



The Innovation Tool Kit

Version 1.0

International Process and Performance Institute

Purpose of the Innovation Tool Kit

The purpose of the **Innovation Tool Kit** is to give you an actionable approach to Innovating on your Customer Value Propositions for the purpose of creating and sustaining Market Growth.

The challenge of competing in the 21st Century Customer-Driven Economy

All we have to do to know the challenge of competing in the 21st Century Customer-Driven Economy is to look at the news headlines to see what big company is struggling to produce profit today.

Nobody is immune and what worked yesteryear won't work now.

Of course we all know that. But if so then why do we insist on cost-cutting strategies; glossy, big-budget marketing campaigns (you know how much you hate those overdone advertisements? your customers hate them just as much); sales blitzes; reorganizations; Six, Eight or Ten Sigmas (what's a sigma?); and Lean (a diet?) something or other?

It's simple, because we don't know how to harness the power of innovation as a practice and as a behavior.

That's what the Innovation Toolkit is for. The Innovation technique in this toolkit is the first technique to repeatedly and reliably move us into the state of innovation (it is a very specific physiological state by the way). And it moves us there in respect to the Value Proposition we deliver to our Customers.

Which is very important because in the economy today you won't win on price; you won't win on volume; you won't win on brand; and you won't win on marketing.

The only place you're going to win is with your customers, and if you want to create Market Growth then you need to start figuring out how to innovate on your Customer Value Proposition.

Which is why this toolkit exists...

Innovating on the Customer Value Proposition for Market Growth

Innovation is highly prized by organizations and is encouraged in a number of ways yet innovation poses a problem: it is very difficult to create *innovative behavior*.

Because of this, while employees are encouraged to be innovative, the programs to support innovative behavior fall short of the mark. We just don't know how to help people be innovative. The Innovation Toolkit fills in this gap.

Why do we care so much about innovation? The answer is simple; innovation that lifts the Customer Value Proposition above its current level enables us to attract and retain more customers i.e. – Market Growth.

Increasing the Customer Value Proposition is how most organizations grow and sustain their business. We have a choice in the Customer Value Proposition game; we can be a leader or a follower. The Innovation Toolkit is for those who want to be *leaders*. It provides a reliable and predictable way to uncork the innovation within you.

The Innovation Toolkit is based on identifying the *landscape* of possible forms a process could take for the purpose of using a process for strategic or competitive market initiatives. The technique produces a range of "shapes" a customer process could take over a range of market results including: Improved, Competitive, Differentiating, Trendsetting and Radical.

What does it take for innovation to "work?"

While it may seem obvious, innovation works when we (people) are challenged to solve a problem or puzzle. In fact, "puzzle" is a better descriptor because consistent innovation only occurs when the "problem" we are faced with is a unique challenge for us. Consider this the "state of innovation." Only when we are "pushed" into the "state of innovation" can we consistently tap our ability to innovate.

With Moments of Truth as the process diagnostic, the innovation technique challenges us to address problems from isolated perspectives that consistently force us to move into the "state of innovation" in order to solve the "puzzles" presented to us.

Innovation in the 21st Century

Innovation in the 21st Century focuses on the value proposition to the customer. The relationship of the customer value proposition to business success is as follows:

Customers are attracted and retained by only two things, the value proposition for a particular good or service in comparison to the other offerings in that market, and the ability of the organization to deliver on customer expectations without exception i.e. – getting it “right” the first time.

Price is only an influencer in this relationship, and only as a component of the value proposition.

Within any given market there is a range of value propositions offered by the organizations competing in that market. Some of these value propositions are better than others, and when that happens the organization attracts more new customers (while retaining more existing customers).

The further an organization moves “out” on the value proposition scale for the market the more customers it attract.

In addition, the further out we go with the value proposition, the fewer competitors we have contesting with us for our clients. The “value” of our proposition reduces the number of competitors we have while increasing the number of customers attracted to us. This is the powerful “one-two punch” of customer-based innovation.

Innovation will ideally take us out to that place where our customer value proposition exceeds that of all the competitors in the market. When an organization achieves this, the customer floodgates open and competitors are sent scrambling to find a way to raise themselves up to this new customer expectation that we have set. This is Market Leadership.

