

**Simplicity**  
**sells**

**QVARTZ**



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## SIMPLICITY SELLS

**In the modern-day business world, few businesses would say they appreciate complexity. Many companies have been battling product portfolio complexity for decades in order to regain control over ballooning costs and eroding margins, but few have managed to do so successfully and sustainably.**

In our work with numerous companies across industries, we have noticed that a typical obstruction for sensible simplicity management has been a lack of fact-based decision making and transparency. With the access to data that most businesses have today, our claim is that this no longer has to be an issue. Instead, new opportunities to address simplicity have arisen.

While we believe simplicity is vital, that does not mean that complexity in itself is inherently negative. The truth is that the challenge is not eliminating complexity as a whole, but to have just the right amount of it. In many cases, this means investigating to how great an extent it is possible to meet customer demands while at the same time creating product and business simplicity. Once such a balance is in place, managers can lay the groundwork for a simpler and, at the same time, more successful business model.

Many companies advocate cost cuts as the main benefit of an extensive simplification process. Our strategy is rather to use simplicity as a tool to enhance top-line performance and speed up time-to-market. Simplicity sells!

The following gains are reported by companies successfully achieving “simplicity management”:

- Improved portfolio competitiveness
- Faster time-to-market
- Rising sales and market shares
- Better chances of winning tender bids
- Decreasing costs and investment needs

As shown in the chart above, simplicity management is much more than just reducing costs and optimising the number of product variations – it is as much about increasing time-to-market and increasing sales



# WHAT TO DO?

When companies aim to drive simplicity, we believe that they have to identify exactly what they want to achieve. If the goal is not only to slash costs, but also to dramatically increase time-to-market and create top-line growth, there are three main points to consider: 1. Creating fact-based transparency, 2. Making balanced, market-driven decisions and 3. Involving decision makers cross-functionally: The latter also covers starting at the development phase working cross functional building on product modules/base recipes.

### Making market-based decisions

Customers and markets will by their very nature almost always push for more product offering variability. There is certainly value in aiming to meet these requests, in particular to keep up demand, but on the other hand, too many products and a subsequent slow and unnecessarily complicated business model can quickly end up staggering demand as well. The key here is for companies to truly understand customer demand and how products are utilised. We recommend that decision makers always make up their minds based on relevant market information.

### Creating fact-based transparency

To make business decisions that help create balance between value and cost in the long run, in our experience, companies need access to the most relevant data and information. Advanced analyses of “big data” and relationships between

products and their components/ingredients can enable fact-based decisions about the value of complexity amongst key stakeholders as well as market-based decisions. One global manufacturer of pumps went far on this. They started by creating transparency on all the different product variations by allocating real total costs to these, making it possible for sales to sell all of them, but at different costs. In time, this led to a focus on the variations adding the most value at the right cost, and a 30% reduction of the 10,000 variants. The natural next step was right from development to build on common modules and basic recipes increasing time-to-market significantly.

### Involving decision makers cross-functionally

The success of a large turnaround process is often determined by executives’ ability to engage large parts of their organisation. This typically means opening up for different business segments to take ownership of the ongoing changes. In simplicity management, similar rules apply. Simplification is an effort that involves breaking functional silos and working across functions. For instance, an aspect that boosts complexity and costs at one end of a business could potentially increase value at the other end, meaning that an investment which initially seems bad can turn out net positive for the business as a whole. These effects can, however, only be detected if a large part of the organisation is invested, included and incentivised.

