

PRODUCT RANGE MANAGEMENT AS A KEY ASPECT OF STRATEGIC COMPANY POSITIONING

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ABSTRACT

This purpose of this paper is to provide a methodological solution to an endemic problem traditionally suffered by the ceramic sector with regard to product portfolio management. This is mainly due, among other factors, to the fact that there have been no product entry and exit mechanisms, market strategy criteria or customer focus. This is an endemic problem that goes beyond the crisis, exacerbated by the economic boom that preceded it, when sales turnovers allowed tile manufacturers to have large relatively unstructured portfolios and which has now led, inevitably, to a need for guidelines for organisation, restructuring and focus.

1. ECONOMIC-SOCIAL CONTEXT

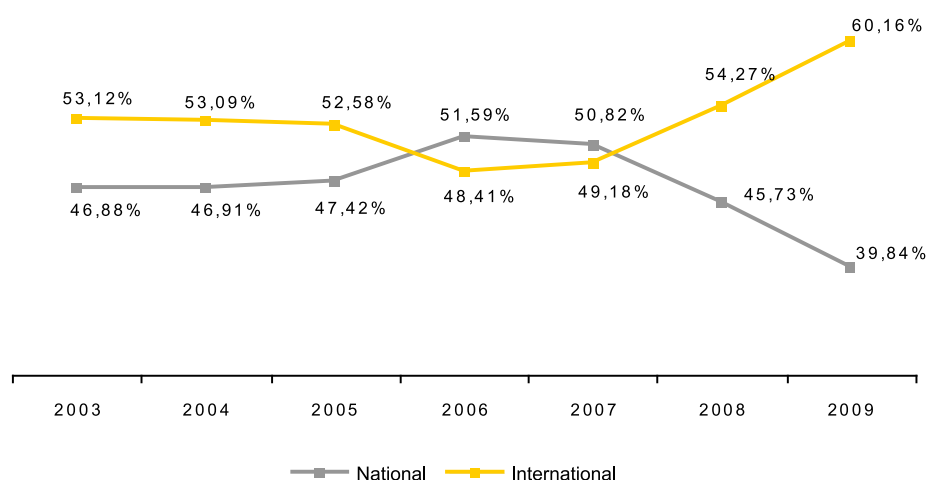
"It's in crisis that invention is born, as well as discoveries, and big strategies (...)." This statement by Albert Einstein invites us look on the new social and economic context in which we find ourselves with optimism.

The deep economic-financial world crisis has led to transformations in the social-cultural and economic environment and to user and market reactions.

The following brief summary of the Spanish economy, which concentrates on aspects that influence the development of the ceramic sector, shows the main changes that have taken place in recent years (*Source: Ongoing study on the prospects for the ceramic sector, ITC Market Area*)

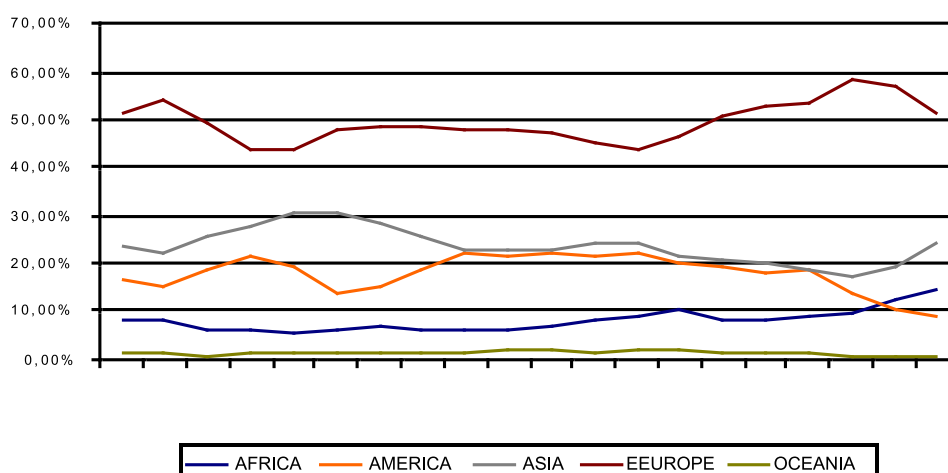
- The building crisis has led to a serious drop in the demand for homes. The number of new homes in 2006 (865,561) fell to 91,662 in 2010 (*Source: Instituto Nacional de Estadística*)
- Households are consuming less because of factors related to low expectations, high unemployment rates, falling property values and poor availability of credit.
- Rising costs of raw materials and energy.
- Increased competition from emerging countries with lower production costs.
- Changes in the structure and number of companies due to closures, job losses and mergers. The existence of companies whose cash flow needs interfere with the normal functioning of the market.

