Abels & Kemmner
SUPPLY CHAIN EXPERTS

WHITE PAPER

Best practice rules for efficient product portfolio management

In most companies, variety is still seen as the solution to all sales problems. In the following, we will explain in more detail what successful companies are doing in terms of logistics and supply chain management to get variety under control.

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Best practice rules for efficient product portfolio management

Many, if not practically all, companies are constantly struggling with the consequences of the "CZ explosion": the variety of variants in their product portfolio is blowing up in their faces, inventories are rising despite declining delivery readiness, and margins are eroding. In most companies, variety is still seen as the solution to all sales problems. In the following, we will explain in more detail what successful companies are doing in terms of logistics and supply chain management to get variety under control.

Dealing with the product portfolio is often seen as the domain of product management, sales and marketing. Without wanting to interfere with these areas' responsibilities, there are good arguments not to ignore the voice of logistics and supply chain management when it comes to maintaining the product portfolio. Supply chain management often has one of the most objective voices in the chorus of emotions that sing about the topic of product portfolio management. It sounds terribly boring at first, but it is terribly true:

Basic principle 1: Product portfolio costs money

A product portfolio costs money and so does any expansion of it.

Every new product incurs costs in development, production and especially in logistics. Logistical performance is a service feature of every product on the market. This applies to products that have already been introduced as well as new ones. Of course, we expect the online mail order company to have the products we order in stock. What's more, we expect the parcel service to deliver them the next day! However, if we receive frequent information from a retailer that the products we order are not available, we will switch to the competition - regardless of what great company image the marketing and advertising strategists have put forward.

Such requirements no longer apply only to the business-to-consumer sector. In the business-to-business sector, too, ever shorter delivery times and ever greater delivery readiness are required. In terms of logistics, the market's demands mean two things in particular: stocks and capacities. If finished products do not have to be kept in stock anyway, then at least semi-finished products must be kept at high levels of value creation in order to be able to be completed into the finished product at short notice. The former requires high stocks, the latter flexibility in production and transport capacities, and both definitely incur costs!

The price of a product must also take into account all the logistical costs associated with a particular performance promise. For new products, these logistical costs are usually too high to be properly reflected in the price.

In the preliminary calculation, surcharge rates are often used on the direct costs. These surcharge rates result from the corresponding cost allocations from the operating accounts and thus represent an average value. If each individual part bears this percentage surcharge rate, then these costs are covered. This is correct, but it does not take into account that the actual distribution of expenditure and thus the cost causation is not proportional to the direct costs.

New products and exotics cause high logistical standby costs in the form of basic requirements and, above all, safety stocks. Both groups often suffer from strongly fluctuating demand and therefore require high safety stocks in order to be able to deliver. Offering new products without being able to deliver them may make the product sexy in some industries, but in others it turns it into a flop.

No one in a company wants a new product to remain an exotic forever. Rather, they hope that demand for the product will increase and become more regular, so that future logistical costs will decrease.

Later, sales, scheduling and - if there is one - product management check far too rarely whether these expectations have actually been met. If the hopes for a product's success are not fulfilled, sales in particular like to point to the product range constraint: This makes it necessary to keep a product that does not cover costs in the range in order not to jeopardize the sale of other, more lucrative items by losing good customers. And so the number of exotic products in the product portfolio grows until the critical mass is exceeded and the "CZ explosion", which we will look at in more detail later, takes its course!

We must note at this point:

Best practice building block no. 1: Every new product requires a “Residual Lifecycle Cost“ Review that must be updated every three months.

