



SOLUTIONS

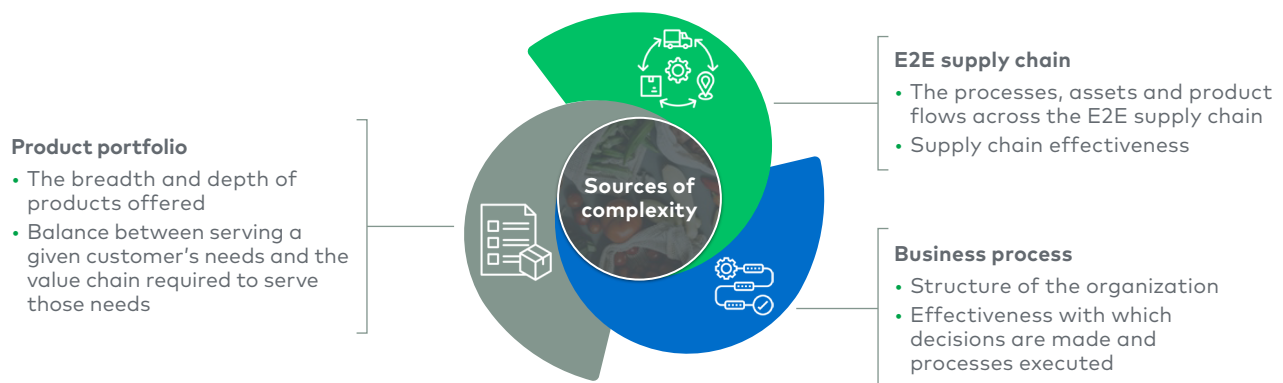
Unlocking Growth and Efficiency Through Supply Chain Simplification

Complexity has emerged as a key issue in recent years as leading consumer packaged goods portfolios have grown in complexity with innovation, brand partnerships and pressure to grow in the face of market headwinds. Supply chain complexity is any characteristic of a business that adds cost, whether directly or indirectly. This complexity can be generated by the product portfolio, the end-to-end (E2E) supply chain and business processes.

Identifying and addressing these drivers of complexity can enable businesses to enhance performance, achieve transformative outcomes and effectively target growth opportunities. To successfully navigate and reduce complexity, organizations must adopt a structured approach to diagnosing and managing these drivers (see Figure 1).

Figure 1

F&B complexity broadly comes from the product portfolio, the supply chain designed to make products and the business processes used to effectively manage them

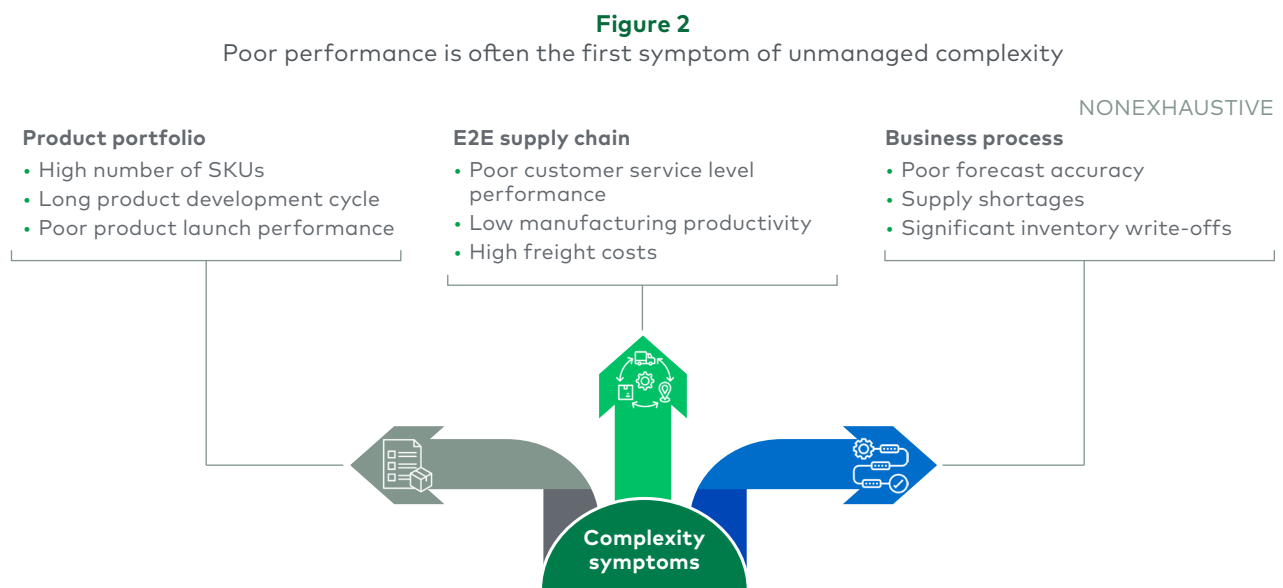


Note: F&B=food and beverage; E2E=end-to-end
Source: L.E.K. research and analysis

Breaking down 'good' vs. 'bad' complexity

Not all supply chain complexity is inherently bad complexity. Certain business models rely on being a "complexity sponge" that can effectively manage high levels of complexity. For example, contract manufacturers and packaging manufacturers (e.g., film, labels) are successful because they manage highly complex processes on behalf of their clients. In many cases, complexity also creates value by driving growth through innovation, line extensions and differentiated product offerings.