In addition to the deep depression affecting the Spanish market, the traditional destination for approximately half of our industry's sales (see graph 1), the European market has also decreased. This is our natural market, which historically absorbed an average of between 45 and almost 60% of our exports (see graph 2), and which had previously offset the recession in the internal market. These two markets, which account for approximately 75-80% of our sales, are suffering an economic depression that is hindering business in the Spanish industry.



Graph 1. **Evolution of national and international sales** of floor and wall tiles (percentage of m^2). Sector data.

Spanish exports by geographic area



Graph 2. **Evolution of exports by geographic area** of floor and wall tiles (percentage of m^2). Sector data.

From a social-cultural point of view, this situation has made consumers more aware, and they have adopted more rational consumer behaviour.

However, although this adverse economic situation has led to a shift in behaviour from impulse buying to more cautious patterns of behaviour, the emotional aspects of the product are still relevant. This was confirmed by Ismael Quintanilla, social psychologist, in the *ITC Habitat Trends Notebook 10/11*: "What is really important is not the product itself but the way it is perceived, conceived and used by the person who buys it".

Consumers have to look at what they consume when their income falls. According to the same psychologist, the uncertain economic situation and fear of

being unable to maintain the standard of living enjoyed over recent years lead to adaptation or adjustment behaviours. In such a situation, consumers are more prudent, avoiding excess to make more economic, responsible purchases. According to the study "*Understanding the Post Recession Consumer*" published in the *Harvard Business Review*, "Simplicity is a trend that is growing fast in the economic crisis, which is set to develop still further in the long term due to a change in consumer habits".

All this translates into design through the following values: *Source: ITC Habitat Trends Observatory*)

- Useful, durable products in terms of aesthetics and quality.
- Values of the company itself and its products.
- Products and services that give the user independence (mobility, change,...) through extreme practicality.
- Secure values, good investment.
- Reasoned, justified emotionality.

There's no doubt that this new situation is forcing us to think about our current situation and how we should be reacting.

2. PROBLEMS AFFECTING THE SECTOR

Notwithstanding the inarguable fact that the crisis has had a very detrimental effect on the sector, when it comes to product portfolio management there is a deeply rooted problem, which can be summarised as follows:

- Lack of strategic marketing in companies
- Numerous decision makers are involved in adding and deleting products. Market information is transmitted through different channels in an unstructured way.
- A common, main source for incorporating new designs, derived from the weight of colour, glaze and frit manufacturers in the development of new products. Competitive uniformity.
- The lack of criteria in selecting new products, absence of consumer focus and no market trends study.

What's more, according to the study "*The role of design in the ceramic sector*" issued by the ITC (2011), the following management problems also come to bear:

- Companies try to offer the largest possible range of products rather than specialising.

- Companies give consumers what they are able to offer rather than analysing what consumers want.
- There is excessive dependence on distributors, most of which use obsolete methods.
- They are still competing on price, mainly because products are still alike.
- They copy and follow existing trends rather than develop their own, which shortens products' lifecycles.
- They ignore services as a means of differentiation.

With respect to taking decisions about product design, according to this study, this is always a question for general management (or other management personnel/company owners), the sales area or product supervisor. In practice there is a system of product and design committees, which are clearly operative and are never design-driven, but which are led by other strategic functional areas of the company. Product committees do not have a specific name, so their meaning and decision-taking attributes are established more by operational factors than by their strategic value.

According to the study, there is clear external dependence on conceptualism of new products because, to some extent, these aspects always come from colour, frit, and glaze manufacturers. The companies' dependence on these manufacturers depends on the specific characteristic of each organisation. Because of this, designs are not exclusive, but are available to the entire sector.

