



Dealing With Darwin

Managing For Services Innovation



Todd Hewlin
Managing Director

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Agenda

- **The Innovation Imperative**
- **Choosing An Innovation Vector**
- **Perpetuating Innovation**

The Innovation Imperative

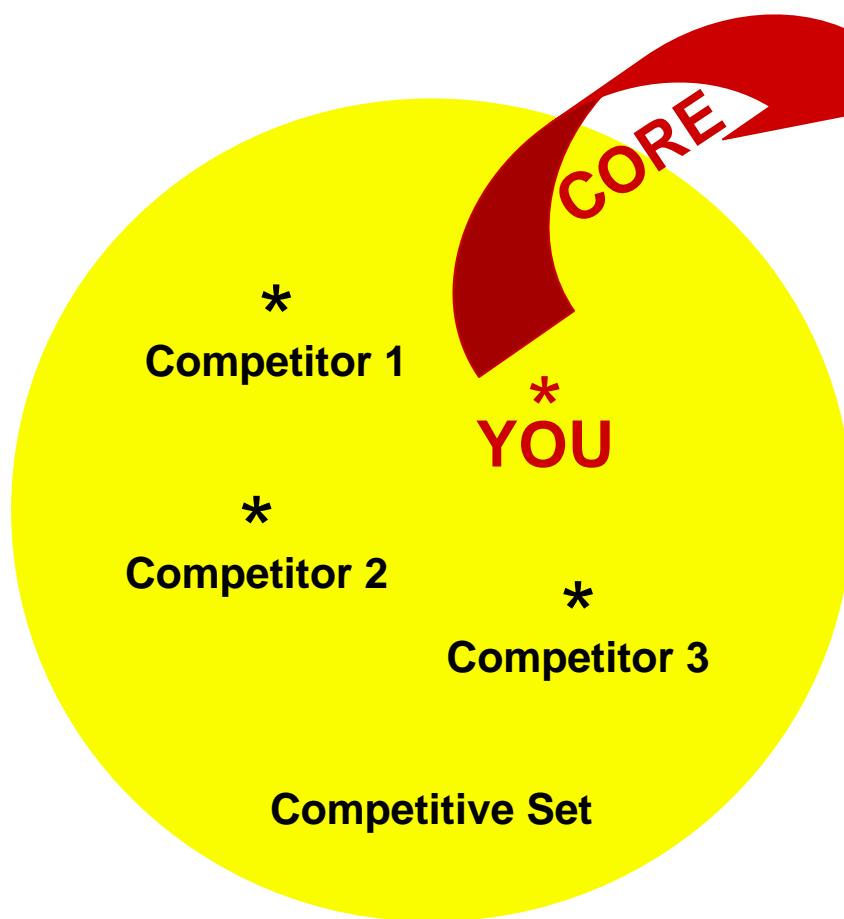
Globalization's New Rules

- **Market advantage has shifted**
 - From developed economies to developing economies
- **Size advantage has shifted**
 - From large enterprises to small & medium businesses
- **Winning strategy has shifted**
 - From standalone competition to ecosystem competition
- **Performance visibility has shifted**
 - From opaque to transparent

We are all Dealing With Darwin

What Darwin Demands

Innovate to Achieve Competitive Separation



* Amplify a specific vector of innovation

Gain bargaining power by getting separation from your competitive set

Failure to separate means low to no returns on innovation

Focusing on Your Core

- **Core:**

- Processes that enable and amplify your chosen vector of competitive differentiation
- Source of growth in revenue and profit

- **Context:**

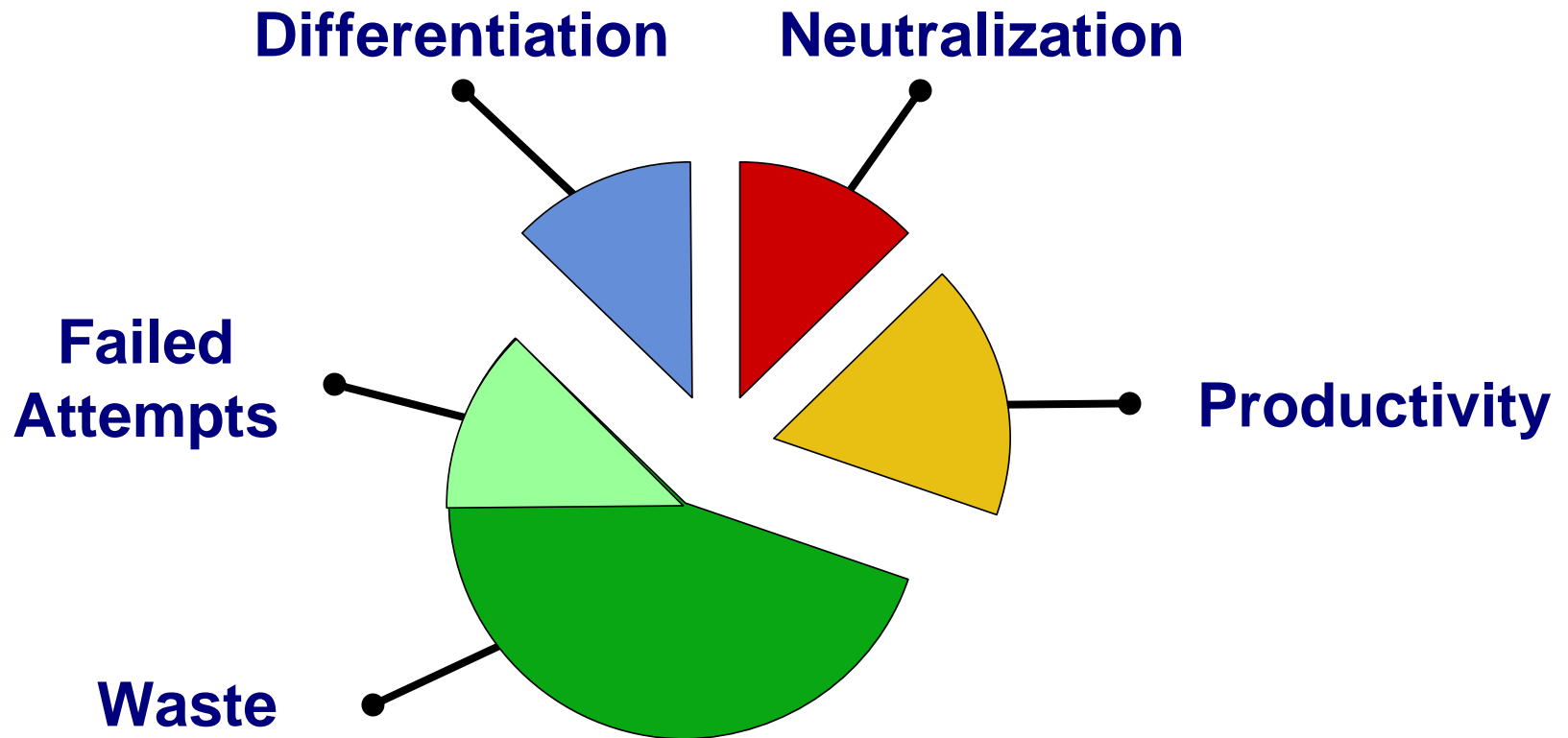
- All other processes
- No prize for beyond-average performance
- May be penalties for failure to meet minimum requirements

