



Institute for Market-Oriented Management

Competence in Research & Management

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IMU Research Insights

013

Managing the Product Portfolio for Success

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BUSINESS SCHOOL

Relevance of Topic

In multi-product companies orchestrated **product portfolio management** is vitally important for corporate innovation performance. Multi-product portfolios necessitate interrelated, interdependent, and simultaneous decision-making against the background of corporate resources constraints.

Investigated Industries

Food industry, automobile, computers, textiles, apparel & luxury goods, software, electronics etc.

Study Characteristics

Goal: To understand the importance and performance implications of effective product portfolio management

Method: Expert interviews & survey of 228 German managers and 52 additional second key informants

Inquired: product portfolio management approach, innovation output, and performance indicators

Managerial Implications

- Product portfolio management is strategically important for companies and their (innovation) success.
- Understanding and keeping track of all elements in the portfolio, of their strategic relevance, and of their resources implications make product portfolio management effective.
- An effective product portfolio strategy implies that managers are aware of the interrelatedness, interdependency, and simultaneity of all products in the portfolio.
- Product eliminations should equally be considered as additions to the product portfolio.
- Regular assessments of the product portfolio, e.g., in form of portfolio reviews, should determine the right number of products given strategic objectives and resource allocations.

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- Topic Relevance
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- Key Questions
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- Pre-Study Characteristics & Results
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- Main Study Characteristics & Results
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- Managerial Implications
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- Contact and Further Information
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Product portfolio management is a vital task for multi-product companies

Despite prevailing resource constraints, corporate product portfolios often contain large numbers of products and **multi-product companies** are ubiquitous; but

→ managing portfolios represents a considerable managerial challenge.

- Product portfolios determine corporate profitability (Putsis and Bayus 2001).
- Companies often live a 'the more... the better attitude' (Stock and Zacharias, 2011, p. 871) frequently causing a resource-crunch and complexity.
- In fact, there is a considerable mismatch between efforts to enlarge portfolio (launches, acquisitions, line extensions, etc.) and portfolio revisions; this often leads to diseconomies of scale (Kumar 2003).

Best practice companies: portfolio management process that is well-defined and structured (Barczak, Griffin, and Kahn 2009).

Despite the importance of product portfolio management, there is a lack of research on the impact of product portfolio management on performance.

Interrelatedness, interdependency, and simultaneity of product portfolio management decisions:

- Portfolio management is not a singular but interrelated decision-making process that aims to refine and implement firms' strategic goals by allocating available resources (Kester, Hultink, and Lauche 2009).
- Portfolio management is characterized by interdependence of products.
- With regard to the product portfolio, an exclusive focus on innovation *only* is seen as not appropriate (Kumar 2003). Additions to the portfolio need to be considered simultaneously with modifications and eliminations of products in the portfolio.

"It has become imperative for companies, big or small, to plan their product offerings and assess the compatibility of the strategy of each individual product with the needs, resources and objectives of the organization." (Wind, Mahajan, and Swire 1983, p.89)

- Strategic allocation of funds to different product lines is needed to maximize portfolio value. This implies continuous adjustments to the portfolio.

Key Question 1

What are current challenges in product portfolio management practice?

*Pre-study:
expert
interviews*

Key Question 2

Is the product portfolio management approach reflected in performance?

*Main study:
manager
survey*

Key Question 3

Can an effective product portfolio management enhance the performance impact of innovations?

Goal: Understand current practice in product portfolio management and perceived challenges

Data collection:

- In-depth interviews with managers responsible for product portfolio management (in Germany)
- Respondents were queried about their company's or strategic business unit's approach to product portfolio management
- Review of corporate reporting about product portfolio management in annual reports

Sample size:

- 20 managers as experts
 - from different hierarchical levels and positions
 - and different industries (electronics, food industry, automobile etc.)

“Often companies try to generate more sales volume by bringing more products to the market. In our company, this is the predominant objective of our management. The product managers would prefer to set priorities and to specialize our product portfolio as well as to develop a distinct positioning in the market... This would also imply more stringent decisions regarding product elimination.”

(Manager, food industry)

“The larger the company, the more complex the product portfolio, and the more dynamic the market, the more important product portfolio management becomes; because it allows you to step back from a stand-alone or isolated consideration and from intuitive decisions and to move on to an overall consideration of all relevant aspects, which is eventually imposed by complexity.”