#### Balanced market driven decisions

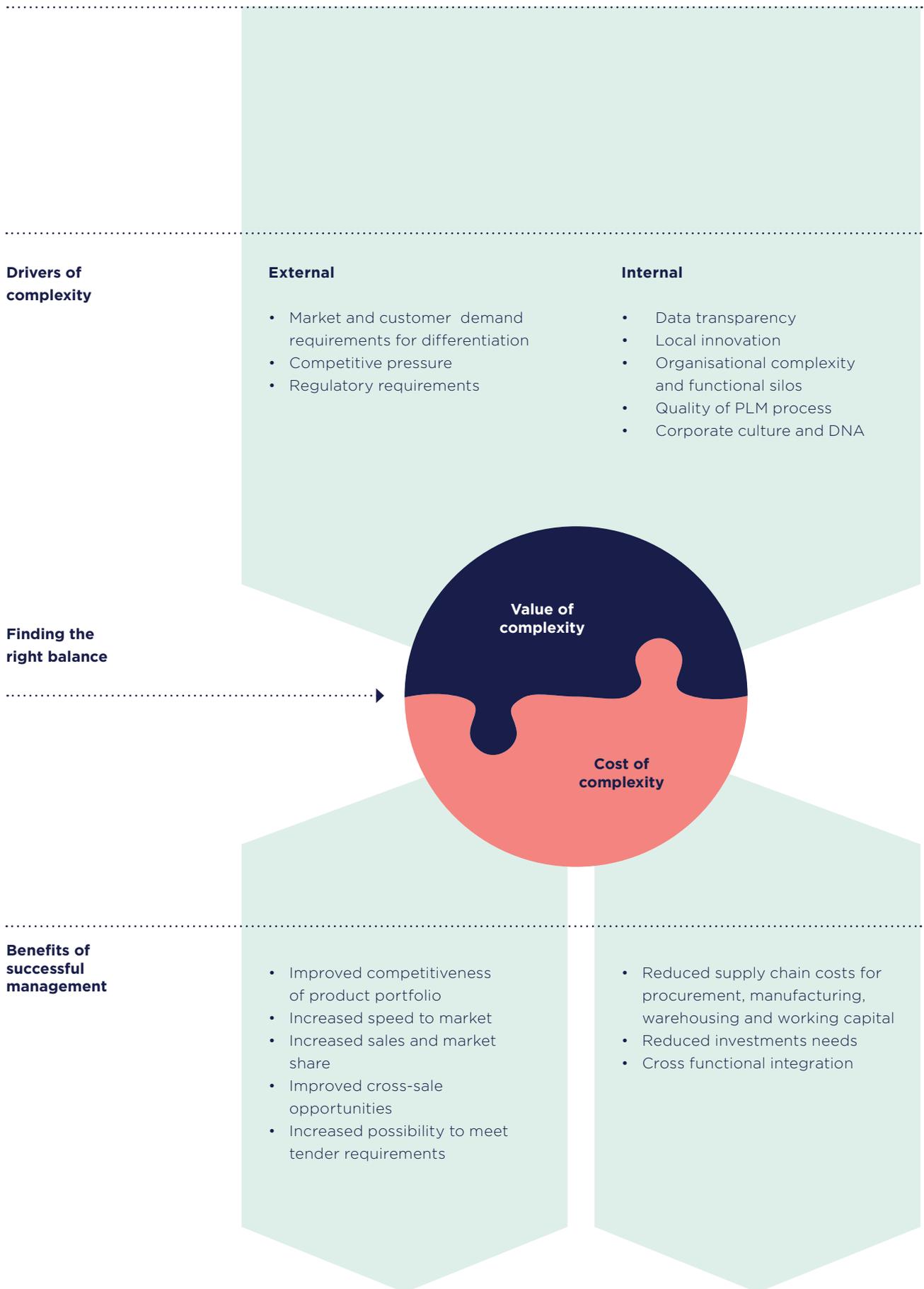
- Market and competitive-driven need for increased variations should always be balanced between value of complexity and cost of complexity across the organisation
- All actions must in the end create value for the market/sales

#### Creating fact-based transparency

- Advanced analytics of data enables fact-based discussions about value of complexity amongst key stakeholders, and market-based decisions
- Access to new data (e.g. customer usage data) can enrich the analysis further