This is not the same as your core competence

This is not the same as your core business

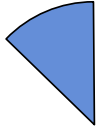
Choosing An Innovation Vector

Segments of Innovation Initiatives

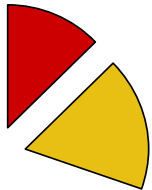


- Differentiation projects that don't go far enough
- Neutralization projects that go beyond good enough
- Misaligned innovation efforts that cancel each other out

Managing Return on Innovation



- **Identify a vector of differentiation to define *core***
 - *Core* is your source of unmatched competitive advantage
 - Reengineer every process to enable or amplify core



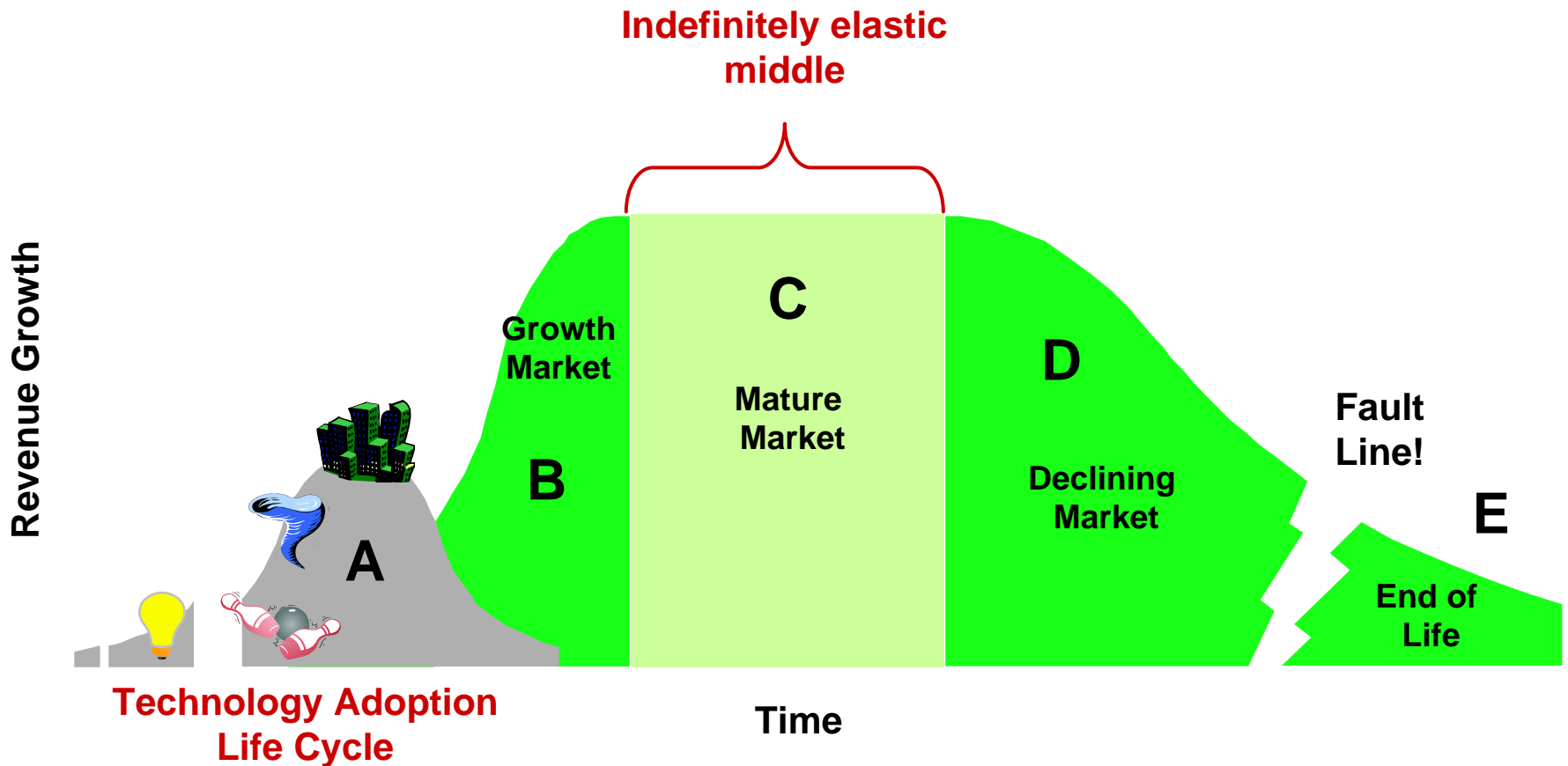
- **Define all other work as *context***
 - Necessary to your success, but not differentiating
 - Apply neutralization and productivity strategies here



- **Commit to “beyond class” outcomes**
 - A set of offers that direct competitors *cannot* or *will not* copy
 - Either be “beyond comparison” or “just good enough”
 - “Best in Class” is a sucker bet!

