

Leveraging Process Performance

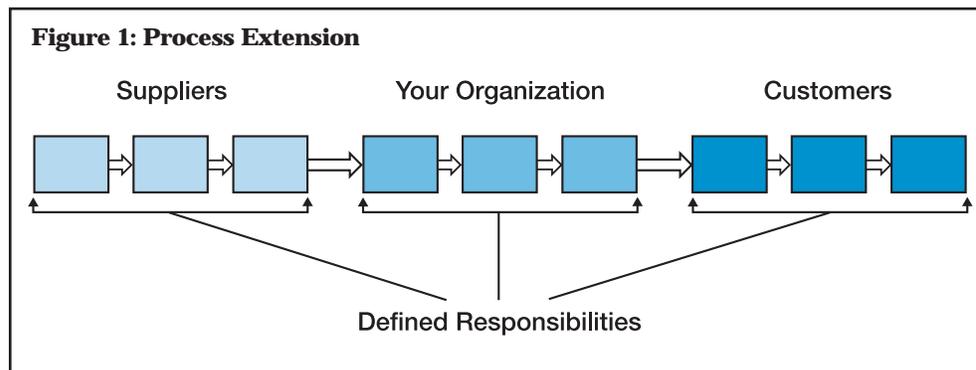
Most organizations approach the link between process and strategy as a matter of singling out clearly broken processes and fixing the problems. While this is certainly useful, it is only one aspect of driving performance/strategy through process focus. The other important concept is leveraging the performance of processes that are already strong.

How can an organization identify which processes have strategic significance in terms of strengths/capabilities to be leveraged? There are essentially three different types of process leveraging techniques to be considered: *process extension*, *market extension*, and *enterprise creation*.



Process Extension

Process extension deals with thinking about the different links on the value chain. Consider the diagram in Figure 1 below:



The diagram shows that each entity — supplier, your organization, and customer — has a series of process steps it is responsible for. Process extension entails thinking about ways to change the

defined areas to assume more control over the process. In other words, it involves taking over one of the links in the chain from a customer or supplier because your organization can do it better. So the new flow could appear as shown in Figure 2 on page 2.

This flowchart shows that your organization has assumed responsibility for something that used to be the responsibility of the customer. It must be noted that process extension should not be viewed as confrontational, or that your company is “taking something away” from your customers. Instead, it should be viewed as taking

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Navigating Your Organization's Future

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control of a process link because you have the capability to do it better and create a win-win situation.

For example, a well-known company in the Midwest was responsible for building and delivering customized large machines to a Fortune 500 client base. The machines were expensive and complicated to build, and the 50,000-foot view of the process is illustrated in Figure 3 below.

The process was really very simple on a high level: suppliers would ensure that the relevant materials were available, and the machine build organization would clarify the expectations of the customer, fabricate needed parts, assemble the machines, and ship to the customer. When a machine arrived on the customer site, the customer

would unpack it, set it up, and start using it in their factories.

It seems straightforward, but there was a major recurring process problem: customers would routinely damage the machine when setting it up. The customers'

technicians and maintenance people had little experience with the new machines. The damage during setup resulted in higher warranty claims, lower customer satisfaction, and endless finger pointing over whose fault it was that the machine wasn't functioning as advertised. More often than not, the machine build company had to send a representative to the customer site to both fix the machine and patch up the relationship.

The solution was a classic case of process extension. The company decided to "ship" a technician with the machine to each customer site. The technician would lead the efforts to unpack and set up the machine to get it ready for the customer. In other words, they changed the process boundaries as shown in Figure 4 below.

The benefits of the new process were numerous. Travel and personnel cost remained relatively flat, since most jobs required a technician to visit a customer site eventually anyway (and in the old process the visits were usually longer while the technician diagnosed and fixed all the problems). The solution was viewed as a big plus by the customer, since the machine was ready to use faster, the technician could demonstrate features, answer questions, etc. This resulted in large gains in customer satisfaction and improved relationships. And the increased productivity of the machine helped the customer justify the expense more quickly, which was obviously a plus as well.

