

new directions:

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new directions: is edited by
Alastair Ross

Welcome to new directions: 13

Welcome to our latest edition of **new directions**: our journal for business leaders, innovators and change agents. Our focus is on **innovation and transformation** and we share the latest thinking and practices in this area in our articles. This edition is focused on **the recession** and we take a provocative view that this is an opportunity to **come out of it a stronger business**.

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"Adversity can be a powerful force for business improvement if harnessed effectively by management."

"Instead of thinking 'How can we survive this recession?' think 'How do we come out of the recession stronger than our competitors?'"

Coping with the crunch

The recession is here – how can you be a winner?

The recession is here – effectively if not yet officially. Businesses are downgrading their forecasts, reigning in their spending and laying off people. How long will the recession last? One year, two years, more? The jury is out on that. Meanwhile businesses are in for challenging times. Some will go to the wall. Many will struggle. A few will come out of the recession stronger and more competitive. Those are the businesses that instead of thinking 'How can we survive this recession?' are thinking 'How do we come out of the recession stronger than our competitors?'

Indeed a recession can be an excellent time to make major improvements in your business. Does that sound crazy? Well think about it. There are a number of critical factors for major business change that a recession will strengthen:

- The recession provides a clear 'burning platform' – a case for change - for improvement within the business
- Employees will be prepared to put additional time on improvement activities, to help retain their employment
- Management and workforce will be less resistant to radical change
- Required redundancies enable 'right-skilling' of the workforce
- Nearly new technology can be purchased at significant savings via asset sales from bankrupt businesses
- Suppliers will be prepared to be more innovative in their offerings and pricing to secure your business
- Improved value products and services will be seen positively by customers

Recessions are nothing new (for the over 30s anyway) and in the past, progressive businesses have transformed themselves during recession: Toyota committed itself to the company-wide implementation of what ultimately became Lean, in 1950 when it was almost bankrupted by recession in the Japanese economy. Nintendo only moved away from its core business of making playing cards in the late 1960s when its market collapsed. IBM re-engineered itself into the world's leading IT services business from near financial implosion in the early 1990s. Adversity can be a powerful force for business improvement if harnessed effectively by management. A useful framework for competitive improvement considers degrees of **cost reduction** and value **improvement**:

Be Leaner: Headcount reduction, shared services, outsourcing, inventory reduction

Get Fitter: Re-engineering, Service Excellence, benchmarking, Continuous Improvement

Become Different: Paradigm change, radical new products/services.

In the rest of this document, we'll review these three approaches and how businesses can apply them.

Be Leaner

We are very much in the first phase of recession where companies respond quickly to market slowdown by cost reduction – initially through redundancies and cutting discretionary spend such as travel and contract services.

These actions have the benefit of immediate benefit. However, there is a limit to how far a business can go with cost reduction alone. Whilst there is always the opportunity to weed out underperformers in such a process, the danger is that good people will be lost too. Other major cost reduction activities that should be examined include looking at outsourcing of non-core activities (such as back-office operations or the production of commodity parts). Office and travel costs are significant in service businesses and office consolidation through application of mobile working and hot-desking should be examined. Travel costs can be reduced through use of internet-enabled solutions such as Second Life for

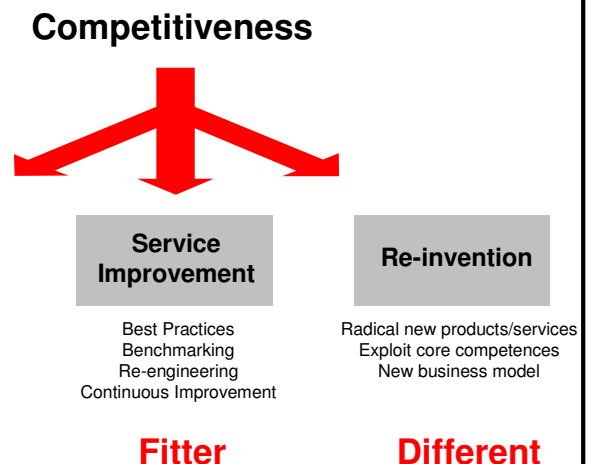


Figure 1: How will you compete?