(Product portfolio manager, IT manufacturer)

“Increasing complexity within an assortment calls for a structured product portfolio management, because as long as I have a small portfolio, I can decide intuitively. But the more complex my portfolio, the more structured I have to be. At one point in time it becomes necessary that I start setting priorities top down and determine which elements in the product portfolio are most important, which segments and businesses I not want to be in. If you don't do that, you get stuck at lower decision levels.”

(Head of portfolio management, electronics)

“Product portfolio management is extremely important. But when you take a look at how companies are typically structured - there are R&D, sales department, quality assurance, etc., they all have their own needs. But by themselves, separately, they are hardly able to do proper product portfolio management. It needs to be comprehensive and without portfolio management, this simply does not work. I think as soon as a business reaches a certain size, it is crucial to have an authority taking care of how the portfolio is configured.”

(Product manager, industrial conglomerate)

Answer to key question 1:

- Experts perceive the challenges of effective product portfolio management; most often mentioned is its complex nature and need for top management attention.

Product portfolio management entails the following activities:

1. Understanding of the relationship between all products in the portfolio.
2. Considering all products together and compare them against each other.
3. Regular assessment whether product portfolio has the right number of products for our available resources.
4. Product elimination decisions considered as important as product line expansion decisions.

The main study aimed to investigate the impact of product portfolio management on performance

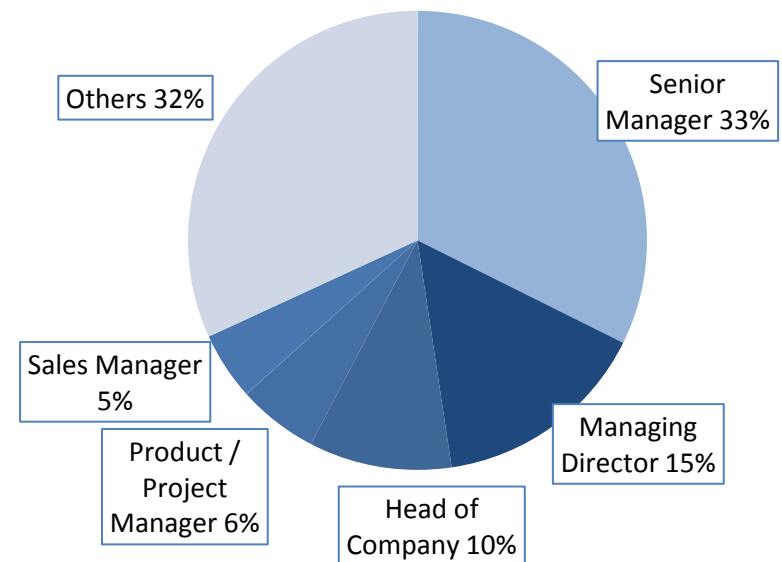
Goal: Understanding the importance and performance impact of an effective product portfolio management

Data collection:

- manager survey (in Germany)
- respondents were asked about their company's or strategic business unit's approach to product portfolio management as well as their innovation output and performance indicators

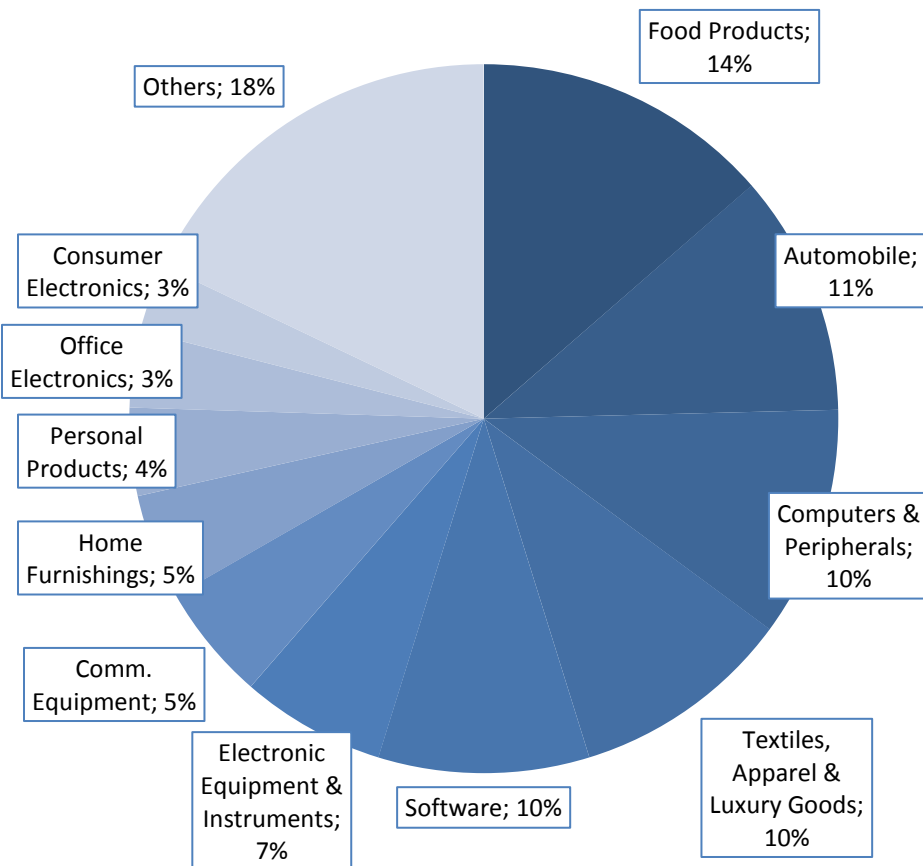
Sample size:

