Business complexity—what is the cost?

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How many businesses analyse their product or service offering in terms of importance & profitability AND take action to remove the poor performers?

The 80 / 20 rule

80% of your profits come from 20% of your products/services. For businesses focused on increasing their size or amount of revenue, this statement is nearly always true.

People don't take the hard decisions

We all struggle to look objectively with a critical eye at our business. Of those that ask the right questions and listen to the answers, how many actually take action? Too few in our experience. Many assume (incorrectly) that each £1 earned must translate uniformly into x pence of profit. Others are too scared of upsetting colleagues to take action. Ask questions, be critical and take action.

Has your company analysed its product/service offering recently?

Find out. Pull up a list of each different product (or service) sold over the last 12 months? How many products make up the list? Against each product can you determine:

1. Volume
2. Revenue
3. Gross profit (revenue less cost of making the item)

What does the top 20% of products / services generate in terms of profit (or revenue or volume)? Does the 80/20 rule hold for your company?

No financial data by product available? Invest the time

For products, calculate volumes for each product. Calculate the cost to make each product (you are likely to have invoices & payroll data available at least). The cost can be compared to the price list. Nearly all companies can produce this information, though it may not be easy.

For services, you are mainly focused on time capture by employee by service. Combined with payroll data, you should be able to calculate costs by service and compare to the income. Producing this information can be a significant but valuable investment.

The will to make changes

Having the appetite to change is the biggest hurdle. Why should you change? A example of why you should:

A business sold over 500 products. Each one had to be photographed, entered onto ordering systems, websites, finance systems and beyond. The administration effort and the cost in cash & time was huge. We proved through analysing the products that over 80% of profits were made from 20% of the products. The business could and did remove 400 products. The overall profit went up. Everyone had time to focus on the products that really mattered which drove further improvements in profit and revenue.

Look also at the story, and size, of Apple and how few products it has.

If you introduce new products regularly, remove the bottom 10%

Introduce competitive tension between your products or services. Remove the bottom 10% (or more) of products each year. Experiment and see how much time you save and by how much you increase your profits.