

new directions:

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new directions: is edited by
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Welcome to new directions: 10

Welcome to our latest edition of **new directions**: our journal for leaders, innovators and change agents within European businesses. Our focus is on the business activity that is key for today's organizations: **innovation**. In this edition we look at what is required for a supportive **climate for innovation** within an organisation; we examine the new battleground for customer loyalty by providing a compelling **customer experience** and we hear from **Professor Chris Voss from London Business School** on the latest research in this area.

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Creating a climate of innovation

How do you create a climate within your business that fosters innovation over the long term? A climate that regularly generates and implements successful new products or services, new ways of working or improved ways of competing? Just as you need to have the right conditions in place for plants to grow and blossom into flower, so an organisation needs to ensure the right conditions are in place for innovation to be seeded and successfully grow and deliver business benefit. We all know that for plants to bloom, we need the combination of a nutrient-rich soil, sunshine and water – and of course some 'green fingers'. The principles are similar in creating the right climate for innovation to bloom within a business: you first need to understand the conditions under which innovation blossoms; then you need to create a 'business climate' under which these conditions are maintained. Thanks to academic research and business experience, we know what these conditions are and how to optimise them.

Innovation climate - key elements

There are a number of practices that need to be effectively managed to produce a supportive innovation climate. We have grouped them into 6 key practices shown in Figure 1:

Champions Valued – All organisations have their stories and their heroes. An innovative organisation will have stories about major change and their champions – not all of which was necessarily successful. But the general tenor of such stories will be invariably positive rather than critical. 3M have stories about mavericks that pushed through new ideas despite initial opposition (e.g. Post-It Notes). Those people who champion innovation, whether they are instigators, active participants or arms-length supporters will be valued within an innovative organisation. And since radical new ideas typically come from the 'mavericks' within an organisation - the sort of people who can be poor team workers and difficult to manage - an innovative organisation works to keep its mavericks.

Problem positive – Organisations that truly regard problems as an opportunity for learning (rather than an opportunity to blame) will foster a culture that is always seeking to learn and improve. In Continuous Improvement, problems are regarded as 'gold' for they offer clear improvement opportunities. A 'Problem Positive' organisation will have a robust approach to problem-solving in place, rather than a fire-fighting blame culture.



"Fail often to succeed sooner." is a key maxim of Tom Kelley, the General Manager of IDEO, renowned for its innovative design capabilities and an appropriate one for any company seeking to be innovative.

Questioning culture – Being open to questioning and challenge from all levels within the organisation and from outside is a key attribute of an innovative organisation. Breakthrough innovation comes from the challenging of deep-rooted paradigms that exist within a business or market. *"To support our focus on innovation, we operate a culture that is open to the challenging of norms,"* says Sir David McMurtry, Chairman of Renishaw, a world-leader in the design and manufacture of measurement systems and a multiple award winner of Queens Awards for Export and Innovation.

Figure 1: The climate for innovation

"The enemy of innovation is corporate groupthink."

"Providing formal awards and recognition for innovators within the organization, including financial, non-financial and sabbaticals is an effective way of encouraging innovation activities."

"Creating a climate for innovation should be done as part of a broader approach to create an effective 'innovation system'."

Diversity of thinking – The enemy of innovation is corporate group think. Alternative viewpoints and experience are critical to enabling a climate for innovation. This is achieved by recruiting and retaining a mix of people with different industry backgrounds, ages, personalities and nationality. Colgate is a good example: *"As a company, we celebrate differences, promote an inclusive environment, and value the contributions of all Colgate people...We look to promote an inclusive environment and support the diversity of thinking that results from the differences in experiences, knowledge and background of all Colgate people. Diversity of thinking will help us continue to encourage the creativity and innovation necessary for our Company to maintain a competitive advantage in the global marketplace."* (Source colgate.com)

Recognition given – Human beings crave approval. This need changes little from when a person was a child to when they become an adult. In a business salary/bonus is one form of approval – but it is by no means the only one or the best one. Approval and recognition from one's peers is often of higher value to an individual. Providing formal awards and recognition for innovators within the organisation, including financial, non-financial and sabbaticals is an effective way of encouraging innovation activities. It also clearly signals the company's intent to employees.