- 228 managers as key informants from different hierarchical levels and positions (*see pie-chart*)
 - with a mean company tenure of 11.5 years
 - average of 8.5 years of experience in their current position
- 52 second key informants

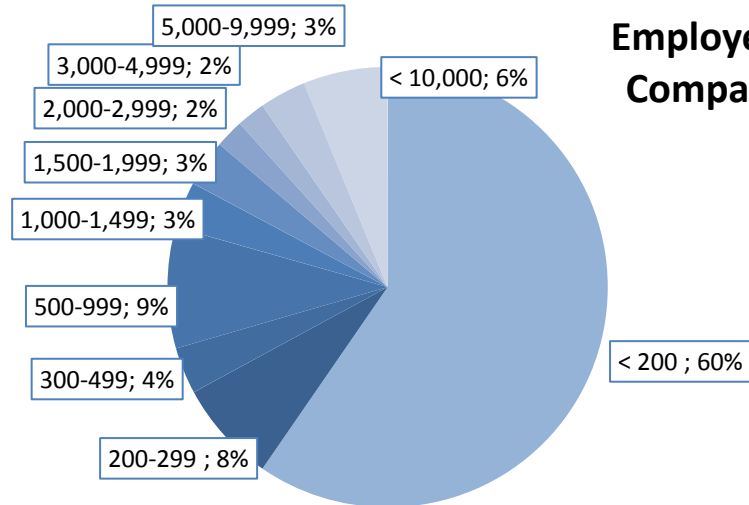


Managers from a wide range of consumer industry companies were contacted for the survey

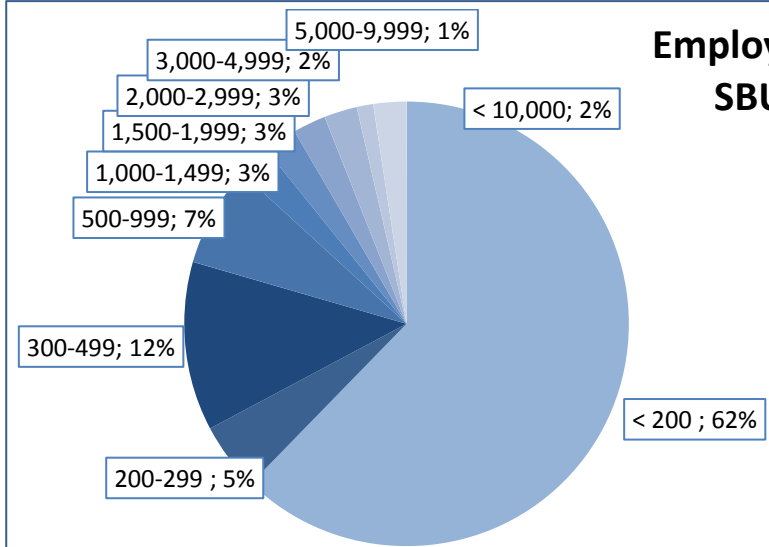
Industries



Employees / Company *



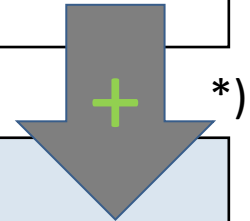
Employees / SBU *



* depending on whether information was provided on company or strategic business unit level

Effective product portfolio management

1. Understanding of the relationship between all products in the portfolio.
2. Considering all products together and compare them against each other.
3. Regular assessment whether product portfolio has the right number of products for our available resources.
4. Product elimination decisions considered as important as product line expansion decisions.