Virtual business environments or conferencing applications such as Webex. In multi-business unit firms, shared services for functions such as Purchasing, Accounts Payable and HR should be examined.

Get fitter

Many businesses will go no further than cost reduction in responding to the recession. But far-sighted businesses will look to substantive actions to improve fundamental business practices in ways that we have grouped under the 'Fitter' and 'Different' banners. 'Getting Fitter' provides competitive edge by improving existing practices (and so performance) within the business. This will result in improved service to customers and clients at lower cost. There are a number of approaches that can be used here:

- Best Practice Benchmarking
- Re-engineering
- Lean and Continuous Improvement (CI)

Best Practice Benchmarking

Applying industry-recognised best practices in your processes, organisation and technology is a powerful improvement approach. Critics will say that this simply enables catch-up with others. True. But catch-up is good if it's needed and improved performance will result (see Fig 2). Looking for best practices outside your own industry sector also provides opportunity to leapfrog leaders in your own sector – for example law firms improving their innovation by implementing an industry-style New Product Development process. Best practice benchmarking is an effective way to compare your business practices and performance against leading businesses and so identify improvement needs using a structured approach. It is also very effective at catalysing improvement.

An excellent example of a company that has successfully applied best practices benchmarking and improvement is Grundfos, the leading global pump manufacturer with factories in Europe, America and Asia and headquartered in Denmark. Grundfos started using best practice benchmarking using the PROBE solution developed by IBM and London Business School in 1996 to assess the practices and performance in their factories. This identified gaps with best practices including the need to utilise Lean manufacturing approaches. They commenced implementation of lean manufacturing techniques across their factories from 1997 and continued regular PROBE benchmarking supported by Codexx. In parallel they were using EFQM to drive overall Business Excellence. They won the EFQM award in 2006 and in the PROBE benchmarking assessment in 2008, their Danish factories scored at a world class practice level. The result has been clear improvement in key performance indicators such as on-time delivery, inventory turns and quality.

Re-engineering

Business process re-engineering (BPR) tackles the problem of poor or uncompetitive performance by examining key business processes in a systematic and challenging way. Re-engineering typically seeks radical improvement through step changes in the process, supporting organisation & culture and the application of IT and other technology. It is highly customer/client focused and challenges existing thinking within the organisation. In our own experience, there is major opportunity for service organisations in particular to benefit from re-engineering, as unlike industrial businesses, there is typically little process management in place. Using re-engineering to provide a significantly improved service experience for clients will raise client loyalty and repeat business and also generate higher profitability (due to the

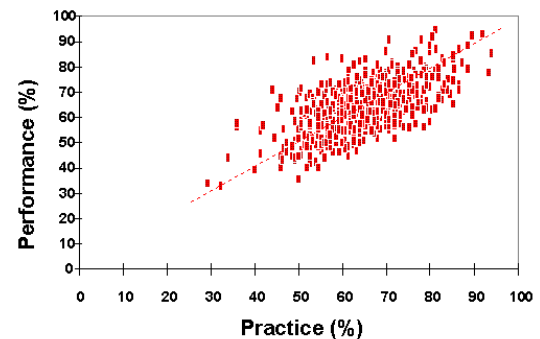


Figure 2: Best practice benchmarking

reduced cost in finding new clients).The 'Service Value Chain' concept shows the link between service quality and employee effectiveness and profitability (see Fig 3). Re-engineering projects will typically free up significant cost savings (25%+ in our experience) as well as improving service.