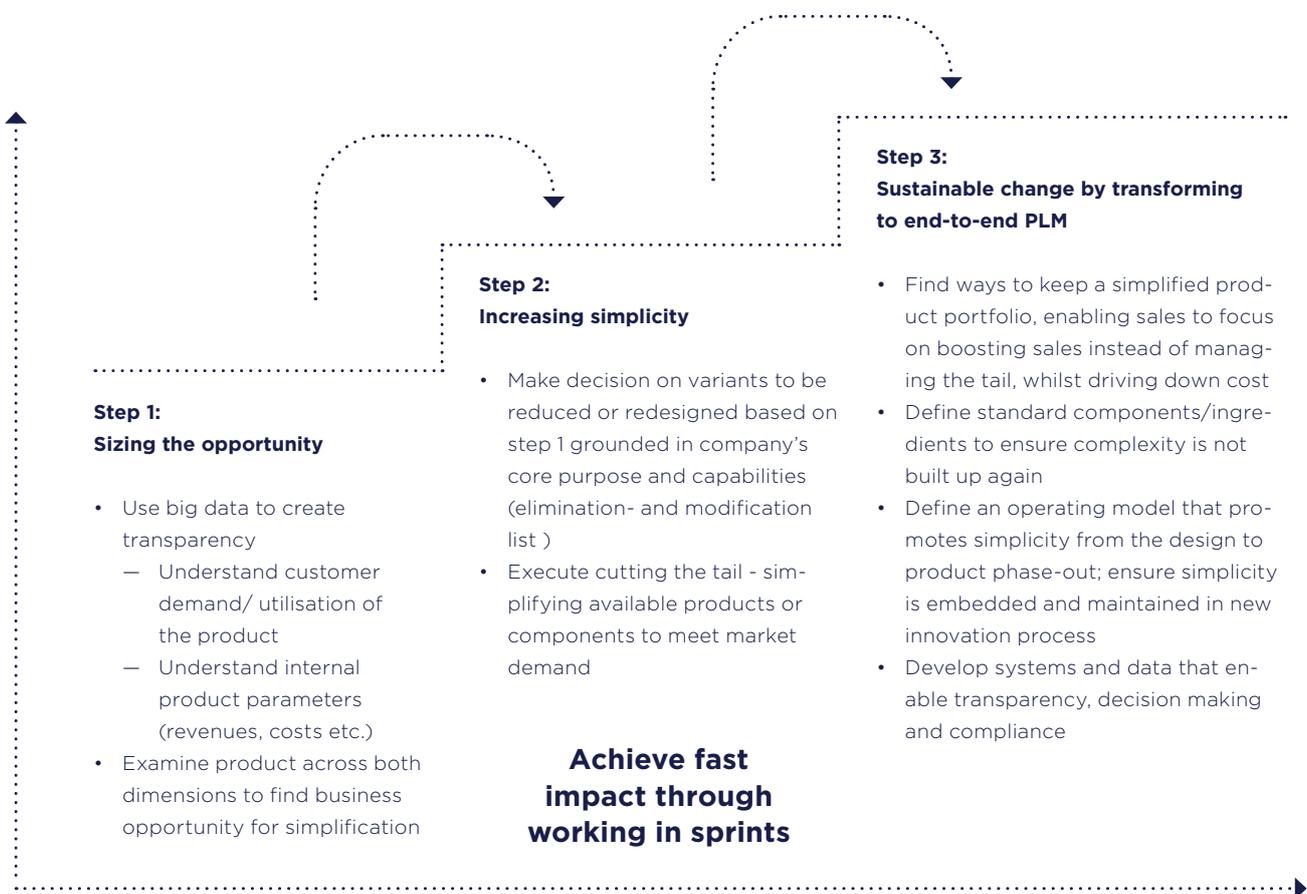
#### Involving decision makers cross-functionally

- Simplification should not be run by one single function; it is an effort that involves breaking functional silos and working cross-functionally-- the entire organisation is incentivised and invested
- A main part of the job is to convince and involve the cross-functional organisation