Figure 2: Process Extension

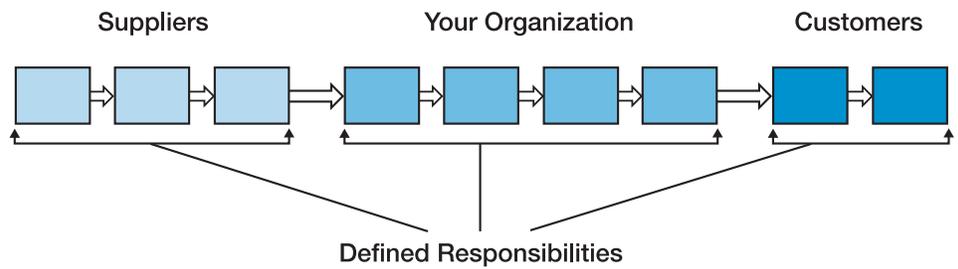


Figure 3: Machine-Build Process Extension Example — "Before"

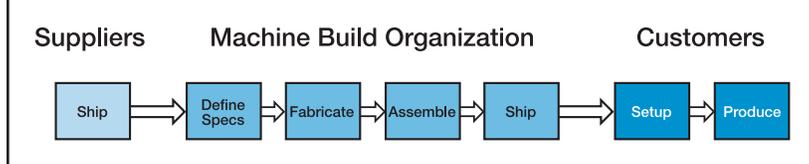
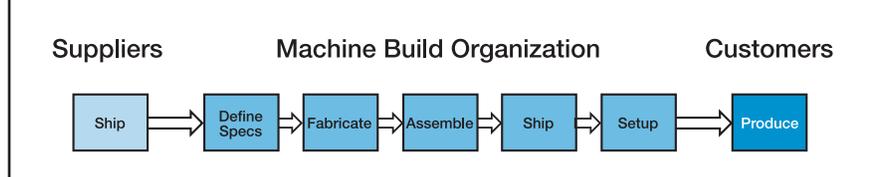


Figure 4: Machine Build Process Extension Example — "After"



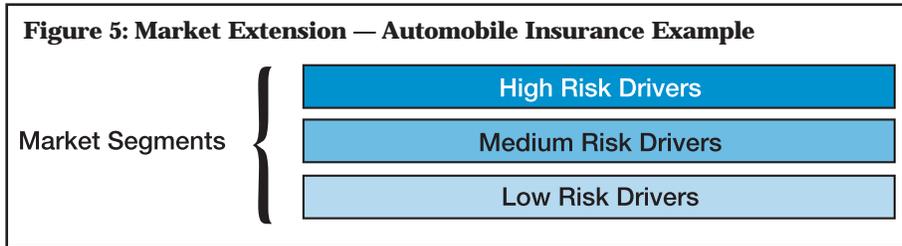
Market Extension

The second type of process leveraging technique is known as *market extension*. This involves attaining a high level of process proficiency in a certain segment in a market, then using the proficiency to attack another segment within the market. A

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classic example of this technique is Progressive Insurance. For many years Progressive was known as a company that catered to the high-risk driver; if you were a Progressive customer it was a fair bet that you had more than a few blemishes on your driving record. The entire auto insurance market could be represented as shown in Figure 5 below.



Progressive specialized in the high risk segment. The instructive fact is that there is not as much traffic (no pun intended) in this segment. The only way to achieve long-term profitability is to maintain excellent process performance in

underwriting, policy issuance, claims, etc. Progressive's process performance was so good that they began to build reserves at a rate that gave them the capability to take on the giants of the industry in the medium risk segment. And again, the proficiency in the key processes generated significant returns. (Note: Progressive is also a good example of process extension. In addition to the excellence in traditional insurance functions, they have extended their control over process links to include broking. Indeed, a whole series of advertisements was built around the theme "We may not have the lowest price, but we can tell you who does.")

