

Complexity Management: Fuel for Innovation Growth

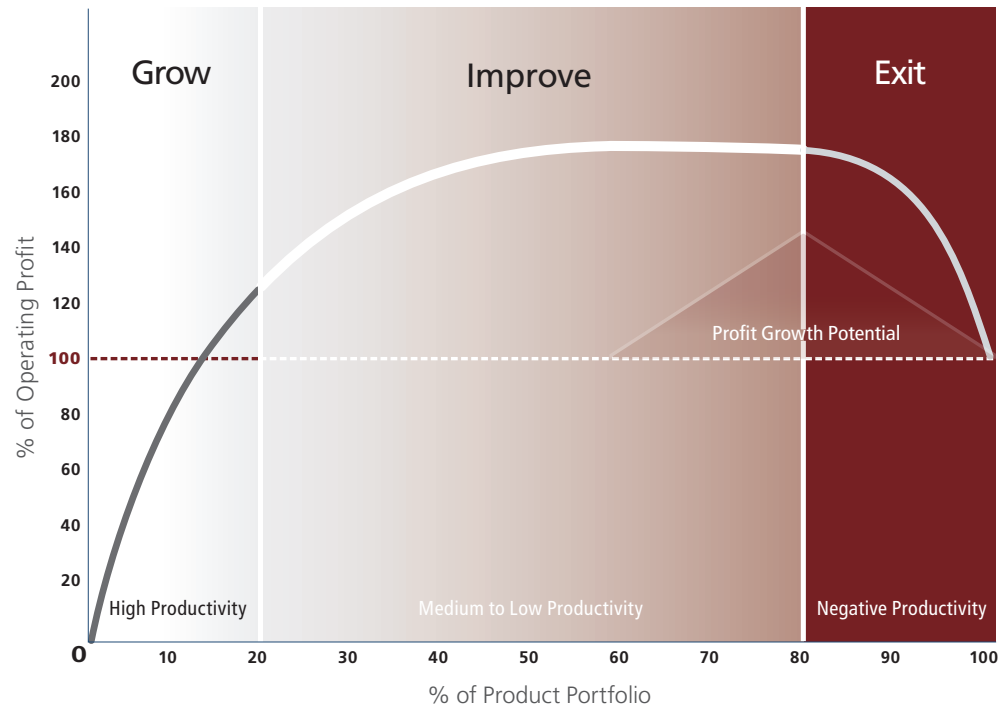
With the number of new product launches substantially increasing each year, product proliferation is a common challenge for many companies today. The thirst for incremental revenue and margin gains are often offset by cost inefficiency due to product proliferation, deteriorating the profitability of the enterprise as a result. Proliferation adds organizational complexity and complexity means cost. Aside from the impact on profits, the ensuing internal 'gridlock' can paralyze a company, impacting its nimbleness and adaptability to market changes.

Companies looking to reduce organizational complexity and identify winning products and customers turn to Complexity Management. Complexity Management is a powerful process enabling companies to turn around or eliminate low productivity products, customers, and activities. The focus is shifted to driving profitable "winners," streamlining manufacturing, reducing supply chain complexity, and improving resource utilization.

Drive Profit with Complexity Management

Mergers and acquisitions are a common source of profit-depleting complexity costs. In other cases, business strategy can drive intentional market and product line overlaps, which can lead to profit-eating complexity issues if left unchecked. A third common issue is that new products are launched while old products are rarely discontinued for fear of revenue loss, causing product revenues to eventually

Portfolio Profitability Curve



decrease as the product lifecycle matures. Any combination of these scenarios can undermine profit and organizational agility.

A typical company will generate 120% of its profits from 20% of its most productive products, while the bottom 20% can erode up to 80% of the firm's profit potential. Surprisingly, the same ratios often apply to the customer base; many companies fail to realize that some customer groups drive complexity and deplete organizational alignment required to win in the most profitable segments.



Kalypso's Complexity Management methodology will help you take stock of your existing portfolio and identify areas of unprofitable business. An effective Complexity Management initiative can drive up to five points of profit growth from significant efficiency and right sizing gains across the organization. Reduction in complexity aligns and focuses your organization for:

- Significant manufacturing and supply chain cost savings
- Improved cash flow and working capital utilization
- Improved resource utilization and effectiveness

- Increased R&D focus to more innovative "big idea" products
- Reduction of administrative expenses
- Delivered savings that can be reinvested to build strategic growth areas and accelerate profitable innovation

The Rationalization process focuses on delivering significant cost reductions by eliminating low profitability products and developing product platforms that optimize operational efficiencies. The savings from discontinuing low profitability products can be reinvested into driving innovation and profitable sales growth. And, implementing an effective portfolio management process will prevent product proliferation in the future.

Kalypso's comprehensive approach focuses on assessing and rationalizing across **Products, Brands, Components/Materials, Customers, and Channels**. The Kalypso team provides guidance to a core cross-functional team of key stakeholders within your company to implement the process, achieve organizational alignment, and deliver a viable plan that will deliver measurable results and a positive return on investment within months.

Complexity Management Methodology

By reducing organizational complexity, Kalypso's Complexity Management methodology can help your company deliver sustainable profitability growth today and provide the fuel for your future innovation growth.

Phase 1 – Data Collection & Analysis Collect and analyze product sales, profitability, and strategic fit data to identify low productivity SKUs that are in-scope for product rationalization. Identify "obvious" cuts for immediate action and product candidates for rationalization or repositioning in Phase 2.

Phase 2 – Rationalization Workshop

Identify strategic action for all low and medium productivity products via cross functional team rationalization workshop.

Phase 3 – Plan Development

Develop a detailed implementation plan for each rationalized SKU identified to minimize exit cost and sales loss. Establish success criteria and timeline for all repositioned SKUs.

Phase 4 – Execution

Complete implementation of rationalization plan and actions for repositioned SKUs.

Phase 5 – Ongoing Management

Measure result of rationalization plan and implement ongoing portfolio management to prevent future product proliferation.

Complexity Management Methodology



About Kalypso

Kalypso is a consulting firm serving the world's most innovative companies. The firm helps clients to deliver on the promise of innovation. Service offerings encompass all aspects of innovation including product strategy, development, introduction, commercialization, lifecycle management, and PLM systems selection and implementation. In addition to the firm's deep industry, technology, operational, and training expertise, Kalypso provides a flexible, collaborative approach to deliver unparalleled client satisfaction.