

Finding Scale, Profits, and Growth in an Age of Complexity

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InterChina



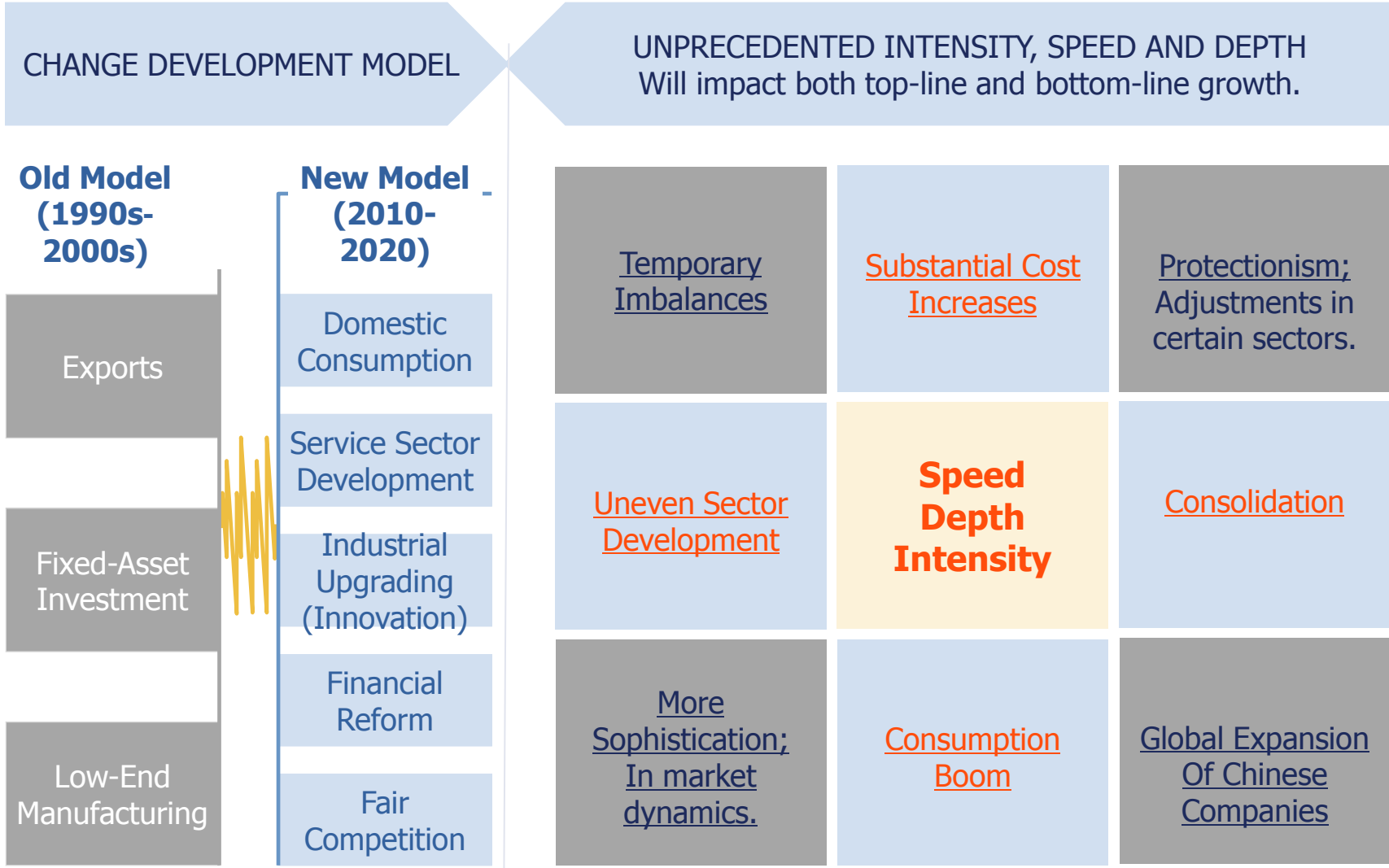
英特华