Serial innovation for continued market leadership adopts the market leadership innovation cycle as an essential ingredient that is iteratively applied to all goods and services offered. True market leaders serially innovate in this manner before competitors can completely catch up to the last iteration of innovation to sustain their market leadership position.

Innovation Example – Cellular Service Providers

Cellular (cell phone) service is something all of us are familiar with, most of us use, and many of us rely on as an integral part of our daily lives.

With a product that has such broad appeal, it would seem logical that cellular service providers would act aggressively to establish a compelling offering, one that differentiates itself from the rest of the market place.

Nothing could be further from the truth.

Because we know that process innovation is the primary driver behind competitive differentiation it would logically follow that the customer-facing processes of these businesses would undergo intense scrutiny in the effort to evolve their competitive differentiation. In the United States, the established cellular service providers have instead opted to focus on gizmos, glitz and combative marketing campaigns that set unrealistic customer expectations that are impossible for the business to actually deliver on.

In fact, the industry carries such an excessive overhead (inefficient processes) with a glaring track record of horrible customer service and satisfaction that the only way they have found to make minimal profit margins is by forcing customers to buy service contracts.

Without these service contracts, the Causes of Work and process Points of Failure leech away any hope of profit for these companies.

But what else can they do?

Cellular Service – Process Innovation

To understand how process innovation can fundamentally drive the success of a business we can look to an extreme example – the case of Virgin Mobile.

Virgin, lead by Sir Richard Branson, has a history of identifying markets where opportunity exists based on some core element of the businesses in each space ranging from substandard to woefully inadequate. Mr. Branson understands that each of these situations offers an opportunity for competitive differentiation and potentially even to become the driving force in a particular market.

For the cellular service industry in the United States the obvious opportunity rested entirely with the customer-facing processes, not with the technology.

Under this analysis, the question then becomes: How can we leverage this reality?

Cellular Service – Virgin Mobile USA’s Process Innovation

Knowing that in the 21st Century business success is primarily driven by the setting of customer expectations, including the raising of customer expectations in a given market, and then delivering on those expectations without exception, Virgin Mobile USA came to a very interesting conclusion.

Virgin Mobile USA recognized that the physical provisioning of cellular service (towers, call handling, etc) in the United States was a relatively flat landscape; while certainly cellular service providers were attempting to convince customers they had truly better cellular service, the variances between cellular service providers held little opportunity for true competitive differentiation.

Yet the customer processes of these companies were bloated, inefficient, onerous and totally “inside-out” in the thinking that was being applied to them. Here was an opportunity to create real competitive differentiation!

So Virgin Mobile USA crafted a service purchase agreement with Sprint – effectively outsourcing the cellular service itself – and then focused on the customer with the introduction of the Pay as You Go service.

Coupled with an intense focus on customer processes that delivered on both the company’s promise (the expectations they set) and in the making of their customers’ lives simpler, easier and more successful - Virgin Mobile USA joined the US cellular service market in 2002.

Results from Virgin Mobile USA’s Process Innovation Strategy

What are the results of this focus on customer processes?

1. Virgin Mobile launched their service in the United States in 2002.
2. By November of 2003 Virgin Mobile hit the 1 million customer mark.
3. By March of 2004 growth exploded to 1.75 million customers.
4. By February of 2005 Virgin Mobile counted 3 million customers.
5. By 2007 Virgin rang in the New Year with over 4.6 million customers.

That’s an average growth rate of 1 million customers per year without ever owning a single cellular service tower or piece of cellular service technology!

Virgin Mobile USA's Process Innovation & the 21st Century Value Chain

This example is important to our understanding on the subject of innovation. Here we have a company focused on developing their business as a group of processes – from the point of view of the customer – with the sole purpose of making the customer's life simpler, easier and more successful; that was able to enter an established market and capture 5 million customers in 5 years.

This is the 21st Century value chain, where companies that focus their strategy on optimizing the processes of their organization through reduction in process Points of Failure and Causes of Work consistently draw customers regardless of the current competitive state of the market by making their customers' lives simpler, easier and more successful.

With Process Innovation, we seek to identify the possible forms a process might take when subjected to the Innovation exercise. Knowing that customer expectations are explicitly formed by the number of Moments of Truth in a process gives us the mechanism to find possible future states of any process. The fewer number of Moments of Truth, the more likely we are to push customer expectations upward on the Value Proposition graph.