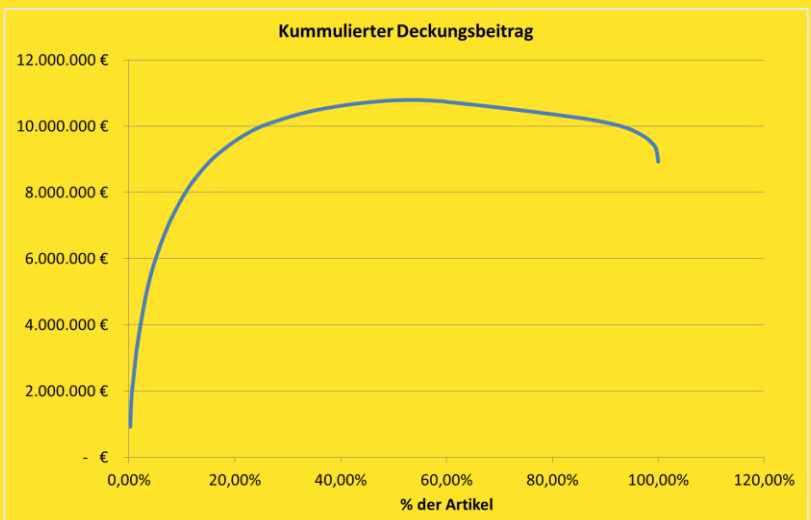
The main cost packages that should be regularly, if not continuously, considered for new products include the logistical standby costs, the current disposal costs and the development of the real contribution margins.

In our experience, it makes no sense to rely on the “Total Lifecycle Cost" to turn off. "Sunk Cost“, the costs incurred in the past are no longer relevant for future decisions. Only the costs that will be incurred in the future play a role.

The decisive factor in the logistical standby costs are the storage costs for the necessary basic requirements and safety stocks across the entire supply chain. This includes not only stocks at the finished goods and component level, but also stocks that are held by suppliers but financed by the customer.

If a product is no longer offered on the market, there are sometimes residual quantities of raw materials, materials, semi-finished products and finished goods that can only be sold at reduced prices or even only scrapped or disposed of as hazardous waste. The balance of these costs represents the disposal costs. Suppliers generally demand purchase obligations for specific raw materials, drawing parts and product-specific assemblies if these parts are not accepted by the customer within a defined period of time. All of this also counts as disposal costs.

Ultimately, the development of the contribution margin must be continuously monitored for each new product. Negative contribution margins may be temporarily unavoidable from a market strategy perspective, but they must be eliminated quickly.



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Looking at the contribution margins alone is pointless: These rarely reflect the logistical standby costs realistically, nor do they take future disposal costs into account. Articles with negative contribution margins are definitely "red" - but articles with positive contribution margins are not definitely "in the black".

While product management, sales and marketing think in terms of product groups, product groups, product group hierarchies and market segments, from a logistical point of view these structures are not sufficiently differentiated. Structuring criteria for the product portfolio must go deeper and evaluate the logistically relevant properties of a product portfolio:

Basic Principle 2: Structuring and Classifying

Only through structuring and classifying does a product portfolio become transparent from a logistical point of view.

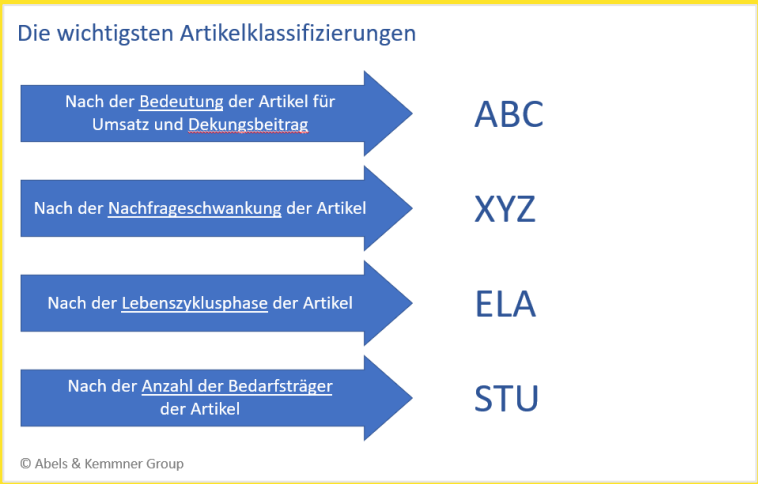
The importance of a product from a logistics perspective is expressed primarily in its warehouse throughput. The warehouse throughput is the quantity of a material that leaves the warehouse multiplied by its production costs. At the finished goods level, this is typically the sales quantities, valued at the manufacturing costs. Based on the warehouse throughput, the items can be differentiated according to the classic ABC approach - e.g. 80/15/5. In addition, ABC approaches based on inventory, contribution margin or sales can provide important information.