Strategy | M&A Advisory

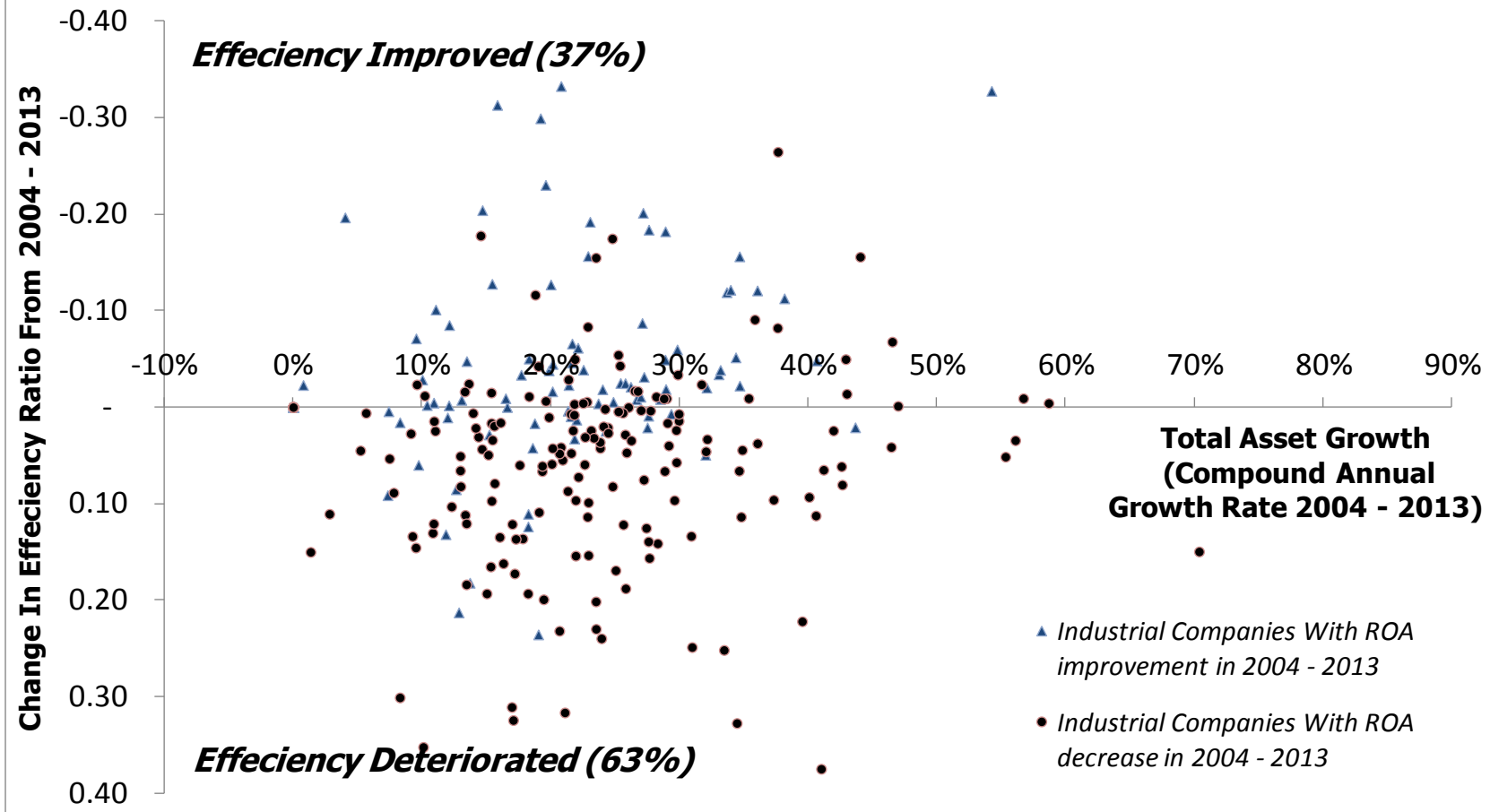
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China Model: China is going through a transition with enormous consequences