What was acceptable before the crisis needs to be reviewed in the current context. Aspects such as price, quality, security and speed of market response are no longer optional. In other words, aspects that used to add value to the product are becoming basic requirements, so companies should look for competitive advantages based on other variables, such as design and innovation.

In terms of demand, we found a distributor which, in recent years, had become accustomed to a booming market in which it did not have to make much effort to sell. However, with the arrival of the construction crisis, and with the renovation market key to the sector's economic recovery, the distributor has started to professionalise.

According to J. E. Masson and A. Wellhoff (2007), manufacturers now have to deal with large, highly-developed distributors, which are increasingly demanding and technical and powerful, structured, competitive groups for consumers who are ever better informed and alert. Because of this, relationships with the distribution channel should be governed by a clear product/service policy, based on a well-organised, profitable, revamped product range with commitment to revival, well-designed, up-to-date catalogues, specific sales scripts and marketing activities to shops. In short, according to I. J. Martínez (2005), manufacturers must generate

business by ensuring that the distribution channel earns money selling their products, in other words, by making their products attractive to the channel.

During the crisis, booming sales and the commercial demands of having a wide-as-possible offer to be able to compete, often masked negative profit margins and unproductiveness caused by that large product portfolio. This means that manufacturers' product portfolios are:

- Undoubtedly oversized, which has a detrimental effect on productivity, with very low use of sales per reference.
- Totally heterogeneous in style and format which, together with the absence of a brand, hinders differentiation and therefore recognition by the market as such
- Lack of coherence in terms of the product offered to the market, whose image is not in accordance with the company's identity.
- Competitive homogeneity derived from the common source for incorporating new designs (manufacturers of colours, glazes and frits).
- Little renovation and low rotation, which together with the severe construction crisis has generated inexhaustible quantities of stock, which is unhealthy for companies.
- Poor portfolio management which has a clear impact on the communication associated with the product.

3. SOLUTION

The methodology we present in this paper is intended to offer tile manufacturers a tool that will allow them to manage their product portfolios and minimise the problems we have just described. The portfolio is organised so as to respond to market meets, giving a solid, coherent image while respecting the needs and visions of the company's decision-makers.

There is a need to classify products, incorporating all key information, which identifies implicit patterns, which help to define future strategies to reinforce the natural paths of growth of a company.

4. METHODOLOGY

According to the Habitat Trends Observatory, the ceramic product range can be classified according to criteria such as:

- **Type of ceramic material the product is made of:** Earthenware or porous wall tile, stoneware tile (red or white body), porcelain tile (glazed or with through-body decoration), fired clay or extruded stoneware tile.

- **Format of the ceramic product:** square, rectangular, special tiles, large format tiles, etc...
- **Intended use of the ceramic product:** internal covering (general, bathroom, kitchen), external covering (façades, footings), internal flooring (general, bathroom, kitchen, high traffic area), external flooring (common zones, swimming pools).
- **Trends** (product style, aesthetics, functionality or concept): existing trends (classical, identities, functional, and 20th centuries), advanced trends and emerging trends.

In the first two cases, these classifications are for the convenience of company employees, because they provide the technical information required to advise customers. The latter two are clearly consumer oriented, given that they are concerned with how users see their needs when taking the decision to buy ceramic material, because it is final users who pick the project and the style, the aesthetic and the product concept which with they feel most closely identified. These classifications will help customers find the products they are looking for quickly and, therefore, to receive better advice.

Our proposal and, therefore, the methodology presented here, are based on an audit of the product range through the map focusing on trends in the notebooks prepared by the ITC Habitat Trends Observatory. These trends are defined on the basis of a detailed study of variables relating to:

- Social and cultural environment (culture, society, economy, technology, demographics and family, values, etc.)
- Communication and the Market (distribution, communication, marketing, design, graphics, etc.)
- The Habitat (town planning, architecture, interior design, furniture, ceramics, coverings, lighting, home textiles, home automation, etc.).

The result of this research is a trends map setting out all existing habitat trends, including existing and emerging trends and those which may mark future developments of products and services from our industry in the medium term. We also present the relationships between them.