The fluctuations in demand for a product that the value chain has to deal with are traditionally described according to X, Y and Z classes. X items enjoy a more regular and consistent demand, demand for Y items fluctuates significantly and demand for Z items fluctuates. For various statistical and strategic reasons, we also distinguish between Z2 items, whose demand represents, in practical terms, a "disaster that has become a demand".

The ABC/XYZ classification of articles and materials is now part of the minimum standard in logistics, but even this is not yet very advanced in many companies. In order to evaluate a product portfolio from a logistical perspective, these two criteria are not sufficient. Rather, the life cycle of an article and the number of sources of demand must also be taken into account.

During its life cycle, an article goes through the stages of incoming (E), live (L) and outgoing (A). The number of demand drivers behind the quantity requirement of this article is also of great importance for the right logistics strategy and can be classified according to STU.
S-items have one or two, T-items have a small number and U-items have a large number of demand drivers.

At the finished goods level, these are the direct customers; at the component level, these are the higher-level materials that trigger secondary requirements.



Best Practice Module 2 states: Structure your product portfolio at least according to the four most important dimensions: ABC, XYZ, ELA and STU.

A first insight resulting from this form of logistical classification of the product portfolio is formulated in basic principle 3.

Basic principle 3: A large proportion of articles are cross-subsidized

A large proportion of CZ2 items and many of the CZ items have to be cross-subsidized by AX items. This makes AX items more expensive and less competitive.

We have already talked about the exotic items in the product portfolio. Exotics are sold in small quantities and therefore have low inventory throughput.

This is not surprising, as every new product begins its life as a CZ2 or at least a CZ item. If it is successful on the market, it will develop into an AX item in the best case scenario, or at least move out of the CZ/CZ2 corner. Unfortunately, the natural laws of the market mean that very few items are destined to be so successful. The majority of all items never find their way from the depths of the product portfolio to the heights of market success. As a result, the product portfolio is disproportionately enriched with items in the CZ/CZ2 area.

We already talked about the problems in calculating the costs and thus the price of an article at the beginning. The calculation problems tend to lead to CZ and CZ2 articles being underestimated in their actual costs and AX articles being overestimated in theirs. This calculation distortion can be easily seen using the example of sales. Many of us know the star salespeople from our companies who are responsible for important key accounts or who sell dominant products. In addition to these few stars, a large number of hard-working salespeople often fight on small product and customer fronts in sales. While the supposed stars hardly sell anything, but only have to note down what quantities their customers want, the rest of the crowd tries hard to get the famous "sour beer" out to the people.

All too often, the total costs of distribution are allocated only according to “viability”, which means nothing other than that they are added to the product calculation in proportion to sales. For example, 20% of the best-selling items quickly 80% of total distribution costs.

The classic example of this development is the food discounters in Germany. For years they took market share away from traditional retailers. They concentrated on a few items: the AAXX items of everyday life.

This enabled them to design their value chain cost-effectively and to buy in large quantities with corresponding discounts. In addition tobest-selling items. The discount market offers a wide range of other items, including many real exotics, and in order to finance this, it has to best-selling items sell on average more expensively than the discounter.

Do you think this is a special case of retail? If we look at the development in German or Swiss machine tool manufacturing, we can see a similar effect. In the sixties and seventies of the last century, the machine tool industry was proud of the customer-specific special solutions that it was able to offer thanks to ist engineering advantage compared to the emerging Japanese competition. Which customer wanted "smooth as butter" lathes that bent every time a large part was processed and that could only maintain small manufacturing tolerances, ... was the opinion.

The buttery smooth Japanese lathes were cheap, because the manufacturers – probably more out of engineering deficiencies than for market-strategic reasons - focused on standard machines. Perhaps not surprisingly, many customers needed these buttery smooth machines. They were quite economical for small, less demanding parts. The Japanese manufacturers opened up the world market by leveraging such unexciting bread-and-butter machines. The Central European machine tool industry only regained market share when it was able to do so thanks to ist engineering expertise understood how to build their products according to modular principles and thus closely link standard and customer-specific solutions.

The AX portfolio is the typical point of attack where new competitors break into existing markets. For this reason, the

Best Practice Module 3: Successful companies keep their portfolio raft in balance.