Lean and CI activities

Lean thinking has arguably been the biggest revolution in business thinking since mass production at the beginning of the twentieth century. It is relevant to consider that the founder of Lean, Toyota, only decided to comprehensively embrace the Toyota Production System (what later became Lean thinking) after a major downturn in the Japanese economy in 1950 brought the company to near bankruptcy. From its roots in production, Lean has spread across the industrial supply chain and then crossed into services and public sector. Lean has a number of similarities to Re-engineering, the biggest difference is that Lean focuses on incremental and ongoing improvement as part of a (never-ending) journey to waste elimination and perfection – whilst BPR is focused primarily on step-change improvement. We find however that Lean philosophies (such as Waste elimination) and techniques (such as poke-yoke) can be effectively incorporated into re-engineering projects.

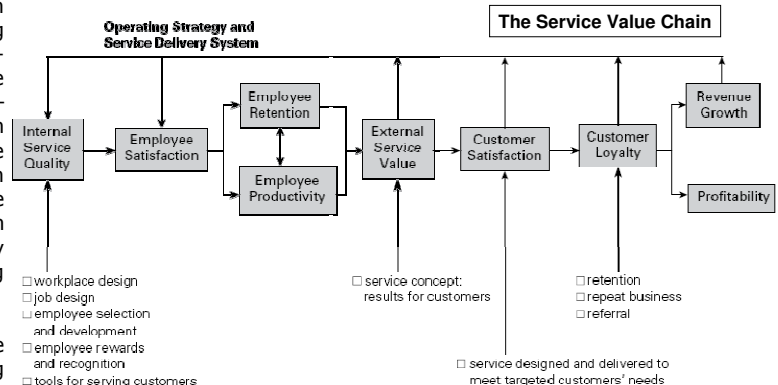


Figure 3: Service value chain

Source: "Putting the service-profit chain to work", Heskett J.L. et al, Harvard Business Review, 1994

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Key aspects of Lean which are very relevant to improving during a recession are:

“A well functioning Continuous Improvement programme will be continually improving your service and quality whilst reducing cost.”

- Re-energizing your Continuous Improvement programme. As discussed in New Directions 12, many businesses have poorly performing CI programmes, for a variety of reasons, management leadership and workforce engagement being two typical problem areas. A well functioning CI programme will be continually improving your service and quality whilst reducing cost.
- Re-look at your value stream maps for key processes to identify further improvement areas – ideally with the involvement of your customers and suppliers – and ensure that they cover the ‘end-to-end’ process and are not artificially cut by functional or organisational divides.
- Make waste more visible. Use visible management techniques to identify and share waste in your business – be it time delays, rework, non-value added inspection or, inventory. Everyone should be motivated to reduce waste – it’s far better to remove this than have to layoff people.
- Learn from others who are applying Lean - The Lean Enterprise Research Centre in Cardiff University and the Lean Enterprise Institute in the US are both very active and useful organisations and well worth connecting to.

Become Different

The third approach to competitive improvement is in differentiation. Here we are not concerned with doing existing things better, but instead in doing quite new things. It’s about radical thinking, or ‘Do Different’ rather than the ‘Do Better’ improvement we discussed earlier.

Radical business innovation requires thinking holistically about innovation and considering the dimensions available to your business for innovation (see Fig 4). Radical innovation can be achieved by thinking differently about your market as Nintendo did in coming up with their Wii (more on this later). Radical product innovation can occur when a business exploits its core competencies in a different **context**, such as a new market sector. An excellent example is Google Earth, launched in 2005. Suddenly HarperCollins, with the latest edition of their ‘Collins World Atlas’, had a disruptive innovator appear in its market and the way people used maps would never be the same again. ‘Paradigm’ or business model innovation is a tough area to innovate in as it impacts the complete business. Michael Dell’s build-to-order approach for PCs, launched in the 1980s, was a new business model or **concept** for PC supply, so was Psion’s establishment of the Symbian joint venture with the major mobile phone companies to exploit their operating system (more below). IBM’s re-engineering of the 1990s applied its emerging internet-technologies to its business processes in new ways to develop e-learning, e-HR and e-procurement for example, savings millions of dollars in savings and creating dramatic efficiency savings. Seeking radical innovation opportunities requires thinking around new **concepts** for bringing value to customers (for example adding an aftermarket service to an existing product) and exploiting core competencies in a different **context** (for example a new market, or through licensing). Understanding customers, markets and relevant trends is key for effective radical innovation. We have found techniques such as ‘reframing’, scenario planning and strategic road-mapping to be very effective approaches in this area. Let’s look at two examples of businesses that have achieved successful radical innovation in the past: Psion and Nintendo.