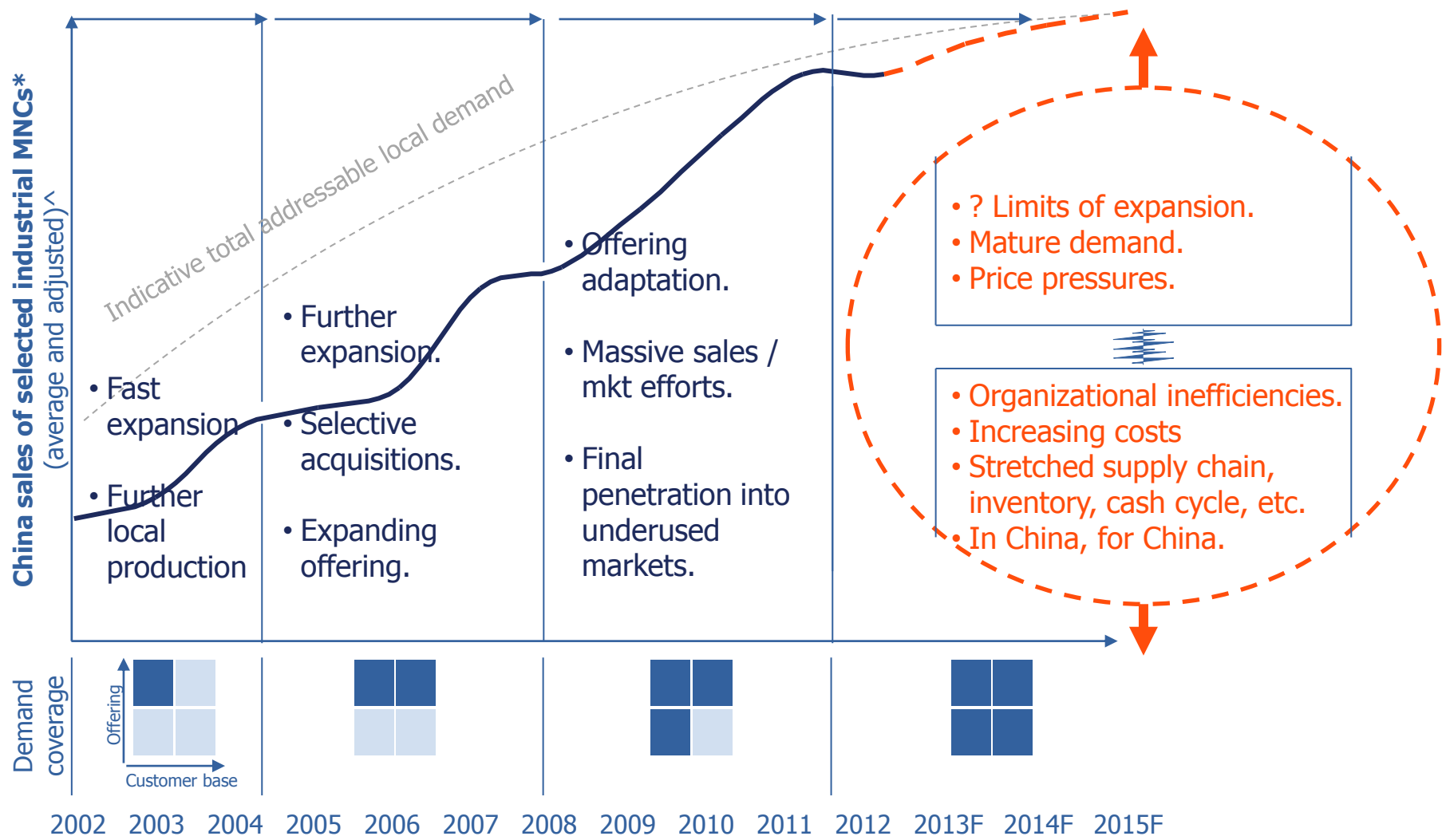
Industrial Companies: Bigger is not necessarily better

Change in Efficiency Ratio vs. Asset Growth for Large-scale Listed Industrial Companies In China (2004 - 2013)



Notes: Includes listed industrial companies with assets over RMB 10 bil in 2013, excluding service companies, financial institutes and real estate developers. N=266. Source: Shanghai Stock Exchange, Shenzhen Stock Exchange

MNCs In China: Under pressure as well and will have to change



Wilson Perumal & Co. and InterChina bring complexity management capabilities to China

- Specialist in strategy and M&A advisory in China.
- Team of 50 professionals has conducted over 500 strategy projects and closed more than 150 transactions over the past 20 years.



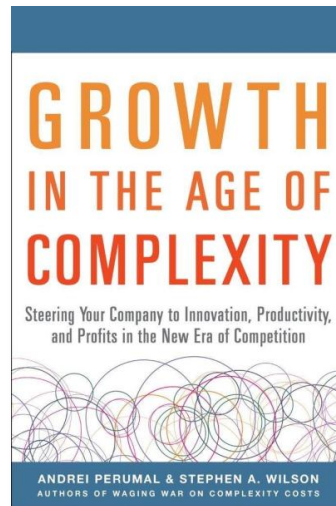
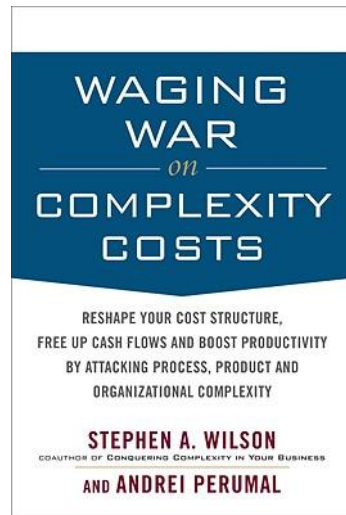
- US-based strategic operations consultancy and thought leaders in complexity.
- Wrote the #1 business book on how to compete in an increasingly complex world.



Stephen Wilson



Andrei Perumal



WP&C combines the level of talent and capability of the name-brand strategy firms with the great working relationship, partner engagement, and level of personal commitment you can only get with a smaller firm. WP&C is the best of both worlds

Dave Hoogmoed
 President, Land O'Lakes Purina Feed

Complexity Management: Key success factor for the future



How did we get so complex?