If a company wants to go down this path and streamline its product portfolio, it should not be afraid of the specter of product range constraints, because the following applies:

Basic principle 4: Assortment constraints

Product range constraints are the blinders of product policy.

When one economic party forces another to purchase or deliver not only the products desired by the other party, but a more or less defined broader range, this is referred to as assortment constraint.

Assortment constraints can be found on the supplier side, mainly in the businessto-Business. Compulsory product ranges can be imposed by a supplier who forces his customers to purchase a complete product range or by customers who demand that a supplier stock items that are required regularly and in large quantities as well as items that are required rarely or irregularly.

A compulsory assortment demanded by the customer is rarely contractually fixed, but is understood by the sales department as a service or is provided in advance in obedience.

From the point of view of product portfolio management, the assortment constraint imposed by customers plays an unfortunate role.

Real assortment constraints imposed by the market or explicit customers must be handled with extreme caution, but we regularly find that assortment constraints are one of the most overestimated criteria in product portfolio management. This sounds very daring for a logistics expert. Assortment constraints are not a nebulous matter, however, but can be statistically recorded and scrutinized:

- How often was product B also purchased when product A was purchased?
- If product B is often purchased along with product A, couldn't product C be offered instead?
- HIs this then a mandatory connection for the customer or just a bulk order?

As important as product range constraints may be in individual cases, they are unimportant in many other cases of product range policy. If a company were to design its product portfolio solely according to the supposed product range constraints of its customers, all of the company's problems would resolve themselves in insolvency in the medium term.

A whole range of other criteria, both strategic and business-related, determine the product portfolio. Ultimately, money must be made with the current product portfolio, so no one can turn a blind eye to the contribution margins of the individual products. Economic constraints continue to be exerted by the safety stocks that are required to keep a product at the required level of readiness for delivery. The remaining stocks that would remain if a product were to be sold off at short notice must also be taken into account when cleaning up the product portfolio.

Items with a high sales share are harder to part with than items with a low sales share, even if they have low contribution margins. This is not least because they can be important for a company's perception on the market and they also have great earnings potential if the contribution margins can be improved.

From a strategic point of view, it is important to ensure that the articles are distributed over the entire product life cycle: at least for articles with a high contribution margin, it is better to have a left-skewed distribution (more articles for the newcomers) than right-skewed (more articles in the foothills).

For this reason we can state:

Best Practice Module 4: Six central criteria determine whether an article remains in the product range. Only one of these is the product range requirement.

Anyone who has ever participated in discussions about streamlining the product range of a warehouse manufacturer. Anyone who has been involved in this process knows how intensively sales defend the exotic products in the product portfolio. The easiest way to get sales support is to tie the introduction of new products to the elimination of old products. Sales that earns money from every fish they catch and doesn't have to pay for the fishing rod themselves are acting entirely consistently when they oppose the streamlining of the product portfolio. For this reason, the aspects of new introduction and elimination are always viewed in relation to one another.

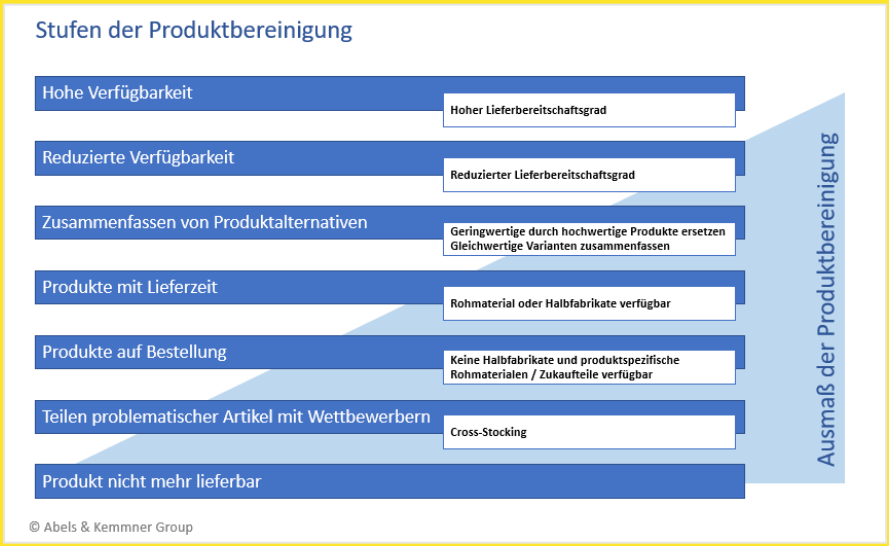
Another important reason for the hesitant behavior of sales can be found in basic principle 5.

