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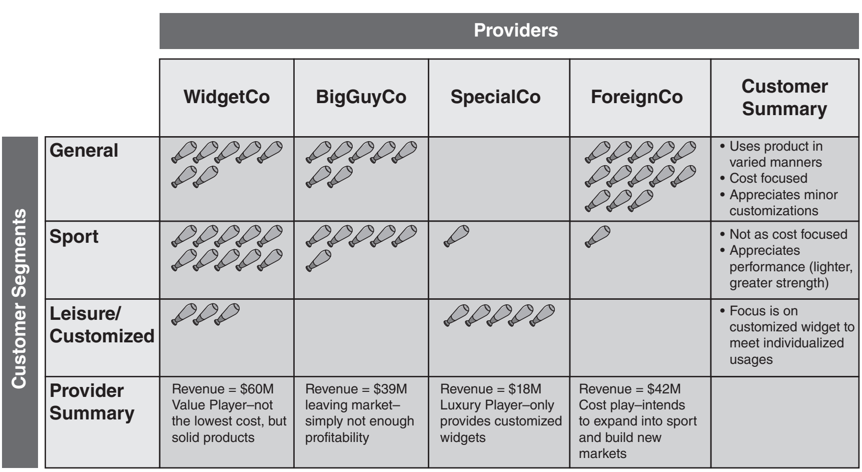
A Process-Focused Enterprise in Action

Grasping the significant differences between a process-focused enterprise and a traditionally operated business requires one to be immersed in the ongoing operations of both models. Because most individuals today work in a traditional environment, what is missing from their education is a peek behind the scenes of a process-focused enterprise and how it handles an initiative from its inception to its execution.

To this end, let us explore a manufacturing company (WidgetCo) that builds the proverbial widget. For most of its history, this market has been relatively stable and profitable. Roughly five years ago, this lucrative market attracted the attention of international competitors—and several entered the market by offering a lower-price widget targeting the mass market. More recently, though, the widget market underwent a downturn. Total market sales fell to roughly $150 million from $250 million, causing several smaller competitors to get pinched and either go bankrupt or get acquired by others. After the dust settled, only one foreign company (ForeignCo) remained, and the domestic market included two large competitors in WidgetCo and BigGuyCo and a handful of specialty manufacturers, including SpecialCo. But there are signs of life. The sporting segment, which previously tallied sales of $15 million annually, grew substantially last year—much to the benefit of WidgetCo and BigGuyCo. BigGuyCo offers a beginner model in the sporting market, but as players' skills grow, they eventually upgrade to WidgetCo's sporting performance line. The current state of the market is shown in Figure 10.1.

Several weeks ago, BigGuyCo grabbed the headlines of industry journals. Choosing to focus on its core business line of outdoor power equipment, BigGuyCo announced that it was shuttering several business lines—including widgets. Because BigGuyCo is WidgetCo's major competitor in the sporting segment, BigGuyCo's exit creates a major opportunity for WidgetCo to nab market share. As soon as WidgetCo's strategic planning team got wind of the news, it began to brainstorm strategic maneuvers to capitalize on

FIGURE 10.1 Market map for widget industry (each widget = roughly $3 million in sales).



BigGuyCo's exit. Over the following weeks, the strategic planning team assessed options until it eventually whittled down the list to two opportunities:

- *Opportunity 1: Expand distribution to former BigGuyCo retailers to capture market share in the general market.* BigGuyCo leveraged a handful of large retailers to distribute its products. WidgetCo's primary customer channel is to specialty shops via a distributor model. Surveyed customers were excited about the possibility of purchasing WidgetCo's products in more locations. The initial business case forecasted a sales pickup of roughly \$25 million per year with a net present value of \$45 million over the next five years.
- *Opportunity 2: Expand into entry-model sporting market to pick up BigGuyCo's market share.* BigGuyCo's offering in the sporting segment appeal to the beginning player. By introducing an entry-level sporting option, WidgetCo may be able to capture the market for this customer segment. This equates to a sales increase of roughly \$20 million per year with a net present value of \$38 million over the next five years.

