Lesson Four: Creativity and the Business Life Cycle

A. Key Learning Points

1. All products and services have a finite life cycle during which they create value for customers and shareholders.

2. Creative businesses know how to extend the value life cycle of their products and services.

3. Process improvements that focus on speed, personalization, accuracy, and reliability typically contribute to extending the life of products and services.

4. Successful businesses achieve a healthy mix of revenues from established sources and revenues from new sources.

5. Creative businesses invest in research and design of new products and services.

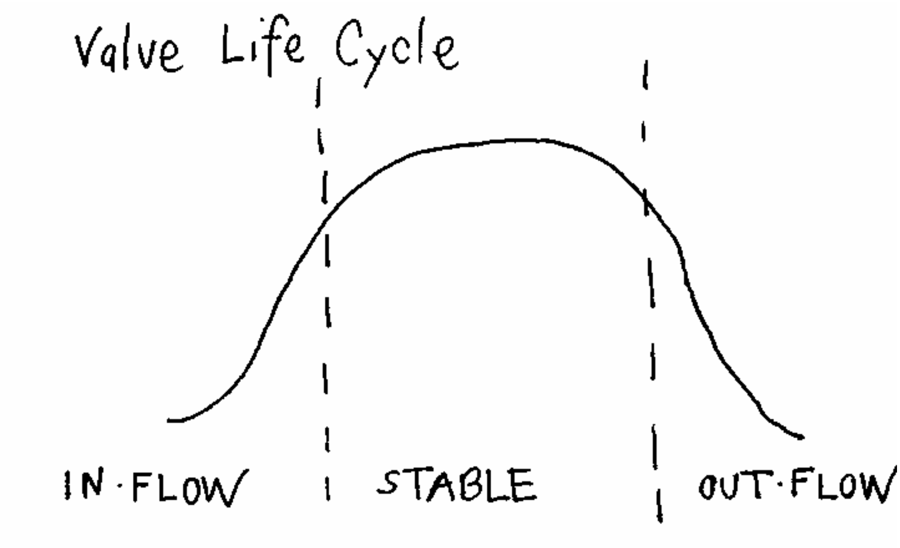
6. Creative businesses learn from new, small, smart, fast-moving competitors that are shaping the future market place.

B. Real World Examples and Considerations for Practitioners

1. All products and services have a finite life cycle during which they create value for customers and shareholders.

All products and services experience the following three distinct business phases:

- In-Flow
- Stable
- Out-Flow



The in-flow phase occurs when a new product is created and introduced or a new market is created or expanded significantly. In this phase, value for the customer and revenues for the business are created where they did not previously exist. The pace of growth is often robust. The costs of design, development, and marketing are also very high. In many cases, there is no or limited competition.

The stable phase occurs when a product or service is well-established and generating consistent revenues in a mature market-place. In this phase, value for the customer is achieved through continuous improvements and enhancements to the existing product. Revenues for the business are created through customer retention, growth of existing accounts, and sales from bundled/allied products and services. Profits for the business are assured through continuous improvement and cost-effective operations.

The out-flow phase occurs when the demand for the product or service declines significantly or disappears altogether. In this phase, customer demographics and/or requirements may have changed. Technology may have enabled a new generation of products to displace the old and familiar ones. Or socio-economic factors may have adversely impacted demand. Businesses managing products in this phase focus intensely on minimizing new investments and maximizing cost-savings and cost-avoidance.

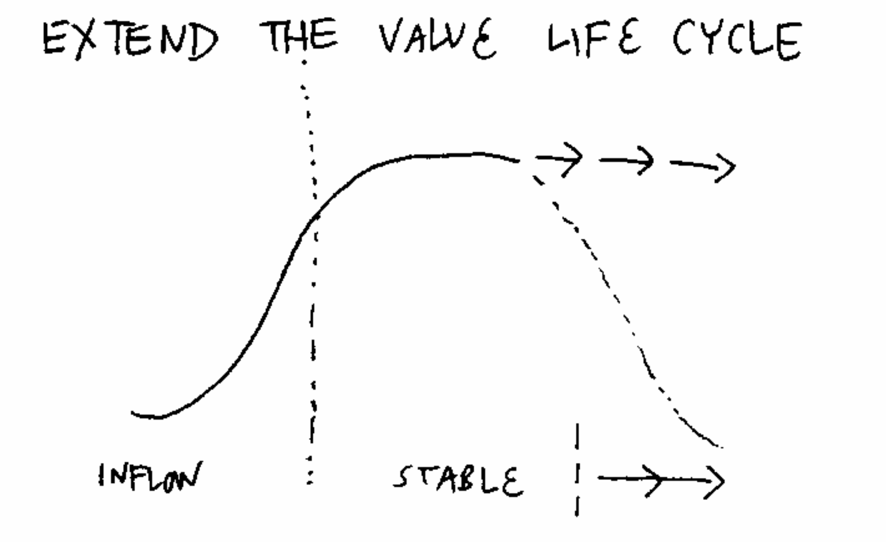
When advising clients, I often ask them to tell me where they believe their current business/product is on this value life cycle. It's rare when all team members agree. Recognizing and discussing reasons for this variation in perception about the business's current capacity for value creation is crucial.