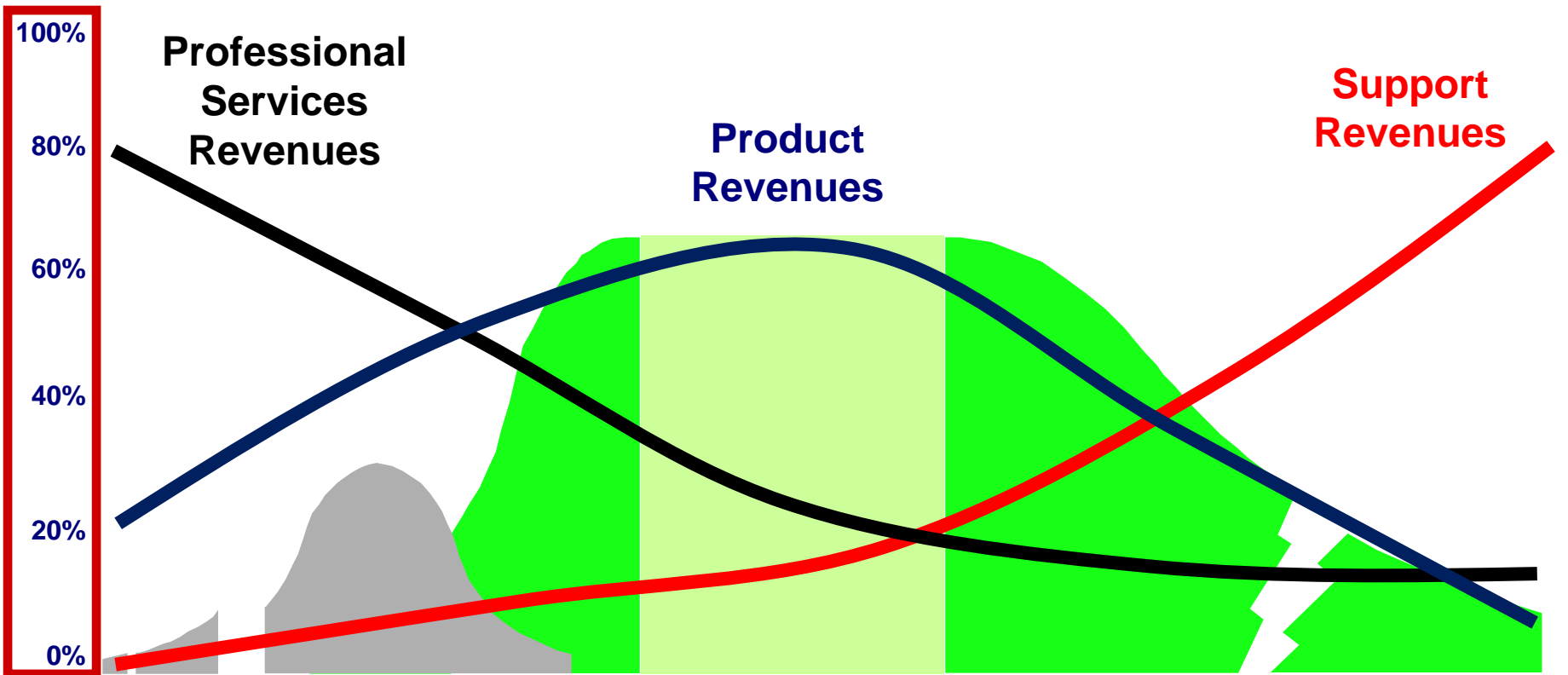
Category Maturity Life Cycle

Landscape of Competitive Advantage Changes



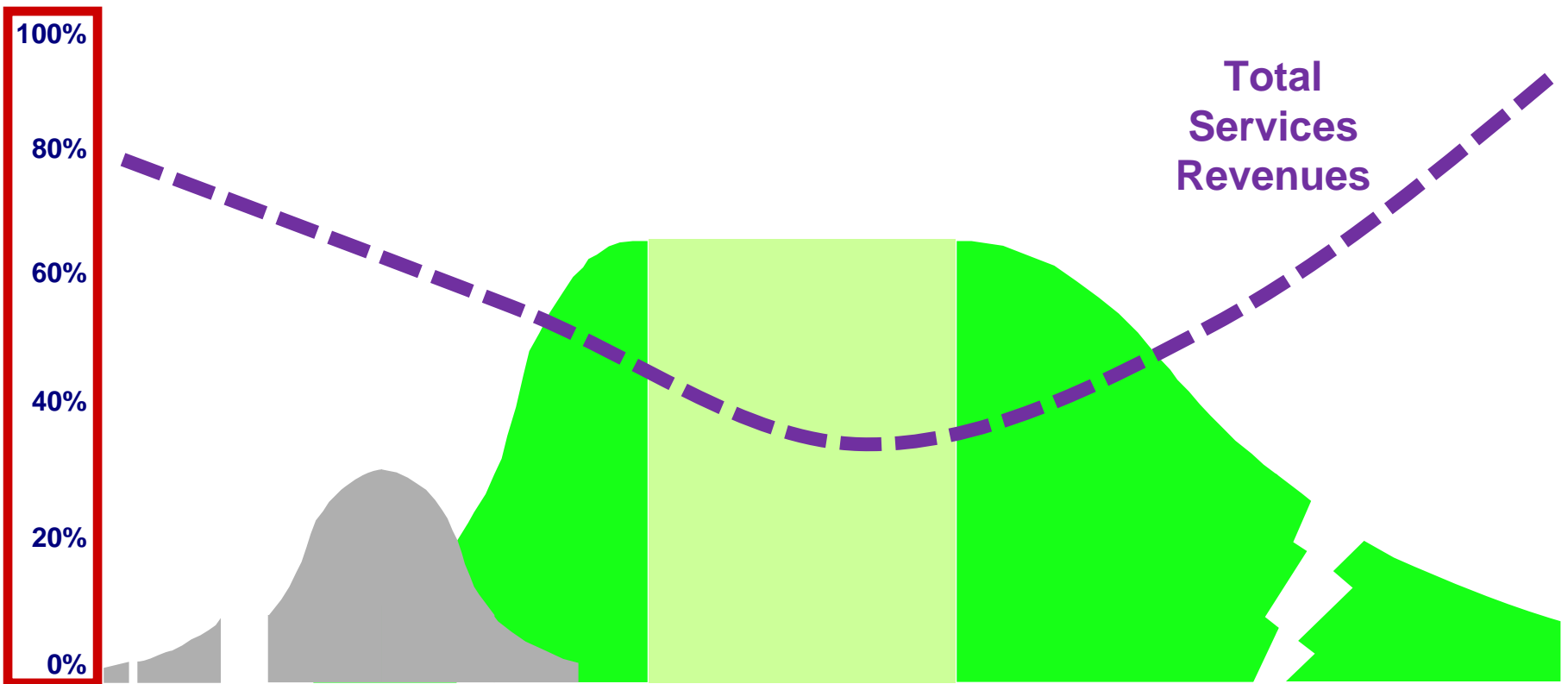
Why Services Innovation Is Critical

% of Total Solution Revenue

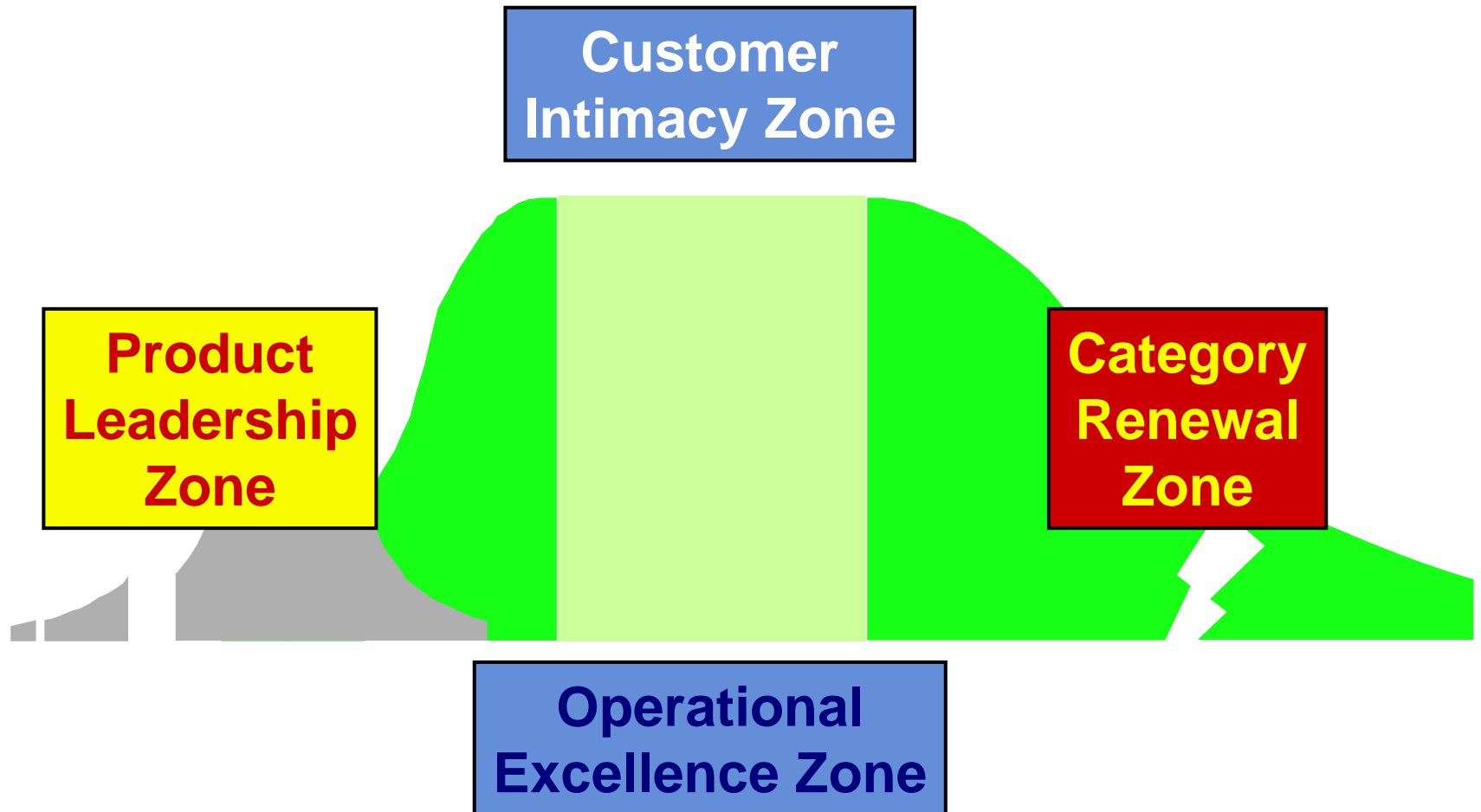


Why Services Innovation Is Critical

% of Total Solution Revenue



Four Innovation Zones



Innovating in High Growth Markets

The Product Leadership Zone

Disruptive Innovation



Create a new category, build the value chain to serve it, and ride its adoption to success

Application Innovation



Adapt an established product or service to a new market where it can tap unmet demand

Product Innovation



Take share in an established market with a new offer that dramatically outperforms current market leaders

Platform Innovation



Stimulate and dominate next-generation growth markets by collaborating with partners

Innovating in Mature Markets

The Customer Intimacy Zone

Line Extension Innovation



P&G

Gain market share by modifying an established brand to appeal to an underserved market segment

Enhancement Innovation



Apple

Gain margin share by creating greater perceived value at the surface of an existing offer

Marketing Innovation



Nike

Gain customer preference through differentiated communication and delivery methods

Experiential Innovation



Lexus

Gain customer preference through differentiating the experience of the offer and its delivery

Innovating in Mature Markets

The Operational Excellence Zone

Value Engineering Innovation



Open Source

Take market share by being first to the next price-elasticity inflection point

Integration Innovation



SAP

Protect and extend market share by eliminating the complexity of managing many disparate elements

Process Innovation



Fedex

Win share or margins by productivity gains from reengineering business practices

Value Migration Innovation



HP

Win margins by migrating to a new and more highly valued business model

Innovating in Declining Markets

Category Renewal

Organic Renewal

Use internal R&D-generated *product leadership innovation* to enter a new growth category

 Agilent

Structural Renewal

Use M&A to divest out of a declining category and enter a new growth category

 GE

“Piling On”

Create *Unmatchable* Differentiation

- **Wildly over-invest on the core vector**
 - Spend three to six times more than is reasonable
 - Not just money: *Time, talent, and management attention*
 - Raise the stakes to a point where it is irrational to compete
- **Reengineer all support functions to amplify core**
 - Use customer-facing functions to *trumpet your core*
 - Manage supply-chain-facing functions to *cheat to core*
 - Use internal functions to get everyone to *think core*