Innovation Demanded – In some organisations, innovation is not welcome as it is seen as disruptive or 'taking people away from daily business', in many organisation it is welcomed if it can be proven to be beneficial and affordable, but in a few organisations, innovation is actively demanded – and not just from its managers but from all its employees. The use of innovation KPIs on the firm's scorecard together with innovation criteria in employees' yearly appraisal will change behaviour. In such an environment, employees will continually keeps their eyes open for innovation opportunities as they know that this will be a key performance measurement. Toyota is renowned for its Continuous Improvement expertise, gained over decades of process and cultural change. Much of that change has been driven by operators on the plant floor. The architect of the Toyota Production System (that spawned the Lean improvement philosophy), Taiichi Ohno said, *"Something is wrong if workers do not look around each day, find things that are tedious or boring, and then rewrite the procedures. Even last month's manual should be out of date."*

Building an effective innovation ecosystem

Creating a climate for innovation should be done as part of a broader approach to create an effective 'innovation system' – or to use our plant analogy, an innovation *ecosystem*. An effective innovation system requires all the key innovation elements to be effectively managed. The climate is strongly influenced by the other innovation elements (see Figure 2) – particularly Leadership styles and methods and the Strategy of the company. In our experience, changing the climate for innovation within an organisation means addressing a number of the elements of the innovation system currently in place. The best way to start is to assess how innovation is performed today and the state of the underlying innovation system. This will enable the barriers to improved innovation performance to be identified – some of which will be cultural. In helping organisations assess and improve their innovation, Codexx use our 'Foundations for Innovation' (F4i) approach developed with the support of Professor John Bessant of Imperial College London (see Figure 3). This enables assessment against best practices in Climate and the other key elements of an innovation system. In a recent assessment for a medical products company, the assessment identified weaknesses in a number of key areas of the innovation system, including the climate and strategy. However, our recommendations for improvement were in defining a Vision and Strategy to identify innovation needs, to put in place a Measurement System & Recognition for innovation and to implement an end-to-end process for innovation (to encompass the limited NPI process in place).

Our experience is that by addressing key areas such as leadership, strategy and process, the climate for innovation within an organisation can be changed over time. You can't change *culture* at a stroke – but you can change the forces that create the culture. A separate innovation assessment for a law firm found a reasonably innovative climate

within the firm, but particular weaknesses in resourcing and external links, which limited the flow of new ideas and the ability to execute on them. The solutions here were different than for the previous case. So there is no one solution, each organisation is different, but they can be assessed against a common best practices model that covers their climate as well as other key innovation practices.

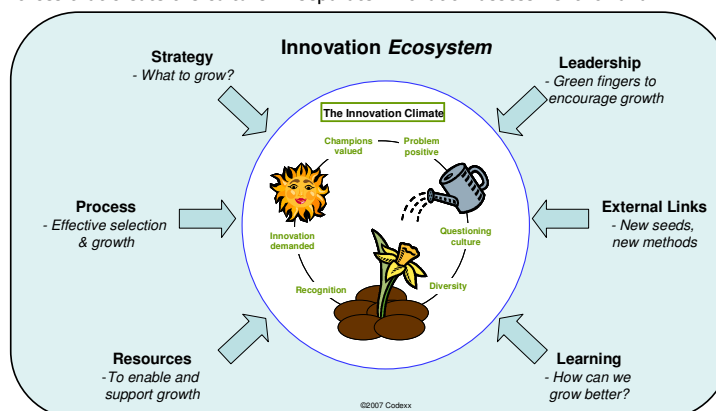
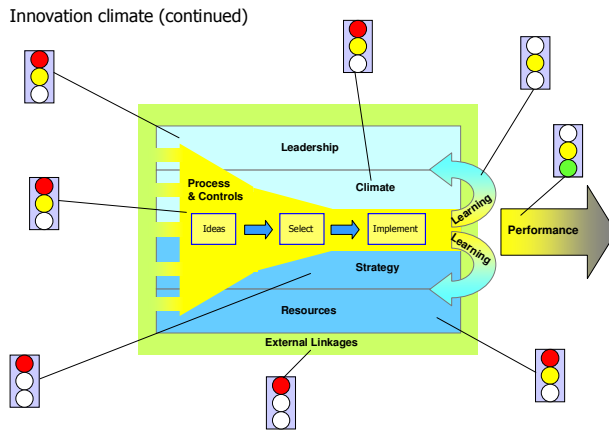


Figure 2: Innovation Ecosystem



"We understand how to assess and improve the innovation climate within an organisation and its wider 'innovation ecosystem' – to build businesses that are capable of regular and ongoing innovation."