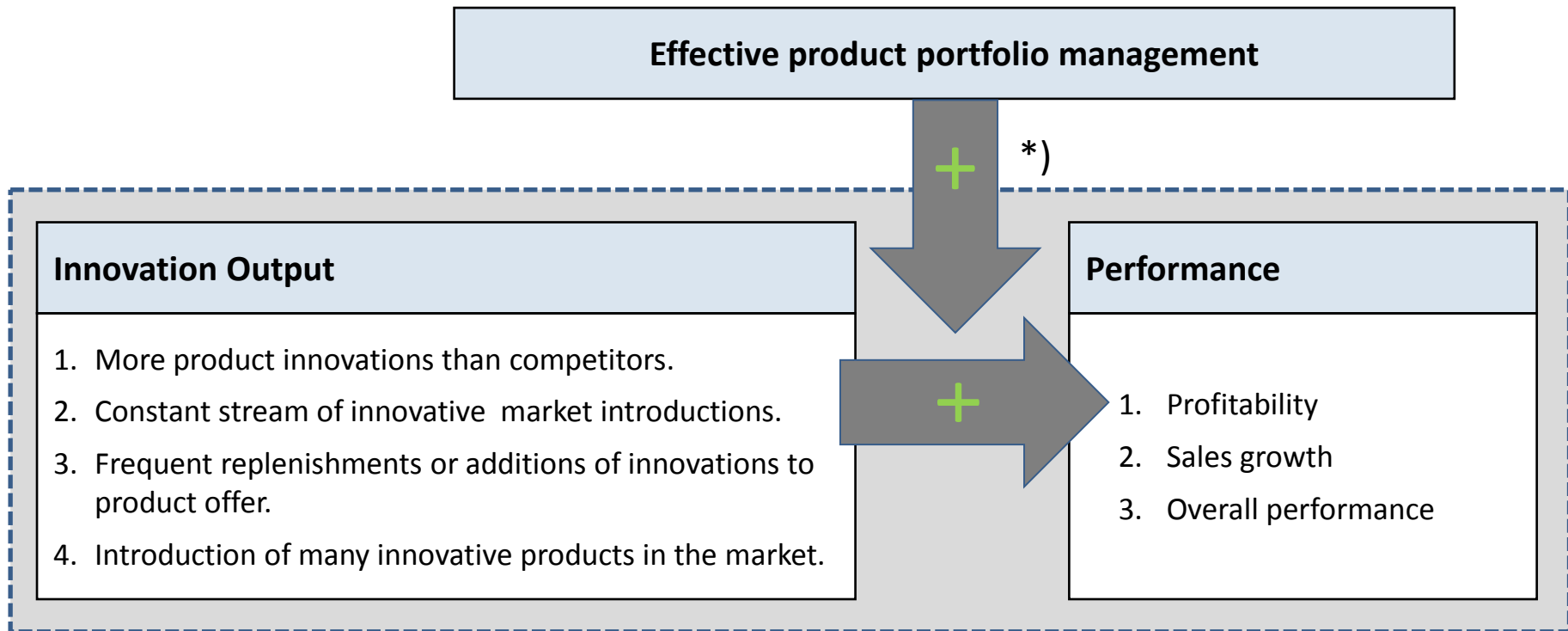


Performance

1. Profitability
2. Sales growth
3. Overall performance

*) Based on analysis of main sample and validated by additional sample of second key informants

