



CUSTOMER MANUFACTURING GROUP

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DON'T CUT INNOVATION: FOCUS & 'LEAN' IT

APPLYING *LEAN THINKING* TO INNOVATION CAN SAVE PRECIOUS RESOURCES AND PROVIDE THE VEHICLE FOR YOUR FUTURE

When tough economic conditions mandate various types of expense reductions, apply the principal of *Lean Thinking* ('Lean' for the rest of this paper) to your innovation projects. Finding it necessary to 'down size' various aspects of your company's operations usually results in quite painful resource reductions in people and in physical assets, and in eliminating slow or non-moving products. We suggest you also take a very close look at the various product ('product' herein will apply to both hard products and services) projects currently under development or at the ideation stage.

How 'Lean' Can Help

This is where the concept and practice of 'lean' comes in. Most simply stated, 'lean' means the elimination of products, processes, methodologies and practices *which provide no value to the customer.* If some of your external product offerings and internal practices do not result in actual — not perceived in your mind — customer value, cut them out of the playbook; they simply don't serve . . . anyone. In 'lean' terminology, these are waste.

Furthermore, 'lean' applies to all aspects, and all corners, of your company's operations. For any given item that generates company expenses, i.e., it impacts your P&L somewhere, ask yourself "why and how will this benefit our customers?", then take this one step further. If you obtain customer-positive answers to these questions, ask one more question, "how can we add even more value for the customer without increasing cost?" These are 'lean' practices.

OK, now a note of caution regarding your cost reduction programs; be careful to not sacrifice your future by eliminating those customer-facing innovation projects that will enable your company to come out of the economic doldrums at least one step ahead of your surviving competitors. Now is the time to ask what you can do now to take that "great leap forward" in the marketplace. Most companies will take the simple and no-brain-attached expediency of hopefully coming back to life with the same products they had before the grave digger arrived, but now with reduced prices (and by-the-way, "hope" is no plan at all). Product prices are the easiest component of customer value to manipulate, but this does nothing for the other components of value, i.e., product utility and functionality, quality (as the customer defines it) in its many aspects, and the ability of the product to enhance your customers' value to *their* customers.

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'Lean' innovation, then, means channeling, focusing, and applying your company's creative capabilities to products that can be successfully inserted into the marketplace and that will have staying power over a reasonable period of time. The other part of this application of 'lean' is to focus *only* on these projects — and no others — during this tight economic period, that is, cut out the "fun" stuff, the theoretical research (or ideation activity) that is aimed (again, hopefully) at carrying you *over* the horizon instead of those projects that will enable you to get *to* the horizon. (Yeah, we know, the "horizon" is constantly advancing, so focus on the horizon that you can see at this time.)

In this period, the successful companies — that is, those who will still be around in a year or so — will focus on little, or no, 'R' and concentrate on big "D" creativity / innovation.

If you cut too deeply into your innovation resources you may be initiating your own demise even if you do survive this economic bucketing; if you don't come out with something of enhanced customer value (innovation that is incremental, or distinctive or breakthrough), your competitors with foresight will.

If thus far you haven't yet figured out an even simpler application of the 'lean' philosophy, it is this: eliminate waste. Simple, huh! To add some clarity, we can define "waste" as any activity (the application of your now very dear and about to become scarce resources) that does not add value from the customers' perspective. For a further exposition of 'lean' as it applies to marketing/sales, please avail yourself of a good treatment of this subject, noted below¹ This reference will in turn provide further references for the application of 'lean.'

Practicing Lean Innovation

As a strong proponent of applying 'lean' throughout all the activities of enterprise, we are always on the lookout for specific examples of its application in marketing and in innovation. The following examples illustrate how 'lean' is being used in innovation to navigate around the current economic tar pit.²

1. Seek out and invite customer-facing insight from all sources within your company. Find the previously hidden talent that no one knew was there. This has become part of **HP's** M.O.
2. Innovation not only requires discipline, it also requires focus, and in this case, on the customer. This is not theoretical R&D or finding another applica-

¹ "Lean Thinking Applied to the Marketing/Sales Process," Customer Manufacturing Group white paper, www.customermanufacturing.com/wpfiles/leanthinking.pdf

² Peter Skarzynski and Gary Getz, "Best Business Strategy: Grow Through Innovation," Special to the Mercury News, San Jose Mercury News, November 20, 2008.

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tion of $E=mc^2$; it is about, in this case, finding and executing those innovative projects that will produce company-saving results. **Houston Wire & Cable** focused their activities on what they called "five growth initiatives" which allowed them to concentrate their resources on the most productive market areas.

3. **Knoll** is focusing its innovation activities on what they call "sustainable design" which means providing services that enable its customers to not only gain market share in our economy-critical environmental growth areas but which, by their nature, continue to be stimulated by our national initiatives in energy and conservation
4. Another successful innovation practice is to avoid resourcing and banging through products and projects on a "can do" basis (as in, "we can do anything"), specifically, knock off the spending on those which are doomed to fail due to inattention to customer requirements. Focus on the customer.