An effective climate that supports innovation within a company is increasingly important for today's businesses in increasingly competitive markets. Just as we understand what is needed to nurture and grow plants, so we understand how to assess and improve the innovation climate within an organisation and its wider 'innovation ecosystem' – to build businesses that are capable of ongoing innovation and so achieve sustainable competitive advantage.

Figure 3: F4i Innovation Assessment

Services with a difference: It's about the *experience*

"Companies are seeking to go further and differentiate their services by giving customers valuable and memorable experiences."

Just as manufacturing companies have sought to differentiate themselves from competitors and increase their margins by offering services such as consulting, installation, maintenance and repair to 'wrap around' their products, so companies are now seeking to go further and differentiate their services by giving customers valuable and memorable *experiences*. Whilst these so called '*Experiential Services*' have been common in the leisure and entertainment industries, companies in other industries are now applying this approach to their business models. A good example of this is **Harley-Davidson**. By motorcycling performance standards Harley-Davidson's bikes are by no means 'the best' – their technology is not the latest, they are not the fastest or best handling and they do not claim to be the quality leader. Yet they are sold at a premium price and their depreciation is amongst the lowest in the industry. How is this possible? Well, comparison with other motorcycles matters little, for Harley Davidson is not really competing against Honda, Yamaha, Suzuki, Triumph etc. It is more likely to be competing against the purchase of a second-hand sports car, flying lessons or an adventure holiday. Exciting lifestyle purchases that a middle-aged (typically) male might make. Harley-Davidson are offering an experience, a lifestyle statement that is compelling to many. Even their website primarily promotes the experience, not the functional details of their bikes.



Figure 4: Harley-Davidson (Source: www.harley-davidson.com)

"Harley-Davidson's brand and image enable a profitable business selling an experience that is miles away from the cut-throat business of selling motorbikes on function and price."

As their Chief Executive, Jeff Bleustein said: *"It's one thing to have people buy your products, it's another for them to tattoo your name on their bodies."* Harley-Davidson's brand and image enable a profitable business selling an *experience* that is miles away from the cut-throat business of selling motorbikes on function and price.

Apple is another product-based company that has utilised experience to differentiate themselves from rivals. A good example of this is their retail strategy. It has established stores on prime high-street locations to promote the Apple brand and to do much more than simply be a sales outlet for their computer and iPod products. The first Apple Store opened in 2001, and they now have 177 world-wide. Apple's Vice President of Retail Strategy, Ron Johnson said, *"We want to make sure that they [the customer] have such a great experience of owning them that they will stay with us for a lifetime and become promoters to their friends. It's basically another way Apple can increase its market share – not just with the products and software but with the ownership experience. The front line of that is our store."* (Source: Daily Telegraph 21-4-07)

To this end Apple's stores dedicate more than half their floor space to customers who already own Apple's products and use the store for support on existing products (using its 'Genius bar' for face-to-face problem solving sessions)

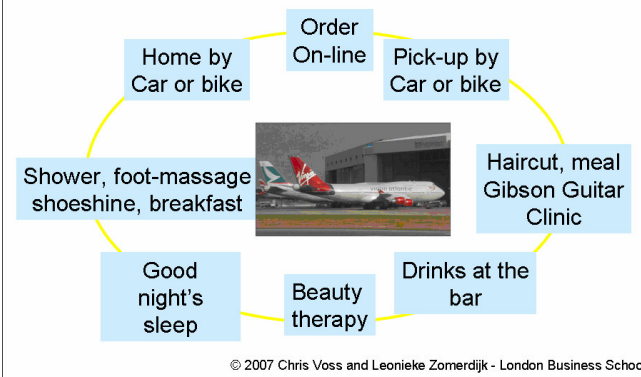


"Capturing customer loyalty by providing a valued experience, has been typified by Starbucks elevating the humble coffee bean to become the core of a high margin offering."