Conversely, bad complexity negatively impacts performance by introducing inefficiencies and added costs across the product portfolio, E2E supply chain and business processes. Clearly distinguishing between good and bad complexity is essential for strategic prioritization (see Figure 2).



SKUs=stock-keeping units; E2E=end-to-end
Source: L.E.K. research and analysis

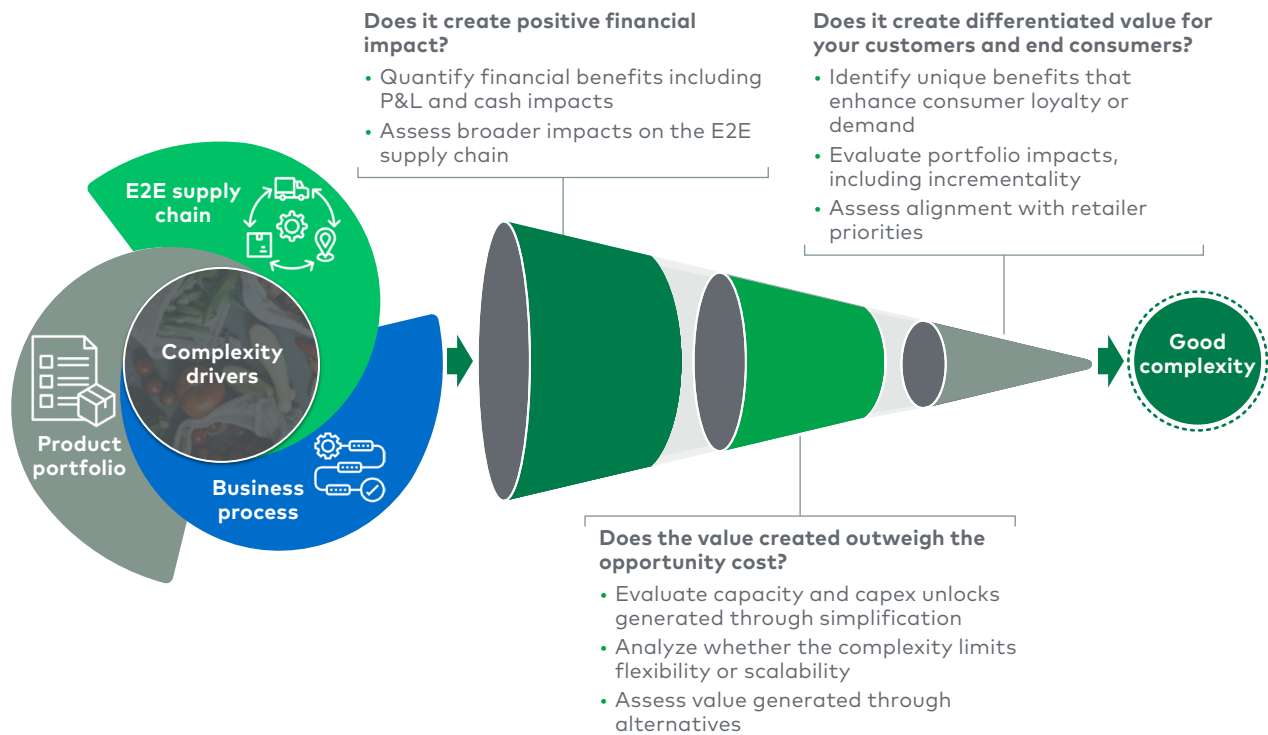
Commercial attractiveness in food and beverage (F&B) – when is complexity good for your business?

Complexity is good for a business when it drives financial, commercial or strategic value. There are three primary drivers to look at when assessing value: value to the customer, differentiated value for end consumers and positive financial or strategic impact for the business. This "trifecta" value can be isolated through quantitative metrics such as base turns and all-commodity volume distribution and through qualitative measures such as customer feedback and consumer sentiment.

Bad complexity adds cost and operational challenges without creating value for the business — this should be systematically identified and rationalized. Good complexity should be retained, and simplification efforts should evaluate root causes of complexity and remediate where possible to lower complexity while retaining value (see Figure 3).

Figure 3

Implementing a structured model to root out bad complexity and properly manage good complexity is essential to value creation



Note: P&L=profit and loss; E2E=end-to-end
Source: L.E.K. research and analysis

What value does simplification drive?