Classifying the range by trends means classifying it according to aesthetic, formal, functional characteristics or concepts that are associated with ceramic products. For example, a trend would take the following aspects into account within a series of products:

- Aesthetic characteristics: finishes, colour range, graphic elements, surface textures...
- Functional characteristics: anti-slip finishes, hydrophobic or bactericide surfaces...

- Product concepts: author's limited edition product, low environmental cost product, handmade product, customisable product....

However, the trends study is not the only tool we should take into account. As indicated by J.E. Masson and A. Wellhoff (2007), there is an old business rule that governs businesses whose raison d'être lies in the product range. We are talking about the 20-80 rule. Although these figures are not fixed, they represent a well-recognised trend: 20% of items generate 80% of sales. At most, this rule could be 30-70 but it never goes beyond that.

According to this rule, taking decisions about the range ought to be relatively easy. Hold onto the ones that generate the most sales and get rid of the others. Sadly, it isn't that easy. J.E. Masson and A. Wellhoff (2007) point out a further two aspects that must be taken into consideration: choice cannot be restricted too severely because consumers like to choose and in addition, mainly owing to profit margins, because products yielding the largest turnover sometimes also have ridiculous profit margins.

Set out below is an ABC example of products in a ceramic manufacturing company, showing that 16% of the references account for 80% of sales.

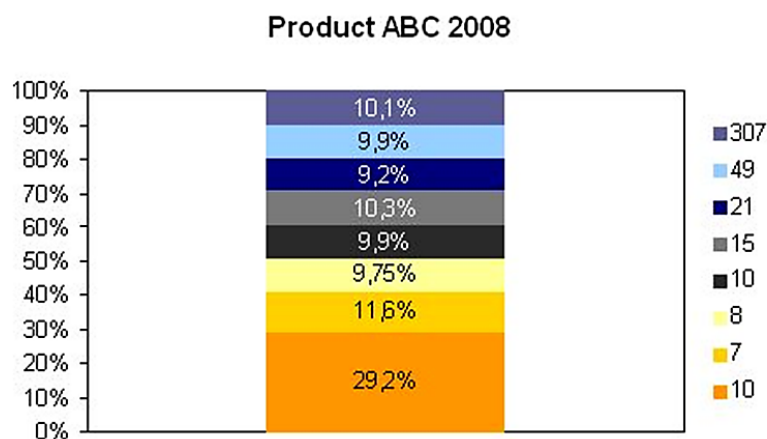


Figure 1. ABC example of products of a manufacturing company.
Consultancy carried out by the ITC Product and Market Areas.

As we have already mentioned, profits should be a key factor in taking product decisions, bearing in mind the concept of margin x rotations. The more references in a project line, the slower may stock rotation be.

We must also take into account the potential impact of discontinuing products on the company's key countries and clients, or if product sales could be transferred by eliminating others from the portfolio. We cannot discontinue products that are key references for our strategic clients or countries, even these may not be best sellers or the most profitable, and of course we have to make sure that by disconti-

nuing a product we are not preventing ourselves from fulfilling a specific need that cannot be satisfied by another product in our portfolio.

Finally, another tool to take into consideration would be calculation of the product life cycle. According to Philip Kotler in his book *Marketing Management* (7th edition), this life cycle is characterised by the different phases within its historical sales sequence. With regard to these phases, there are different opportunities and problems with respect to marketing strategies and potential benefits.

According to Kotler, confirming that a product has a life cycle presupposes four assumptions:

- Products have a limited life.
- Sales of a product go through different phases, each of which present different challenges to the sales team.
- The benefits increase and decrease in different phases of the product life cycle.
- Products require different strategies in each phase of their life cycle: marketing, financial, production, supplies and personnel.

The historical sales sequence of a product throughout its life cycle is represented by an S-shaped curve. This curve is divided into four phases known as introduction, growth, maturity and decline.

- **Introduction:** This is when sales grow slowly as the product is introduced into the market. There are no profits during this phase, due to the high cost of positioning the product on the market. We need to consider which products are in this phase when auditing the portfolio, because they need a while before we know how they are working to be able to take the right decisions.
- **Growth:** In this period, the market quickly accepts the product and there is a substantial increase in profits.
- **Maturity:** This is when sales grow more slowly because the product has been accepted by most potential buyers. Profits stabilise or decrease due to the marketing activities that are carried out to defend products from attacks by competitors.
- **Decline:** This is when, sales tend to fall and profits decrease at a dizzying pace. We should think about deleting these products from the portfolio.