Basic Principle 5: Product Cleansing

Many companies make decisions when it comes to product streamlining, like in the Roman circus: thumbs up or thumbs down.

If it is just a question of "either/or" when sorting out products, this is not only painful from a sales perspective, but can also be very damaging to logistics. This is always the case when there are still a lot of remaining stocks or open deliveries from suppliers for a product that is to be sorted out, which would leave the supply chain stuck.

However, the world of product portfolio management is not simply black and white - especially not from the perspective of logistics and supply chain management. There are fine gradations between a brightly shining item with a high level of readiness for delivery and an item that disappears darkly and is no longer available. For example, you can first consider reducing the level of readiness for delivery of an item. The item will then still be available, but customers will more often have to wait for the item to be delivered. In our experience from numerous projects, customers accept this when it comes to exotic items that are either only offered by a specific supplier or are difficult to obtain from all relevant suppliers.



The strategy of assigning a delivery time to products and only keeping the necessary raw materials and semi-finished products in stock goes a step further. The required article can then be manufactured from these when required. With this strategy, the article in question will also be available for delivery in parts from stock, as in most cases it is produced in batches and not in individual pieces. The batch quantities that exceed customer requirements are then kept in stock as finished goods. In various cases, our simulations have shown that an immediate delivery capability of 50% can still be achieved in this way.

If you do not keep semi-finished products, specific raw materials or purchased parts on hand in order to be able to manufacture the final product, you end up with a “product made to order” product, where delivery times can be considerably long and where you have to make sure that the sales price also covers the production costs.

Only the last step is to stop delivering a product altogether.

In many cases, it is not even necessary to think about the gradual elimination of an item if you have previously considered the aggregation or substitution of items. For example, it can be significantly more cost-effective to forego several lower-value variants of a product in favor of a higher-value variant that replaces all of them.

The higher material and production costs can be more than compensated by the savings in inventory and disposal costs. You can achieve the same result by combining several equivalent variants into one variant, for example by reducing the number of product sizes offered.

A sometimes bold but sometimes very successful strategy can be the Cross-Stocking represent. In Cross-Stocking. Two competitors share their trouble with CZ and CZ2 parts by dividing up the corresponding product portfolio and supplying each other.

As you can see, cleaning up the product portfolio can be a colorful affair with exciting new possibilities. That is why we are holding on as

Best Practice Module 5: Successful companies maintain their product portfolio regularly and consistently, but in a differentiated manner.

When maintaining your product portfolio, you don't always have to find the right answers yourself if you follow basic principle 6.

Basic principle 6: Customers react sensitively

Customers react sensitively to price differentiation.

Anyone who works in sales is familiar with haggling over the price of a product or service: the salesperson in a fashion boutique as well as the sales manager of a large corporation. Often regardless of the value that a product or service has for a customer, customers and buyers try to drive down the price. The market's extreme price sensitivity can sometimes be used cleverly to streamline the product range.

As a first step, you can reduce the price of preferred variants and thereby reduce demand for unpopular variants. In the short term, this may result in a loss of profit, but in the medium term it can lead to increased profits due to volume effects.

Customers who have stuck with their original product variants despite price differentiation are either less price sensitive or need “their” regular product variants for certain reasons.

In a second step, you should now consider increasing the price of the unpopular product variants. This will attract another portion of customers to the cheaper variants and thus increase the volume effects there. This step will prompt some customers to switch to you as a supplier. But the portion of customers who remain with their traditional product variants will not be happy with you, but will be forced to pay the higher prices and thus better contribution margins.

The fewer customers you have to deal with, the more carefully you have to handle step 2 of this strategy. We will come back to this aspect later. Nevertheless, building block 6 applies to successful companies.

Best Practice Module 6: Successful companies involve their customers in product range adjustment through price differentiation.