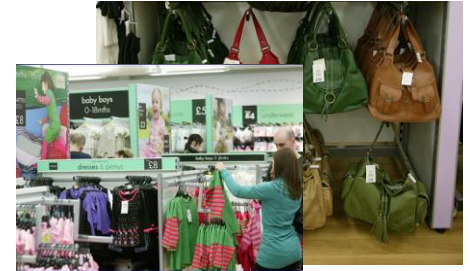
More Systems



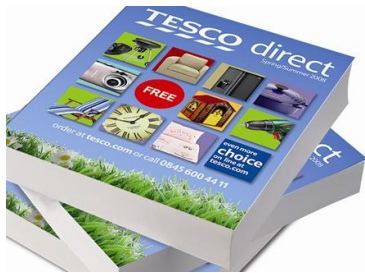
**Business 10
years ago**



New Offerings



New Channels



New Geographies



New Formats

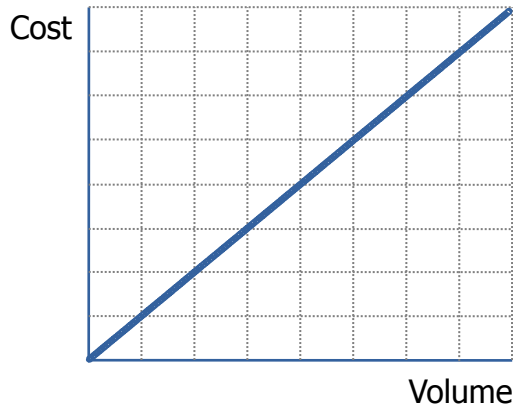


- Plus ...**
- Supply chain complexity
 - Increased product obsolescence
 - New competitors
 - New customer segments

The world has changed

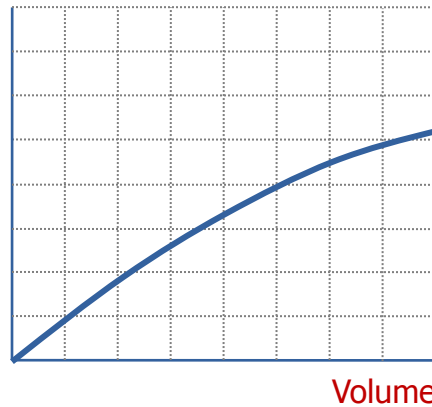
Pre-Industrialization

"Individual productivity"



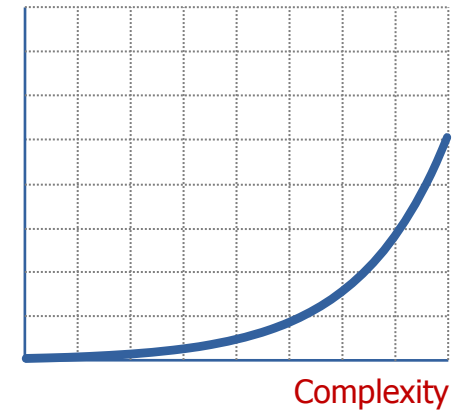
Industrialization

"Economies of Scale"

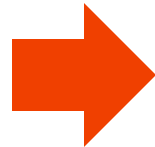


Post-Industrial Age

"Complexity Costs"



**Cost
competitive-
ness**



**Economics
of scale**

vs.

