WAGING WAR ON COMPLEXITY COSTS:
Reshape your cost structure, free up cash flows and boost productivity by attacking process, product, and organizational complexity

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Waging War on Complexity Costs

"This is an ambitious book packed with insight and fresh thinking. Separating good from bad complexity costs is a critical task facing companies today, and the authors provide a compelling roadmap for solving the problem."

MICHAEL B. McCALLISTER, President and CEO, Humana Inc.

Complexity Costs. What are they and why do they matter so?

Complexity costs are the single biggest determinant of a company’s cost-competitiveness, according to Stephen Wilson and Andrei Perumal, co-authors of Waging War on Complexity Costs (McGraw-Hill, November 2009). But most companies struggle to quantify their complexity costs nor do they understand how to manage or cut them in any significant way. The good news for companies is that their competitors are likely equally at a loss. And therein lies the opportunity: companies that attack complexity can see costs improvements of 15%-30% in significant portions of their business and attain a cost advantage over their competitors.

Wilson and Perumal look at the issue from all sides, discussing how best to tell if you have out-of-control complexity costs, how to identify them, how to quantify the impact, and how to root them out. The book uses real-life examples of companies that have effectively dealt with complexity costs and how the decision to deal with them head-on has positively impacted their business.

The authors lay out a groundbreaking and fresh approach for dealing with what has often been considered an intractable issue, and one which is not only defining companies’
current cost competitiveness, but which will be critical in preparing them for profitable growth.

Wilson and Perumal’s approach is unique and based on a deep understanding of the issue:

- **Focus on the nature of complexity.** Complexity is a systemic issue – therefore taking a piecemeal approach to assessing it or removing it is ineffective.

- **Take a multi-dimensional nature of complexity.** The authors look at the issue in terms of product, process and organizational complexity. Each of these is a critical dimension but even more significantly is how they interact. This is where the costs reside.

- **Account for the geometric nature of complexity costs.** Complexity costs are unique in how they rise geometrically. They often creep into companies over time, as the result of many decisions all rational in their own right. The key is to think about the connections. Consider a simple model: if you have 2 things then you have 1 connection between them; 4 things 6 connections; 10 things 45 connections and if you have 100 things you have 5000 connections!

- **A practical approach.** This need not be an academic exercise and in fact it’s better with complexity to get a quick and broad understanding of how things fit together – and quickly take action – than go deep on one particular facet of the issue.

- **Take a two-pronged approach—both reduce complexity and make it less expensive.** While simplification is often a key part of the solution, companies are increasingly required to deliver a lot of variety to many different markets through different channels, or suffer the consequences. Winners will be those that can both reduce bad complexity but also build the capabilities to deliver good complexity to the market cheaper than competitors.

The authors, both experts in diagnosing the issues and offering solutions, offer this advice for business leaders launching their own “war on complexity costs”:

**Six principles for Waging War on Complexity Costs**

**Principle #1: There is good and bad complexity**
The fact that some complexity is good means you can’t just focus on eliminating SKUs, parts, vendors, dealers, and so on. While this is an important component of controlling costs, it is only half the answer. Reducing complexity costs is not just about reducing the amount of complexity in your business. It is also about reducing the cost of delivering complexity—making complexity less expensive. The mix of the two approaches will vary according to your business, and to the opportunity. But it is usually a mix of both, rarely one or the other. Why? Because in many if not most business sectors, cutting product complexity is necessary but insufficient to remain competitive.
Principle #2: Complexity is a multi-dimensional issue

Complexity is a systemic problem—one that is dispersed in origin and affects everything inside the system. Therefore the approach to tackle this also needs to have a systemic—or integrated—perspective. It is the results of the interactions of many different parties—and to compound the problem, like pollution the effects are hard to see and track.

Understanding these dimensions—and, more importantly, how they interact with each other—is key to developing appropriate battle strategies. For now, suffice it to say that it’s the multi-dimensional nature of complexity that has thwarted many traditional cost-cutting approaches. Trying to cut product complexity (eliminating product or service options or brands, for example) without also tackling the associated process or organizational complexity will have a limited effect.

Principle #3: Piecemeal approaches will not move the needle on cost reduction

In “peacetime” it is not uncommon to see a myriad and diverse set of cost reduction programs across an organization. In our experience, most of these nibble at the edges of cost management and do not address some of the core structural issues.

As the saying goes, if nothing changes… nothing changes! In order for a company to find and sustain significant improvements in their cost structure a company needs to make some big changes in the way things are done. A cost reduction strategy that focuses on doing the same things, the same way, but cheaper, is likely to lead to disappointing results.

Principle #4: Unlocking the benefits requires “concurrent actions”

Given the systemic nature of complexity, unlocking the benefits requires a coordinated combination of actions. To achieve big savings, you need to understand how the three dimensions of complexity (process, product and organizational) work to trap costs in the business. And then you need to attack complexity with an integrated campaign targeted at a combination of dimensions. For example, consider the pharmaceutical company that was looking to reduce its factory footprint and distribution network. As it examined the various factors involved, such as geography, channels, portfolio and volumes, the focus soon became how to best rationalize the footprint assuming the same or near-same portfolio of products. This is a decision-trap: assuming an element is fixed and designing around it.

Principle #5: Complexity costs “creep” in incrementally, but you need to remove them in chunks

Consider a typical product portfolio: over a number of years, a portfolio has grown bloated with line extensions, new products, and new brands. These additions pile on top of the existing portfolio. What you are left with is a sprawling portfolio that is the result of hundreds of isolated decisions. The answer is not to trim the bottom 5% of SKUs. That will do little to free up capacity, cost and focus; but when you can cut deep enough to cut a brand, close a warehouse, cease a productivity-draining process, then you will see substantive cost savings.
The takeaway is that when addressing complexity costs, recognize that there are pivot-points at which fixed or semi-fixed costs are released. These points represent the staircase of cost targets that can release substantive costs.

Moreover, the likelihood that you will reach these pivot-points by chance is low, as it often requires a coordinated combination of actions that stretch across process, product and organizational dimensions.

**Principle #6: This need not be a long academic exercise**
Throughout your efforts, we urge you to focus on leveraging 80/20 thinking. Taking out complexity costs does not and should not be a long academic exercise. Ensure that you are not embarking on a months-long program that is long on analysis but short on insights. It is important to get a more grounded view of the drivers of complexity cost, but a broader view with less detail is more important than deep-diving into any one area.

Do enough to develop a battle strategy, and constantly ask yourself, *What do I need to know to move forward on this?* In our experience, it is possible to quickly develop hypotheses as to the drivers of complexity cost, which can then be validated, and this is a much faster approach than an exhaustive, bottoms-up approach.

**Waging War on Complexity Costs** not only helps business leaders identify and ferret out their complexity costs, it carefully lays out a battle plan and a structured process to help organizations effectively deal with them, and focus their attention on part of the organization and product mix that yields the most value.

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