Whatever path you take to streamline your product portfolio, in order for product streamlining to be as cost-effective as possible from a logistical perspective, you must follow basic principle 7.

Basic Principle 7: Supply Chain takes time

A supply chain needs time to idle in order to keep the costs of remaining inventory low.

Remaining stocks are a regular nuisance in logistics. They always arise when production quantities can no longer be sold on the market and there are a variety of reasons for this:

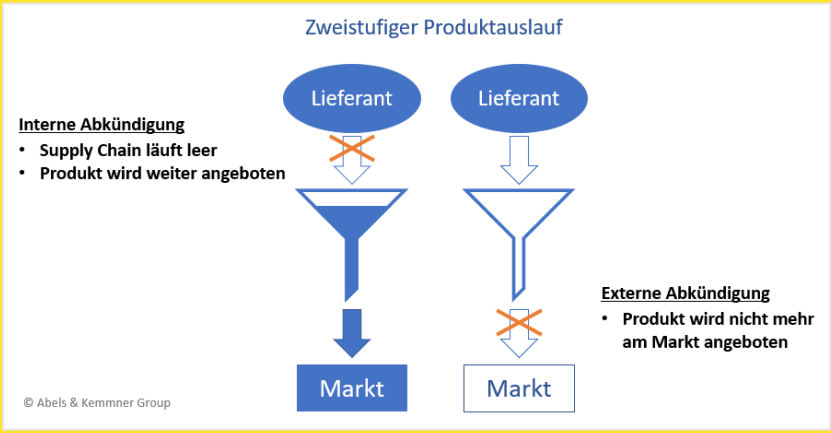
- Too high demand forecasts for newcomers or living products lead to quantities that you can either never sell again, that have exceeded their expiration date or that can no longer be used as spare parts due to technical changes or can only be used in customer service.
- Another, often neglected, cause of remaining stocks and disposal costs results from product cleanup. For companies that produce for an anonymous market, a product discontinuation should always take place in two stages: In stage 1, the product is discontinued "internally". In logistical terms, this means that the sourcing of the product itself or the product-specific raw materials, materials and semi-finished products is stopped.

Allow the value chain pipeline to run dry as much as possible before you discontinue the product "externally" in stage 2. Once the product has been taken off the market and can no longer be found in the catalog or on the websites, you can only use the remaining stocks at the various stages of the value chain for spare parts and warranty purposes.

For this reason:

Best Practice Module 7: For companies that manufacture for an anonymous market, product discontinuation always occurs in two stages: internal discontinuation and external discontinuation.

In anonymous markets, you know your customers statistically, but not personally. In contrast, in known markets, especially in the capital goods sector, the customer must be understood as an individual contractual partner. Companies that do not take this into account quickly learn basic principle 8.



Basic Principle 8: Customers react negatively

Customers react negatively to product cleanups if they are not informed and do not have time to react.

Nobody would voluntarily give up products they have become accustomed to. Many customers who ask you, and thus practically ask for your approval to clean up a product, will initially be reluctant. For this reason, it should be clear in advance of informing customers which products and variants you want to remove from your product portfolio. Sales can then inform customers about alternative products, preferably from your own company.

If your company no longer has an alternative product, but you know of a suitable alternative from a competitor, you should point this out to the customer. If they need the product, they will find your competitor anyway. If you show them the right way right away, you will improve your chances a little, especially if the customer continues to stay with you for other products. Giving customers a deadline for final orders should be a matter of course.

Particularly customer-oriented companies sometimes go a step further and support good customers with special services as part of a product streamlining process. For example, they can offer customers special conditions for products they continue to purchase or support customers in making the necessary process adjustments to an alternative product or a new raw material. Covering development or quality control costs for the alternative products may also be an option.

In summary, this strategy can be summarized as:

Best Practice Module 8: The items affected by a product range adjustment in the B2B sector must be determined independently of the customers. The subsequent implementation must take place in interaction with the customers.

Without innovations and further developments of existing products, the company usually does not survive for long or at least loses market share. International competition in particular makes it necessary to be one step ahead of "the others". However, the world of durable and short-lived goods differs drastically in this respect. Basic principle 9 applies to companies that make money with short-lived goods.