# HOW TO DO IT

Based on our findings, we have created a three-step process to guide businesses towards simplicity:



## STEP 1 - Sizing the opportunity

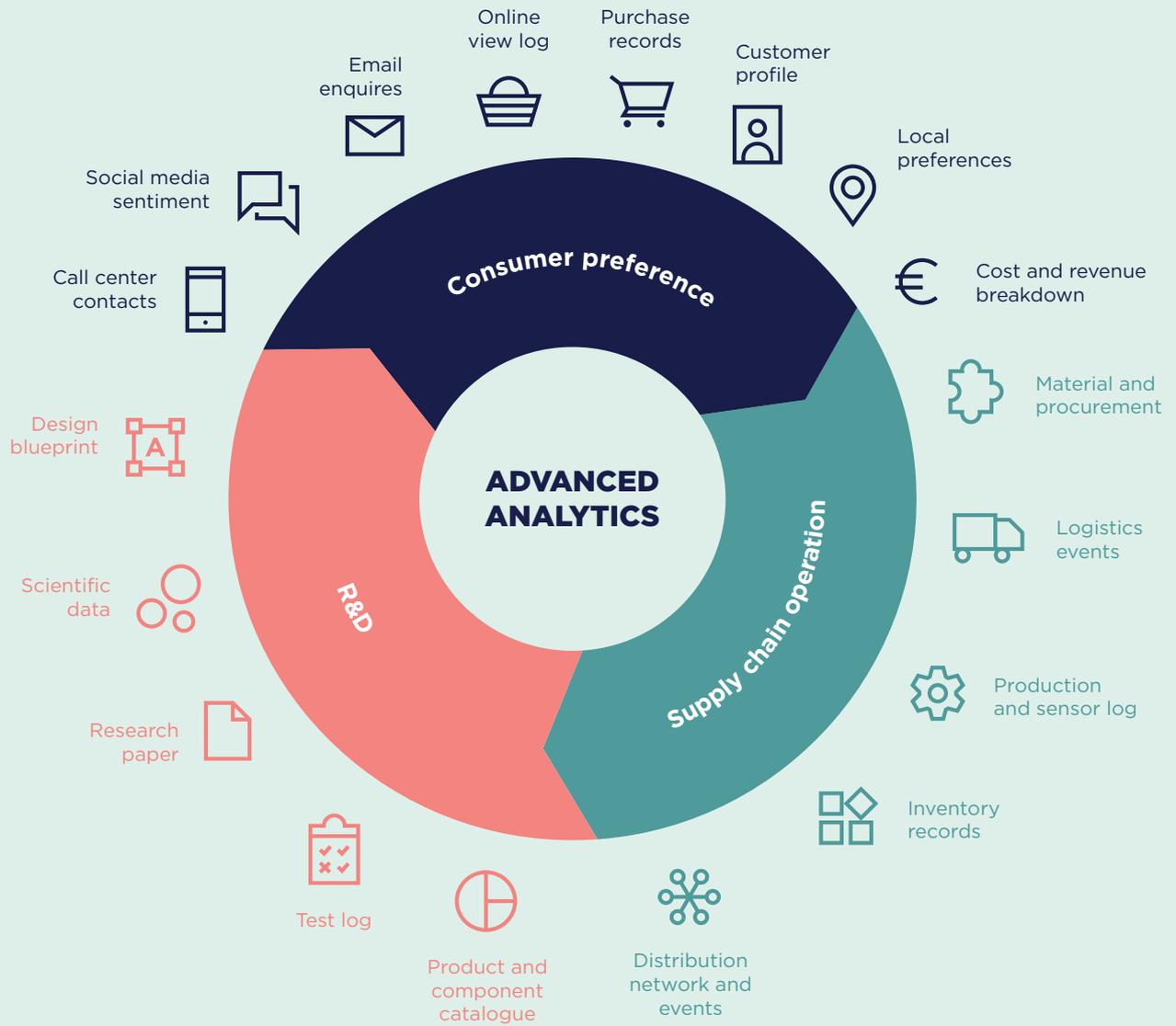
In order to begin simplifying, companies first have to examine their potential. In most cases, this means collecting and creating access to relevant data and information about customer demands and the utilisation of products as well as the company's internal product parameters.

