Perspectives

As Simple as Possible

The Boston Consulting Group

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The toughest job for top management may be keeping a business as simple as possible. Time and again, organizations get in their own way by inserting complexity in areas that don't need it. Solving this problem by keeping things simple is a tremendous source of potential value.

Complexity is found in countless variations of custom pricing, contracting terms, product offerings, supplier networks, manufacturing lines, organization structures, and business processes. Some of it is justified because it adds value and increases revenue. But a lot of it isn't. More often, complexity destroys value by adding people costs, lengthening cycle times, and frustrating both customers and employees. At one company, we estimated that fully one-quarter of the work force—accounting for well over $1 billion of annual costs—existed solely for the purpose of "handling" complexity. And this cost didn't include the lost revenue from frustrated customers.

Warning Sign Number 1: "We Have 1,000 Ways of Discounting $100 to $98."

What causes unneeded complexity? The question really is *who* causes it? And the answer is well-intentioned people in your organization, at all levels, who say *and* rather than *or* and who won't make the choices that good strategy and management demand. To be more specific, here are some of the problems:

Misguided Attempts to Respond to Customers. Ironically, the movement to be more "customer responsive" has created much of the mess. Many organizations have translated *responsive* to mean "customized—any way you want it." But this approach often proves to be *less* responsive when it spawns manual processes, errors, and confusing options. In the pursuit of a good goal, this approach makes the problem worse.

Creeping Economics. The cost of adding "one unit" of complexity is near zero. As a result, there is little reluctance to add it. But the cumulative cost of many of these added units is very high. And because few people take that into account, complexity costs creep up.

Technology Hubris. Too many companies have the naïve belief that IT will "automate away" the complexity problem. After all, what are computers for if not to process large numbers of complex tasks? The problem is that complexity grows faster than IT's ability to respond. And IT never catches up. Even worse, this naïve belief gives us the false confidence to continue adding complexity.

What Goes Up Does Not Easily Come Down. As with many things in life—prices, your weight, your children's allowance—what goes up tends to stay there. The same is true for complexity. Adding a new discounting method or product code is fairly straightforward, but taking it out or migrating a customer from an old code to a new one is not at all easy.

The truth is that most complexity just sneaks in—and it is costly for everyone.

Warning Sign Number 2: "Our Customers Hire Outsiders to Check for Errors in Our Bills."

So how do you reduce complexity and simplify your business? Success involves five principles.

1. *Start at the source.* At some point you will need to turn your attention to business processes and technology, but do so only *after* you have addressed the inputs to complexity themselves—for example, variations in custom pricing, nonstandard contract terms, and low-volume product codes. Run the numbers on how many pricing methods, contract terms, and product codes you have, how much revenue they "account for," how much cost they consume (direct and indirect), and, most important, how much they impede your ability to respond to customer demand. Protect the high-value variations and attack the numerous low-value, nonstandard variations. You may be surprised at how well your existing processes and technology systems work once you have done that.

2. *Eliminate, accommodate, and separate.* Not all complexity is created equal. Categorize your existing complexity with a view to three types of actions:

    - *Eliminate.* Just get rid of it. Migrate low-volume custom variations to high-volume standard variations. You will need a heavy dose of paring and persuasion for such an effort to succeed.

- *Accommodate.* Standardize and automate high-volume variations through a factory-like process. Don't try to push low-value or low-volume variations through the factory: they will clog it up.

- *Separate.* Put high-value or low-volume variations through a job shop process. Don't worry about automating: the volumes are low enough and the value is high enough to justify manual processing. Just make sure to keep the volume low and the job shop and the factory separate.

3. *Play the full team.* Taking complexity out of a business is a companywide endeavor. Each move will have first- and second-order consequences across the organization. Just as the consequences are cross-functional, so too should be the way the complexity reduction effort is staffed and managed.

4. *Beware of the statistics trap: track outcomes.* Reducing complexity is only a means to tangible outcomes—lower costs, improved responsiveness, higher revenues. Measure those outcomes directly to be sure your effort is having an impact. Avoid the trap of declaring victory after measuring only reductions in complexity statistics (for example, fewer product codes) rather than the outcomes themselves.

5. *Make change "safe."* Many employees will view taking on the complexity problem as personally risky. After all, it is much safer to let complexity go unchallenged. "No one ever got fired for leaving in a low-volume product code," one product manager told us. "But I will be blamed the first time someone asks for the odd code that I eliminated." Senior executives must be visibly involved and supportive. And they must back up their people anytime someone looks for that discontinued variation.

Warning Sign Number 3: "Eighty Percent of Our Product Codes Generate Just 5 Percent of Revenues but 20 Percent of Costs."

Reducing complexity is not just about making the business as simple as possible; it is about *keeping* it as simple as possible. This is a dynamic process, not a one-time cleanup. It requires managing complexity throughout a product's life cycle and across an entire portfolio, drawing out commonalities rather than spawning unnecessary "one-offs." And it requires managing complexity across the entire sales process. Simply put, keeping it simple is not an event in time but rather a capability that is built into an organization.

This capability depends on people, systems, and hard and soft feedback loops. Ask yourself the following questions about your own capability:

- Does our organization have an operational definition of complexity?

- Do we know how much complexity we have—quantitatively, not anecdotally?

- Do we know how much value and cost the low-volume, nonstandard variations generate? Are they a source of profit or a sinkhole? Are they constraining our ability to be responsive?

- Do we have checks and balances to keep complexity under control? Are they set up in a segmented fashion—eliminate, accommodate, and separate? Is there an explicit feedback process or are decisions made in a one-off fashion?

If you are not satisfied with your answers, you are looking at a real opportunity.

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