Basic Principle 9: Novelty and Availability

When it comes to short-lived goods, you are almost always dealing with new products and usually struggle with over- or under-availability.

The prime example in this area is the fashion industry, which largely only operates with “One-Shots”, i.e. articles that are only produced for a single season, and which can only sell these articles on the market for a short time.

Ideally, you should get the best possible demand forecasts. However, the statistical and methodological tools available in this area today leave much to be desired. We are currently analyzing various approaches to improving forecast quality in this area, but this is still more basic research than concrete solutions. Ultimately, when forecasting new products, especially in markets with short consumption periods, it is still a matter of product management's "gut feeling" to estimate the quantities required for a new product.

We have repeatedly found that products that are advertised later generate significantly higher sales than those that are not explicitly advertised. This is not surprising. However, we are amazed when we see that in many companies the decision as to which new products should be advertised is only made after the procurement processes and sometimes even the production processes have already begun. At this point, it is of course too late to adjust the quantities and produce the advertised product in larger quantities.

If forecasting methods do not help you to determine the required quantities of certain items in the product portfolio more precisely, you must make your supply chain and value chain as flexible as possible, i.e. align your logistics business model accordingly. We cannot discuss how this works here. However, it is important for product portfolio management that the obsolescence risk, i.e. the risk of being left with product stocks and having to scrap or sell them off cheaply, is included as a residual risk in the product's profit margin.

Thus:

Best Practice Module 9: When manufacturing and marketing short-lived goods, make the supply chain as flexible as possible and calculate the residual risk into the profit margin.

From a logistical perspective, when it comes to product portfolio maintenance, we also need to take a look at durable goods, because basic principle 10 applies here.

Basic Principle 10: Consider durable goods

In the case of durable goods, new products often require a great deal of planning effort, high inventory costs and a high cost risk throughout the entire supply chain, which must be borne by the living products if planning is poor.

Even with durable goods, there is a risk of overestimating or underestimating the need for new products. In contrast to short-lived goods, however, there is the possibility of better balancing stocks and delivery readiness over time. Above all, there is a chance of being able to sell off any excess stocks over a longer period of time. This means that there are storage costs, but no scrapping costs. Of course, this only applies as long as a poorly selling product continues to be offered on the market and is not removed from the product portfolio too early (see best practice module 7). However, our experience from numerous projects shows that for manufacturers of technical products, more than 30% of new finished products per year are no longer economically viable from a logistical perspective and supposed marketing advantages are eaten up by a high new product rate.

Strictly speaking, this threshold is not about the proportion of new products in the total number of items in the product portfolio, but about the percentage of stocks to be held for new products in the entire supply chain in relation to the total stocks in the supply chain. For this reason, parallel to the introduction of new products, it should always be checked which "old" CZ and CZ2 products can be removed from the range. From a logistical point of view, however, this is a different front. Weeding out poorly performing items is an important task in itself. But it does not legitimize an excessive introduction of new products.

For this reason, we must consider the following for durable goods:

Best Practice Module 10: In the case of technical products, 30% of new products per year are marked by "bigbang" is the limit of logistical suicide. Successful companies stay below this limit.

In many industries it is common practice to launch new products on all markets at the same time, and for many products this may not be possible. Fashion, for example, has a limited lifespan and must be presented quickly on all markets in which it is to be sold. What applies to fashion generally applies to the majority of short-cycle inventory products.

Getting a new product into stores everywhere at the same time requires a great deal of effort throughout the entire supply chain, as can be summarized as basic principle 11.

Basic Principle 11: "Big Bang" or “Long Chime"

New product launches via "Big Bang", ie on all markets at the same time, require stock manufacturers high inventories and high flexibility costs in the supply chain, combined with long lead times.

The problem with new products is typically predicting future market demand. If you want to be able to deliver despite uncertainties, you need to stock up on new products. In the worst case scenario, you need safety stocks in all markets. The required stocks need to be built up first before they can possibly not be sold, and for this to happen, the required components need to be procured, manufactured and assembled. Such a "new product piglet" must therefore be pushed through the queue of the entire supply chain and slowly digested.

Worse still, entire collections of parts often have to be brought to market. The queue of suppliers and in-house production must therefore digest an entire herd of piglets at the same time. As the queue has to stretch, so too must the supply chain, and this means additional costs are incurred for the required flexibility.