"With the increasing commoditization of many products and services, companies are seeking new ways to create differentiation and support margins."

"There is a growing focus on new tools and processes for both designing and delivering experiential services."

Service Journey Example



with Apple technicians), for learning (using the 'Studio' for learning how to further exploit Apple product functionality) for leisure (watch concerts in the Theatre) for socialising (with like-minded Apple users) and for purchasing (oh yes - Apple products are sold here too!).

Capturing customer loyalty (and increasing margins) by providing a valued *experience*, has been typified by **Starbucks** elevating the humble coffee bean to become the core of a high margin offering that is a café, a meeting room, an internet connection, a place for networking, a place for romance...

Figure 5: The Service Journey at Virgin Atlantic

Virgin Atlantic provides a superior flying experience for business class passengers by removing hassle and adding delighters such as bar drinks, beauty therapy or even a guitar clinic (see Figure 5). In doing so they aim to differentiate themselves from rivals on the competitive North Atlantic route.

Experiences happen on a personal level, so it is a little more difficult to see how this can apply in Business to Business companies. But it certainly can apply. For example, **Herman Miller**, the provider of premium office furniture, established National Design Centres in a number of US locations in 2002 to get closer to their key customer base of architects. *"The National Design Centers will give customers the opportunity to view Herman Miller furniture and systems in an ever-changing environment,"* explained NDC Director Kathy Elhart. *"Equally important, we will provide a context for our customers to make the critical decisions, from selecting products based on compatibility and aesthetics to gaining an informed perspective on where the office is heading. Our goal is to make the NDCs a regular destination for the A&D community and others who want to keep current with industry trends or tap into Herman Miller's knowledge base."*

Interview with Professor Chris Voss – London Business School

We recently interviewed Professor Chris Voss, who is researching experiential services, on this important area.

1. What are the key differences between services and experiential services? Surely all services have 'experience'?

All services have experiences. We see experiential services as those where the focus is on the customer experience, rather than just the functional benefits of the service or product.
2. Do you see an actual increase in companies developing and providing experiential services or is this simply a topic that has become of research interest?

There was an initial flush of interest about eight years ago after the publication of the book by Pine and Gilmore on the Experience Economy. This interest has been strongly rekindled by a number of things. The first is that with the increasing commoditization of many products and services, companies are seeking new ways to create differentiation and support margins. A second reason is the growing worry that traditional advertising media are becoming ineffective. As a result companies are looking to experiential marketing, to build customer links. The third reason is competition, in a number of markets – for example transatlantic premium passengers – companies are competing heavily on the customer experience.
3. Do you see evidence of new thinking in experiential services, or are companies just bringing back proven customer care techniques from the past?

Customer care techniques are essential bedrock of all services, including experiential services. There is a growing focus on new tools and processes for both designing and delivering experiential services. Our recent research has explored this in detail and has identified a large number of approaches and tools being used. Examples include focusing on the customer journey and touchpoints, designing with the five senses in mind, story telling and empathetic research.
4. Are companies utilising experiential services simply as a way of differentiating a commodity product or service?

We see three groups do this in different ways: the first is those organisations who are selling experiences per se such as entertainment destinations, ski resorts etc. The second group is those organisations trying to build experience base on premium products such as Harley Davidson motor cycles or Virgin Atlantic. The third group is those seeking to enhance commodity services. The archetype is Starbucks; however there are a large number of industries trying to enhance their commodity products from mobile phones to retail banking.
5. Does a superior customer experience mean a higher price? It often seems that this occurs at high end products or services where the larger margin enables an experiential service to be funded - effectively as a sales cost.

As stated above not all applications are in high end. Applying the principles of experiential management does not necessarily mean higher cost, though investing in service will give pay back. The big issue found by most organisations is difficult in measurement and forecasting of costs and revenues. This can mean on the one hand that investments do not get made because it is difficult to articulate the ROI. On the other hand some people over invest to make a perfect experience for which the return is never there.