From a competitive standpoint, Opportunity 1 would likely be met with a strong reaction from ForeignCo as it fought to retain its business in the mass market. With ForeignCo's superior resources, a frontal assault on ForeignCo seems ill-advised—especially when this segment of the market is declining. Additionally, opportunity 1 might change the WidgetCo's brand from a value player to a mass marketer and make it vulnerable in the higher-end sporting category.

Opportunity 2 expands on WidgetCo's strengths in the sporting segment and also helps it to get a foothold with new retailers.

ForeignCo may push to make a splash in the sporting market, but the spotty quality of its product and its lack of a reputation for sporting usages make such a move unlikely to succeed. During surveys, customers enthusiastically endorsed WidgetCo's possible expansion into the entry-level sports usage of widgets.

Based on this information, the strategic planning team adjusted its initial estimates to reflect the competitive risk of each approach. This resulted in a risk-adjusted net present value of $25 million for opportunity 1 and a risk adjusted net present value of $35 million for opportunity 2. Based on this analysis, the strategic planning group began building an initiative for opportunity 2. Because WidgetCo uses a process-based approach, the initiative-development process begins with the creation of a paragraph documenting the intent of the initiative

Initiative: Expanding Sports Offering

Based on the exit of BigGuyCo from widgets, WidgetCo will expand its offering in the sporting segment. This will include the development and launch of products aimed at individuals who are new to a sport (i.e., youth models and entry-point models). The new products will maintain the quality and performance reputation of WidgetCo. Additionally, the new products will require WidgetCo to expand its customer channels to larger retailers, where the bulk of the customers shop for these offerings. The consumer website will also carry these products.

Based on this initial description, an initiative owner was assigned the task of scoping the initiative and bringing it to fruition. Given the importance of the initiative and the need for timeliness, an experienced leader was asked to be the initiative owner. The initiative owner's immediate task was to identify the process requirements of the solution. Thankfully, the strategic planning team had already gathered the customer requirements (i.e., preservation of widget performance, entry-point product, and distribution through large retailers), so the focus was primarily on the internal processes to build the new offering.

Step 1: Prioritization Criteria

The initial assessment of the initiative was performed by the strategic planning team and provided the ammunition to secure the agreement of the leadership council that the initiative should move forward. The leadership council at WidgetCo prioritizes initiatives based solely on their net present value as long as the resources are available and dependencies are accommodated.

Step 2: Process Requirements

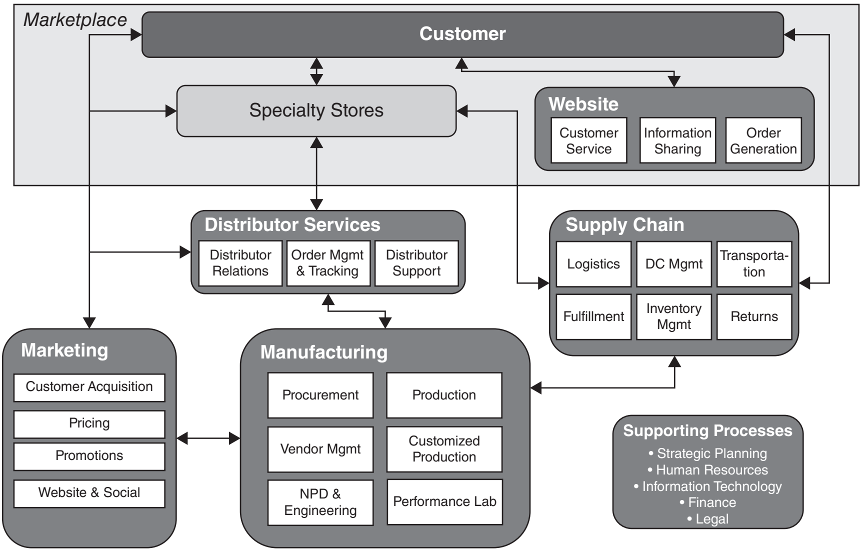
The enterprise process blueprint for WidgetCo is depicted in Figure 10.2. Based on a solid understanding of the enterprise's process structure, the initiative owner lists the processes requiring adjustments to support the initiative. This list is then confirmed by the affected megaprocess owners (i.e., distributor services, marketing, manufacturing, supply chain, website, and supporting processes) for accuracy and completeness. The list of process requirements looks something like this:

Initiative: Expanding Sports Offering

Distributor services

- Leverage team to initiate contact with larger retailers and begin discussions on carrying WidgetCo's entry-level sports offerings.

FIGURE 10.2 Enterprise process blueprint, Widget Division of WidgetCo.



- Examine feasibility of providing entry-level product through specialty stores as well.
- Expand order-entry system to accommodate orders from retailers.

Marketing

- Identify appropriate price points for new products.
- Develop packaging for new products.
- Plan promotional schedule to support launch of new products.

Manufacturing

- Research and development creates specifications for new products.
- Engineering expands manufacturing capabilities to build new products.

- Procurement sources materials required for new products.
- Performance laboratory tests new products to ascertain whether they meet expected quality standards.

Supply chain

- Develop new shipping routes to distribute products to new and existing customers.
- Estimate inventory required to keep up with demand.

Consumer website

- Work with marketing to update product offerings and product information on website.
- Support promotions.

Supporting processes

- Strategy estimates sales based on available market information.
- Information technology updates supporting systems to support the new product line.
- Human resources estimates new resources needs and prepares to hire and train new workers.
- Finance obtains the funds to support the new offerings and assists in developing the business case for the initiative.
- Legal develops contracts with new customers.

Process requirements will rarely cover all the effort required in an initiative, but the degree of detail allows the individuals responsible for execution to thoroughly understand its intent. Additionally, the process sponsors and owners understand what they need to do to make the initiative successful. Every well-designed initiative is sufficiently detailed to answer two questions:

- What are we going to do?
- How are we going to do it?

The process requirements more than adequately answer these questions. Additional details will be addressed once the initiative team is assembled. This is a good time for a checkpoint with the megaprocess sponsors (and process owners who own processes significantly affected by the initiative) to confirm the initial process requirements. At WidgetCo, the time designated to review process requirements occurs during a biweekly meeting of the leadership council. During this meeting, the "Expanded Sports Offering" initiative owner presents the process requirements and entertains questions. On occasion, the initiative owner might be asked to identify the key assumptions on which the initiative is predicated.

For the "Expanded Sports Offering" initiative, the following assumptions were previously identified:

- BigGuyCo exits the market, as stated in its press release.
- WidgetCo's internal team validates that capabilities exist (or can be created) to build the new products.
- Retailers will carry WidgetCo's entry-level sports offerings.
- The current channel (specialty stores) will accept the new offerings and still sell the existing sports offering.
- ForeignCo will not aggressively expand into the sports segment of the market.
- The expanded offering will be profitable and will not cannibalize any existing product lines substantially.

The assumptions are not intended to identify every possible incident or reaction that might occur—but they identify the major risks and assumptions on which the initiative's creation is predicated. When an assumption turns out to be false, the strategic implications and the business case need to be reassessed to determine whether the initiative should continue to move forward.

Step 3: Develop Strawman Solution and Business Case

The next step for the “Expand Sports Offering” initiative is to fully build the business case for the initiative. The business case is completed primarily by the initiative owner in partnership with a financial planning team and the affected process owners. To hasten the exercise, the work is broken down into two chunks—the cost to complete the initiative and the ongoing incremental cost-benefit once the solution reaches a steady state.