Piling On

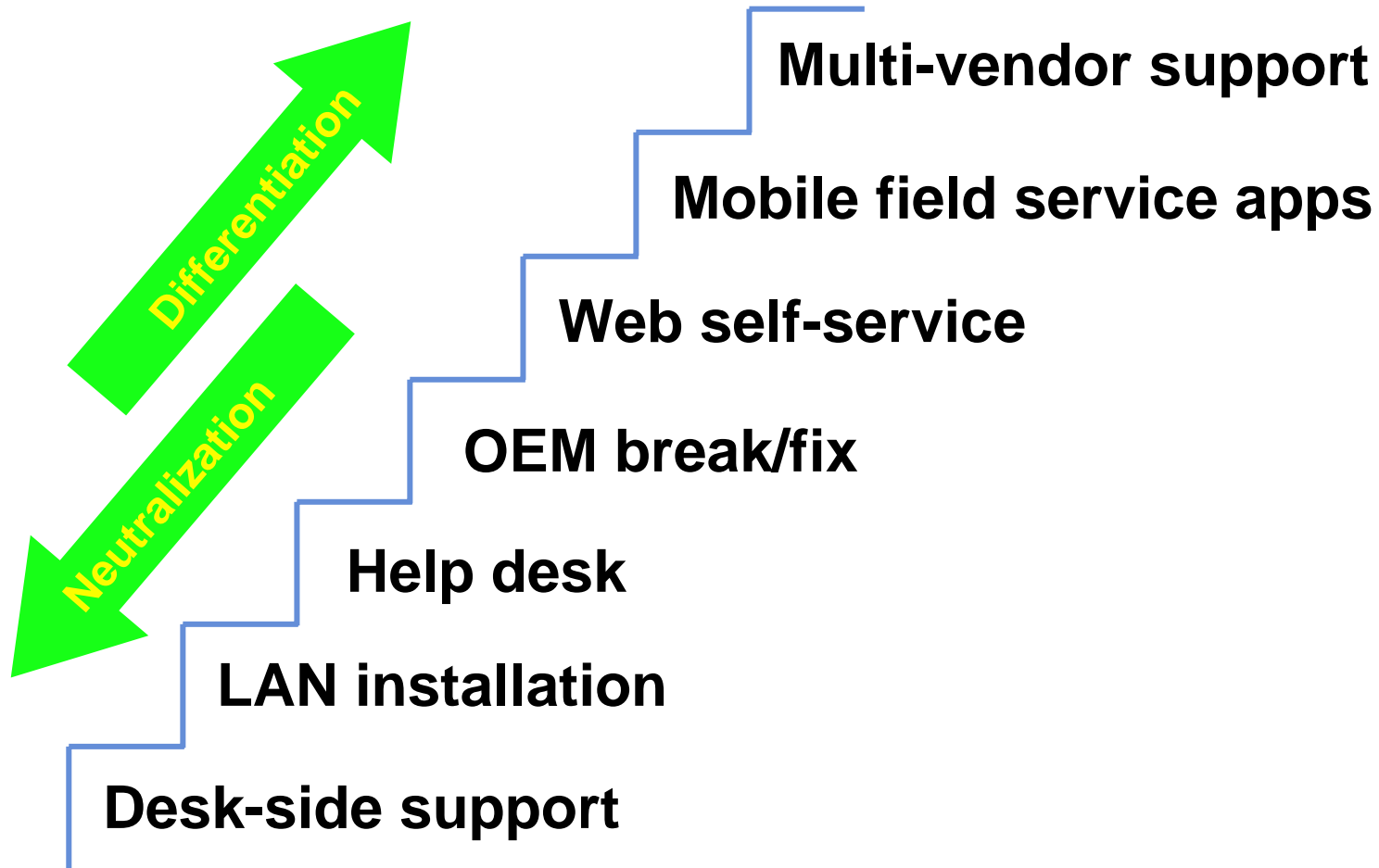
The Example of Apple's iPod

- **iPod itself celebrates *enhancement* innovation**
 - Gorgeous design, terrific UI, wonderful accessories
 - Packaging and advertising reinforce the design esthetics
- **iTunes provides consumer-class infrastructure**
 - First to meet the three key retail touchstones: *Price*, *Availability*, and *Selection*
- **Apple Stores support trial and purchase**
 - Eliminated the noise factors of competing products and unresponsive store personnel
- **Subsequent line extensions cement the brand**
 - **Shuffle** for low price, **Nano** for sex appeal, **video iPod** and **iPhone** for market expansion

