Innovation Versus Complexity: What Is Too Much of a Good Thing?

What's the number of product or service offerings that would optimize both your revenues and your profits? For most firms, it's considerably lower than the number they offer today.

The fact is, companies have strong incentives to be overly innovative in new product development. But continual launches of new products and line extensions add complexity throughout a company's operations, and as the costs of managing that complexity multiply, margins shrink.

To maximize profit potential, a company needs to identify its innovation fulcrum--the point at which an additional offering destroys more value than it creates. The usual antidotes to complexity miss their mark because they treat the problem on the factory floor rather than at its source: in the product line.

Mark Gottfredson and Keith Aspinall of Bain & Co. present an approach that goes beyond the typical Six Sigma or lean-operations program to root out complexity hidden in the value chain.

The first step is to ask, What would our company look like if it made and sold only a single product or service? For Starbucks, it might be a medium-size cup of coffee; for a bank, a simple checking account. Then determine the cost of producing that baseline offering.

Next, add variety back into the business system, product by product, and carefully forecast the resulting impact on sales as well as the cost implications across the value chain. When the analysis shows the costs beginning to overwhelm the added revenues, you've found your innovation fulcrum.

By deconstructing their companies to a zero-complexity baseline, managers can break through organizational resistance and deeply entrenched ways of thinking to find the right balance between innovation and complexity.