Useful data could for instance be retrieved by looking at customer preferences in e-mail enquiries, purchase records and social media sentiments; supply chain operation data such as logistics events and inventory records; and research and development information like research papers, product catalogues and scientific data. Also, interlinks between the

demand for different products and the underlying components or ingredients should be analysed.

Once this information is gathered, companies can rapidly connect the dots and gain an overview of products, components and/or ingredients that are adding complexity, but not value. This enables an understanding of the current demand and supply situation, and opens up for an exploration of current inefficiencies. When all these processes have been worked through, it is much less difficult to identify what steps to take to create simplicity.

**Iterative analytics combining cross-functional data sources...**



**...with an established analytics process**



When the opportunity is sized up, different products have to be looked at in terms of both external and internal needs. If the cost of a specific product part is high, and this part is only used once, then our experience is that this could be a suitable place to consider simplifying the product range. In some cases, this could mean that a product should be redesigned; in other cases, it should perhaps rather be replaced or simply discontinued. These considerations often have to be made at a material, component, module or even system level.

The required data input includes reusability and component complexity patterns based on network analyses of materials, components, modules and systems; must-have/nice-to-have conclusions based on business domain knowledge; market demand and potential based on historical sales data and consumer behaviour trends; product purchasing patterns based on customer transactions; and degree of utilisation based on product-line data. Altogether, this information should make fact-based redundancy or modification decisions easier.

### **STEP 2 – Increasing simplicity**

With relevant data at hand, the product portfolio simplification process can begin. We suggest creating cross-functional workshops divided by product groups in which reviews of data-generated redundancy and modification lists are performed.

At these workshops, companies should prioritise the changes with the greatest potential. Then market requirements and balance decisions should be assessed based on qualitative input before the potential implications of elimination or modification of certain products are outlined. Finally, the company can make joint decisions on portfolio adjustments cross functionally.

The redundancy and modification lists should hold products and components that can be removed or retired because they are isolated clusters with small contributions to sales,

and products and components that can be easily redesigned or replaced – with a clear indication of the category to which each product belongs.

We recommend preparing a detailed implementation plan and roadmap. There, product pilots should be prioritised to build success stories that can later be distributed across the company and pave the way for the a full roll-out

### **STEP 3 – Creating sustainable change**

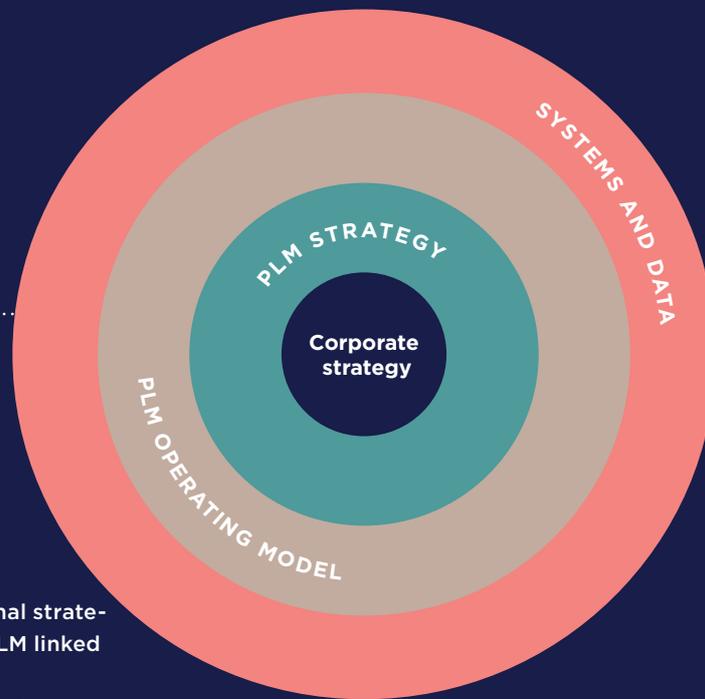
Once the product portfolio has been simplified, the goal becomes to maintain balance; transforming the product lifecycle management is crucial to avoid complexity being built up again.