To identify the cost of completing the work, the initiative owner returns to the process requirements and identifies the process sponsors/owners to be involved in estimating the costs to deliver the outlined solution. Through meetings with each of the megaprocess sponsors and process owners, the initiative owner (in tandem with the financial planning team) calculates what it will take to adjust each process to deliver the new product offerings. And because it is a convenient time to discuss the work effort, an initial timeline for each chunk of work is built, including the identification of dependencies that need to be fulfilled prior to launching the initiative. This meeting might also cover the ongoing costs/benefits after the solution is implemented. However, because these estimates are likely based on the volume of throughput over time, these numbers will need to be reevaluated after the sales forecasts are finalized.

Table 10.1 shows the output of this exercise. The amounts listed and the time duration by megaprocess are provided by the megaprocess owner/process owner. Remember that these are only predictions, and their sole purpose is for comparing and ranking initiatives. Although accuracy is important, what is more important is to be consistent in the approach used to conduct the assessments. The financial planning team owns the methodology to build

TABLE 10.1 Costs to Implement Solution for "Expand Sports Offering" Initiative

	Estimated Cost	Timeline
Distributor Services		4 months
Retailer Acquisition	$200,000	
Expansion Specialty Stores	$150,000	
Marketing		1 month
Price Points	$30,000	
Packaging	$100,000	
Promotional Schedule	$200,000	
Website	$200,000	
Manufacturing		3 months
New Specs	$100,000	
Production Expansion	$100,000	
Procurement Sources	$50,000	
Performance Labs	$200,000	
Supply Chain		2 months
Distribution Network Assessment	$100,000	
Inventory Analysis	$500,000	
Supporting Processes		2 months
IT	$200,000	
HR	$40,000	
Finance	$2,000	
Project Team	$108,000	4 months
Total	$2,280,000	4 months

business cases and has the responsibility to maintain integrity in the overall process.

The "Initiative team" line item provided in Table 10.1 is an estimate based on the initiative owner's understanding of resources required to complete the initiative. For this initiative, a good portion of the work will be managed by process owners who use existing resources and processes. Still, there will be work to coordinate and manage the work efforts. The initiative-team estimate includes three full-time workers at a rate of $50 per hour for 18 weeks.

Knowing the cost to complete the initiative, the initiative owner now turns to the ongoing costs and benefits after WidgetCo expands its sports offering. The pro-forma financials depend on the sales volume of the new offerings. Creating these sales and cost estimates requires the participation of the strategic planning team (to estimate sales potential based on the available data and the predicted competitor responses) and the financial planning team. To allow for an apples-to-apples comparison among initiatives, the financial planning team selects the years to include in the business case and the discount rate. WidgetCo uses a five-year pro forma and a discount rate of 10 percent (Table 10.2).

For the purposes of simplicity, we will assume that the year 1 figure is for eight months after the initial four months to complete the initiative. The cost to complete the initiative ($2,280,000) then can be subtracted from the net present value (NPV) for the ongoing project to give us a total NPV of $27,307,081.

With the business case complete, the focus shifts to the initiative's dependencies and resource requirements. Because this is a new product offering, there are no immediate dependencies for the initiative. There may well be collaboration opportunities—especially with regard to further development of the relationships with retailers—but these will surface when we examine the overall innovation portfolio.

The next investigation is the limiting resources—that is, resources that are not readily available for use on the initiative. Limited resources differ across enterprises, but they always include the investment in dollars and resources to execute the initiative. We already know that the initiative requires three resources and roughly $2,280,000 over a four-month period. The initiative also requires the creation of new working relationships between different processes and stakeholders and the development of a new product offering. Anything identified as "new" provides a clue as to limiting resources. At first glance, it is impossible to tell if something is a limiting resource. What might be

TABLE 10.2 Ongoing Cost-Benefit for "Expanded Sports Offering" Initiative

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	$16,000,000	$19,000,000	$22,000,000	$26,000,000	$30,000,000
Cost of Good Sold	$12,000,000	$12,350,000	$13,860,000	$15,600,000	$16,500,000
Gross Margin	$4,000,000	$6,650,000	$8,140,000	$10,400,000	$13,500,000
Selling, General, Administrative Costs	$250,000	$305,000	$308,000	$320,000	$350,000
Profit	**$3,750,000**	**$6,345,000**	**$7,832,000**	**$10,080,000**	**$13,150,000**
NPV (at 10% discount rate)	*$29,587,081*				

limiting to one company (e.g., time from a specialized resource) may be widely available in another. Driving out the limiting resources requires further conversations with megaprocess sponsors and process owners.

