

MAVERICKS

"I am a simple guy"

Stewart C. Myers

(author of Brealey - Myers

"Principles of Corporate Finance")

circa 1990 during a Finance Class at MIT

The power of Simplicity

Complexity in a company is not related to size, or to sector, or culture, or geographical reach. Complexity, for example, in the Organization, in the Product Range or in Processes, is a disease with a clear diagnosis, but with a difficult aetiology, prognosis and above all, therapy.

Organization

Organizational structures which, on paper, are meaningful (for example, by geography, by products, by brand), once implemented, simply do not work. It is difficult to understand them, explain them, let alone make them real. People who have to take on those roles, often in a three- or four-dimensional organization, spend most of their time managing fuzzy interfaces, useless complexities, and continuous duplications; moreover, they themselves benefit from an economic return: they thrive in almost useless positions, but with clear economic returns.

This disease can be found in companies of any size, and not only large ones, and in companies which, in the short term, can even appear successful.

It seems as if they fear that a simple, lean and comprehensible organization would make them appear unsophisticated or intellectually lacking.

Product range

Some products can change a whole market, while others can be at least the core for one's own business. Then, there are dozens, hundreds, sometimes thousands of products which are useless and not sold. It is a known fact, but it seems inescapable. Their costs, and the costs to manage them, although high, are difficult to compute, since they are spread over different areas, often misconceived as areas of fixed costs.

The impact of the proliferation of SKU's can be massive:

- On finished products, it causes the impossibility to manage overlapped product ranges, with distribution channels which do not understand and will themselves make a selection, not necessarily in the company's interest. Thinking that by proliferating product offer to distribution channels one can get more space and limit competitors' presence is simply wrong.
- On components, and more generally on the supply chain, it prevents one from exploiting efficiencies related to volumes, rather than to the squeezing of suppliers.

Processes

In the last twenty years, many companies, both large and small, have gone through gigantic IT projects on applications called ERP to integrate key processes. Specific verbs have even been created to indicate this long and painful implementation process, as if it were a compulsory vaccination.

Thanks to this massive money investment, it should be possible to understand business performance, crossing different variables. Unfortunately, if one asks to split last month's revenue increase in volume vs. mix or price effect, a good deal of time is spent first to understand such a simple question, and then to import data in an Excel file on the laptop of a young intern.

The Strategy of Simplicity, then, is a continuous effort based on:

- The consciousness, widespread and sincere, that complexity is an evil, not an indicator of sophistication. This consciousness has to be rooted in Top Management and Shareholders, and becomes a common belief for the whole management
- Systematic gauging, not necessarily with pharmaceutical precision, of complexity in the Company, and of its reduction
- Strong and visible leadership in the continuous process of simplification

Otherwise, can we realistically hope, spontaneously or by chance, that

- people recognize the uselessness of their position?
- the sales force on the field becomes willing to simplify product ranges, thus limiting their even low probability of an incremental sale of the last SKU in the catalogue?
- Marketing and Product Development understand the challenge of Product Innovation and not the easier incremental change of features?

Giovanni Carlino