According to this, it is essential to take market trends into account to put together a coherent range and to determine the consumer profile/s we want to address. Based on an understanding of these trends we can reconfigure our value proposal, giving it meaning and, with the help of the aforementioned internal

analysis based on sales and profitability we can audit the product and take decisions as to whether to delete or add references in a way that is more coherent with our strategy.

This means that making a diagnosis of the range will optimise the products offered by a company in a manner coherent with its strategy and the markets which it is addressing.

The object is to determine what actions are necessary to rationalise, restructure and update a company's range of products according to the aesthetic and economic needs detected in a previous audit.



*Figure 2. Objectives of a Product Range Audit
Methodology developed by the ITC Product and Market Areas.*

According to the process established by the ITC Product and Market Areas, this basically involves a parallel study of two viewpoints:

1. **Product audit from a trends perspective:** studying and organising the range according to its aesthetic characteristics, based on existing and emerging habitat trends, oriented to the final user. This vision includes a detailed analysis of the range according to its aesthetic consistency, and consistency of formats, ranges and colour palettes or sales potential. We should try to create a product map that allows us to visualise our range in a graphic way on which we can base our decisions.

2. **Product audit from an economic-business viewpoint** this is an analysis of sales, profitability and product life cycles, to see which products sell best, which are more profitable, which have an ascending life cycle and which should be replaced, which will allow us to reach a strategic type of consumer...

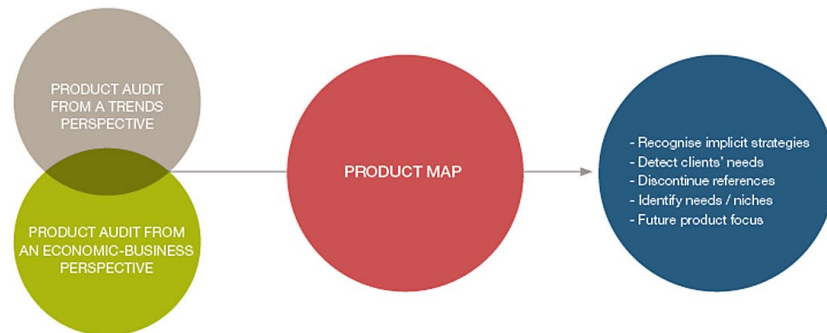


Figure 3. Product Range Audit Procedure
Methodology developed by the ITC Product and Market Areas.

4.1. Product audit from a trends perspective

The ITC Habitat Trends Observatory establishes four large product groups containing styles with similar aesthetic features and which reflect their evolution.

Tendencias asumidas		Tendencias 08/09	Tendencias 10/11
CLÁSICO	Clásico historicista	Excessive Objects	New Classics *
	Clásico renovado		Sublime by Hand
	Neobarroco		
IDENTIDADES	Rústico	(G)Local	Sublime by Hand
	Rústico renovado		
	Étnico		
FUNCIONAL	Funcional contemporáneo	Press Start	Everyday Solutions
	Funcional natural	Home Sweet Home	The Essentials
SIGLO XX	Diseño nórdico	Home Sweet Home	The Essentials
	Minimalismo		Basik & Raw
	Industrial		New Classics
	Pop		Everyday Solutions
			Once upon a Future
			Mind the Green

Figure 4. Trends map
ITC Habitat Trends Observatory

To classify the company's current project, a lineal representation was used, chronologically situating each trend. Set out below is an example of the results of a product audit performed on a ceramic company

