What is customer focused process innovation?

Historically process work has focused upon improving the efficiency, cycle time, the quality, or the cost of a specific process. Many of these efforts translate into significant benefits. However, there is another aspect of processes that is in rare use today with arguably even greater potential to enhance the fortune of an enterprise. That aspect is to use process management as the means to strategically position an enterprise.

Although not recognized as such, processes are the actualization of strategy. That is, they are the unique step-by-step manner by which an enterprise attempts to create valuable products for its customers on an everyday basis. How well they succeed in doing so is directly correlated with their customer loyalty. If we really want to strategically focus an enterprise, we need to operate at the process level and communicate in process terms. We replace high-level strategic brainstorms with debates on how specific processes can be calibrated to deliver a better product and experience than what is available on the market. When we bundle strategic process improvements with the more traditional operational efficiency initiatives, we enable enterprise leaders a view to the complete portfolio of opportunities. By methodically prioritizing these opportunities, an enterprise can capitalize on its greatest opportunities at any point in time. This is the essence of Customer Focused Process Innovation.

The Starting Point for Innovation

For any process improvement effort, there are two areas of knowledge needed to plot a course of execution. First off, the starting point. Similar to driving towards a destination, directions are worthless if they are not connected to a starting point. From a process standpoint, this means knowing the current state subject process, how the subject process relates to other processes, the activities undertaken to manufacture the output, the process performer(s), the capabilities of the performer, the inputs, the outputs, the equipment required, the different attributes of the inputs and outputs (i.e. quality, color, size, etc.), and any other information that makes the process valuable and unique. With the starting point known, now we need the endpoint, the second area of knowledge required.

The intended output for any strategic endeavor must be attuned to the customer. This is arguably the most important element of strategic planning, but it is also commonly overlooked. Copycat strategy is often the chosen approach. But just because the competition is serving up
a specific dish, does not mean it is the ideal offering. The customer’s preferences may be distinctly different from what is currently available. Here lies the greatest opportunity for the strategically nimble enterprise. Get down to the customer’s level. Understand the customer’s processes and how they shop, purchase, use, and refurbish the product. What do they value? What do they dislike? What are the unknowns or latent desires of the customer? Armed with knowledge about the enterprise’s capabilities and the customer’s preferences, an enterprise is already separating itself from the competition.

In the model I present in Customer Focused Process Innovation: Linking Strategic Intent to Everyday Execution, innovation flows down two channels – one focused on strategic improvement and the other focused on operational improvement. Market strategies are external. Operational improvements are internal. Together they are the Yin and Yang of innovation. One plots the destination. The other makes sure the engine is up to the task of getting there. On occasion, one may take precedence over the other, but they are both essential ingredients of an enterprise that performs for any period of time.

**Strategic Innovation**

Most good strategy delivers meaningful differentiators that make the customer’s choice easy. The product and the experience do not have to be perfect; they just have to be superior to available options. And it is rare that success comes from a single iteration or that the all the capabilities to deliver the strategy are in existence today. Innovation is hard work. Brainstorming strategies is easy, but putting them into execution is where most enterprises fail.

What is unique about the approach I promote is that strategies be stated in process terms. In other words, every strategy can be broken down to identify which processes need to be adjusted or developed and the anticipated output of that strategy. For example, an addition to an existing product line may require a marketing department to craft a marketing campaign for a new audience through a new communication channel. Such specificity in strategic communication not only removes the guesswork of what is required by different process teams, it also encourages collaboration across the teams simply by communicating everyone’s part of the strategy.

Every process delivers an output that is a factor of two components – the inputs to the process and the steps undertaken to transform these inputs into an eventual output. It follows that to adjust an output, either new inputs can be introduced or the steps of the process can be adjusted. Strategic innovation is taking the information gleaned from customer(s) and the current state of the major process(es) and developing hypotheses about what can be adjusted to deliver a better product experience. It requires digging into the details, testing hypothesis after hypothesis, and making continual adjustments until the end state is better than what is currently offered. Once tested and validated by the customer, it is ready for market.

In contrast to the relative simplicity of the strategic process, it may take a large amount of time and resources to deliver an intended output. For this reason, all initiatives – strategic or otherwise – always need to be properly analyzed and their business cases prioritized against other opportunities.

**Operational Innovation**

Once an enterprise is strategically calibrated and delivering a superior product in the marketplace, it can shift its focus to improving the quality of the output, making the production engine scalable, reducing the cost to produce the output, or any other factor of efficiency. This is traditional process improvement. It assigns an employee or a team to make the production engine stronger, more flexible, more specific, more repeatable, or simply faster.
Similar to strategic efforts, operational efficiency initiatives also require a solid business case. For both strategic and operational innovation, it is imperative that managers coordinate their improvement activities to ensure that improvements on one process do not create inefficiencies for another. All the impacts both positive and negative need to be considered when evaluating initiatives. The mechanism to evaluate initiatives is Initiative Management.

**Initiative Management**

In contrast to the portfolio management organizations in existence in most enterprises today, initiative management is not simply providing approval to initiatives or tracking progress. It is a rather new mindset that considers every initiative as an investment to be evaluated and ranked against other investments. When considering initiatives from this angle, it is extremely important to analyze initiatives using the same process and prioritize them using the same criteria. Once the list of initiatives are prioritized and ranked, it becomes the innovation portfolio for the enterprise – an ordered ranking of where an enterprise will invest resources to secure the greatest return.

At this point, most enterprises wait for the initiatives to come to fruition before launching additional ones. In contrast, initiative management’s goal is to allocate the enterprise’s resources where they will deliver the greatest benefit. This may mean an operational efficiency initiative may take precedence over strategic activities if it forecasts to deliver a greater bang for the buck.

Equally important is the inclusion of a changing environment into the analysis of the portfolio. Active management of the portfolio means that new initiatives may surface that promise superior performance versus what is already in the pipeline for delivery. Initiatives may need to be halted as they are no longer predicted to deliver a benefit consistent with their order of execution. Other initiatives may promise greater benefit. This is portfolio management for initiatives. It incorporates the continual introduction of new information and reevaluates the portfolio. While in-flight initiatives may be given precedence over new initiatives, substantial deviations in the forecasted value of initiatives may require a reordering of the prioritization. And it is an ongoing basis, not an annual effort like many strategic planning processes in place today.

Today’s enterprises operate with processes and structures inherited from prior leadership teams. Many of these practices are antiquated. The enterprise capitalizing on the approach outlined in this article stands to reap a major competitive advantage – the ability to naturally recalibrate its strategic offerings while simultaneously investing its resources in the best possible opportunities. By doing so, it positions itself to not only be a staunch competitor today, but it naturally moves towards the most strategically viable positions in the future.
David Hamme serves as the Managing Director of Ephesus Consulting. Prior to founding Ephesus, David worked stints as a management consultant for Ernst & Young and The North Highland Company. His consulting work spans numerous areas including Strategic Planning, Process Improvement, Change Management, and Enterprise Wide Cost Reduction. Over a 20-year consulting career, David has completed projects for over 40 clients including such recognizable names such as GE Capital, Kellogg’s, Bank of America, Wells Fargo, Family Dollar, Delhaize USA, Fifth Third Bank, Lowe’s Home Improvement, Time Warner, Sonic Automotive, and Duke Energy. In addition to his consulting career, David served as an executive in Lowe’s Home Improvement’s Installation Business Unit. As a leader of this $3B business, David oversaw the strategic planning, marketing, product management, pricing, new product development and sales functions. David earned an M.B.A in Finance from Indiana University and a B.S. in Industrial Management and Electrical Engineering from Purdue University.

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