In WidgetCo, a limiting resource is engineers to develop and build the production capabilities to manufacture the new widgets. The engineering department is constantly looking for new ways to improve the performance of its widgets because this is WidgetCo's strategic advantage. Depending on the allocation of the engineering staff to other initiatives, it may or may not be a constraint. In this instance, the engineers believe that they can fit the extra workload into their schedule without any issues. Besides the engineering team, the "Expand Sports Offering" initiative leverages existing processes and structures—although adjustments may be necessary as the sales volume increases.

With a complete business case and adequate knowledge of dependencies and limited resources, the "Expand Sports Offering" initiative can be inserted into the portfolio of initiatives and prioritized into the deployment schedule.

Step 4: Prioritize the Initiatives

Adding the "Expand Sports Offering" initiative to the portfolio results in an updated table, as shown in Table 10.3. Currently, WidgetCo has two initiatives in flight—"Customer Behavioral Research Study" and "Marketing Expansion." These initiatives are being executed concurrently to take advantage of collaboration opportunities. Another initiative, "Widget Production Enhancements," is slated to start shortly. If we prioritize based solely on NPV, the "Expanded Sports Offering" initiative should be elevated to become the next initiative launched.

Table 10.3 WidgetCo Initiative Portfolio

				Resource Requirements		
Initiative	Risk Adjusted Contribution (000's)	NPV(000's)	Risk Factor	Budget $ in 000's	Team	Special Skills
Customer Behaviorial Research Study	$10,800	$12,000	10%	$1,500	Process Owner	NA
Marketing Expansion	$119	$125	5%	$750	Task Force	NA
Widget Production Enhancements	$5,220	$5,800	10%	$531	Task Force	Lean Skillset
Working Capital Assessment	$45	$50	10%	$150	Process Owner	Financial Analysis
Expand Sports Offering	$25,942	$27,307	5%	$2,280	Task Force	Engineering

Dependencies	Collaboration	Duration (months)	Major Process(es) Impacted	Delivery Status	Projected End Date
None	Marketing Expansion	2	Customer Acquisition New Product Development Marketing Customer Service	Green	10/25/2012
None	Customer Behavioral Research Study	6	Marketing Customer Acquisition Customer Service	Green	3/25/2013
None	None	6	Manufacturing (Performance Lab)	TBD	TBD
None	None	2	Finance	TBD	TBD
None	Marketing Expansion (?)	4	Marketing Manufacturing Supply Chain Distributor Services	TBD	TBD

In this instance, the leadership council needs to make a decision on when to launch the "Expand Sports Offering" initiative. In most instances, time is of the essence, and initiatives in process should continue without interruption as long as their resource needs do not preclude the launch of a vastly superior initiative. Time to market is critical for the "Expand Sports Offering" initiative, and there are no known resource constraints. It appears to be possible to continue with the ongoing initiatives and launch the "Expanded Sports Offering" initiative. Again, these are judgment calls based on the available information.

The next question to be answered is whether the "Widget Production Enhancements" initiative should be launched as well. Because there is significant overlap between this initiative and the "Expand Sports Offering" initiative, it becomes a question of the availability of knowledgeable resources. With two major initiatives focused on the same area, and with sizable potential benefits, deference should be given to the strategic initiative—the one most focused on building market share. Based on this rationale, the "Expand Sports Offering" initiative is slated as the next initiative to be launched. This approach allows the strategic adjustments to be completed before the process is made more efficient—thereby eliminating the risk that an outdated process (from a strategic standpoint) is improved only to have the efficiency efforts wiped out by the eventual strategic adjustment.

