

A Minute on Building your Business – Some thought provoking articles

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1. When you are about to launch into the development and manufacture of a new product you, or the marketing department, will of course prepares some sort of business plan to scope to opportunity and how it will play-out in the future. The task of determining if the product will sell is of course that of sales and marketing, and their forecasts underpin the type of manufacturing process that needs to be employed, low, medium or high volume. This is where the problems start because the *single biggest risk in any new product or venture is market risk*. Will we sell as many widgets as we have forecast? Engineers and technologies will usually deliver the technology, or can at least make some accurate advanced determination of the technical risk. The production department will develop the tooling, of this there little doubt, but have the marketers got it right?

Market failure is usually the biggest risk, so make sure you look at this objectively. Perhaps it may be painful to realise that a new product or venture is simply too risky to proceed, but this pain will be far less than that of costly post launch failure.

2. When looking to launch any new product, make sure you understand why people will buy that product. Understand that people only purchase things for one single reason; that is *they see value for money*. This simple and obvious statement is defined in a term know as the value proposition (VP).

The value proposition basically states that if a person invests A dollars in purchasing something, or participating in an enterprises, then they will get B in return, where B must be greater than A, otherwise, why would anybody want to be involved?

Not only is it important to understand the VP, it is just as important that the VP is able to be measured, ideally in simple dollar terms, because that is what people best understand. It is also important that you can clearly and simply articulate the value proposition message.

Remember, it is essential to know the value proposition for your product, and to be able to communicate that to the market as a VP that can not be easily understood and communicated, is almost as bad as no VP at all.

3. If you are bringing a new product, service or venture to the market there are a number of participants or players in the chain of events that take raw materials and deliver a final outcome to a customer. The value chain is the term used to refer to all of those participants in that chain of events

For example, in the case of a manufactured product some of the value chain participants may be the suppliers of raw material, the production house, maybe the importer, the wholesaler and the retailer. If you are in the e-business then an Internet Service Provider may be an important value chain participant.

Often as entrepreneurs we pay a lot of attention to the end user to make sure they see value in what they are purchasing, but it is just as important, perhaps even more

important, to consider the retailer or some other key value chain players. Remember, it is the person selling the product to the customer that you have total reliance upon, if you do not give them sufficient consideration or reward, you may have real problems in reaching your market.

4. If you are contemplating a new product it is important to understand the market category in which you are working. Too often people fail to pay proper attention to this and the risks associated with each particular category.

In general every product or service can be fitted into one or more of the following categories:

- Industrial/Commercial. This is a low risk market where people make a purchase decision based on the payback they expect to receive from investing in the product
- Consumer. This category carries a lot of risk and purchase decisions are usually made based on advertising messages that attempt to establish and communicate a value proposition
- Fashion. In the case, where brand is everything, the risks are extreme, especially if you are a new entrant to this field.

It is essential that you understand the market category in which you are working because the biggest risk to your venture, that is market failure, is quite different for each category.

5. Understanding the degree of novelty associated with your new product is important to understanding market risk. Novelty, is a term often used by patent attorneys and refers to the degree of newness or lack of any so called "prior art" in the field. Ventures founded on something entirely novel and unprecedented tend to be quite risky.

There are countless examples of new ventures that failed on the basis of the absolute newness of the product. Even the internet took many years to come to popular notice. Indeed it is only in the last ten years that it has really become an indispensable tool of everyday life. The facsimile machine similarly had quite a difficult birth. When it was first introduced who was there to "fax"? The market for fax machines was in fact created by the original fax machine companies using their machines internally as a way to build awareness.

When introducing something new to the market it is often better to try and introduce the product as a migration of customers already doing something, to simply a better way of achieving the same thing, this approach carries far less risk.

6. Without doubt *innovation* is the easiest and least risky way to build a business, but far too few people have really grasped the meaning of the word, for which there seems to be countless definitions.

Governments try to define innovation as the process of taking an idea from mind to market. Other definitions talk about changing people's behaviour, and still there are more complex definitions often taught by universities, many of these are just too complex to consider.

Unfortunately, none of the above assists the innovation debate, or indeed represents a call to action in actually making innovation happen.

In short the word innovation means “Change” and the best and most useful definition of innovation is “*Change that adds Value*”. It’s that simple.

Given that the biggest risk to new products is market failure, the best and most obvious means to find new low risk products is to identify products that are already on the market and are selling well, then “*innovate*” them. That is, change them to add value, and go back to the market with a better widget, at perhaps even a better price.

This is almost risk free business.

7. In a recent text book called *Creating Wealth* by author Lester Thurow an interesting statistic was cited referring to the rate of change of the business environment.

In the 1920's a US based listed company on the Standard and Poor's index had a typical life expectancy of some 65 years. By the 1990's the life expectancy of any similarly listed company had fallen to less than 10 years.

