

Complexity Reduction: Governance Sets the Foundation for Success

by Mick Broekhof

De-cluttering the business frees up staff to focus on growth, and in many cases, the process of doing so generates enough cost savings to fund growth initiatives.

Typically, companies can generate from 0.5% to 5% of additional profit through a stock keeping unit (SKU) complexity reduction initiative, while at the same time positioning the business for accelerated growth. Knowing where to reduce or eliminate SKUs is critical, but where do organizations begin?

This series of viewpoints will feature practical examples, common tips and tricks, and details on the financial impact of reducing SKU portfolio complexity. This first viewpoint focuses on laying the groundwork for a complexity reduction initiative with a strategic governance process.

The Right Governance Sets the Foundation for Success

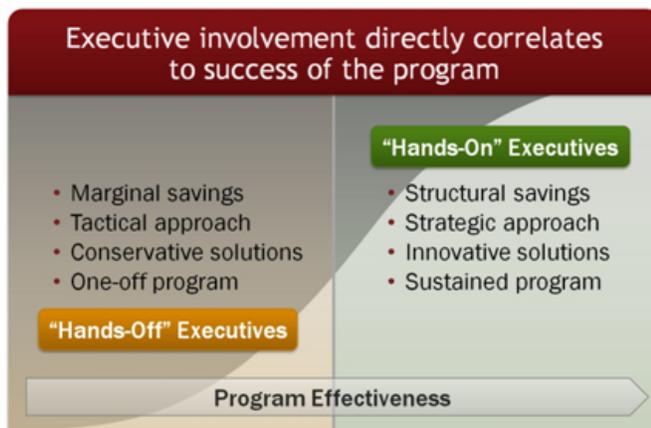
Complexity reduction is critical to healthy business growth. However, rationalizing products or SKUs may seem counterintuitive because eliminating SKUs from the product line directly reduces the revenue and variable margin of the business. Think in terms of the tree analogy: just as we may cut a limb that still bears some fruit, reducing complexity may rationalize some SKUs that still generate incremental revenues and margins. Establishing the right governance for complexity reduction initiatives will make these difficult rationalization decisions easier.

A Tale of Two Companies

The following example illustrates two common approaches to governance and the degree of success derived from committing to the right approach.

Hands-Off Executives: At a hands-off company, the CEO typically charges the head of supply chain with complete responsibility for executing the SKU portfolio optimization process. Complexity reduction decisions are the product of the deliberations of peers from sales, category, operations and R&D. The result is a typical committee outcome. There is no aggressive goal setting, no pushing the envelope when it comes to difficult decisions, and no aggressive execution of agreed-upon plans. As a result, complexity savings are marginalized.

Hands-On Executives: When the C-suite has a hands-on approach, complexity reduction exercises are run bi-annually by a small team of industry experts. These exercises result in a short list of recommendations that is presented to a team of leaders from sales, operations and supply chain, and chaired by the CEO. The process is embedded in the routine of decision making activities of the C-suite. Cost structure is removed. In this scenario, the C-suite often sees opportunities for complexity reduction in other areas of the business and can initiate swift and decisive action.



Organizations whose executives take a hands-on approach to complexity reduction are more likely to have effective programs.

Role of the Process Owner in Governance

To ensure success of the governance process, successful companies appoint a process owner. The process owner ensures that the score card is updated, business rules are adhered to, the metrics are maintained, the process is kept current, and the roles and responsibilities of

the various team members are clear to the members and well-understood by the organization.

Typical responsibilities of the process owner

- Maintains and updates documentation including:
 - Clear definition and scope of SKU portfolio process
 - High-level SKU portfolio optimization activities
 - Roles and responsibilities of portfolio team members
 - Business rules the team will adhere to
 - Metrics used to measure success and progress
- Maintains a list of “do’s and don’ts”
- Owns the format of the scorecard
- Owns the schedule of meetings
- Embeds the portfolio optimization process into existing business processes
- Owns communication from the team to the wider organization

In general, the role of process owner is never 100% dedicated. Depending on the frequency with which complexity reduction exercises are done, the role can be as little as 5% of someone’s time. Defining a role with clear responsibilities will help sustain the process.

How to Sustain Success

Failure to manage complexity can paralyze an organization’s ability to drive innovation and growth. Real gains come as a result of implementing a strategic complexity reduction initiative that begins with a strong governance process. Sustaining the involvement of the C-suite and establishing a process owner have proven to be two critical elements for portfolio optimization. Successful organizations are those that have implemented these critical factors, and have a stronger portfolio and improved profitability as a result.

The next article in this series will look at the specific role of the CFO in complexity reduction: expectations, key success factors, and types of savings.

Originally published on June 15th, 2016

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