



Capturing the full potential of design to value

The design-to-value approach can help consumer-goods companies boost sales and profitability—but rolling it out across an entire product portfolio is no easy task.

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In today's increasingly competitive environment, consumer-packaged-goods (CPG) manufacturers must balance a careful focus on their customer and consumer value proposition with tight control over costs. To achieve both simultaneously, some CPG companies are implementing design to value (DTV), a portfolio-optimization approach that helps them understand precisely which product features are important to consumers and whether consumers are willing to pay for those features. Insights from DTV often lead to altered ingredients, recipes, packaging, or shelf presentation, but they can also spur changes in supply-chain processes and logistics. Unlike

the better-known (purely cost-focused) design-to-cost method, DTV can result in either cost reductions or cost increases; it taps into the potential to raise prices or sales volume by designing products that better reflect customer preferences. Well-executed DTV projects can yield margin improvements of three to ten percentage points.

DTV, however, can be difficult to implement. Many programs founder during their early stages, and even more lose momentum as companies try to expand their efforts across geographies and product categories. In this article, we describe the



obstacles that often hinder CPG companies from enjoying DTV's full benefits and put forward solutions that have generated quantifiable impact. We also discuss the various phases of the DTV journey, from start-up to rollout.

Success factors for managing DTV at scale

We've found that the most successful large-scale DTV programs have four factors in common: a clear vision set by top management, effective cross-functional governance, standardized tools and processes, and a dedicated working team.

A vision from senior leadership

At some CPG companies, middle managers from individual functions design initiatives independently, without any input from other groups. The procurement team of a branded-food manufacturer, for instance, launched an initiative to decrease complexity by reducing the number of seasonings in its products—a change that would lower costs but create no discernible difference in flavor. But when the product-development group learned of the initiative, it objected, claiming that wider ingredient variety was essential for product differentiation. The processing group, for its part, maintained that there was insufficient technical support to embark on a large-scale reformulation effort. Faced with this resistance, a budding DTV effort stalled.

Top management can avoid such problems and align functions across the organization by developing and communicating a clear vision for the DTV program. Leaders can make that vision actionable by setting ambitious targets (for example, margin improvements of ten percentage points across the portfolio) to

challenge teams and force them to think creatively and by defining concrete action plans with timelines (for instance, analysis of 80 percent of core products within 18 months) and specific responsibilities for each function. Senior management would then need to ensure that all functions adhere to the DTV vision, perhaps by holding monthly progress reviews.

Cross-functional governance

Lack of cross-functional alignment isn't just a problem during the design phase of DTV, when program goals are set; it can also hinder implementation. Without an overarching agenda or a coordinated timeline, one or more functions might fall behind on DTV work, potentially jeopardizing interdependent projects. In some instances, functions could lose sight of program goals and execute one-off initiatives that don't contribute to the desired impact.

Therefore, companies should consider creating a governance body for their DTV efforts. This entity would include managers from all relevant functions—including R&D, marketing, procurement, finance, manufacturing, and product development—and, when appropriate, business-unit representatives. The governance body has an important role to play early in the DTV process, both by ensuring that the company generates enough high-impact ideas in its priority areas and by selecting the ideas to be implemented.

As DTV efforts progress, the governance body would monitor performance; help resolve any conflicts among functions, emphasizing the importance of finding feasible solutions that deliver the best value for consumers; and ensure

A governance body can help build a sense of ownership within functions and business units, and counter a ‘not invented here’ mind-set.

that important projects receive sufficient funding. If it appears that a function cannot feasibly support a DTV effort and should discontinue it, ideally the function would do so only with the governance body’s permission.

Members of the governance body can also maintain momentum by serving as DTV “ambassadors” to each of the functions and business units, helping to build a sense of ownership within the groups and counter a “not invented here” mind-set, which can be highly detrimental to a DTV program’s success.

Standardized tools and processes

At many CPG companies, each functional group selects its own tools or processes for designing, tracking, and evaluating DTV activities. The marketing and product-development groups, for instance, may use different tools or approaches for assessing which product features are most

important to customers. The lack of a common language makes alignment and collaboration difficult; one function may not understand another’s analytical approach or results.

Best-practice CPG companies use standardized tools and processes across the organization. These include comparative teardowns to systematically analyze competitor products; clean-sheet cost-modeling techniques to build a detailed understanding of product-cost structures; and a combination of surveys, focus groups, mystery shopping, and conjoint analysis to generate retailer and consumer insights.

As CPG companies develop new tools, they will often need to invest in essential infrastructure and equipment, including laboratories for comparing and benchmarking products or producing test batches. In addition, CPG

companies should create work environments that are conducive to the cross-functional interactions required to make difficult trade-offs in design and implementation. One food manufacturer established team rooms containing samples of all relevant products—including those of competitors—so that teams could engage in insightful discussions about the appearance, smell, texture, or taste of the actual items, rather than just offer hypothetical musings based on photographs.