Where do you believe your organization, product, or service is on the value life cycle? What implications does this have for you personally/professionally?

2. Creative businesses know how to extend the value life cycle of their products and services.

Most products and services require a considerable investment to establish successfully. Pharmaceutical companies, for example, must invest million (in some cases billions) in design, development, FDA approval, and marketing of new drugs.

Once established, successful businesses seek to recover their investment by maximizing/lengthening the duration of the product's stable phase and delaying beginning of the exit phase (see illustration below).



Sony has done an outstanding job sustaining the value of its Sony Walkman. Although consumers now have a lot of choice thanks to an abundance of walkman knock-offs/clones – Sony remains the standard for quality and value. They have accomplished this through hundreds of product improvements and enhancements of the original Walkman design. Some of these improvements include: base, treble, equalizer, CD, underwater, sport-man, dual ear plugs, interface for speakers, interface for car stereos, and recording capacity.

Nike, likewise, has succeeded in sustaining and expanding the value of its brand. In addition to its original running shoes, they have expanded their line for other sports. They also are aggressively developing and marketing clothes, accessories, and golf balls.

3. Process improvements that focus on speed, personalization, accuracy, and reliability typically contribute to extending the life of products and services.

As products and services mature, they tend to experience increased pressure due to competition, commoditization, and consumer demand to decrease their price. In the in-flow phase when the products are relatively new and "cutting-edge", the price of products typically is high. In the stable phase, the price of the product has decreased. This tendency is especially true with products and services dependent on new technology and electronic components. For example, fax machines, personal and laptop computers, printers, and cellular phones all were very expensive in the in-flow stage. Now, as these products have stabilized, prices have decreased incredibly.

Consumers that purchase goods and services that are "stable" typically experience greater affordability, quality, and value.

Businesses seeking to sustain or extend this stable product life cycle tend to focus on quality and process improvements. With increasing pressure to decrease product prices, they must achieve greater efficiencies in production/operations. These efficiencies are typically achieved by:

- decreasing cycle time – time to make the goods or services

- decreasing scrap – defective, unsellable products
- decreasing rework – resources invested to fix things that were not build right the first time
- decreasing inventory – the cost to buy and maintain an inventory of materials and parts
- decrease overhead – the general and administrative costs that the company allocates to each product
- increasing product durability and reliability – extending the life expectancy of the product
- decreasing the costs associated with returns and warrantied defects

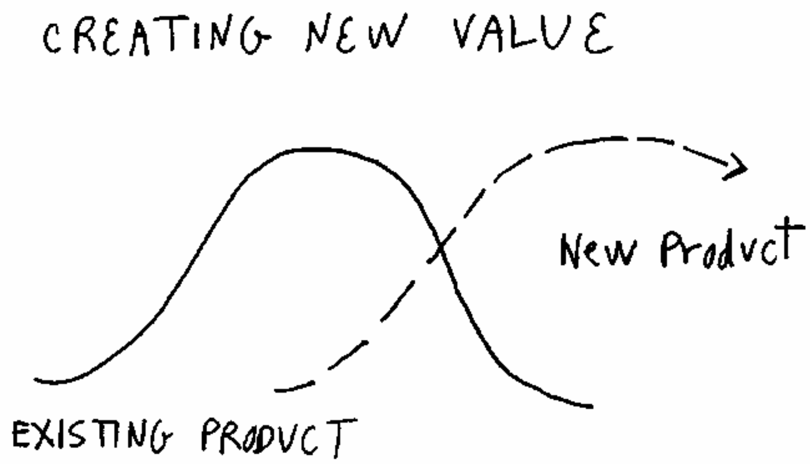
Some examples:

American auto manufacturers budget approximately $800 of the sale price for each new vehicle to cover anticipated costs of fixing defects covered by warranty. Car models that have better reliability and lower warranty costs, therefore, will achieve higher profit margins OR can be sold at a lower price because of lower forecast warranty burden.