We believe an operating model that promotes simplicity all the way from initial design to end product has to be put in place. In this process, several measures need to be taken in order to avoid new build-up of complexity; it will be necessary to agree on certain standard product components or ingredients and on specific ground rules that are to be followed throughout the innovation process.

A well-described, end-to-end product lifecycle process with clear ownership and stage gates will also be key to success for both new products and changes to the existing products. This, paired with defined roles and responsibilities and key performance indicators to ensure alignment and performance, will help create an agile business structure that ensures cross-functional and efficient co-operation.

For all these measures to work together as planned, companies should develop systems and gather data that enable just the right amount of transparency. With access to a transparent and consistent data flow, the best business decisions can be made. We believe that ensuring that systems for efficient data capture, processing and utilisation are in place is invaluable. In the end, these systems lay the groundwork for continuously well-informed and fact-based decision making.

**QVARTZ PLM concept**



**PLM strategy**

- **Set clear cross functional strategy for simplicity and PLM linked to corporate strategy**
- Define the long-term goals, e.g. balancing global/local, costs and time to market, degree of innovation
- Define the value that the company wants to create

**Systems and data**

- **Develop systems and data that enable right transparency, decision making and compliance**
- Ensure a consistent and transparent data flow for an efficient PLM
- Define system requirements to ensure data is efficiently captured, processed, and utilised, in order to continuously make data driven decisions

**PLM operating model**

- **Define an operating model that promotes simplicity from the design to product phase-out**
- Define standard components/ ingredients and ground rules to be flowed throughout the innovation process to ensure complexity is not built up again
- Build up an agile structure to ensure cross-functional cooperation and speed
- Ensure a well described end-to-end product lifecycle process with clear ownership and stage gates
- Define roles and responsibilities (incl. mandate) and KPIs to ensure alignment and performance