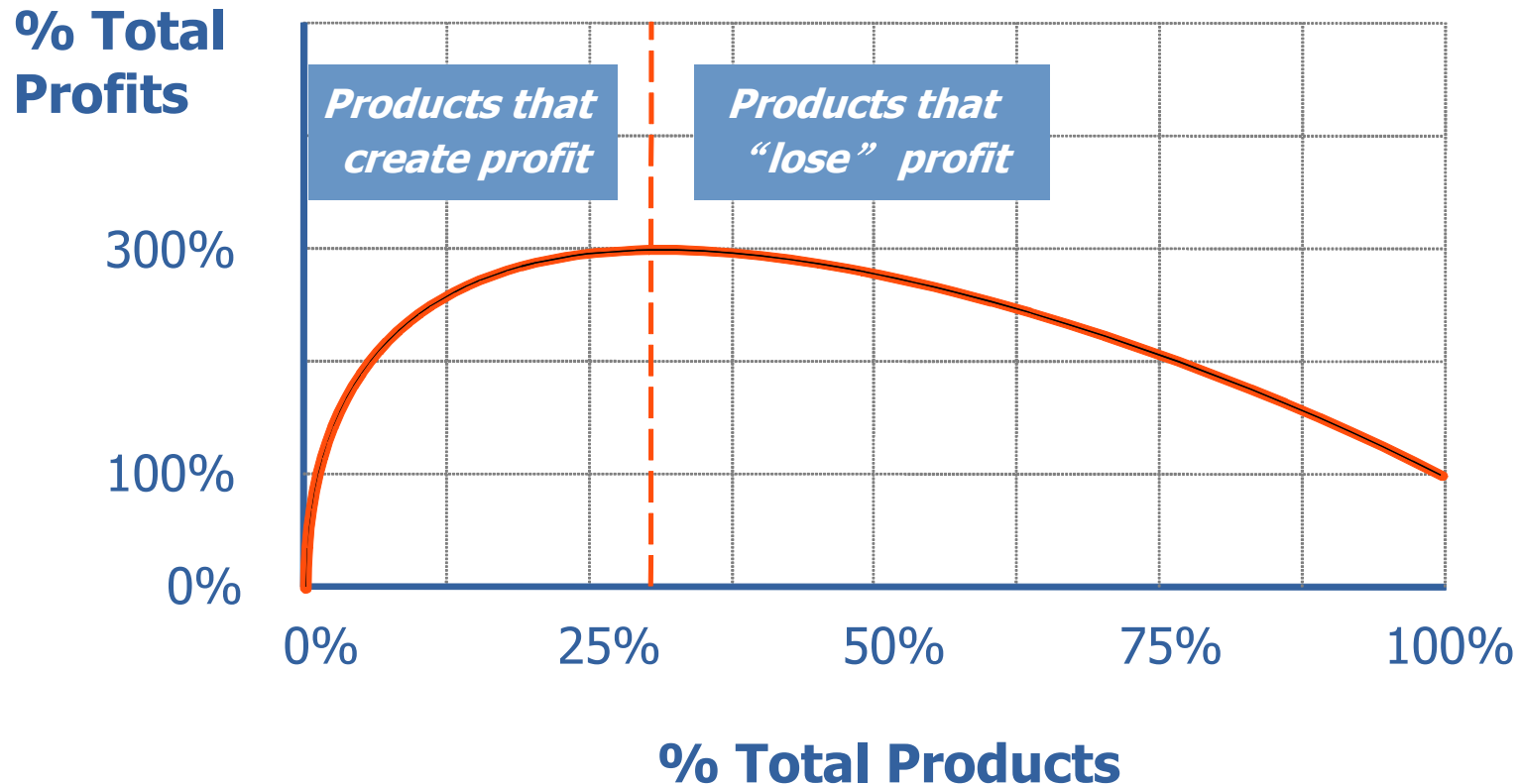
**Complexity
Costs**



Complexity costs are the largest driver of a company's cost

Significant Impact: In many companies, complexity is winning!

In many companies, **20-30% of products** generate more than **300% of profits!**



The Opportunity: But complexity is addressable

Select Metrics	Y1	Y2	Y3
Portfolio (#)	3500	2079	499
New products (#)	0	8	14
On-time delivery	70%	78%	90%
Cust. Satisfaction	27%	55%	90%
Mfg. productivity	1x	2.2x	3.1x
Operating Earnings	-6%	3%	7%
Sales	1x	1.6x	3.4x

- 86% reduction in portfolio!
- 57% increase in cust. satisfaction!
- 13% pt increase in op. earnings!
- 3x growth in sales!

*"Complexity kills innovation. **Complexity can drive down quality, increase costs and lengthen lead times.** If that's the state you're in, you have poor execution—and **you can't innovate your way out of poor execution.**"*






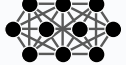
— VP

Framing the issue: We look at complexity across multiple dimensions

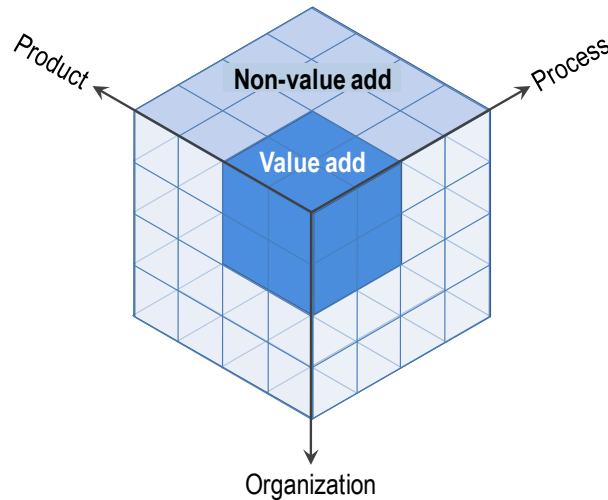
Type of complexity	Description	Impact of too much
Product	The variety of and within the products (and services) you offer	<ul style="list-style-type: none"> • <i>Bloated portfolio</i> • <i>Customer confusion</i> • <i>Strained processes</i>
Process	The number of processes, steps, handoffs, etc.	<ul style="list-style-type: none"> • <i>Duplication</i> • <i>Rework</i> • <i>Work-arounds</i>
Organization	The number of facilities, assets, functional entities, organizational units, systems, policies, etc.	<ul style="list-style-type: none"> • <i>Bloated organization</i> • <i>Functional silos</i> • <i>Disarray</i> • <i>No clear picture</i>