General Motor's Saturn division has virtually eliminated inventory and warehousing of materials and parts. Through close, effective partnership with its suppliers that enables Just-In-Time (JIT) manufacturing, the parts and materials for Saturn automobiles typically arrive at the plant on the same day that they are used for manufacture. This results in considerable cost-savings/avoidance in manufacturing – savings that, in turn, result in a lower sticker price for each vehicle.

4. Successful businesses achieve a healthy mix of revenues from established sources and revenues from new sources.

Because each product or service has a finite life cycle, it is crucial that businesses continually design and introduce new products and services as illustrated in the figure below.



3M (Minnesota Mining and Manufacturing) is one of the most successful companies at profitable introduction of new products and services. Founded one hundred years ago with emphasis on mining and heavy equipment, it has evolved into a company that among other things makes and sells adhesive products (masking tape and post-it notes) and space age textile/clothing materials (polartec).

Rubbermaid, makers of Tupperware, likewise is successful at new product design and introduction. This is especially important for a manufacturer of plastic goods that have an indefinite life expectancy.

Disney too has had great success at Disney World in Orlando – although its experiencing more mixed results with EuroDisney and Disney Entertainment.

5. Creative businesses invest in research and design of new products and services.

Because businesses are increasingly aware of cost-pressure in the stable phase of the value life cycle, they are sometimes reluctant to invest earnings from stable products in research and development of new products. Although these businesses may have strong current earnings, they have poor long-term prospects for revenues. When the existing products enter the exit phase, these businesses collapse, sometimes terminally. Some examples that have failed (at times) to invest successfully in new products and services include:

- Apple Computers
- Digital Equipment Corporation
- Levi Strauss
- Holiday Inn
- Nissan
- Woolworths
- Walgreens
- K Mart

A business's annual investment in research and design is a powerful indicator of its capacity for successful innovation and long-term revenues. How much does your organization (or do you personally) invest in its (your) future?

6. Creative businesses learn from new, small, smart, fast-moving competitors that are shaping the future market place.

The bigger and more successful a business gets, the harder it is to innovate. As such, big, established businesses are wise to focus on and learn from new, comparatively small, and entrepreneurial potential competitors.

Steve Jobs and Steve Wozniak started Apple Computers with parts bought from Radio Shack that they assembled in their parents' garage. IBM might have learned a lot from Apple and spared itself and the 125,000 employees it subsequently laid-off from a lot of hardship and lost earnings.

The US Postal Service might have beaten Fred Smith and Federal Express to a huge new market of businesses that required time-certain delivery, when Smith established FedEx in 1974 with a handful of airplanes and a promise to deliver your package overnite anywhere "absolutely positively by 10:30."

The Big Three US automakers might have learned a lot in the mid 1970's when Honda first bolted two motorcycles together and introduced the Civic as American consumers' sole choice for a fuel efficient economy car.

Today's public utilities, enterprise-funded municipal agencies, and market dominant phone companies had better learn a lot quickly from the many emerging entrepreneurial businesses that offer better, faster, more personal services at a lower price.

C. <u>Recommended Reading Assignment & Highlights</u> – All selections are from Barker, *Paradigms: The Business of Discovering the Future*. HarperBusiness (Chapters 10-11)

When a paradigm shifts, everyone goes back to zero.

By zero, I mean that regardless of what your position was with the old paradigm – number one in market share, leader in the technology, best reputation – you are back at the starting line with the new paradigm. Because of this change in leverage, the practitioners of the new paradigm have a chance to not just compete with but defeat the titans of the old paradigm.

What is impossible to do in your business (field, discipline, department, division, technology, etc. – just pick one), but if it could be done, would fundamentally change it?

Ask the question often, of everyone. Listen to the answers. It will keep you in touch with that strange space on the other side of your boundaries where you could be put back to zero.

Now it is time to draw some conclusions about paradigms …

1. *Paradigms are common*
2. *Paradigms are functional*
3. *The paradigm effect reverses the commonsense relationship between seeing and believing*
4. *There is almost always more than one right answer*
5. *Paradigms too strongly held can lead to paradigm paralysis, a terminal disease of certainty*
6. *Paradigm pliancy is the best strategy in turbulent times*
7. *Human beings can choose to change their paradigms*

D. Additional Resources and Links to Others Sources

Adrian J. Slywotzky, *Value Migration: How to Think Several Moves Ahead of the Competition*. Harvard Business School Press

Adrian Slywotzky & David Morrison, *The Profit Zone: How Strategic Business Design Will Lead You to Tomorrow's Profits*. Times Business

David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector*. Plume

E. Question(s) for Reflection and Discussion

1. What's the most innovative practice, service, or product your company or team has made in the past year? What caused that innovation?

2. Describe a brilliant product or service implemented by a competitor or benchmark organization. Why didn't your organization think of/implement that?