Innovation and Moments of Truth

If we consider what characteristics are behind the differentiation in customer value propositions it should come as no surprise that the common characteristics are Moments of Truth.

Companies that offer unique and compelling customer value propositions have engineered the "process" behind that value proposition to a refined state in respect to the Moments of Truth that exist.

For example, Federal Express has a history of innovating on Moments of Truth by making it simpler, easier and more successful for us to navigate the "process" of sending packages all over the world. Some of their many "firsts" include: guaranteed delivery times, delivery to almost any location, drop boxes, office pickup, home pickup, web tracking, pre-paid accounts, and so on.

All of these innovations reduce the amount of work we have to do to successfully get packages where we need them. Fedex is constantly challenging the Moments of Truth in their processes, eliminating more and more of them all the time.

The example with Virgin Mobile USA really highlights innovation on Moments of Truth. Virgin focused on the customer-facing processes of the business, offering a “purchase process” that can be completed in minutes while the process at their competitors can take *an hour or more to complete*.

Taking this further, Virgin has also eliminated the majority of Moments of Truth in the customer relationship process. There are no “strings” attached to Virgin’s service offering – you just “Pay as You Go.”

Conversely, competitors’ offerings are riddled with Moments of Truth in the contracts associated with their service. How many times do you think cellular service customers are caught in a web of complexity when they want to do *anything* different with their service? Right – a lot.

It’s so bad that customers often avoid business interactions with their cellular service provider because making a “change” is so onerous they chose to leave things alone so they don’t have to put up with all of the “hassle.”

What about the insurance company that streamlined the homeowner customer claim process to: the customer identifies who will make the repair, gets a quote, faxes quote to local office, office issues a check for the quote amount (minus deductible) in 24 hours or less, and posts check to customer.

Compared to the rest of the industry this process has eradicated the majority of Moments of Truth we would normally expect to experience in this process.

Is it any wonder this insurance company is dominating its market?

Of course one of the inside-out challenges in customer value proposition innovation is we often end up *giving* more to our customers than ever before. Yet in most cases it doesn’t actually cost us any more (due to reduced costs of operating the streamlined processes) and even if it does, the increase in customers and customer retention easily compensates us for our generosity.

A great example of people-to-product Moment of Truth innovation is Apple. The MAC computers, iTunes, iPod, iPhone, etc. all share one thing in common: they are incredibly easy to use. This is a shining example of what happens when Moments of Truth are challenged wherever we find them.

In the case of Apple, the “traditional” Moments of Truth that we would find between people and product in competitors’ offerings are several orders of magnitude greater than the Moments of Truth in Apple’s products. The results speak for themselves.

But before we can put the innovation technique to work for us we need to have a clear understanding of Moments of Truth.

Understanding and Identifying Moments of Truth

What are Moments of Truth?

Anytime a customer comes into contact with any aspect of the business, however remote, there exists a Moment of Truth. There are five main types of Moments of Truth:

1. person to person
2. person to system
3. system to person
4. system to system
5. and person to product

(This last category may involve the direct interaction with a piece of machinery, say a vacuum cleaner or a car.)

Any contact with the Customer is a 'Moment of Truth' in so far as we have the opportunity to create a moment of magic, or conversely, a moment of misery.

Moments of Truth first really came onto the management radar screen in the early 1980's due to Jan Carlzon's noted leadership efforts in "turning around" several large European airlines, most notably SAS, where within a year of his taking over the CEO position SAS was back in the black and earned a reputation as one of the world's best airlines. He accomplished this through a basic management of Moments of Truth.

Carlzon has spelled out his management and staff motivation philosophies in a best-selling book, Moments of Truth, which has since been translated into 18 languages.

Where do Moments of Truth occur? Everywhere. Examples of where Moments of Truth occur include:

Respond to a query
For scheduling purposes
To make a confirmation
As an information service
For our marketing purposes
To solicit information

For security reasons
To make a purchase
To change something
To service or repair something
To request an action be taken
From services provided by partners

The Six Step Plan for Innovating on the Customer Value Proposition to Achieve Market Growth

What do you need to know to make innovation work for you? You're only 6 steps away from crafting winning Customer Market Growth strategies. You need a target, MOT identification, the challenge, the Landscape, Categories of Innovation and your resulting strategy plan.

