

Customer Value Creation (CVC)

CVC is a disciplined approach to profitable growth that has been used and proven with many industrial companies (see Exhibit 1.1).

At the highest level, CVC is a business philosophy that combines Customer Value Analysis (CVA) and Operational Excellence (OE). The fundamental principle behind CVA is that to grow profitably, you must focus on creating and exchanging value with customers. The second idea behind CVC is OE. The fundamental principle behind OE is that you must have an analytical and process-based approach to execute growth. CVC combines these two core ideas to leverage the quantitative rigor and process-based mentality of Six Sigma with an outside perspective on value to drive profitable growth.

Since CVA and OE represent the basis for the book, a little more discussion on each is probably warranted, starting with CVA.

CVA

CVA focuses on creating and exchanging value with customers. This definition of CVA seems simple, but executing the ideas of CVA is challenging and represents much of this book. To understand CVA, we must dissect the definition. CVA starts with the customer and creates a growth platform whose bedrock is an outside-in perspective. The next word to focus on is value. CVA is driven by understanding how customers receive value from the solutions they receive. Exchange then suggests that in return for delivering value to the customer, the company receives something in return: profits. Finally, this

CVC = Customer Value Analysis + Operational Excellence

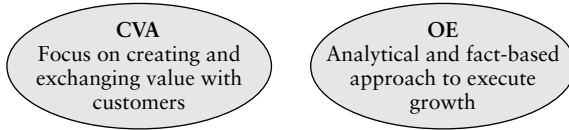


EXHIBIT 1.1 The CVC Formula

book is focused on generating profitable growth and not simply measuring the status quo. The main objective of CVA is to find solutions that will drive profitable growth.

OE

OE is an analytical and process-based approach to execute growth. CVC, being process-based, is the genesis for considering CVC to be “Beyond Six Sigma.” CVC leverages the powerful concepts of Six Sigma and adds the necessary changes to allow those concepts to be utilized in the customer-facing world. Like Six Sigma, CVC is analytical and data driven. By using data and analytical tools, many of the qualitative beliefs and market myths are dispelled or reinforced. In either case, the data enables an unbiased approach that leads to better decisions. Finally, OE is focused on execution. In the case of execution, CVC strives to align people, processes, and technology from an outside-in customer perspective to enable profitable growth.

The rest of the introduction will provide a brief preview of each chapter. The purpose of these previews is to create a sense of direction so from chapter to chapter, so you can follow the buildup toward achieving CVC.

CHAPTER 2: BEYOND SIX SIGMA

The “Preparing for Growth” section is focused on establishing the right mind-set for the balance of the book. Chapter 2 discusses the history of Six Sigma and demonstrates how CVC goes beyond it.

This chapter establishes that CVC is a process-based approach to growth that utilizes the positive elements of Six Sigma and other process improvement approaches. These elements include: Define, Measure, Analyze, Improve, and Control (DMAIC); continuous improvement; common language; and data.

CHAPTER 3: THE OUTSIDE-IN PERSPECTIVE

Chapter 3 describes one of the fundamental tenets of CVC—that value is driven from the outside, beginning with the customers. Within the context of CVC, the outside-in perspective is more than just a slogan or smart promotional language. Outside-in is rooted in science, and the chapter details the connection between the latest research in the field of Behavioral Economics and the relation to CVC (see Exhibit 1.2).

The outside-in approach is much more than capturing the “voice of the customer.” The outside-in approach suggests that people, process, and technology need to be aligned from an outside-in customer perspective to see the value, generate solutions, and capture growth. This is in contrast to the inside-out company perspective that is used to maintain existing products and services.

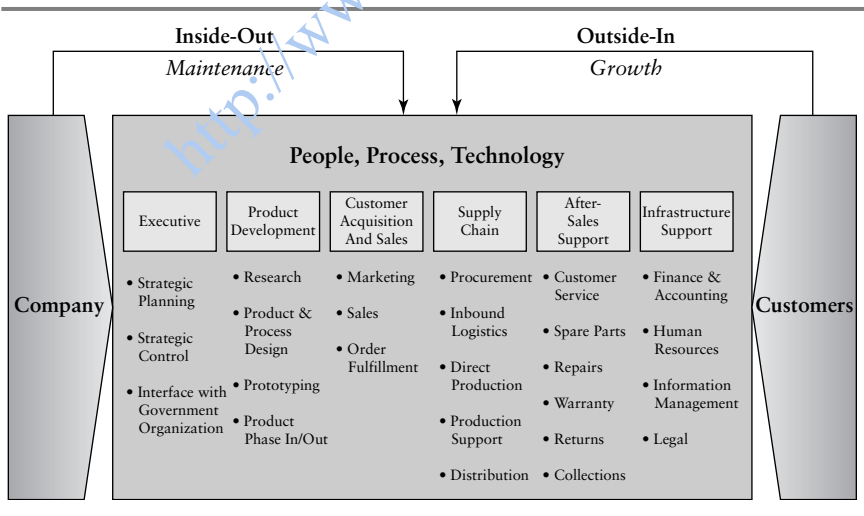


EXHIBIT 1.2 The Outside-In Perspective

CHAPTER 4: THE VALUE PERSPECTIVE

Chapter 4 describes the second major tenet of CVC: the concept of value. In the context of CVC, value is measured from the customers' perspective. Value is created and delivered by a company to customers in return for which the company receives profits. Value to the customers can be thought of in terms of the value attributes of Product, Access, Experience, and Cost (PAIC), as shown in Exhibit 1.3.

For each of the four value attributes, more granular levers drive the value. If one continues to drill down on the attributes of value, there will come a point at which the levers of revenue and cost will be found. Drilling down on value attributes until revenue and cost drivers are exposed is what allows value to be quantified.