Another example of market extension comes from Nypro. The company specializes in injection molding and has been in business for fifty years. Up until about the mid-1980's the company competed in the general market for injection molding, where margins were declining. An aggressive approach to quality/process improvement upgraded the company's capability to produce high precision injection molding products, enabling them to attack new market segments consisting of medical devices, computer chips, etc. This transformed the company from \$65 million in the mid-1980's to over \$700 million in 2005.

Enterprise Creation

The final form of process leveraging technique is also the most aggressive. It is called *enterprise creation*: using the capabilities of a process to drive an entire new business or strategic direction for the organization. An excellent example comes from LL Bean. The company is known for their sales of outdoor wear, primarily through catalog. This method of transaction necessitates that the company be proficient in call center processing. The company added centers in 1985, 1988, 1997, and 2004. The expertise in this area grew to the point that the management

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Identify the business processes that most impact performance.

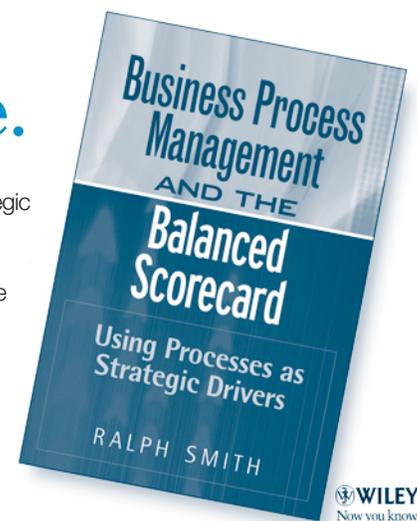
Today's companies are facing perhaps the most competitive period in history, with rising costs and escalating customer demands making it essential for corporations to improve internal processes and focus them on strategic objectives. Failure to do so raises the possibility of being wiped-out by the competition.

Business Process Management and the Balanced Scorecard: Using Processes as Strategic Drivers shows managers how to deploy processes as strategic weapons and optimally use the balanced scorecard to achieve and sustain strategic success even as the business environment changes. Using a "how to" approach with multiple real world examples, industry expert and author Ralph Smith helps readers identify and target the fundamental processes that drive and detract from the strategic performance of their companies.

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— Clive Tobin, Chief Executive of a global insurance company

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team realized that selling this capacity to other businesses could create an additional revenue stream. This is part of the reason the company has grown into a billion dollar enterprise.

Opportunities to capitalize on strong process performance are not restricted to the private sector. When brainstorming potential applications for enterprise creation in a state Department of Management several years ago, an idea was surfaced concerning the new State recycling contract. One of the existing responsibilities of the Department was to deliver mail to all the government locations in the state. This necessitated that they have the logistical expertise to move things around among all the state buildings. The idea was developed that since the logistical infrastructure was already in place, it would be possible to utilize this capability to move recycled materials just as easily as they moved the mail. Since the department is obviously a not-for-profit organization, this could save millions of dollars versus what the private sector would charge. Not only was this a big win for the State, but it also made the Department realize that they had many capabilities that its agency customers were unfamiliar with. One of their strategic objectives became to market their services throughout their customer base to unearth new opportunities to capitalize on their capabilities.

There is an important point to make about all three process-leveraging techniques: a company will not typically find them unless it looks for them. In other words, specific time needs to be dedicated to trying to identify examples of each type of leveraging technique. As mentioned at the beginning, most organizations get so tied up in trying to fix problems that they never really think about how to leverage process strengths.

It can be useful to utilize the above techniques in the context of a strategic assessment. This assessment should mirror the four perspectives of the Balanced Scorecard (financial, customer, process, and learning & growth). The process assessment includes both the leveraging techniques and other tools useful in identifying the key process gaps. Thinking through the process opportunities and gaps in this way will almost certainly help your organization formulate a strategy that can deliver your intended future business results.

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