# KEEPING IT SIMPLE

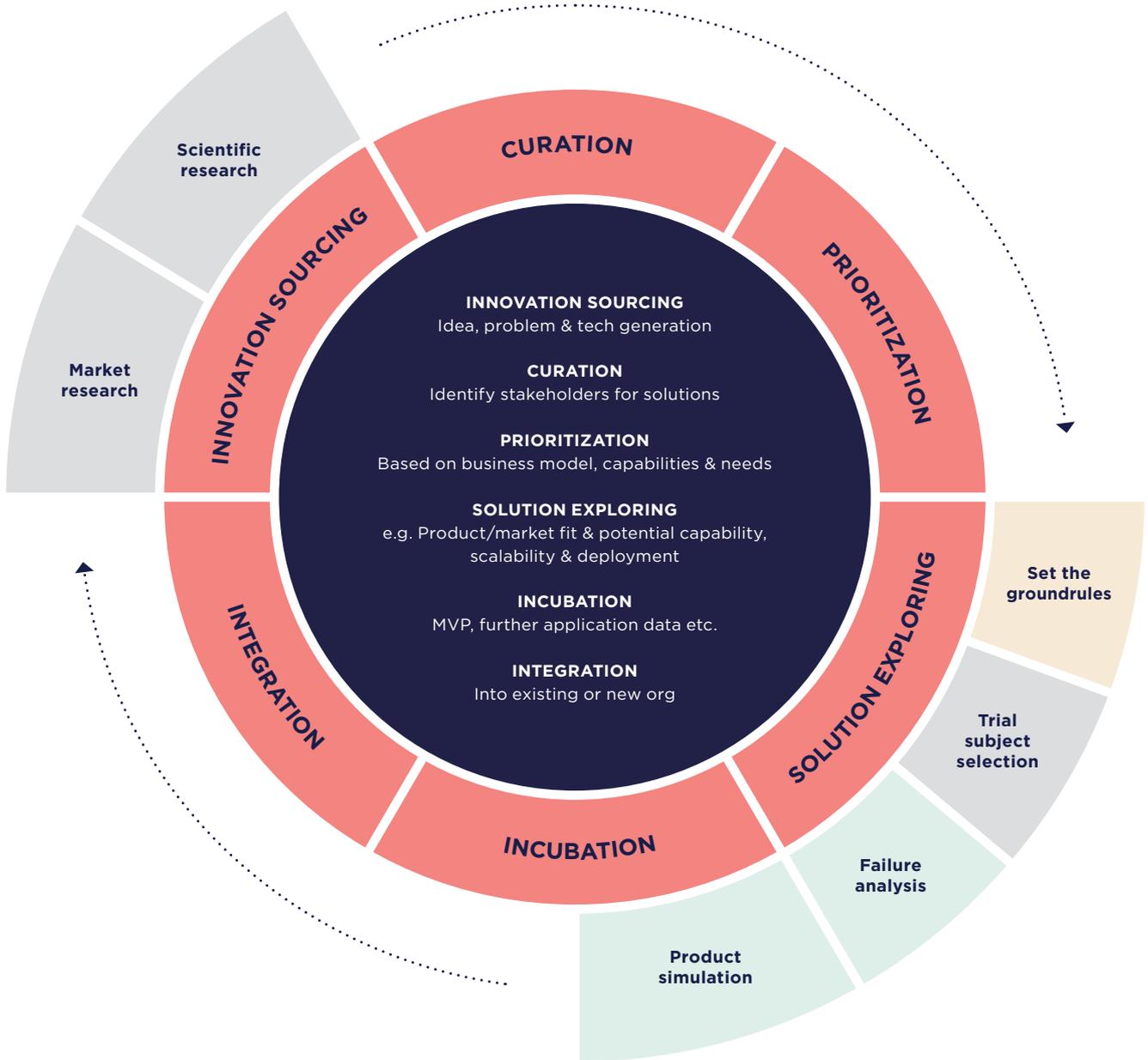
Moving ahead, we believe businesses could and should aim to establish complexity balance from the early steps of the innovation process and onwards.

To enable complexity balance from the start, specific ground rules need to be set. First, it is wise to settle on certain standard recipes to avoid rapid complexity build-up, such as a cap defining a maximum number of product variations. Then, the company should aim to balance the need for product variation with the cost of complexity through modularising variation management. We believe that creating standardised underlying components over time and thereby reducing the

number of possible variations is vital, in addition to constitute a cross-functional product innovation committee. This committee should be responsible for decision making on all product portfolio-related matters.

Once the ground rules are set, companies can use market information and scientific research such as text mining, sales data or sentiment analyses on social media to better understand market and customer needs. They should also aim to use these tools to identify ongoing innovation trends and introduce new product variations where they matter the most.





● SET THE GROUND RULES

● SET THE GROUND RULES

● DO IT SMARTER

## CASE STUDY – THE BRICK MAKER

A global toy manufacturer was – metaphorically speaking – falling to pieces. Aiming to meet increasingly diverse customer demands and boost its own sales, it had not only expanded its toy portfolio into countless unrecognisable variations, but also ventured into selling dolls, children’s clothing and baby toys and running theme parks. At one point in time, the company replaced about 60% of its portfolio every single year. Costs rose and sales fell – the company was innovating itself to death.

When a new CEO entered the corner office some years later, his message was clear: simplify. Soon, he put a grand turnaround scheme in place.