Describe your Target

The target is the "area" we are seeking to innovate on. Most often this would be thought of in terms of a "process" but there is no restriction on how we define the target areas we are working on. Regardless of how we choose to think about our target it is the product, service or customer interaction we are targeting for the innovation activity.

Identify Moments of Truth

For the target area all of the Moments of Truth that exist need to be identified. They also need to be described well enough that we can easily recognize what was meant to others or when we come back to our work at a later date.

Take the Challenge

The Challenge is the key to the Innovation technique. We must challenge the Moments of Truth in our Target area with the question: *What action would we take if we had to **eliminate** this MOT from the process?*

Fill in the Innovation Landscape

We need to complete the Innovation Landscape, recording our discoveries and capturing the "knock-on" effects should we choose to take a particular action. This creates the background we need to put the Landscape into its proper perspective.

Assign the Category of Innovation

For each possible action in the Innovation Landscape we need to select which Category of Innovation applies to it. The Innovation Category represents the effect on the Customer Value Proposition in relationship to the market you are competing in.

Map out your Strategy

Finally, define your strategy. Does your organization need to reshape your market through radical innovation (Zara, Virgin)? Are you regaining your competitive position (Apple), creating differentiation (Best Buy, State Farm), or crafting a phased plan of market leadership (FedEx, Apple)?

Step 1 – The Target

Describe the process you wish to Target. Your target could be product related, service related or related to a customer interaction. You may have existing documentation on your target area, such as a process model or process description. That's fine; you can use that to help define your Target.

The innovation technique can be used on any group of Moments of Truth we identify where they are part of a common outcome or result.

Step 2 – Identify Moments of Truth

For the target area, identify each of the Moments of Truth that exist within it then record them in a descriptive enough way that others (and you if you come back later) will immediately know what you mean.

Note – if you start having trouble here because of different ways people could interact with your organization in your target area, then you need to narrow down your target area and/or your goal! This indicates you've either selected an area that is not well defined or you've identified a goal that is not clear enough to directly action.

This may also mean the target area you started with becomes multiple target areas. If this is the case you may need to be more descriptive in your Target Area description, adding something on to it like "when the customer calls in to get technical support" as compared to "when the customer calls in."

Make sure you follow the instructions we've provided in identifying all of the Moments of Truth in the target area. Getting this right will play a very big part in determining the degree of benefit achieved.

Also, make sure you write them in a descriptive enough way that you can come back a day, a week or a month later and know what each Moment of Truth is...

You'll be tempted to shortcut this – but DON'T.

Step 3 – Take the Challenge

When challenging Moments of Truth we must ask ourselves one question:

What action could be taken that would eliminate this Moment of Truth entirely?

Now, this is a loaded question and if you don't get the meaning of this question right then you won't get the value of the method so listen closely...

The CEMM Innovation technique works when we challenge each of the Moments of Truth we have identified in isolation. Think of it like part of a complex math problem. You have to "solve" a bunch of parts to be certain you have the right answer even though you may think you know the answer very quickly.

Because you don't.

Some actions will eliminate other Moments of Truth as well (we call this the "Knock-on Effect"). If you eliminate the need to have a cellular phone contract you also eliminate things like: signing the contract, choosing your plan, having your credit checked, your payment method, and so on.

You see, the Innovation Landscape is the sum of its parts. We need to think about as many unique or differing actions as we can in this exercise. We do this by challenging each Moment of Truth independently.

Yes, you will find "answers" that eliminate more than one Moment of Truth. But just because you eliminated a Moment of Truth with an action doesn't mean you're done. If you haven't tried to challenge each Moment of Truth independently you haven't created the best Landscape you can.

In some cases you won't be able to think of actions that can eliminate a Moment of Truth other than some other action already identified (for a different Moment of Truth) that eliminates this one as well. That's ok as long as you have given the Moment of Truth a concerted effort in your challenge.

When you are complete with your challenges you should have at least three distinctly unique actions that you have identified for your Landscape.

Step 4 – Fill in the Innovation Landscape

The Innovation Landscape consists of four sections:

- 1) The Moment of Truth
- 2) your Action (that eliminates the MOT)
- 3) the other Moments of Truth eliminated by the Knock-on Effect (eliminated if the Action were taken)
- 4) the Category of Innovation (which is added to the Landscape ***in the next section***).