"Given a good service design, there is much sophistication needed in the design and support of the service contact people."

6. How does a company ensure a consistent and repeatable level of experience, given the nature of services delivery? This starts with service process design, a clear understanding of what the service actually is. Much of the consistency of high levels of experience comes from the careful execution of the physical design of the service. The service delivery personnel can perform with much greater consistency if the process is robust. This is often facilitated by a clear underlying story which brings together both service deliverers and customers. Given a good service design, there is much sophistication needed in the design and support of the service contact people. For example, the nature of the job varies from area to area. Some will be "show off" jobs. This requires a certain sort of person and emotional stamina. For other jobs, there needs to be a clear understanding of their roles and training to perform them. For example the cleaners at a Disney resort are the main points of contact with guests and are trained accordingly.

Bringing a new experience to your customers

How can experiential services provide an additional competitive edge to your business? To determine this, a company should go through a structured approach for evaluating and implementing experiential services in a business:

1. Review your value proposition to your customers – from the customer perspective

Whilst an insurance company sells insurance, a customer buys 'peace of mind'. Instead of selling a car, BMW sells (and the customer buys), the 'Ultimate driving experience' and the brand association.

2. Map today's customer journey

Identify all the points at which the customer or client 'touches' your business, from initial awareness of your company, to your offerings, through quotation and ordering, delivery etc. Involve customers in this process and identify the positive and negative experiences.

3. Identify value improvements

How could the negative experiences be addressed, how could positive experiences be enhanced, what new value could be added to enhance the customer experience and improve loyalty and margins? Involve the customer in this process.

4. Design tomorrow's customer journey

Create a map of 'tomorrow's customer journey' that uses the learning gathered and provides a superior customer experience. Aim to provide experiences that would be valued by customers and differentiate you from competitors.

5. Create the new customer experience

Determine the changes required in the service offering and the supporting business processes and technology as well as the new capabilities and skills required of your people – this will identify new training or hiring needs. Then make a case for change and a plan to implement the new experience. If the case for change is compelling – execute.

"Identify all the points at which the customer or client 'touches' your business."

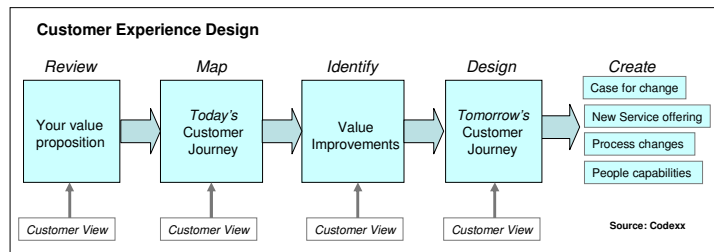


Figure 6: Customer Experience Design

Useful books:
 "Managing the customer experience" by Shaun Smith and Joe Wheeler
 "Marketing Genius" by Peter Fisk

Thanks to Professor Chris Voss for his assistance in this article. Chris Voss is Professor of Operations and Technology Management at London Business School, and Director of the Centre for Operations and Technology Management. His research interests include service management - in particular experience based services and role of service in e-commerce, operational improvement and benchmarking, manufacturing strategy and international issues in operations management. He is also a Senior Fellow with AIM.

News

Innovation Leadership training – new course dates

We have just announced additional dates for 2007/8 for our new 1-day course on **Innovation Leadership**, providing education and practical training on innovation management, process and tools - delivered in a highly interactive seminar style. Courses will run on the following dates (always on a Thursday):

London dates: 20th September 2007, 6th December 2007, 21st February 2008

Oxford dates: Being finalised for July 2007, October 2007 and January 2008

The London courses will be run at the Institute of Mechanical Engineers, Birdcage Walk, 2 mins walk from Westminster Tube station. The Oxford courses will be run at Seacourt Tower, just off the A34 and 10 mins drive from Oxford station. For additional information on the course, [download a brochure](#) or contact us.



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We hope you have found **new directions:** to be stimulating. Any feedback you would like to provide is welcome. If you would like further information on any of the topics discussed in this edition, email us at innovation@codexx.com