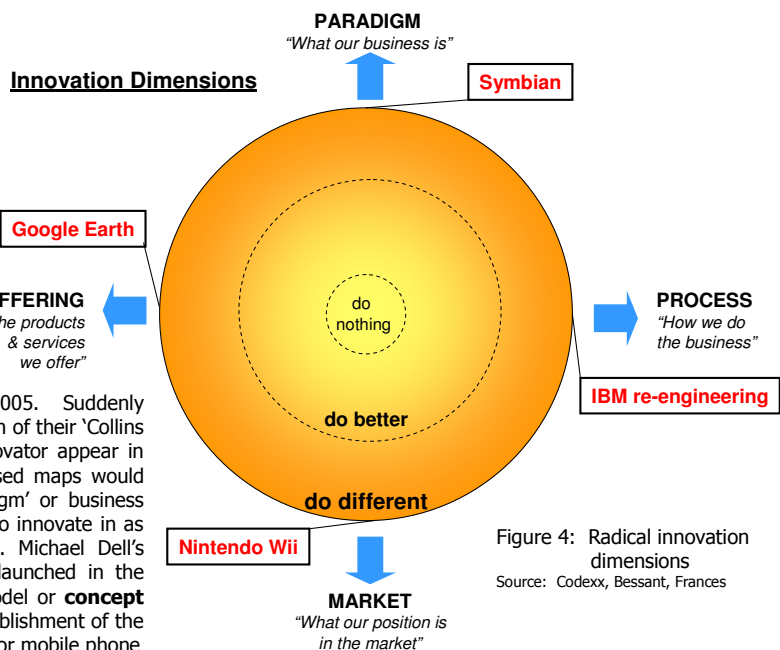


Figure 4: Radical innovation dimensions
Source: Codexx, Bessant, Frances

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From Psion to Symbian

Psion created the world’s first PDA (Personal Digital Assistant) in 1986 with the Organiser 2 and went on to develop the Series 3, 5 and 7 products which sold in their millions. Psion was established in 1980 as a software business initially. It was a rare example of a UK IT products company that was a true innovator in both its concepts and hardware and software execution. However, by the mid 1990s, competition from the likes of Palm and PDAs based on Microsoft CE, began to eat into Psion’s market. In a radical move, Psion decided to focus on one of its core competencies: its EPOC operating system which provided high functionality and low battery power in a small package. It began marketing this to the mobile phone manufacturers as a leading edge ‘smart phone’ platform.



In 1998 it established Symbian, a joint venture between Psion, Nokia, Ericsson, Motorola and



Psion Organiser 2 - 1986



Nintendo Gameboy 1989

Panasonic to create a standard operating system for the next generation of mobile phones, using EPOC. Over the next few years, Psion withdrew from the rapidly commoditizing PDA market. However, its operating system lived on to be used in a total of 226 million worldwide by mid 2008, or about 7% of the mobile devices market. (Source: 'The history of Psion', Steve Litchfield, 2005)

The Nintendo Wii

Nintendo is a great example of a company that has applied major innovation repeatedly in its history. Its roots were as a manufacturer of playing cards established in 1889. In the late 1960s, the Japanese playing card market declined rapidly and Nintendo only avoided bankruptcy thanks to a toy concept invented by one of their maintenance technicians, Gunpei Yokoi, in 1970. (An excellent example of how innovation can come from anywhere in a business - Yokoi went on to become a major innovator within Nintendo, including developing the GameBoy). Nintendo then began to develop electronics-based toys and moved into arcade screen games. Over the next three decades, Nintendo became a major electronic games systems company with successes such as Donkey Kong, GameBoy, Super Mario, Gamecube and DS.

