



Spotlight

Six-Facet Approach to Portfolio Optimization

What is the Six-Facet Approach?

When the topic of portfolio optimization is brought up, the default position of many companies is to simply focus on “chopping off the tail” and eliminating the typically large number of low volume, unprofitable products or services. This is relatively easy to do, but it usually ends up resulting in little to no benefit. In fact, true portfolio optimization is a much deeper exercise involving a multi-faceted, strategic look at a company’s offerings. Many factors weigh on the decision to cut or keep a SKU, but rarely are all factors considered in unison. WP&C has developed a proven methodology that focuses on understanding six different facets that impact the shape of a portfolio and then triangulating to arrive at the optimal portfolio mix.

Why is the Six-Facet Approach important?

Decisions made in a silo, without the benefit of broader perspective, can have damaging effects. This concept holds true when evaluating your portfolio. While it is certainly important to leverage true product profitability as a tool (see Complexity Costs Spotlight), limiting your vantage point to just the financial picture may result in making decisions that undermine the overall strategy. Also, many portfolio optimization efforts break down in the implementation phase because a critical perspective – for example, the realization of benefits – was

not considered early enough in the process. Any one perspective does not provide enough insight for successful portfolio optimization - success requires the cross-functional view of our Six-Facet Approach. It is better to have an 80% view across all facets (an achievable level of understanding) than a 100% view on just one or two facets.

Example of how the Six-Facet Approach is used

A consumer goods company used the framework to quickly eliminate 25% of their portfolio. The company used WP&C’s Square Root Costing methodology to understand true profitability, and worked with the sales team to assess coverage and opportunities for substitutability.

Benefits were identified as primarily being working capital reductions, with significant improvements in inventory and productivity. The result: a rapid answer in 6 weeks with considerable bottom-line benefits to the company.

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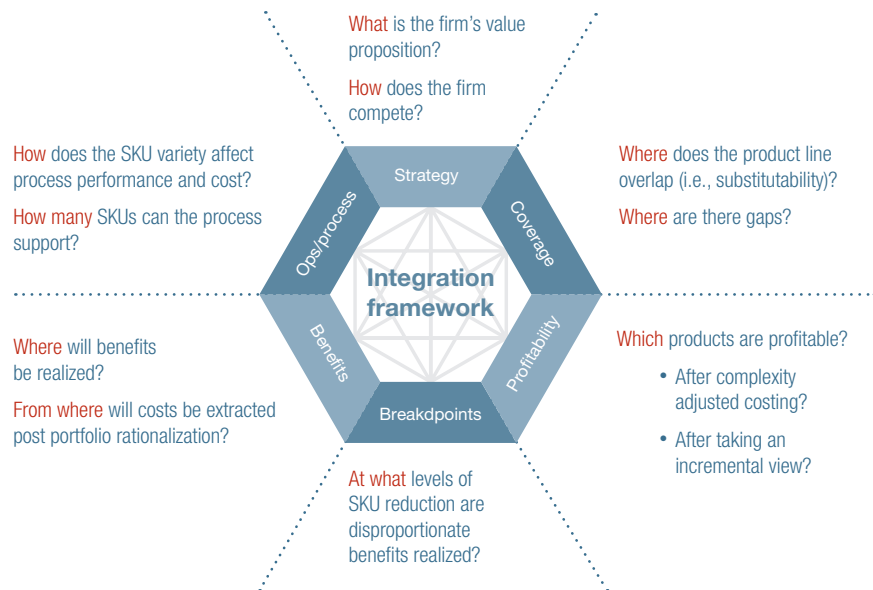


Figure 1. Six-Facet Approach Framework