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Career Tips

# The New Blind Spot

By John L. Mariotti

**You're driving along, and you decide to change lanes. You check your rear-view mirror — a quick sideways glance — and activate your turn signal. Suddenly a horn blares and a fender flashes in your peripheral vision. You react, but were you fast enough to avoid the imminent collision? A car was in your blind spot. What does this have to do with global business? Everything. There is a "new blind spot" going unnoticed by those in the business world.**

We are certainly in the most complex business era ever. Complexity increases on a daily basis. The range of issues management must consider is staggering: terrorist threats, foreign exchange, offshoring, financing debacles, illegal immigration, new regulations, energy/commodity shortages, and technology that's growing at warp speed.

### A New Layer of Complexity — The "Blind Spot"

As if this array of issues weren't already enough, there's another layer of complexity, a new blind spot, if you will, just waiting to cause problems. What is it? The layer of complexity caused by the desperate pursuit of double-digit growth in low- (or no-) growth markets. Emerging mega-customers command huge buying leverage, as competitors fight for growth around the globe. Just as a well-intentioned lane change exposed the danger in your blind spot, this relentless search for growth causes a new blind spot: complexity caused by proliferation, done with the well-intentioned quest for growth where there is little, or none, to be had.

This new blind spot exists because of two factors which together cause tectonic shifts in global competition.

1. **Latent overcapacity** for everything, somewhere in the world. If it isn't on-stream now, it can be in a very short time. Just like that car lurking in the blind spot, it can hit you before you ever see or hear the warning. *Competition comes on faster than ever.*
2. **Rapid knowledge transfer** due to communications and information technology combined with the speed of air travel means that knockoffs/copies are upon you in a blink. Just like the car in the blind spot, the warning time is little — or none. *Parity is the norm.*

### "…We Are All Here…"

An MCI Network TV commercial (aired 10 years ago, before its time) showed this: A young Anna Paquin dances among the rocks on a beach and says, "The universe is information; information can be digitized; digital data can be transmitted; every book, every movie, every piece of knowledge in the universe; right here." In another version she says, "…there is no there, there is only here, and we are all here — with the network."

Any idea, knowledge, design, or skill set can be instantly transferred anywhere, followed quickly by people who know how to use it. This enables an incredible number of adjacent possibilities to expand. When pressured for growth faster than markets are growing, managers resort to proliferation of all kinds. They develop new products, but they are usually derivatives of the old ones. They enter new markets, but the markets are only new to them. Entrenched incumbents await, ready to defend their territory. Proliferation leads them to enter more markets, open more locations, add more variations, create more choices. The result? Complexity abounds.

### No Measures = No Warning

And yet, none of the vaunted 21st-century accounting systems capture the financial impact of this layer of complexity. Why? Because, it's hidden in the blind spot. Complexity costs hide in the accounts used as "catchalls" with titles like returns, allowances, deductions, variances, non-recurring charges, miscellaneous, obsolescence, bad debt reserves, premium freight charges, closeouts, rework, scrap, and interest costs. Complexity also hides in higher levels of S.G. & A. (Selling, General & Administrative) and overhead.

True, the expenses are "recorded," but only after the fact — and without an identified cause. These are blameless crimes perpetrated with the best of intentions, but there is a frightening unawareness that these profit-killers are lurking in new blind spots, unnoticed, until the end of accounting periods. Then, at month-end, quarter-end, or year-end, the top line may go up, but the bottom line almost always goes down!

### Find It, Fix It, Use It, or Lose It

What should management be doing? First, recognize that this hidden drain on profits exists. Complexity not only hinders current earnings, it strangles the future. Complexity keeps coming back like weeds after a spring rain. You must


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know where it hides, how to find it, and how to measure it. Once you understand complexity, you face a strategic "fork in the road." Choose to remove the complexity and keep it out. Or decide to structure your business to capitalize on complexity. Selling customized, high-variety poducts can be very profitable, but only if done right and with a focus on using managed complexity.

**Unknowns That Should Be Known — Specifically**

1. SKU Count
Meanwhile, institute new measures that most companies simply guess at, if they even do that. Know how many SKUs you have (Stock Keeping Units). Not "approximately"… exactly. And know how they are distributed among various business units. Know the annual sales per SKU, by division, by customer, by product line. You have all the data needed to calculate and keep these up to date. Is the SKU count growing? Yes, of course it is, and it will keep growing until you do something about it.

2. Order Processing Costs
Do you know what it costs to process an order from end to end? Do you? Of course not! There are budgets for each department involved. Add them up and divide by the number of orders processed. Add a percentage factor for the "overhead" of senior management, and that's a good approximation, albeit a little low. That's every order you process, and you may find that some orders (and customers) don't generate as much net profit as it costs to handle them.

**Sort It, Study It — Separate Winners from Losers**

Now it's time for the good part. Sort your annual sales revenue and gross profit dollars in descending annual value for customers and products. That will give you four lists. Make sure you've included "cumulative value" and "percent of total" columns. Now draw a line at the 25-percent and 75-percent levels. Above the 25-percent level are your winners. Below the 75-percent level are your losers. "Love" the winners — sell them more. "Lose" the losers. The middle 50 percent is a potential gold mine, or it can contain "fool's gold." Upgrade the "high potentials" into winners, or push the "low potentials" down and out along with the other losers below that 75-percent line.

**Reduced Work = Fewer Faces in Fewer Places**

Finally, recognize that as you remove complexity, you will remove work, which means you must cut staffing, too. Eliminating facilities and locations releases a virtual gold mine of savings from reduced complexity. Look hard at this golden opportunity to reduce complexity. Calculate dollars per location and see what it shows.

**Now That You Can See It, Manage It**

There you have it, the new blind spot for management — and the accounting profession. It's like having some of those new convex mirrors and a rear-facing video camera. You can see so much more. Now it's up to you to watch what's in the blind spot and make sure that you never let this level of complexity "blind-side" you again. Your bottom line — and your shareholders — will be much better off if you do.

**About the Author**

John L. Mariotti is the author of *The Complexity Crisis* and president and CEO of The Enterprise Group, a coalition of time-shared executive advisors. He is formerly president of Huffy Bicycles and of Rubbermaid's Office Products Group. John serves as a director on several corporate boards including World Kitchen, HomeCare Industries, Henkel Consumer Adhesives, and Petmate, Inc. He is the author of eight business books and a novel. For more information on John's books, speaking, and consulting, please contact www.thecomplexitycrisis.com.