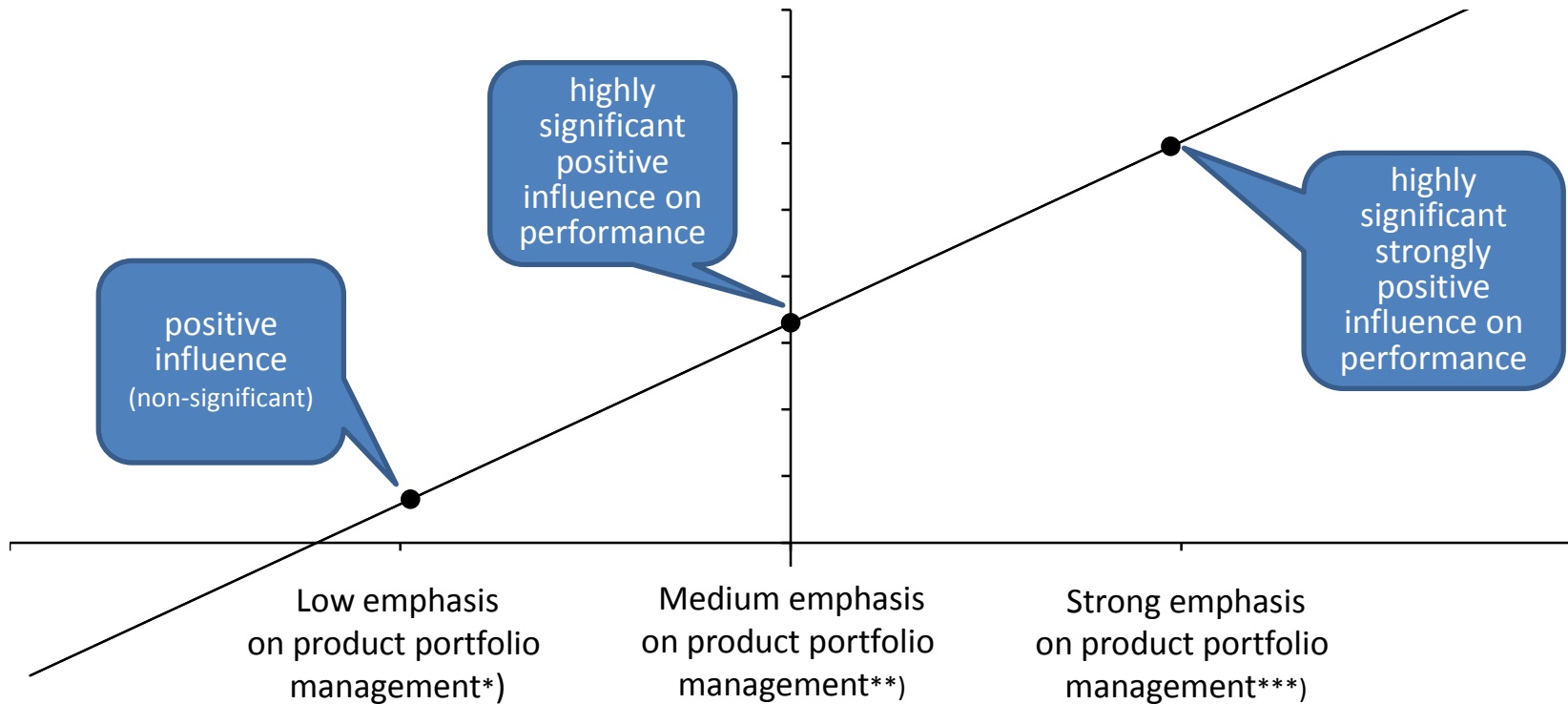
→ Effective product portfolio management has a significant positive impact on performance.



→ Performance impact of innovation outputs is significantly more pronounced when realized in context of effective product portfolio management.

*) Based on analysis of main sample and validated by additional sample of second key informants

Impact of innovation outputs on corporate performance at three levels of effective product portfolio management



→ The more emphasis management places on product portfolio management, the more pronounced the impact of innovations on performance and the higher corporate performance.

*) -1 stand. deviation below the mean **) average product portfolio management ***) + 1 stand. deviation above the mean

■ Learning 1

Product portfolio management is strategically important for companies and their (innovation) success.

■ Learning 2

Understanding and keeping track of all elements in the portfolio, of their strategic relevance, and of their resources implications make product portfolio management effective.

■ Learning 3

An effective product portfolio strategy implies that managers are aware of the simultaneity, interdependency, and interrelatedness of all products in the portfolio.

■ Learning 4

Regular assessments of the product portfolio, e.g., in form of portfolio reviews, should determine the right number of products given strategic objectives and resource allocations.

■ Learning 5

Product eliminations should equally be considered as additions to the product portfolio.

Product portfolio management should ...

- ... not be a sequence of isolated tasks.
- ... internalize the notion of a portfolio of products
which should be present in decisions regarding additions of products to the portfolio, eliminations of products from the portfolio, and modification of the existing product portfolio.
- ... be understood as problem of resource allocation and resource balance.
- ... strive for the optimal product portfolio, balanced and in line with corporate strategy and priorities.
- ... entail product portfolio management in an orchestrated manner.
- ... be based on a simultaneous and comprehensive understanding and ongoing overview of all interdependent and interrelated elements in the portfolio at all levels in an organization.

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