

COMPLEXITY RATIONALIZATION

CGN helped develop a financial model to measure the cost of business complexity and understand the true cost and margins associated with their product line(s).

Business Problem

Our client's business had grown over several decades and offered a wide variety of products to its customers. The number of custom configurations offered to its customer-base had become very large, and the company believed that their business had become too complex. In turn, this complexity had negative effects on their profitability.

CGN Solution

CGN developed a complexity-based metric that associated a value or metric with each existing product and provided a means to determine the impact of that value on new products added to the portfolio. The metric was also used to understand the costs associated with the product life cycle, including R&D, materials, inventory, expedited freight, and distribution and master scheduling costs. CGN also developed a business case outlining the impact of complexity reduction within the organization.

Customer Benefit

The business unit uses the complexity metric to measure the financial impact on its business whenever a new (part) product is added to its portfolio. The client organization also uses the metric to determine parts that are contributing to excess complexity and prioritizes actions on the categories of parts that need to be reduced/purged from the system. Due to complexity, 6-9% of the total costs were incurred and 30% of these could be recovered in less than 24 months.

SCOPE

Develop a mathematics-based model for measuring the cost of complexity in the organization; develop a complexity-based metric that can be used on an ongoing basis to measure the complexity in the organization; recommend how to best implement the metric.

BUSINESS DRIVERS

Reduce cost of business; measure true cost and true margins of products.



For details call: 1.888.RING CGN (1.888.7464.246) or e-mail: bizanalytics@cgn.net
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