Simplification drives operational performance improvement, transformational outcomes and growth enablement for F&B manufacturers:

Simplification as a performance improvement and cost unlock

Proper complexity management can unlock value by improving E2E performance:

- By optimizing the portfolio and product changeovers, a manufacturer identified a 60 basis point margin uplift, primarily through labor and waste reduction.
- An F&B manufacturer realized 25% savings by bringing case packing in-house, reducing interplant movements and reliance on contract manufacturers.

- Simplification efforts enabled a manufacturer to target high-overuse product lines and stock-keeping units (SKUs), creating opportunities to improve gross margin by 500+ basis points.

Simplification driving transformational outcomes

The identification and management of bad complexity enables businesses to prioritize investments that drive transformational outcomes:

- Portfolio simplification freed up capacity at a manufacturer and allowed them to internalize a previously contract-manufactured product, lowering external costs while improving agility and control.
- A simplified product portfolio helped an F&B manufacturer strategize allergen labeling and align the offering to optimize allergen management in production.
- Following simplification, a food business unit was able to reallocate resources to accelerate digital transformation initiatives, transitioning from firefighting to leading the company through the digital change curve.

Simplification enables growth

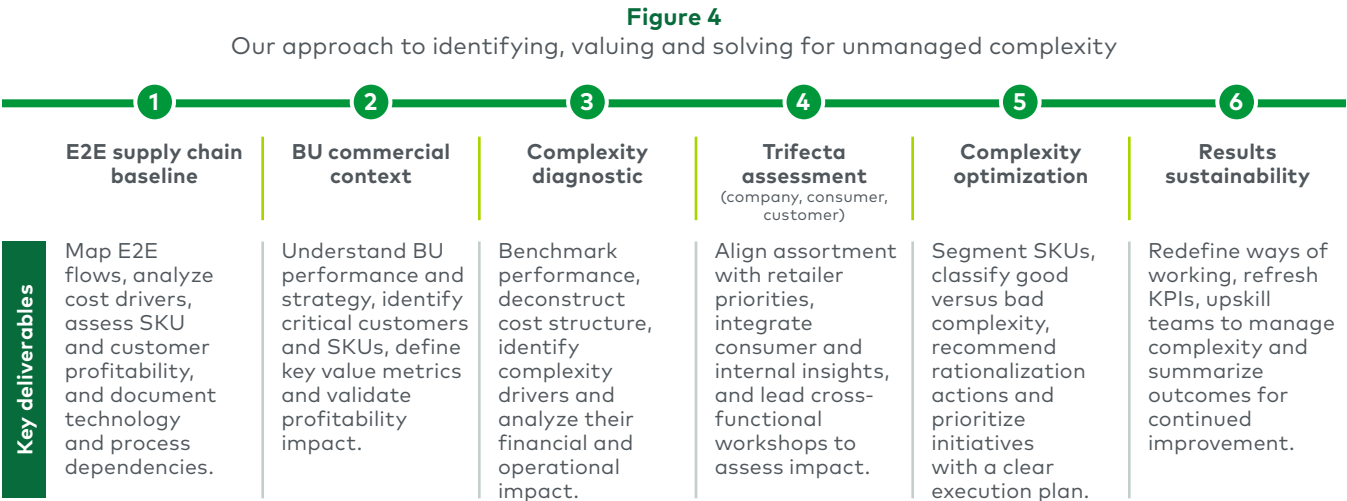
Capacity and resource constraints often prevent businesses from pursuing new product innovation and other critical growth opportunities. This challenge is magnified in complex product portfolios where resources are diverted to support poorly performing SKUs. By eliminating bad complexity, businesses can focus on new growth opportunities through innovation and new product offerings:

- An F&B manufacturer eliminated underperforming seasonal SKUs to focus on fewer, high-performing SKUs in high seasons and new offerings in underpenetrated seasons, enabling a key retailer to change its end-cap configuration and increase sales.
- Simplification enabled a manufacturer to combine three product lines into one new line that resonated more strongly with consumers.
- Capacity that increased through simplification enabled an F&B manufacturer to launch new variety packs that met consumer demand and opened access to additional retail channels.

How L.E.K. Consulting's simplification capabilities help clients create value

We take a collaborative and data-driven approach to identifying and addressing unmanaged complexity. We work closely with clients to baseline the E2E supply chain and establish commercial context, enabling us to quantify the quantitative and qualitative drivers of complexity for each business unit.

Using a tailored complexity composite scoring framework, we diagnose complexity and integrate findings with consumer and customer insights through a trifecta assessment (see Figure 4). This process categorizes SKUs based on good and bad complexity.



Note: E2E=end-to-end; BU=business unit; SKU=stock-keeping unit; KPIs=key performance indicators
Source: L.E.K. research and analysis

Based on this analysis, we deliver a prioritized set of simplification opportunities, supported by roadmaps for resourcing and execution. Each solution is tailored to the client's unique challenges to ensure lasting impact and sustainable outcomes.

Supply chain simplification can improve efficiency, strengthen performance and accelerate growth. [Contact us](#) to learn more.

About the Authors

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About L.E.K. Consulting

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