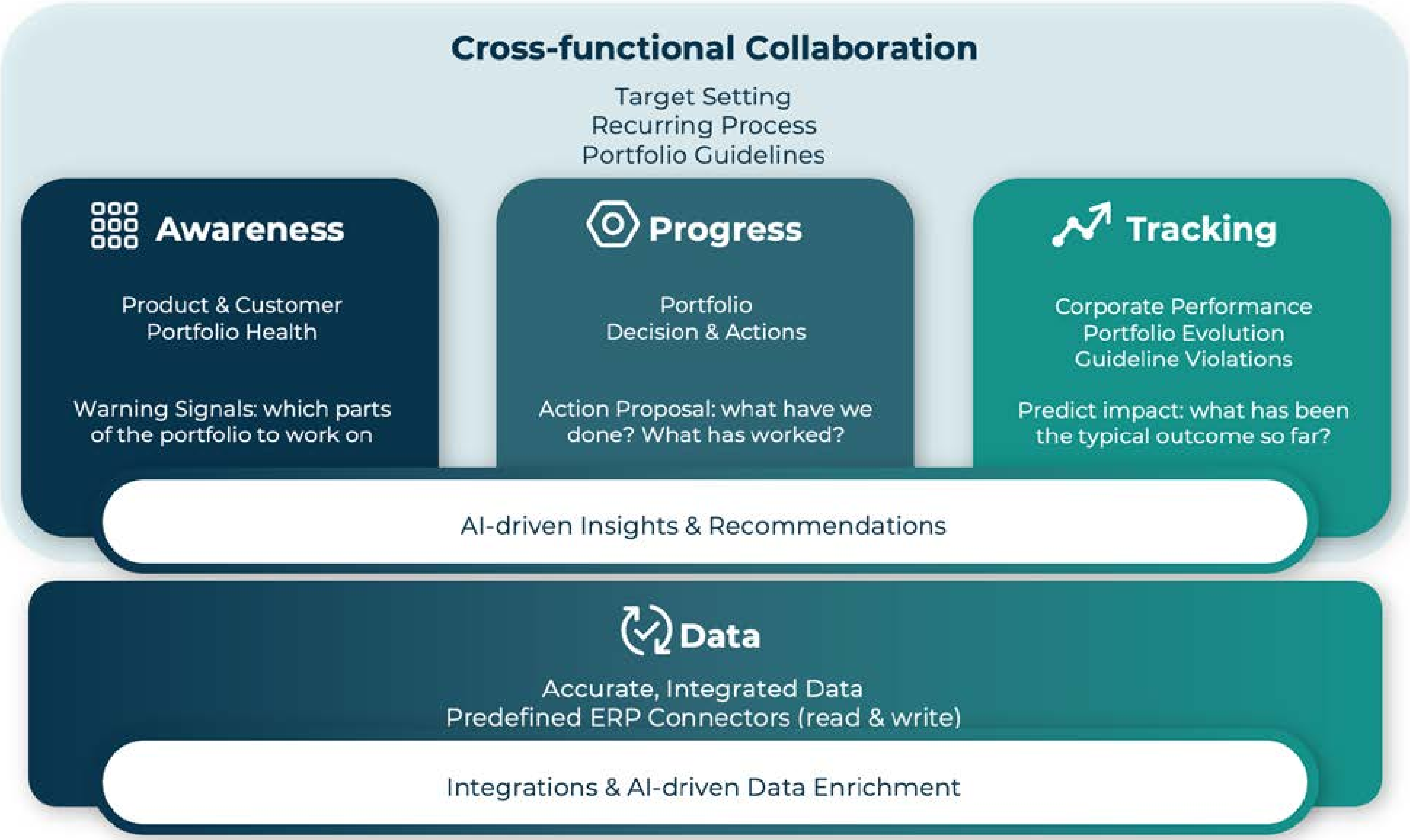


Figure 8 – Solventure Perform Approach including AI

IN SUMMARY

As Solventure we are strong believers in Portfolio Management as a key enabler of driving value along three dimensions: **sales growth, margin improvement, improving working capital and fixed asset efficiency**. The P&L owner should take ownership. They should define a portfolio management role, at a sufficiently tactical strategic level, in the marketing department or as a direct report. The key of the portfolio management process is understanding **which parts to work on, what actions to take and to ensure these actions are followed up** and the corresponding value is being realized and tracked. A solid portfolio management tool is essential in supporting that process. By adding AI capabilities, the tool can help driving the process by identifying which parts of the portfolio to work on and which actions to take.

ABOUT THE AUTHOR

Bram Desmet - CEO | Professor | Author
As CEO, since 2009 Bram has led the Solventure Group to transform organization's S&OP processes into a competitive advantage using his innovative Supply Chain Triangle® and Strategy-Driven approach.

As an adjuct professor at both Vlerick Business School and Peking University, Bram bridges the gap between academia and industry practice.

As an author, he has encapsulated his experiences into elegant and practical frameworks for cohesive alignment of strategy, supply chain, and finance.

Nick Verstraete – CTO
As CTO, since 2020 Nick takes responsibility for creating, implementing, and realizing the technological vision and strategy of the Solventure Group.

As trusted advisor, Nick is a key contributor to enhancing the quality of partnerships with Solventure's top clients since 2010. He provides valuable guidance to Supply Chain Planning Directors and SC VPs across different industries, serving as a coach and mentor within Solventure's internal delivery organization.

ABOUT SOLVENTURE

As Solventure we proud ourselves of being experts in designing and implementing Strategy-Driven S&OP. We do that through a unique combination of people, processes, tools and analytics. Solventure is Arkieva's, OMP's and Kinaxis's implementation partner.

Check us at www.solventuregroup.com or contact us at contact@solventure.eu for more info.