Fill out the first three sections of the Landscape before proceeding

Step 5 – Assign the Category of Innovation

The Category of Innovation “chunks” the Landscape into five Innovation Categories. This provides an “at a glance” understanding of how the Landscape Actions can affect the business results of the organization. These five Innovation Categories are:

Radical

Actions falling into the Radical Category fundamentally change the product or service category they are in. This type of Innovation can rocket a good or service from relative obscurity to Market Leadership in an incredibly fast and viral manner. Radical Innovation is a fundamental change that results in the preceding value proposition (or customer expectation) having limited – if any – worth in respect to the new value proposition that has been created.

Examples of Radical Innovation: Hotmail (free email), Skype (free telephony), Discount Tire (no up-sell, free flat repairs for life), Wal-Mart (Return anything for any reason), Ryanair (fly for free), Apple iPhone (cellular phone you don’t need an encyclopedia of instructions for AND you can still do cool things...)

Trendsetting

Actions falling into the Trendsetting Category always completely change the current Customer Expectation of the process in respect to the market for the product or service the process supports. Trendsetting Innovation resets the customer expectation for a good or service. This creates extreme competitive differentiation and forces competitors to adapt new strategies and practices to remain competitive in an attempt to “catch up” with the Market Leader.

Examples of Trendsetting Innovation: Virgin Mobile USA (Pay as You Go), SBC (\$19.95 Broadband), Best Buy (Instant Rebates), Zara (21 Days from Idea to Store)

Differentiating

Actions falling into the Differentiating Category extend beyond the boundaries of the current Customer Expectations for the market. Differentiating Innovation creates significant competitive differentiation within the existing overall customer expectation and positions the organization in an advantageous position against competitors as the overall value proposition being offered exceeds that of competitors in the market.

Examples of Differentiating Innovation: State Farm (claims process with risk on company), Progressive (Competitors’ quotes), Apple (MAC Book - quality and convenience), Cingular (rollover minutes), Virgin Atlantic (Superior service for economy+ price)

Competitive

Actions falling into the Competitive Category represent a significant improvement in the Customer Experience, one that moves the organization far closer to the market leadership position (though it does not create market leadership). The Competitive Category is used to represent Actions that help the organization “catch up” to the current competitive state of the market.

Examples of Competitive Innovation: *Competitive Actions “follow” the Trendsetting and Radical Actions once they prove their merit.

Improved

Actions that fall into the Improved Category come up short of changing the competitive position for the good or service supported by the process but they do represent a reduction in Causes of Work and process Points of Failure.

While the Improved Category may seem unimportant in the backdrop of the rest of the Innovation Categories it is important to remember that an improved process will simultaneously deliver on the big three KPIs (Increased Revenues, Decreased Costs and Improved Customer Satisfaction).

Add the Category of Innovation for each Action in the Innovation Landscape

Step 6 – Map out your Strategy

The information in the Innovation Landscape can be used in many ways, yet there are five uses that reflect the needs of most organizations on a general basis. These five uses are:

1. To identify the best Tactical Action that can be taken on a process to resolve an existing problem, pain point, financial drain or as a general practice of process improvement.
2. To create a Process Roadmap that takes the organization to a Market Leading position over time (strategic roadmap).
3. To leap the competition in a single bound (Superman Innovation)
4. To build an ongoing competitive Market Leader process profile that continuously resets the “market expectation.”
5. To drive internal understanding on how the current shape of the process affects the organization and how that effect changes under the various forms in the Landscape.

The final step is to review the Innovation Landscape and decide how the Actions that have been identified can best be used to achieve organizational objectives.

If more than one Action is to be taken, you should indicate the order and timing of the Actions: these are part of your strategy.

When describing your growth strategy, make sure to take some care in the wording you use. The strategy description you create for the Innovation Toolkit will serve as a rallying point once you put your strategy into play if you have written it well.

The Innovation Tool Kit Template

Describe your Target –

Complete the Innovation Landscape –

Innovation Landscape Template

MOT Description	Action to Eliminate MOT	Other MOT Removed	Innovation Category

Map out your Strategy –