A final question to be answered is whether the "Working Capital Assessment" initiative can be launched. Again, if the resources are available and there is no impact on other initiatives, it makes sense to launch the initiative—especially because its work will be completed in finance, an area not heavily affected by other initiatives. With the prioritization complete, the next focus is on the available resources and the launch order of the initiatives.

STEP 5: SCHEDULE AND ALLOCATE RESOURCES

The last step in managing the portfolio of initiatives is to adjust the initiative launch order based on the availability of resources. Table 10.4 identifies the cash requirements for each initiative and the overall cash position of the enterprise with regard to the innovation portfolio. This same type of chart can be used to manage the availability of any limited resource. In this example, we would create a chart for the availability of engineering resources if there were a need for them outside the "Expand Sports Offering" initiative.

Based on Table 10.4, the "Expand Sports Offering" initiative cannot be launched because of the enterprise's limited cash resources. It will take one month to make a draw on the existing bank line. For this reason, the launch date for the "Expand Sports Offering" initiative will be pushed to November. The final activity in building the launch order for the initiatives is to account for any dependencies. If there are dependencies or collaboration opportunities, the launch order may be adjusted—thereby necessitating a change to the "Limited Resource Allocation Chart." Figure 10.3 provides a graphic view of the initiative launch order.

With creation of the "Expand Sports Offering" initiative and its insertion into the order of execution of initiatives, the portfolio is

FIGURE 10.3 Initiative deployment schedule.

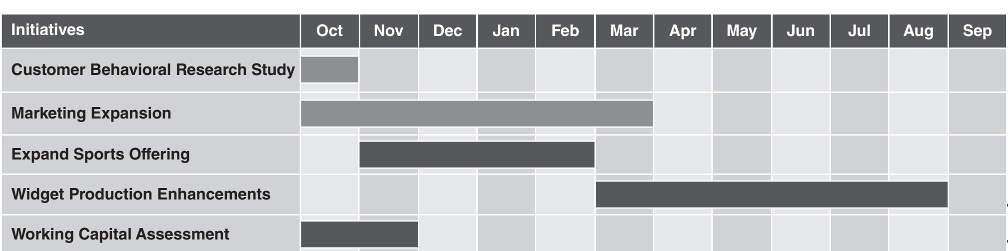


TABLE 10.4 Limited Resource Allocation across Initiatives

(000's)	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
Customer Behaviorial Research Study	$1,500	$0	$0	$0	$0	$0	$0	$0	$0	$0	$1,500
Marketing Expansion	$250	$100	$100	$100	$100	$100	$0	$0	$0	$0	$750
Working Capital Assessment	$70	$80	$0	$0	$0	$0	$0	$0	$0	$0	$150
Expand Sports Offering	$0	$540	$770	$540	$430	$0	$0	$0	$0	$0	$2,280
Widget Production Enhancements	$0	$0	$0	$0	$75	$200	$75	$75	$50	$56	$531
Total Cash Outlays (Innovation)	$1,820	$720	$870	$640	$605	$300	$75	$75	$50	$56	
Beginning Cash Available	$2,000	$180	$460	$90	$450	$345	$545	$970	$895	$845	
Cash Inflow (from Finance)	$0	$1,000	$500	$1,000	$500	$500	$500	$0	$0	$0	
Ending Cash Available	$180	$460	$90	$450	$345	$545	$970	$895	$845	$789	

set for the moment. However, as new information becomes available (perhaps BigGuyCo opts not to exit the market), the effects on the launch order need to be reassessed and the appropriate changes made to maximize the value of the innovation plan. As mentioned previously, the value of the innovation plan is maximized when initiatives are executed based on their net contribution, assuming that all dependencies and resource requirements are accommodated. Accomplishing this aim requires a continual review and assessment of the portfolio.

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