

Complexity Management At Global Cosmetics Products Company: Tackling The Sources And Costs Of Product Complexity

The Challenge: A multi-billion dollar global seller of cosmetic, personal care, and gift items, CosmeticCo has a unique sales model that drives innovation and, consequently, high turnover of the product line. With constant new product introductions, CosmeticCo's supply chain was overstretched from raw material procurement through formulation and packaging lines, with excessively high associated costs creating a barrier to the company's overall growth strategy and targeted competitive positioning. Gotham was asked to quickly (within 6 weeks) identify the sources and cost impact of complexity in CosmeticCo's product offerings, and help provide a vision of how they could mitigate this complexity while maintaining their sales model.

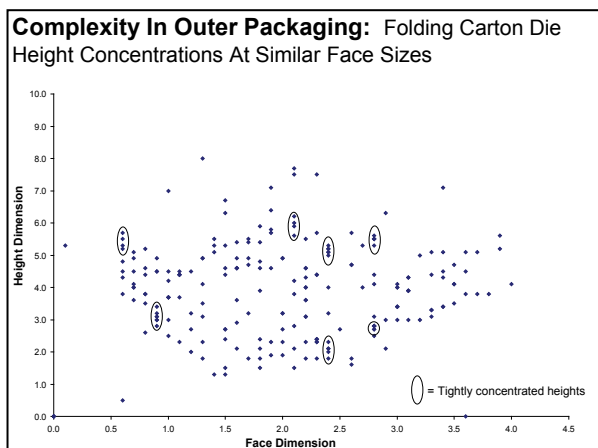
The Partnership:

Analysis: Working closely with key CosmeticCo personnel, the team focused on three areas: benchmarking savings from similar efforts at key competitors (many of whom had already captured the benefits of complexity reduction); quantifying CosmeticCo's cost of complexity on an item-specific basis; and making a top-down assessment of the associated cost reduction opportunity.

Several large consumer products companies that had undergone efforts to reduce complexity in previous years, and showed boosts in operating profits ranging from 5-15% through these efforts.

Analysis of product lines and item-specific costs of complexity centered on one of CosmeticCo's largest plants in the US. Findings included:

- An extraordinarily high number of similar components ingredients (e.g., over 700 jars and bowls and over 120 bottles of the same cubic volume), suggesting significant opportunity for standardization without compromising product uniqueness
- Different prices being paid for seemingly identical components, with many small purchase orders often placed directly from plants, rather than at a consolidated, corporate level, indicating untapped purchasing savings opportunities
- Dramatic variation in standard and actual per unit labor costs across the product lines and weak processes for tracking and controlling costs on a product-specific basis, highlighting the fact that costs were not proactively and systematically being managed (or innovation at any cost was acceptable).



The team found that the roots of many of these issues/problems could be traced back to problematic packaging and product design processes. For example, a lack of information availability caused these groups to often inadvertently “reinvent the wheel” when designing new products. Different package designers used different tolerances (e.g., container thicknesses), often resulting in an “overdesigned” package. Lack of communication between the manufacturing group and package design group also resulted in the use of non-optimal packaging from a labor and changeover perspective, while typically adding little design value.

The organization had believed that the cost of complexity was the price to be paid for its value proposition and reputation as the “innovator”. However, the team demonstrated that significant savings (\$38-\$40 MM in direct costs per year) were possible from simplification—translating into fewer changeovers, less waste, enhanced asset utilization, greater scale in purchasing, and lower cost, more standardized components—while maintaining the innovative, entrepreneurial spirit so important to CosmeticCo's success.

Strategy: Capturing these savings would require a level of cross-functional cooperation and coordination that was new to the organization, as well as a much greater discipline in the product development process. The team identified a set of simplification and harmonization activities, including packaging simplification (including use of labels and common packaging dies) and optimization of the product launch process via cross-functional communication and use of packaging pallets. The team also created a new profitability-based decision process for evaluating products, as well as a new product development process to ensure that commonalities were incorporated in product design and formulation and packaging and that the design cost/complexity matched the product value.

Execution: The team recommended to the Global Operations Council (including the CEO and COO) that the effort begin with quick wins to standardize many aspects of product and packaging design. Then, CosmeticCo could build on this momentum and take the changes to planning and delivery across the supply chain. CosmeticCo immediately began holding workshops in the US focusing cross-functional teams on complexity reduction.

The Results: Early success and acceptance of the efforts has led to roll out to other geographies as well.