Another very innovative company, **Olympus Corporation**, has taken a different approach by using what they had, and knew well, to do something different with it.³ Olympus, best known in the consumer market for its high quality cameras, has applied its expertise in opto-digital technology to the development of state-of-the-art medical imaging devices for gastroenterological examination. The company knew a great deal about light and optical physics and began looking for other application areas in which to apply and expand this expertise. In this case they have made use of the technology they knew and extended it into one of the fastest growing markets in the world, computer and bio-mechanically assisted medical devices, and further, into early disease detection and treatment of cancer, as well as in minimally invasive diagnosis and surgical procedures.

Let Your Customer Be Your Guide

When Sophie Vandebroek became CTO of **Xerox Corporation** in 2005 (she is now a corporate vice president and president of the Xerox Innovation Group), she found a technology and innovation environment that had lost close contact with the customer; it was resting on its past successes — it was "*the* document company" — while trying to develop new products from behind their desks. As a result, its prowess as an innovation company crashed and by 2001 it had plunged to 10th on *FORTUNE's* annual list of America's Most Admired Companies.⁴

One of Vandebroek's first tasks was to educate the company about the difference between invention and innovation. (Excuse us to remind you that you can

³ Campbell Hanley, "Looking at Disease in a Different Light," *FORTUNE*, November 24, 2008, S12-S13.

⁴ "Xerox's Inventor-In-Chief," *FORTUNE*, July 9, 2007, p.65-72.

What [your customers] need to survive in their market may be — and probably is — something different than what you had been selling them.

invent behind your desks, while to be innovative you must find out what the customer needs, will buy, and will have some sustainable life time in the marketplace.) In a relatively short period, Xerox's technology was redirected into "smart document" technology. In very simple terms, prior to this, Xerox machines produced *dumb* documents, that is, simply a copy of something. The new machines that have come out of this "smart" concept now store the images, and find, compare, and analyze the documents they produce and do this for not only whole documents (titles, etc.) but also document *content*; in effect a customizable printing and transmittable data base that can be tailored to each customer's needs.

From one perspective, Xerox is making strides to get ahead of the customer demand curve instead of trailing behind it by just being clever or being reduced to a "me too" xerography company. Amazing how quickly this technology has advanced, isn't it!

What *Will* Your Customers Buy?

The answer to this is simple; only what they *need*. And what they now need is most likely not what *you* think they need. Get out from behind your desk and go find out. This is not just a sales challenge, it is in fact more of a marketing responsibility, for in these skinny economic times, your customers may not simply be buying a little less than what they previously purchased. What [they] need to survive in their market may be — and probably is — something different than what you had been selling them. It is Marketing's responsibility to find this out.

We won't go into all the details here, but this is the time in your customers' lives, and therefore in yours, when the concept of "disruptive technology" may come into play. A brief note of explanation: *disruptive technology* is an innovation that brings a different value proposition to the market that is based on the original product.

Disruptive technology may be found in one of two basic categories of innovation:

1. Products that are a *little faster* or a *little less expensive* (notice we didn't say cheaper) or a *little easier* to use or a *little easier to maintain* or a myriad of *a little more somethings*. They don't change the *what* of the product but they do change the *how* a bit. They change the customer's views of a value proposition. These may be considered to be incremental or even distinctive innovations.
2. Products that do something quite differently, and may be considered to be breakthrough innovations based, for example, on an entirely new technology. A few examples are the digital thermometer (it still measures and tells your temperature, but the *how* is quite different), electronic greeting cards, i-phone, "notebook" computer, laser surgery, microwave ovens, micro-surgery and so on.

Final Thoughts

The point of all this is that if you think that you can not only survive but thrive, and exit this financial abattoir better than when you entered and better than your competitors, *with the same product offerings*, first make sure you've paid off your home mortgage, car loans, and that the kids' college funds have been fully provided for.

Innovation is that something needed by the customers that will assist them in surviving these tough times. You will have to invest the resources required to build strong, supportive customer relationships, and the goal here is to not become just the vendor of choice but the supplier by design. Just as you personally will maintain your loyalty with the auto mechanic who throws in a little extra service, your customers will honor their supplier partners who helped them get through nicely. So, get yourself invited to have a "what else can we do for you or do you need from us?" customer meeting; you will be investing in the thrive abilities for both of you.

This is also the time for you to closely examine your company's flexibility and nimbleness which we believe are two of the most important manifestations of culture. We might expound on this in a later paper; stay tuned. But we will state here that 'lean' has a very significant role to play in these two characteristics also.

More Information About Customer Manufacturing Group

If you would like more information about how to apply a process-based approach to improve your marketing/sales function, simply contact us and we'd be happy to help you get started. From sweeping marketing/sales management process strategies to specific branding or product launch services, Customer Manufacturing Group can help.

If you'd like to learn more about Customer Manufacturing Group, or for a complimentary subscription to *Customer Manufacturing Updates*, give us a call at (800) 947-0140, fax us at (408) 727-3949, visit our website at www.customermanufacturing.com, or e-mail us at info@customermfg.com.

We have offices in major cities in the United States, and our experts travel extensively throughout the world. If you'd like to schedule a meeting when we're in your area, just let us know.