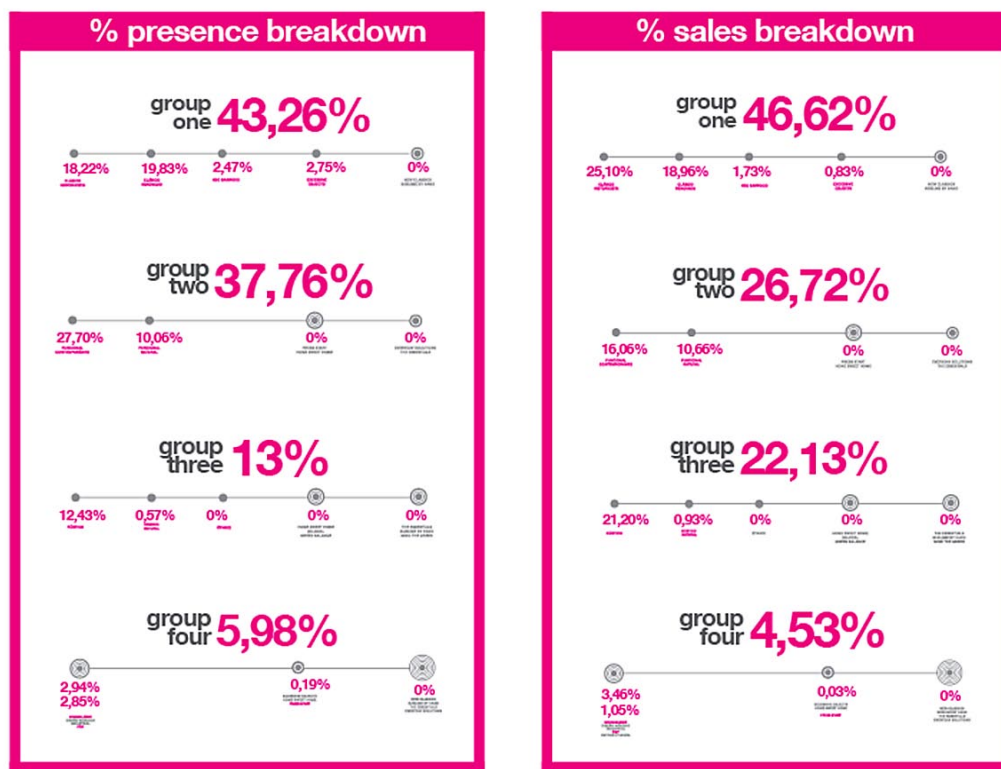


Figure 5. Example of product presence and sales according to trends
Consultancy carried out by the ITC Product and Market Areas

In the graphs, each line corresponds to a market trend and its evolution in time. Thus, after classifying the product in its trend, we can observe each group's presence and sales percentage. In this case, the conclusions show that the bulk of this company's business lies in group 1 in which classical trends appear. However, group 2 (which contains more functional decoration) is very much present in the portfolio but is not supported to the same extent by sales. In contrast, the products in group 3 (rustic product) contributed a very high percentage of sales with regard to their presence (13% of the product accounts for 22% of the company's sales). Finally, group 4 (more avant-garde products) accounted for just 6% of the references and 5% of sales.

The audit carried out gives us a clear view of the company's hallmark, which products can be discontinued, which products or modifications to products should be made, which niches should be covered after discontinuing references and the direction of future product lines.

On this point, it should be said that audits carried out in recent years by sector companies have shown that there are still very few companies incorporating products that embody the most advanced trends in their portfolios.

According to the *"Study of Marketing Activities through web pages of companies quoted on the world's stock exchanges"* conducted by the ITC Market Observatory, 100% of companies studied have a trend-focused product range which have already been accepted by consumers while only 20% of companies are starting to incorporate the most advanced trends into their product portfolios and only 10% have embraced emerging trends.

As may be observed, sector companies still have a long way to go when it comes to incorporating clear consumer focus in their organisations. The method in this presentation is our small contribution to the creation of future prospects for our sector.

5. CONCLUSIONS

This project aims to collaborate with the ceramic sector by improving positioning and therefore market competitiveness, as well as enhancing policies for reaching end users.

The procedures and tools explained enhance companies' portfolio management capacity, enabling them to:

- Resize their portfolios to increase the ratios of use of sales per reference to enhance their efficiency.
- Have a clear image of the company's personality which will allow them to achieve greater differentiation.
- A more highly organised portfolio and therefore clearer communication.
- Lower product, promotion, and stock costs.

ACKNOWLEDGEMENTS

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