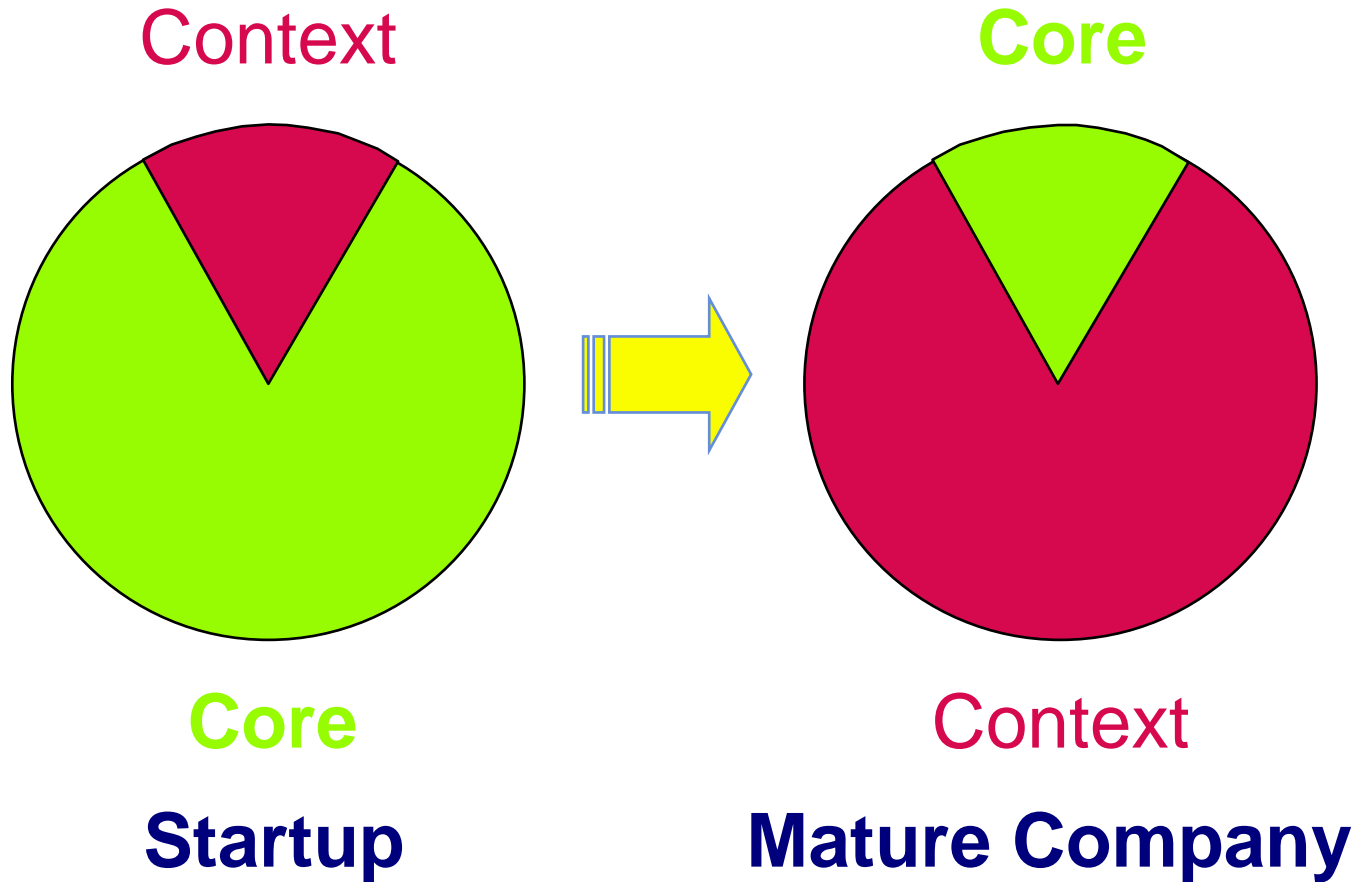
Perpetuating Innovation

Darwin's Dirty Trick

Anything Core Becomes Context Over Time

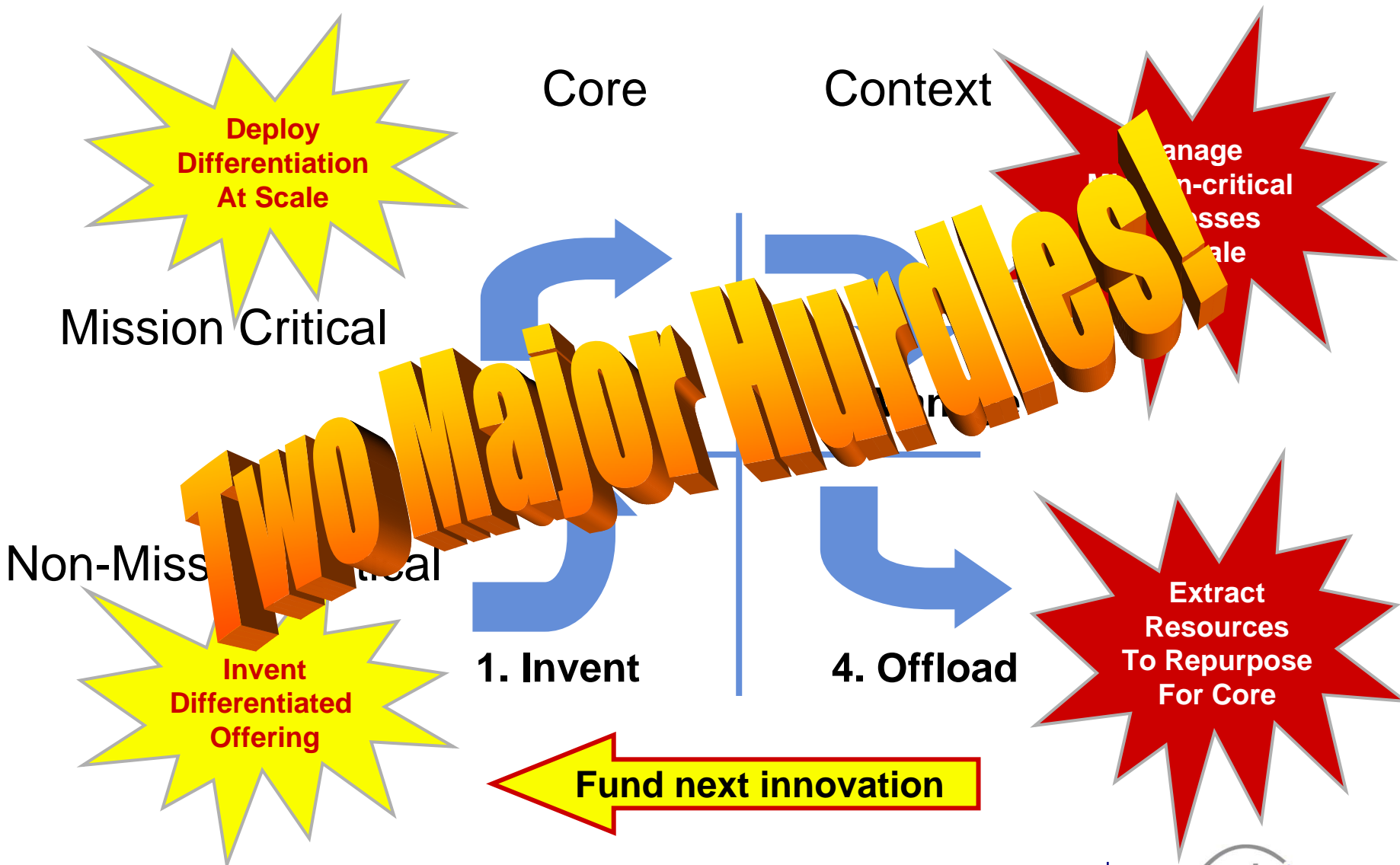


Resources Get Trapped in Context



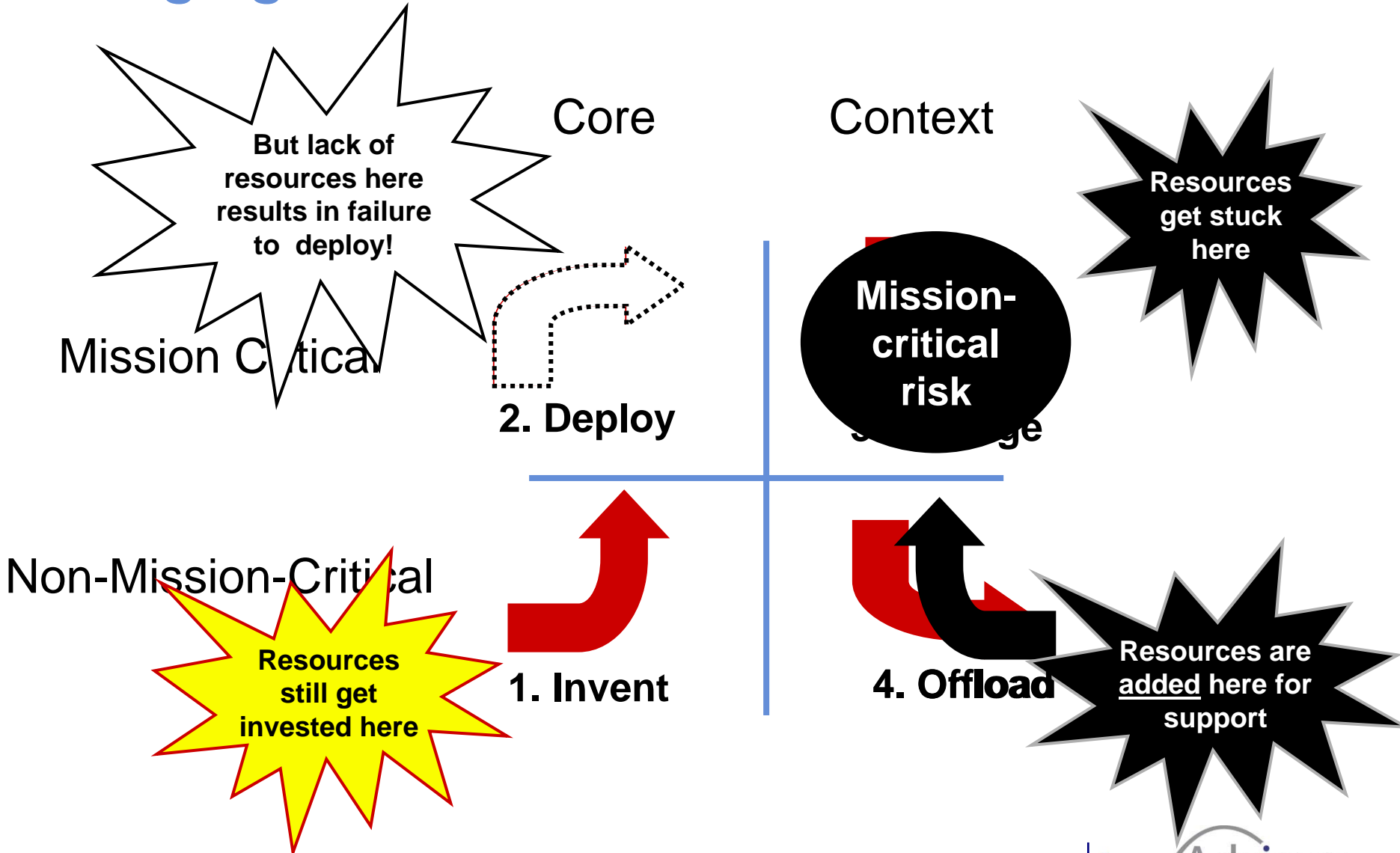
Organizations become uncompetitive

The Cycle of Innovation



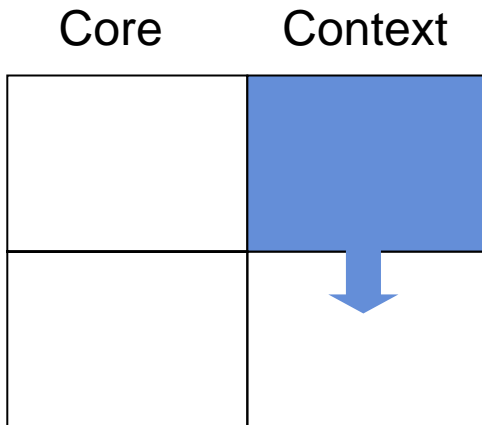
Hurdle #1

Clinging to Mission-Critical Context



Freeing Resources Trapped in Context

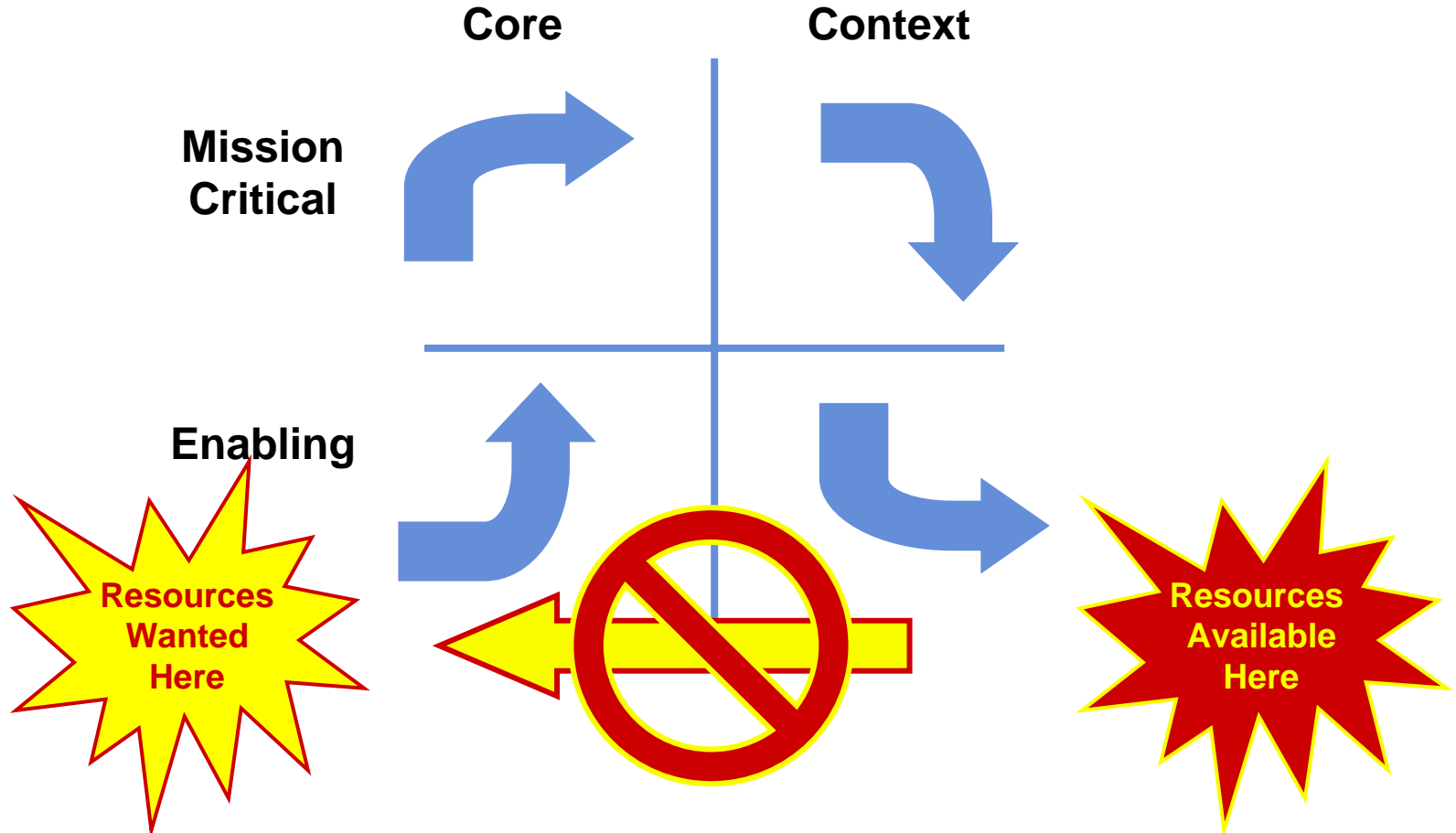
The Six Levers Model



1. **Centralize.** Bring operations under a single authority to reduce overhead costs and create a single decision-making authority to manage risk
2. **Standardize.** Reduce the variety and variability of processes delivering similar outputs to further reduce costs and minimize risks.
3. **Modularize.** Deconstruct the system into its component subsystems and standardize interfaces for future cost reductions.
4. **Optimize.** Eliminate redundant steps, automate standard sequences, streamline remaining operations, substitute lower-cost components, or otherwise cost- and resource-reduce.
5. **Instrument.** Characterize the remaining processes in terms of the variability of key parameters and develop monitor-and-control systems to manage their performance.
6. **Outsource.** Drive processes out of the enterprise entirely to further reduce overhead, variabilize costs, and minimize future investment. Incorporate vendor use of monitor-and-control systems into Service Level Agreement.