The company’s management introduced three key rules enabling a successful business shift:

1. Cap
2. One in, one out
3. Reusability

The first rule – a cap on how many elements to have in stock at any given time – helped the toy manufacturer reduce the number of parts it was producing while at the same time making sure it avoided a new build-up of complexity that could create a fuzz in the future. As part of the turnaround process, the company decided to have a cap of 7,000 elements, only about a third of the 20,000 elements it used to have.

The second rule – one in, one out – implied that whenever a new product, part, colour or function was introduced, an old one had to be retired.

Lastly, they began focusing on reusability. This meant that most elements were required to be reusable across different product lines, and that communality scoring was used as a central decision criterion in the approval of new product innovations.

The company turned to a platform-based product development strategy, including three types of innovation: continuous improvement, core front-end innovation and early front-end radical innovation. All these kinds of innovation were systematically managed, and the new ground rules were made applicable.

In addition, the company set up a cross-functional committee responsible for decisions regarding the product portfolio. This committee decided how much innovation there was to be and how to create a balance between cash cows and new products. These decisions were made based on community points and other set criteria.

Following its new and simplicity-focused business plan, the company quickly began seeing positive results: It reduced its lead time by 50% and saw sales rise by 45%.

# HOW FAR HAVE YOU COME?

		Yes/No	Score (Y=0, N=1)
Indicators of Product Portfolio Performance	<b>1</b> Has your product portfolio been consistently increasing?		
	<b>2</b> Has sales per unit been declining with each launched product?		
	<b>3</b> Are products with low sales and contribution still in your portfolio?		
	<b>4</b> Is demand forecast increasingly more volatile and misaligned with the actual outcome?		
	<b>5</b> Is product development time longer than that of key competitors?		
	<b>6</b> Does the majority of newly developed products miss initial deadline?		

		Yes/No	Score (Y=1, N=0)
Operating Model Maturity	<b>7</b> Do you review the product and component portfolio's sales & contribution at least every 3rd year?		
	<b>8</b> Do you with the same frequency leverage this analysis to "cut the tail" based on market data?		
	<b>9</b> Do you have a strategy for simplification and product lifecycle management?		
	<b>10</b> Do you have a solid end-to-end product lifecycle process with stage gates ensuring complexity is not unnecessarily built up over time		
	<b>11</b> Do you have cross functional forums, responsibilities and incentives for simplification?		
	<b>12</b> Do you have ground rules and "platforms" in place ensuring standards are used to the extent possible?		
	<b>13</b> Does your data infrastructure enable simplification?		
<b>Total Score</b>			

**Rating interpretation:**

- 11 – 13** Focus on complexity reduction & situation under control
- 5 – 10** Some progress, but improvement areas available
- < 5** So far limited focus on simplicity - major opportunities ahead

# OPPORTUNITY SCAN AND SUMMARY

As described in this whitepaper, simplicity management can have a widespread impact on company performance, both in terms of its top and bottom line. We have comprehensive experience guiding businesses towards successful simplicity management.

To get started, we suggest performing an opportunity scan to identify in what ways simplicity management could benefit your business. We can offer a three-step process over one month that will identify your opportunities and get the simplification journey started. This effort is typically supported by an experienced QVARTZ industry and operations team as well as our data analytics experts.

We believe that willingly rethinking what complexity can bring to the table while at the same time creating a balance between values and costs is what most companies need. This, paired with fact-based information collection and a cross-functional business plan implementation, will not only help revamp a company of today, but also strengthen it for the challenges of tomorrow.

**Sounds simple?  
Well, yes.**



## TEAM

The team consists of business consultants, QVARTZ analytics and customer stakeholders. They work agile and adjust team composition dynamically in regards to required capabilities

## DELIVERABLES

*We will ensure value generation already in the opportunity scan.  
Output includes:*

- Data transparency and code
- List of simplification opportunities in selected business field
- Recommendation on how to progress

**Iterative  
Agile  
Accelerate**

## APPROACH- OPPORTUNITY SCAN



## DO YOU WANT TO KNOW MORE?

Reach out to one of our seniors in operations:



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