CHAPTER 5: DIMENSIONS OF GROWTH

The CVC process begins by evaluating a company's existing customer base along the dimensions of growth. The dimensions of growth are expressed in a framework called the growth cube shown in Exhibit 1.4.

The growth cube is comprised of three axes, which are customer profitability, customer share of wallet, and number of customers. The cube represents how a company receives profits from its customers. The growth cube takes on many different shapes depending on the company's positioning in the market. For example, maybe the company has high profitability on current customers but has low customer share of wallet; the direction of growth is likely to increase share of wallet. The purpose of the growth cube is to frame growth opportunities in relationship to what needs to be done with the customers instead of expressing growth in terms of increased product sales, increased market share, increased tons sold, and so on. With the cube, growth is expressed in relationship to what needs to happen at the customer level: grow customer profitability, grow share of customer wallet, or grow the number of customers.

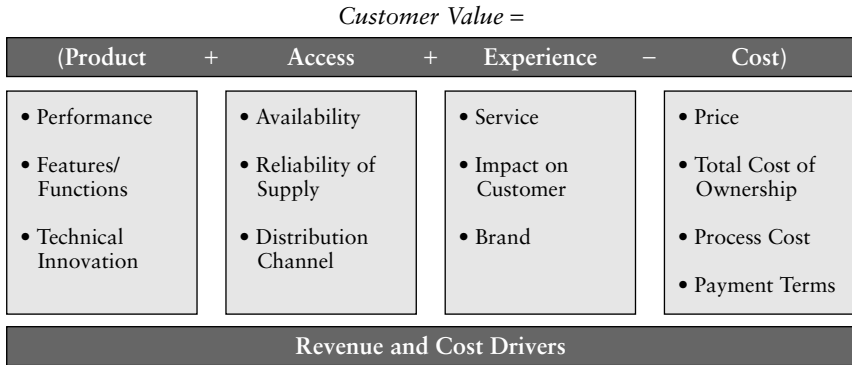


EXHIBIT 1.3 Customer Value

CHAPTERS 6 THROUGH 10

Chapters 6 through 10 walk through the process of defining the complete growth cube, as shown in Exhibit 1.5.

In addition to the three dimensions of growth, the completed cube depicts the “As Is,” “Could Be,” and “Should Be” conditions. The As Is cube represents today’s situation. The Could Be cube represents

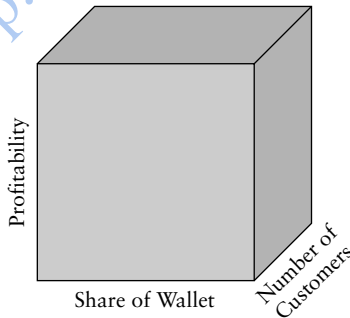


EXHIBIT 1.4 The Growth Cube

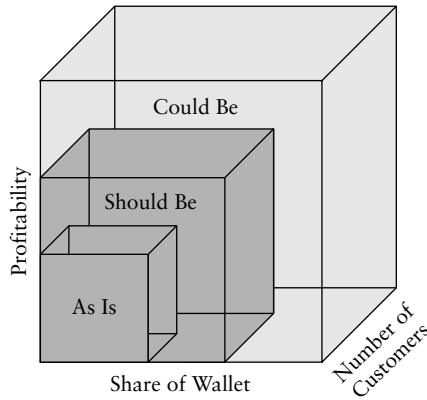


EXHIBIT 1.5 The Growth Cube

the maximum growth conceivable if no company constraints exist, such as capital. The Should Be cube represents the growth in profits the company should achieve given the constraints with which it must adhere. There are times when companies will consider having two Should Be cubes. One Should Be cube may be for the current planning year (short term) where another may reflect a longer planning horizon.

The process starts by defining the As Is cube. The As Is cube is defined in Chapter 5 (Dimensions of Growth) and Chapter 6 (Demand Chain Economics). In these chapters, we will be defining how the company receives profits from its customers and how those profits relate to the larger system of economics in which the company and customer participate.

Next, the Could Be cube is created in Chapter 7 (Solutions Concepts) and Chapter 8 (Solution Valuation). These chapters walk through the process of identifying and valuing profit-enhancing solutions. Inputs for these solutions are received from customers, the company, and potentially other participants in the demand chain. In some instances, solutions may be to combine existing products and services, they may include eliminating some overdesigned product or service, or they may include developing new products or services.

Finally, the Should Be cube is constructed in Chapter 9 (Value-Based Decisions) and Chapter 10 (Value Exchange). The Value-Based Decisions (VBD) chapter considers the solutions developed in the Could Be cube and narrows them down to the appropriate portfolio of solutions, given the constraints of the company. Chapter 10 looks closely at pricing to ensure the company's fair share of value is captured by way profits through pricing.

CHAPTER 11: EXECUTING THE GROWTH STRATEGY

The lesson to be learned is that generating new and profitable growth requires an organization to do something different. It must change its processes, go see customers and talk about something new, take a risk on an unproven technology, and so on. All of these issues are about change, and effecting change is one of the most difficult tasks in the world. The bottom line is that most people wake up in the morning and go through a routine similar to whatever it was they did the day before and the day before that. Waking up in the morning and driving toward change every day is not normal. To generate change, good project and program management is the most critical competency to improve the probability of success. Without the focused attention of a dedicated project team, new initiatives will rarely be executed successfully.

Many of the principles discussed in this chapter may appear to be universal. However, the specific tools, techniques, measures, and structural changes required for growth strategy attainment are different than those used to drive other types of changes. Let's explore each of these themes in the detail necessary to get real results.

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