However, by 2000, major competitors such as Sony with its Playstation and Microsoft with its X-Box were creating stiff competition for Nintendo in the console games market. Its GameCube system was being outsold by its rivals with better and faster graphics than Nintendo's product. Market pundits were even suggesting that Nintendo should withdraw from this market and concentrate instead on the portable console market with the DS being such a success. Instead Nintendo innovated again by reconceiving its game playing market. The traditional software games market was dominated by young male adults, playing action games with high definition graphics. Nintendo considered whether they could broaden their market and also avoid the head-to-head competition with Sony and Microsoft. They concluded that there was a large untapped market of women and older people who would be interested in playing games - but a different type of game. To support this new concept, they added an innovation to the controller using an accelerometer to detect hand movements and developed a suite of complementary games. This became the Wii.

Launched in late 2006, the Wii had lower graphics quality than its competitors, but has a new market with women, families and the elderly. The Wii became the fastest selling console ever in the UK and by March 2007, Wii was outselling the Sony Playstation 2 and 3 and the Microsoft X-Box in the key US market.



A time for action

So how do you get started down on this journey to becoming a winner in the recession? You need to have a vision and a plan to focus your efforts and energize your people. What is frightening to most people in the recession is the loss of certainty. That cannot be totally removed, but it certainly helps if they know how their own business is seeking to compete during the recession. They will be prepared to rally behind an inspiring vision and strong leadership. Consider how your business can **Be Leaner, Get Fitter and Become Different** and emerge from the recession ahead of your rivals.

News

Codexx Manufacturing client achieves World Class practice

Codexx is pleased to announce that Grundfos A/S, the world leading pump manufacturer, has achieved a World Class level of manufacturing practices in its Danish factories according to the PROBE model. Alastair Ross, Director of Codexx, who led the recent benchmarking assessment at Grundfos said: "I have led regular best practice benchmarking assessments, at Grundfos since 1996 and have witnessed first-hand the major improvement effort and results achieved by their people. Their focus and sustained resourcing of improvement activities should be a lesson to all manufacturers. It has been a pleasure to work with Grundfos and apply methods such as benchmarking, world class manufacturing and Lean, to gain measureable and major improvement." Grundfos A/S won the EFQM award in 2006 and continues to drive improvements across its manufacturing operations. (Note: PROBE (Promoting Business Excellence) is owned by the CBI and Codexx is a licensed facilitator).

Codexx legal client is the 21st most innovative law firm in Europe

The 2008 Financial Times Innovative Lawyers awards, held at the Royal Courts of Justice in London on 16th October, announced that Blake Laphorn is now the 21st most innovative law firm in Europe - ahead of many much larger law firms. The firm rose 18 places in the rankings, from its 2007 position. It was commended for 4 project areas covering new services and ways of working including a new 'Life Coaching Offering' and 'FirmJam' an internal brainstorming week run on the firm's intranet. Alison McClure, Transformation Partner, said: "The team have done a really good job this year in implementing our various Innovation projects and it's extremely rewarding to see that all our hard work has received such great recognition in today's FT Innovative Lawyers report. We will continue to generate our Innovation projects, which play a key part in the firm's ongoing development." Codexx has provided Blake Laphorn with ongoing consulting support since 2005, to establish their innovation process and develop new services and ways of working.

New Codexx website

We are pleased to announce our new website, which has been redesigned to provide a more user-centric interface, more content and information that can be downloaded and (we hope) a better experience for visitors. Come and visit www.codexx.com and tell us what you think!

Connect to Codexx

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



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