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Editorial

Looking up at the two Hells Angels in my office, robustly requesting payment of an overdue invoice, it's fair to say that long term strategy was one of the last things on my mind. The business I was running at the time was struggling. We had debts to all classes of trade including government. Revenue was hard to come by and harder to predict and our bankers were very edgy. The focus was on meeting payroll and avoiding further visits from burly bikers. If a consultant had suggested that I take a moment to think about the long term, they wouldn't have received much of a response. Yet with the benefit of hindsight I wish I had created more time to answer the question – so if we survive, then what?

As I meet with clients past, present (and future, we hope) I am detecting a variety of sentiments, ranging from utter despair and panic through resignation to temporary bad times, all the way up to cautious optimism. Irrational exuberance is nota-

bly absent! The common thread in these discussions is uncertainty. Few are willing to commit to scenarios for their business for 2009 and 2010. Here is what better managed companies are doing:

Keep an eye on the long term

No matter the state of your company and industry, now is the most important time to keep the longer term objectives in mind. A good understanding of the longer term strategy should start with the following daydream: It's May 2010 (or 2011). People are starting to buy again. Some stronger competitors have made it through. What will be the gap in the marketplace that we should fill? What value proposition will win? What combination of assets and capabilities will be required? This might include anything from physical plants, to brands and products, to people, political connections, etc. Assuming we survive this mess, how do we make sure to retain those assets?

Prioritize your cuts

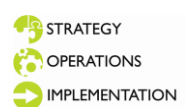
Once you have a better picture of your desired end state, you can bucket and prioritize potential cuts into categories, for example: “nobody will miss this and it implies little in one time charges”, “easy to cut but with some pain or cost”, “some political battles here that may be worthwhile”, all the way to “this is the last thing to go before we lock the doors forever.”

Get the timing right

Companies should be prudent in making cuts to ensure they are conserving cash, but not panicky. With the list of prioritized cuts, figure out what state you need to be in to trigger them and follow the plan.

Take advantage of crisis

If you are lucky to be healthy enough to survive comfortably, look around to see



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who isn't. There may be opportunities to make acquisitions at lower multiples than in recent history. You also have a perfect opportunity to upgrade your internal talent and capabilities.

Take on politically challenging cost saving projects

See our article on complexity reduction for an example of an initiative that struggles for momentum when times are good but may get more attention with today's pressures.

Try to build some flexibility

Outsourcing firms and contractors are hungry now, so see if you can variabilize some costs that will allow you to move up and down with the economy. Once it stabilizes you will love the flexibility enough to stick with it.

Be straight with your team

Everybody reads the papers, so they know that this is not an easy time to predict the future. In normal restructurings we advise companies to "cut once, cut deep and never cut again". In these times we can shift that to "make few promises, tell them what you know, when you know it."

Cash is king

The list wouldn't be complete without it. Stakeholders will forgo margins and even profit if you can avoid raising more capital. Develop strategies now for inventory reduction and disposal, unwanted asset liquidation, and debtor management.

It would be great if this period passes sometime soon. In the more likely scenario, we need to have a solid plan and then be ready to change it often!

The complexity imperative

Now is the time

It's a common situation. The supply chain executives complain that they can't meet his targets if marketing keeps launching new ideas. The sales team is frustrated when products are out of stock. The marketing department thinks that supply chain won't be happy unless they were producing black Model T's.

In good times, this conflict is hard to resolve. Businesses carry a tail of poorly performing products that cause reduced service levels and inefficiencies throughout the business. Yet when businesses are healthy overall and markets respond in some way to new products, few see the urgent need to cut complexity in a focused way. As a result, projects to reduce complexity often trim the edges of the product range and fail to deliver the promised cost savings, while new innovations and product extensions quickly restore the range to previous levels.

The current tough environment provides the ideal opportunity to properly address

the issue. While complexity costs could be tolerated in good times, they now threaten survival. Falling demand and increasing inventory levels are exposing the tail of weak performers. A downturn can force business functions to cooperate and allow for restructuring charges and surplus inventory write-offs with minimal investor backlash.

Right now, for many businesses complexity is at an all time high. Several years of consistent business growth have allowed for the continual launch of new products/services, pack sizes, brands, channels, processes and customer service options. Acquisitions have further brought together service capabilities, product lines, production facilities and distribution channels.

Complexity drives high raw material and finished goods inventories (Inventory is now close to record levels per Figure 1) and low production efficiency. Seemingly incremental and highly profitable products and services can have detrimental effects on work flows, working capital

requirements, quality control, purchasing and material handling costs and forecast accuracy.

Figure 1



Research suggests that the benefits from complexity reduction are significant. Companies that successfully manage complexity grow faster and have reduced costs, lower inventory levels, and better customer service. More immediately, valuable cash can be freed up to invest in the core range.

Reducing complexity in practice

So, how do you go about reducing complexity? More importantly how do you do it in a way that achieves real and sustained improvements to the bottom line?

- Drive the effort from above
- Create a strong multidisciplinary team
- Reduce costs, not SKUs
- Focus your complexity investments
- Define measurable targets and action plans to achieve them
- Embed complexity management into the business

Drive the effort from above

Complexity reduction needs to be driven from the top. Cooperation is going to be needed from throughout the organization, and difficult decisions and trade-offs are going to have to be made. This can only happen if all the key business leaders actively support and champion the process. The project needs to be kicked off with clear communication from the CEO on the goals and importance of the initiative, and should report into a steering committee composed of the CEO and the senior team.