Product, Process, & Organizational complexity compound, growing complexity costs exponentially

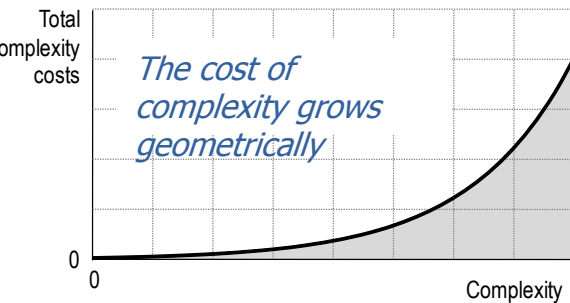
Complexity results from a large # of interconnected "items":

#Items		#links
1		0
2		1
3		3
4		6
5		10
⋮		
10		45

The Complexity Cube:



- **Complexity** exists along the dimensions of the cube
 - Can be good or bad
 - Too much is bad
 - Companies almost always have too much
- **Complexity costs** arise from the interactions
 - For example, the cost of product complexity is felt in the impacted processes
 - Grows geometrically with complexity (largest driver of cost competitiveness)

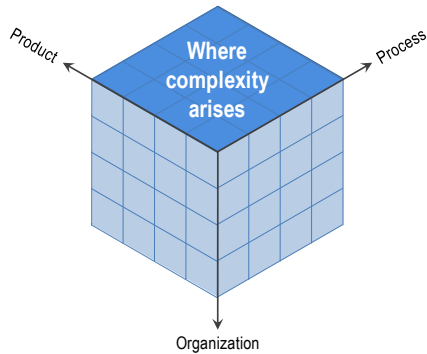


"Complexity... is a 'cube' function. If I have 10 applications, I may be able to manage them all. If I have 100 applications, managing them is not simply 10 times the complexity—it's more like 30 times the complexity."

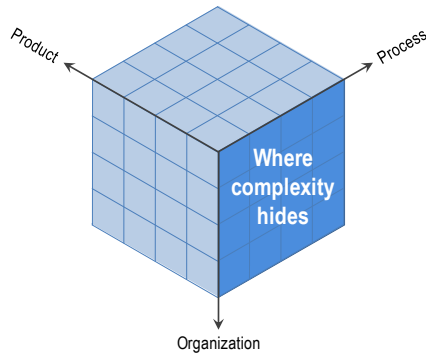
—Lee Coulter, former SVP of Kraft's Global Shared Services Grp

Taking action: Identify the Right point of entry...

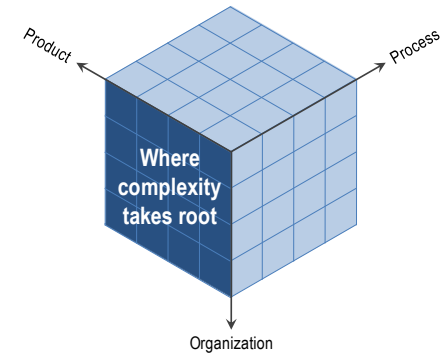
Product / Process



Process / Organization



Organization / Product



Symptoms:

- Many unprofitable products
- High inventory levels
- Product shortages
- Product surpluses / markdowns
- Long lead times
- Frequent changeovers / eroded capacity
- Service / quality levels below par
- Frustrated customers