The reality, however, is even meaner than described so far. Not only your company, but also most of your competitors think and work in the same rhythm, sometimes using the same supply chain, the same suppliers with their piglet herds at the same time, which drives up the costs of the suppliers and thus your costs even further.

Not all industries and companies that introduce products using a “big bang” strategy would necessarily need this strategy if they had the courage to break away from this lemming behavior.

In many industries, it has long been common practice to test demand for new products on “test markets.” In the food industry, for example, this is a typical approach used by many suppliers.

In the case of more durable goods, such as technical products or luxury goods, this strategy offers the opportunity to sell the initially lower material stocks on other markets if a product is not successful in its launch market.

If the launch is successful, you can ramp up the supply chain. You can use the increasing capacity utilization of the supply chain for products such as consumer goods, where high delivery capacity and thus good market supply are important, to satisfy the increasing demand in the launch market. Only then should you expand supply to new markets. For products where a certain degree of exclusivity is one of the features, you might first add additional sales markets or supply the initial markets better and thus further fuel the exclusivity character in the subsequent markets.

However, by discussing how we distribute the growing output of the supply chain to the markets, we are poaching in the area of marketing and sales strategy and we should leave this to the relevant experts. The main thing is that the experts think about whether a “long-term” market launch might not be possible instead of a “big bang” market launch. Chime“ A strategy is conceivable in which the markets are successively served and filled and the supply chain can be more easily emptied if the products do not reach the market.

Big Bang oder Long Chime Strategie bei der Markteinführung?

	Big Bang	Long Chime
Chancen	• Schnell auf dem Markt • Premiumpreise möglich	• Geringe Gesamtkosten • Bessere Margen • Geringere Lagerhaltungskosten • Geringes Verschrottungsvolumen • Hohe Lieferbereitschaft auf bedienten Märkten
Risiken	• Hohe Überbestände • Hohes Verschrottungsvolumen • Schlechte Lieferbereitschaft	• Mit Neuprodukten zu spät auf dem Markt • Premiumpreise für die ersten Anbieter können nicht mehr verlangt werden

Let's imagine how beautiful the supply chain world could be if all products were not brought to all markets in collections at the same time. The result would be much lower flexibility costs in the entire supply chain, lower scrapping costs and better delivery capability.

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For many companies, such a world would be unthinkable. But there are always companies that do the unthinkable in order to significantly improve their margins, stand out from the market and thereby demonstrate best practice module 11:

Best Practice Module 11: Big bang or Long Chime: Successful companies examine whether and how abruptly new products really need to be introduced.

As is well known, not everything about a new product has to be new. New products are often just product variants. Now, product variants can be developed in such a way that the variant spread has to take place early or late in the supply chain. From a logistical point of view, a late variant spread is better than an early one. However, the best variant spread for the logistician is the one that doesn't take place at all...

Regardless of whether the new products are variants of existing products or not, you can always consider using identical parts.

The common parts strategy starts with a few standard screws in different products and extends to the same assemblies in different products. It is worth thinking about, because as Basic Principle 12 states.

Basic principle 12: Use the modular system

The fewer different products can rely on common parts, assemblies and manufacturing processes, the more cost-effective and manageable the value chain and supply chain become.

A variety of variants, where variant creation occurs late in the value stream, counteracts a CZ explosion at the finished goods level, which can break the neck of any company.It would be ideal if variants were no longer stored at the finished goods level, but were assembled on an order-related basis. This is a strategy that is possible and common in many industries and for countless companies. This is how the automotive industry works on the European market, and this is also how most of the machine tool industry works.

A standardized variety of variants, in which as many identical parts as possible are used, also prevents the CZ explosion at the component and assembly level.

Starting from an existing broad product portfolio, the path to a standardized variety of variants is long and the effort involved is considerable if the concept is not taken into account right at the beginning of a new product development.

We can therefore state that

Best Practice Module 12: Successful companies standardize their variety of variants. And they start doing this right at the beginning of the life cycle of a new product by thinking ahead about possible variants.

And with this last consideration, we have finally arrived at the border area between portfolio management, product management and product development - and have thus reached a first finish line for optimal product portfolio management.