Hurdle #2

Mismanaging the Work Force



**People being released lack the skills
to fill the positions being opened**

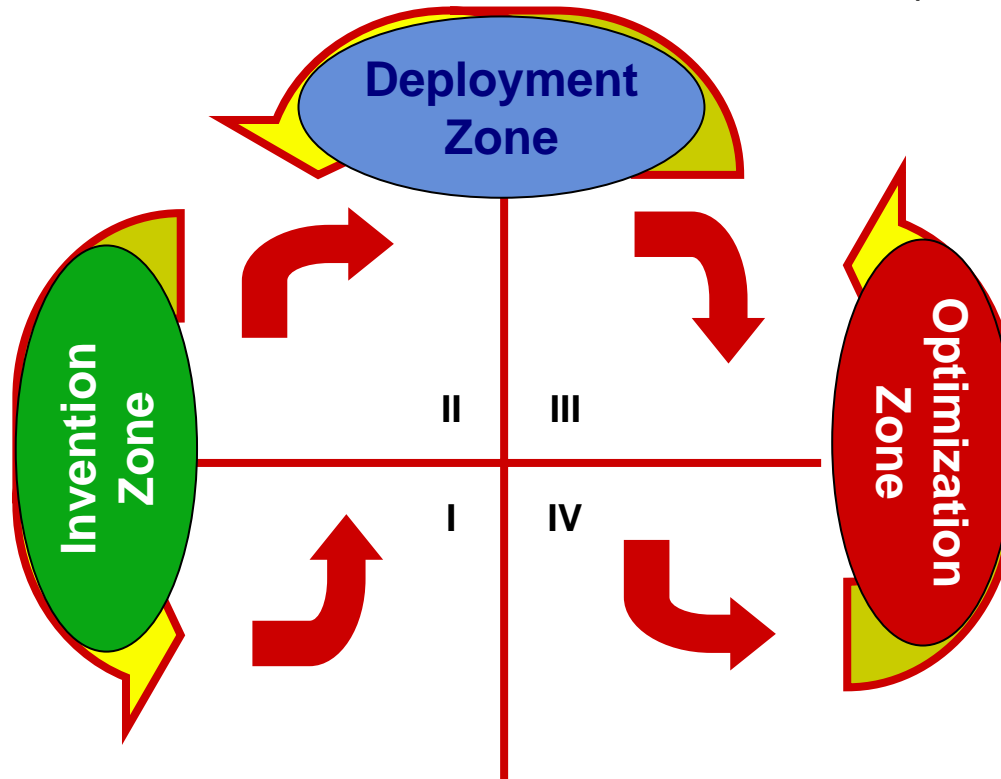
Revitalizing the Work Force

Resource Recycling Zones

Deployers

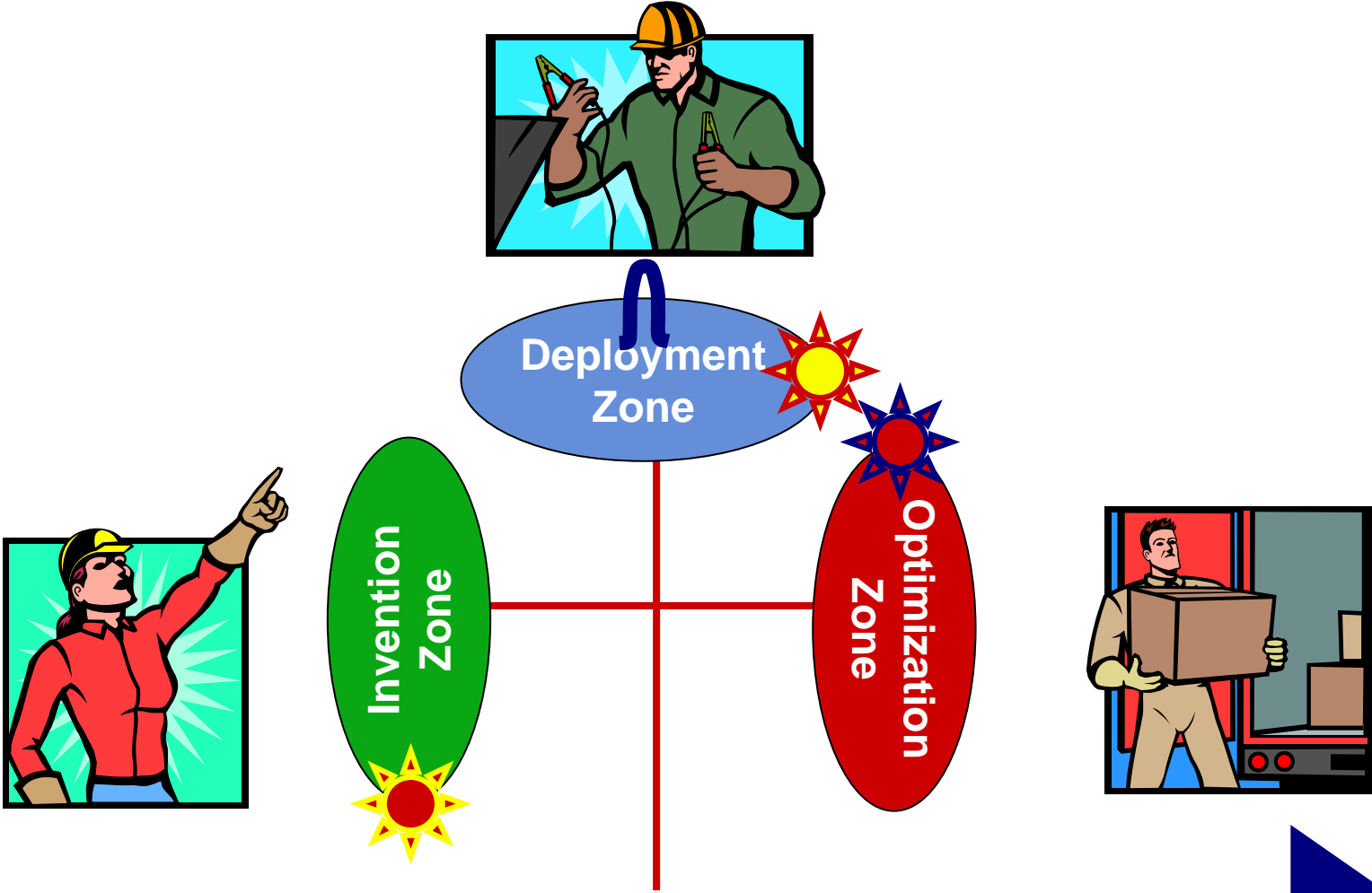
Use conventional methods to ramp and manage mission-critical processes at scale

Inventors
Use unconventional methods to create and incubate new core



Optimizers
Use the Six Levers to extract resources from context to repurpose for core

Perpetuating Innovation



Innovation flows as fast as your slowest gear

Growing Human Capital

- **Focus on building role expertise**
 - Make it an explicit goal of job assignments
 - Maintain it through managed reassignments
- **Avoid overvaluing task expertise**
 - Buys you productivity in the short term
 - Creates unproductive populations in the long term
- **Be cautious about asking people to change roles**
 - Most people are most productive staying in role
 - Revitalization comes from changes in task content

Recap: Four Ideas

- **Dealing with Darwin**

- Globalization produces an urgent need to achieve competitive separation

- **Innovation Vector**

- Push your team for beyond-class performance on your chosen vector

- **Funding Innovation**

- Extract resources from context to repurpose for core

- **Perpetuating Innovation**

- Recycle resources to create perpetual innovation

Thank You

thewlin@tcg-advisors.com