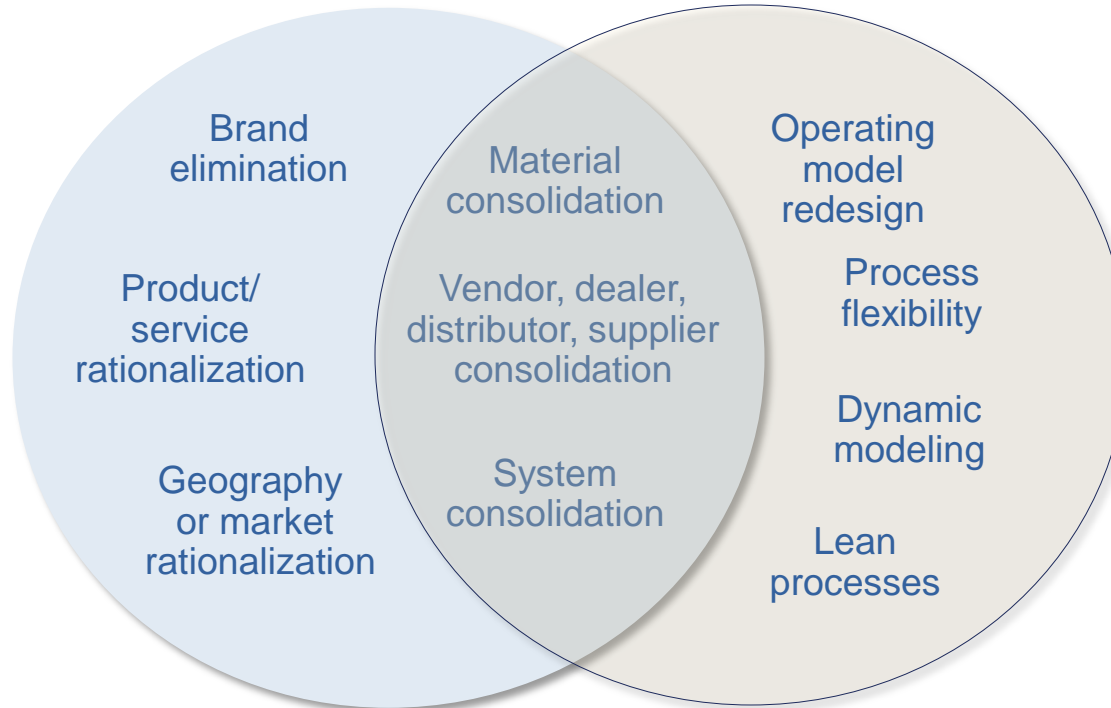
- Poor product availability
- Poor customer service levels
- Complex bloated organization (no complete picture)
- Lots of activity but not much outcome
- Difficulty seeing or managing trade-offs across functional boundaries
- Complex use of systems impede processes & decision making
- Slow decision-making and information flow

- Sprawling physical footprint with poor asset utilization
- Operations struggles to keep up with the 'cats and dogs' of the product line
- Marketing and sales efforts diffused over products / geographies
- Tangled web of IT symptoms
- Fragmented supply base
- 3rd-party distributors resist efforts to focus the product line
- Efforts to consolidate network stymied by current needs

.. And understand it requires a two-pronged attack ...

QUESTION:

**Reduce
amount of
complexity?**

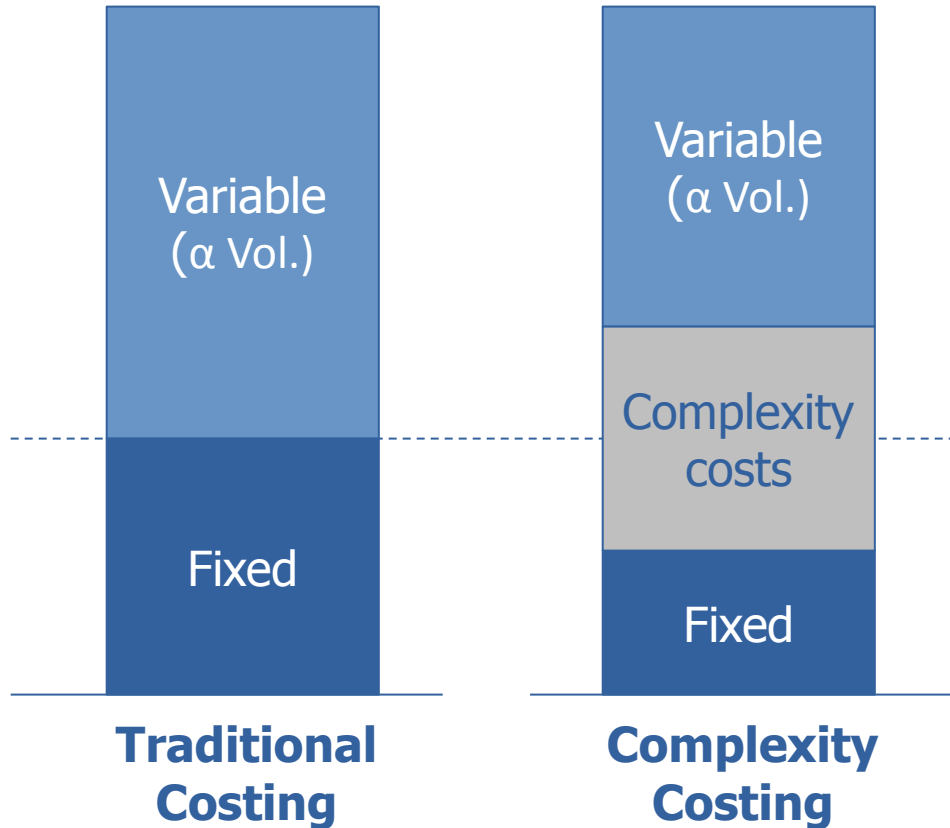


**Or make
complexity
less
expensive?**

ANSWER:

- Both
- We do not live in a “plain vanilla” world (we need variety)
- Customers demand good prices (we need cost-competitiveness)
- But no real operation is lean enough to support infinite variety

.. And a better view of true cost & profitability



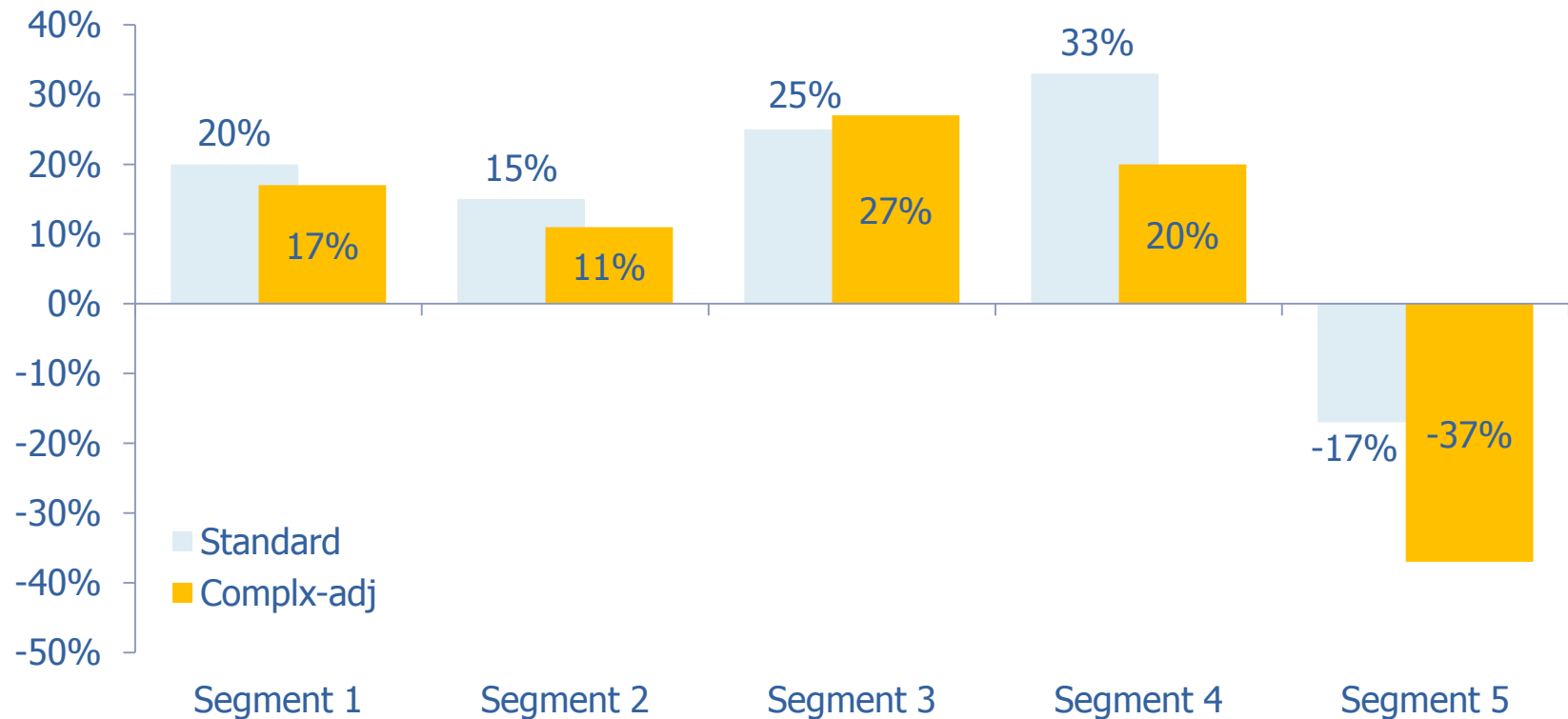
- Unmasks cross-subsidization
- Corrects for **under-costing small volume items/activities**
- Corrects for **over-estimating potential for fixed cost leverage**

Complexity costing can yield a more accurate view of cost and profitability and impact management decisions

SANITIZED

High-complexity [segment 4] was actually less profitable than lower-complexity [segment 3]

OP by Product Segment



1. How is complexity **impacting** your business?
How are you **currently approaching it**?
2. What **level of complexity** can your current operating model support? Are you past that level?
3. How would knowing **true costs and profitability** impact your business decisions and performance?
4. Is your **growth strategy** creating scale or creating complexity?
5. How **would your business be different**, if you could successfully tame complexity?

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