Create a strong multidisciplinary team

Success will require a team of key individuals from throughout the organization. Since complexity affects so many areas, representation from all functions is critical to be able to recognize and address the full extent of the causes and costs of complexity. As importantly, a multidisciplinary team will help you get all functions to sign up to solutions, particularly when hard choices are being made.

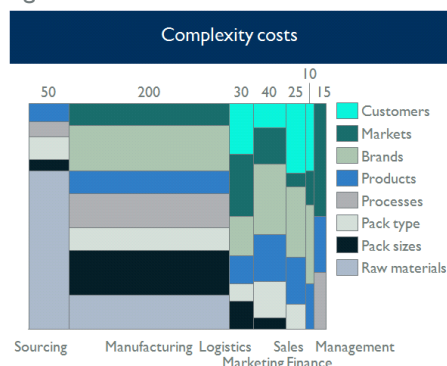
Reduce costs, not SKUs

It's important to remember that the object of the exercise is reducing costs and increasing focus, not just eliminating products. To do this, you will need to

thoroughly understand which costs are driven by complexity, and how they can be reduced.

Each major cost area (e.g., sales, administration, manufacturing, warehousing, logistics, purchasing, R&D, marketing, customer service) should be examined in detail. The influence of each type of complexity on costs (e.g. number of service variations, number of different raw materials, package sizes, processes, products, brands, markets, channels, customers) needs to be well understood (as shown in Figure 2). In particular, any potential for step reductions in costs need to be identified. Also important is understanding the size of the tail of each type of complexity (e.g. number of service variations, number of different raw materials, package sizes, processes, products, brands, markets, channels, customers) and how exactly it drives costs.

Figure 2



With this understanding of the economics and level of complexity you can set reduction targets for each cost area.

Focus your complexity investments

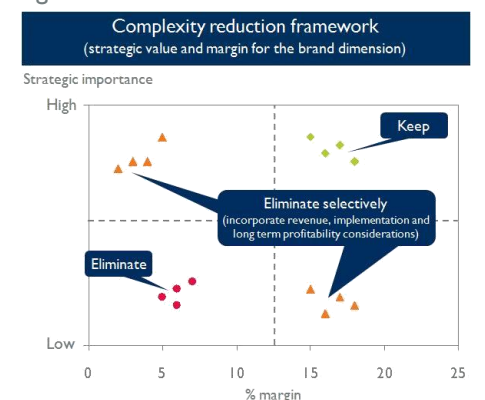
The next step is to identify what and how much complexity to eliminate. In most businesses there will be opportunities to reduce complexity without affecting sales; for example, a major opportunity may arise from the consolidation of pack sizes/types or by standardizing customer service processes. This is risk-free complexity reduction, and usually occurs

when innovation has taken place with insufficient input from production or those in charge of service delivery.

Sometimes drivers of complexity (e.g. number of production runs/response times) are critical to customers. In these instances we might even choose to increase the level of complexity, but change the nature of our operations to manage it as effectively as possible, e.g. by minimizing changeover times.

The next level of complexity reduction is more risky, as it involves potential revenue loss. Here we will look to eliminate SKUs/services. However, rather than simple elimination of the tail, it is important to take a more strategic approach, built on a full understanding of a firm's market and customer base. Where is range width and depth important? How does it contribute to the strength of our overall proposition? With which customer? Which individual products/services have a strategic value (e.g. to create value or quality perceptions)? With this in mind, we can determine the appropriate level of complexity and range investment for different product categories (see Figure 3).

Figure 3



Where range does not create value for customers is where SKU/service reduction efforts should be focused. Here there needs to be an item-by-item analysis and ruthless culling to meet aggressive range targets.

Define measurable targets and action plans to achieve them

To ensure that complexity reductions turn into real cost savings, link the savings to action plans. For each cost area agree to specific savings targets, and determine the corresponding change in activity levels (decreases in production times, fewer change-overs, plant capacity and asset utilization impacts, potential lane or plant closures, fewer processes/services/promotional offers, reduced customer service activity). Translate that into the corresponding reductions in headcount, and timing. Identify what initiatives will be required to realize them. You may need to mi-

grate production between plants, and close production lines or facilities, change logistics, redefine processes and/or provide sales training. Also allow sufficient time for disposal of unwanted inventory and plan for recognition of write-offs.

Embed complexity management into the business

Once any complexity reduction exercise has been carried out, it is all too easy for complexity to creep back into the business. To avoid this, complexity management needs to become embedded into the organization. Appropriate metrics need to be developed that become part

of the everyday KPIs of each part of the organization and monitored closely.

The new product/service development process needs to fully incorporate complexity management. New products and services must be specified to minimize the introduction of additional complexity, through using existing suppliers, raw materials, components, processes and service channels. Opportunities should be taken to retire existing products, with a clear plan for doing so. A clear post-launch review process should be in place to ensure that unsuccessful products/services are killed.

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2008 was an exciting year for the firm. We won competitive bids against two of the top three global strategy consulting firms that allowed us to penetrate accounts and work on issues previously reserved for a different competitor set. We continue to work closely with our long standing clients on a variety of issues. Projects this year included pricing and category management, corporate strategy and turnaround, inventory and supply chain planning, marketing

process optimization, organizational design, manufacturing cost reduction, value proposition development and several more.

We continue to enhance our team capabilities through training, knowledge management and the continuous addition of specialist partners in key areas.

We took some time to reflect on what truly differentiates us from competitors,

which you can learn about on our redesigned web site.

We were involved in pro-bono projects at Jump-math and St. Christopher house, two non-for-profit organizations in the city of Toronto. Our employees also volunteered at a number of local charities including the Fort York food bank and the family festival in Parkdale.

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