Dedicated DTV teams

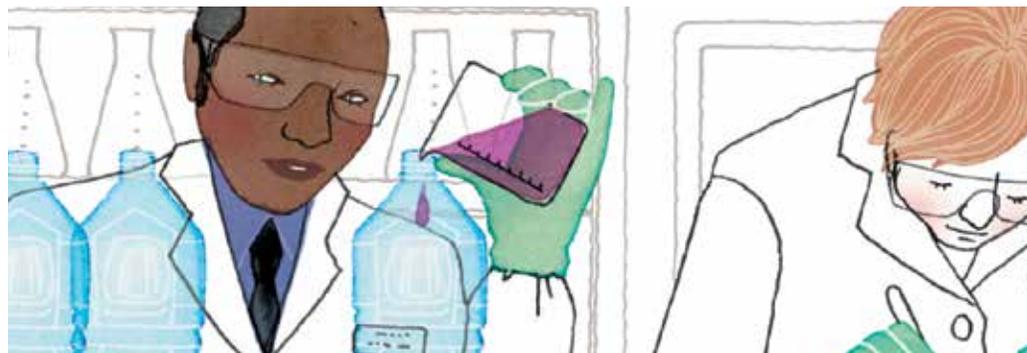
Many companies fail to allocate enough employees to DTV projects. A dearth of creative thinkers early in the project may result in an insufficient number of high-impact, feasible ideas; a shortage of technically competent staff may jeopardize rollout. The problem isn't usually a lack of in-house talent—it's that the functions or business units are reluctant to release people from their daily responsibilities to work on DTV.

Some companies have solved this through a top-management mandate creating core DTV working teams for key product categories,

and ensuring that these teams remain intact for the duration of DTV projects. As with governance bodies, these teams should include experts from sales, marketing, R&D, purchasing, manufacturing, and finance. Ideally, team members will be collocated in a DTV lab and devote the majority of their time to DTV. Team members should adopt a collaborative mind-set and take a broad view of DTV initiatives, focusing on the benefits to the company as a whole rather than to specific functions. Controllers can question product packaging, for example, and R&D engineers could contribute ideas about product positioning.

Expanding DTV efforts across the portfolio

A successful DTV program can yield improvements across the value chain. One branded-food manufacturer used DTV to reduce a product's ingredient costs and create a flavor profile that more closely corresponded to customer preferences. Simultaneously, the company made changes that reduced packaging costs by 15 percent, increased shelf life, and reduced the supply chain's carbon footprint. Overall, the company increased its absolute contribution margin by about eight percentage points.



But it takes time for DTV efforts to generate such results. Although many companies will see benefits from DTV after only a few months, it typically requires two to three years from start to finish, including embedding the approach across the product portfolio. In our experience, successful DTV projects generally proceed through three phases before producing their full impact: start-up, idea generation, and rollout.

During the start-up phase, typically three to six months long, the company establishes the basic organizational and management structure for DTV and develops the necessary technical skills and tools while working with a few core products. One CPG company spent the first weeks of its DTV project compiling data (on target positioning in the market, customer perception, list prices, promotional prices, and a variety of other topics), calculating costs and revenue margins for each product, determining a solid cost baseline, and conducting market research. This brief but intense data-gathering period created a solid foundation for idea

generation. After a successful pilot in one part of the value chain, teams can apply the new tools across the entire value chain of the selected products.

Once a company gains confidence in its DTV technology and infrastructure, the idea-generation phase—usually a six- to nine-month journey—begins. Teams apply the approach to a greater number of products and start using more sophisticated tools across the value chain, expanding their efforts to include processes that occur at supplier sites. For instance, a food company had previously communicated with suppliers only during commercial negotiations and new-product-development efforts. But during a DTV initiative, it held workshops with current and potential suppliers to discuss cost-reduction strategies and product enhancements. Suppliers that refused to attend the workshops were replaced. At one workshop, a potential supplier proposed new, lower-cost specifications for all meat products—specifications that would have no effect on the product



features that consumers valued. The food company implemented the new specifications. Ultimately, its DTV effort generated a reduction in production costs that was four times higher than what the company had achieved through conventional cost-reduction methods the previous year.

The rollout phase—during which the company applies the DTV approach across the majority of the product portfolio and fully integrates DTV tools and processes into its day-to-day business—takes 12 to 24 months, depending on the number of products and categories involved and whether DTV initiatives are conducted sequentially or in parallel.



DTV is not a quick fix for CPG companies facing acute problems, but it can help them design products that consumers want while optimizing costs—thus boosting both sales and profitability on a sustainable basis. As they embark on DTV efforts, companies must not overlook a critical element of any DTV program: rigorous training and capability building that extends across the organization and involves larger numbers of employees as the project progresses. Training helps address the greatest challenge of DTV by permanently embedding the philosophy and approach into an organization’s DNA and its daily activities. ◉

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