Schumpeter | Simplify and repeat

The best way to deal with growing complexity may be to keep things simple

IN 1932, as the global economy collapsed, a Danish carpenter called Ole Kirk Kristiansen started to supplement his income by selling wooden toys. Eventually he hit on the idea of making toy bricks. He and his son and grandson steadily perfected these bricks. They shifted from wood to plastic. And they made their idea global: today there are 75 bits of Lego for every person on the planet.

In the mid-1990s Lego expanded too feverishly into what business theorists call "adjacencies": theme parks, television programmes, clothes, watches and learning labs. The firm hit a wall made of bricks, not plastic. After years of dismal results, a new boss in 2004 took Lego back to its roots. The company has not lost its appetite for innovation: you can now design a house or castle online and order the bricks you need to build it. But Lego's focus is firmly back where it was in its heyday-on little interlocking blocks that turn children of all ages into master builders (and hurt like jagged rocks when you tread on them in your socks).

Lego is both a metaphor and a case study for the argument at the heart of "Repeatability", a new book by Chris Zook and James Allen, two consultants with Bain & Company. (Mr Zook practises what he preaches, repeatedly publishing books about the need for businesses to stay true to their core.) Management gurus love to tell companies to reinvent themselves. The Bainies do something more interesting: they preach simplicity. They argue that most successful companies share three virtues. They have a highly distinctive core business. They make great efforts to keep their business model as simple as possible. And they apply it relentlessly to new opportunities.

Many of the world's best-known brands make a cult of simplicity: look at **IKEA** with its flat packs, McDonald's with its burgers or Berkshire Hathaway with its buy, improve and hold approach to investing. Apple has cut through the buzzing confusion of its industry by applying the same formula to a succession of iProducts. It is also ruthless about pruning its catalogue. The classic iPod media player used to come in multiple storage sizes; now it comes in just one.

This "simplify and repeat" formula has also been embraced by some emerging giants. Olam is a Singapore-based commodities company that has enjoyed over 25% annual growth rates in both revenues and profits tor the past decade. The company has a distinctive core business: rather than dealing with middlemen, it deals directly with 250,000 suppliers and thereby squeezes out some of the waste that hobbles farming in poor places. Olam started with Nigerian cashew nuts and now applies its model to 20 commodities in 65 countries.

The Bain authors argue that there are three ways to apply the repeatability model. Some companies, such as American Express, target ever more precise groups of customers. Some apply the model to new markets: Nike has brought its "swoosh" to one sport after another. Some apply the same management system to lots of different businesses: Danaher, an American holding company that specialises in manufacturing, has applied its "lean" management system, the Danaher Business System, to the 85 businesses it has bought over the past ten years.

This obsession with simplicity is a useful counterbalance to growing complexity. Businesses have a natural tendency to grow more complex as they mature. One moment they are appointing paper-clip monitors to deal with the supply of paper clips. The next the head of the paper-clip department is calling compulsory meetings. This tendency is getting worse as the pace of business increases. Companies establish matrix-management systems to deal with globalisation, appoint task-forces to examine new technologies, and add ever longer meetings until employees' brains try to gnaw their way out of their skulls. Messrs Zook and Allen call complexity the "silent killer" of modern business. To avoid it, firms must make a cult of simplicity.

This is easier said than done, however. Complexity is no easier to avoid than cholesterol. Companies need to keep hammering away at the simplicity mantra. Gareth Penny, a former boss of De Beers, a diamond company, says that: "The role of a **CEO** is to simplify the complexity and stick to a few themes." Tim Cook, Apple's boss, preaches simplicity: "We believe in the simple, not the complex," and "We believe in saying no to thousands of projects so that we can really focus on the few." Companies also need to have "non-negotiable" business practices which ensure that their model is repeated. McDonald's demands that all its employees must start on the till or in the kitchen. Olam obliges all its recruits-however fancy their **MBAS** or clean their fingernails-to spend time living and working in the countryside.

Simplicity is not enough

The biggest problem with the argument of Messrs Zook and Allen lies with disruptive innovation. History is full of examples of companies that have heart attacks not because they allow the cholesterol of complexity to build up, but because they are crushed by the next big thing: look at Kodak, Xerox, Nokia, Kmart and Blockbuster. In the 1990s Nokia had all the characteristics of a "repeatability champion": a clear business model, a distinctive culture and a commitment to sell handsets everywhere. This week Fitch, a credit-rating agency, cut its rating to junk.

The Bain duo correctly argue that successful companies can survive dramatic change by deciding which bits of their business models to preserve and which to dump. They also rightly argue that companies are more likely to survive dramatic changes if they are not distracted by unnecessary complexity. But sometimes simplicity alone is no answer to a sudden shift of the competitive environment. •

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