In today's modern and fast moving world of rapid communications, sophisticated market intelligence, rapid prototyping and short time to market, companies need to be nimble and constantly re-inventing themselves in order to survive and prosper. Think for example if you can of a product or service that has not changed at all in the past five years. If you can, maybe there is an opening for a new more dynamic player. Even the staple products like honey, toothpaste, bread spreads and sauces, if they have not evolved in the product itself then you can be sure they will have evolved in either the packaging, the means of distribution or the channels through which they reach the end user.

If you fall into the group that is not constantly striving for new and better products services and easier ways of doing business then take care that you do not ultimately become one of the ten year life companies that Thurow describes as destined to fall by the wayside.

8. How often do you hear of one particular department or another in a large company considering themselves to be the “centre of the universe”, the most important part of the company, the driving force without whom the company could not possible survive?

Some Production Managers think it all depends of them, the finance people say they provide the means to make it all possible or the IT department controlling the agenda. Of course all participants in a business are important, but we must never forget that in business *nothing happens until you sell something*.

It is essential to remember that all members of any organisation that is involved in delivering a product or service to a customer exist essentially for one purpose; that is to serve the sales force. The sales people are the front line troops. Nothing happens until a sale is made and all endeavours need to be aimed at supporting the sales initiative, which in turn supports the customer.

Never forget this simple and important message.

9. Whereas introducing new products or services to a business is aimed at increasing revenues, process innovation is aimed at improving margins by simply finding better ways to do what you are already doing. Introducing new products and services to the market carries significant risk, process innovation, if properly done, is virtually risk free.

A manufacturing process, or indeed any business process, can be summed up in the following simple statement:

A process is about *“Obtaining the Most of the Best for the Least”*.

In process innovation the aim is to find better ways of making more things to an agreed standard, for the least cost.

When undertaking process innovation there are only three important considerations; these are Costs – how much is it costing to run the operation, Cycle Time – how long does a business cycle take and Quality – are our processes acceptable to our customers and repeatable?

Understand each of these and operate to reduce both cycle time and costs whilst maintaining quality, and the way ahead is straight forward.

10. In any business, the *Cycle Time* is the time it takes for any particular part of the business cycle to occur.

Overall Cycle time can be measured from the time an order is received until the time the payment is collected from the customer. Or, if the overall cycle time is dissected, the cycle time for each element in the chain of events that goes to winning and servicing a customer order the may be considered.

Understanding it is important to minimising cycle time. Indeed many businesses have gone broke, even on the back of a full order book, simply because of the overly long cycle time from receiving an order to collecting a debt. If an overall cycle time can be reduced by 50%, then in simple terms the business can finance a growth rate of double that of one that has failed to reign in its cycle time.

An important aspect of any process innovation initiative is to gain an understanding of the business cycle time and then work to reduce this to the minimum possible.

11. Costs should be a major focus for any process innovation activity. Unfortunately, whilst at first glance the measurement of costs may appear to be straight forward the issues of understanding and justifying where, why and how monies are spent is often quite complex. Indeed if one attempts “drill down” into the “costings” of a complex manufactured products, such as say, a motor car, and attempts to determent the real cost of this product, the answer will be different depending on whom you ask.

For example, one could determine the cost as the price of the component parts plus the man hours in building the product multiplied by the hourly wage rate. This cost is often referred to as the "Direct Cost", but is it the real cost?

What of the peripheral activities. What of the cost of incoming goods inspection, the inventory costs, the production management staff and the other essential "on line" and "off line" costs involved in getting the product manufactured and to the customer. Does this include the dispatch department, and what if we outsource dispatch and delivery, is that now still part of the cost.

In process innovation it is important to understand what is referred to when considering costs. Try to keep things as simple as possible and avoid being confused by the some of the intricacies of cost accounting.

12. There is no point undertaking process innovation that aims to reduce costs and cycle time if quality is compromised. But what does this word quality really mean?

For the purpose of manufacturing organisations, and in fact most organisation of any type, the best definition of quality is "*conformity to design*".

In any organisation that has a task of producing some item and getting it to a customer, the process should start with a properly constructed customer specification as to what the customer actually wants. It is the job of the organisation to then turn this desire or specification into an outcome, 100% of the time, exactly as the customer expected. Perfect quality is achieved by doing the identical thing every time.

If the customer decides he now wants gold plating instead of brass, this is not a better quality product, it is a different product defined in a different customer specification.

It is essential to understand that delivering quality is not about better materials or colours or designs, delivering quality is about delivering what was expected every time without change.

13. We often hear great and successful entrepreneurs, when standing on the podium talking about their success and the persistence and determination they needed to achieve that success. Whilst it may be true that work, persistence and determination are essential attributes of a successful person, beware that blind persistence and endeavour alone will not in itself lead to success.

This is probably best encapsulated in one of my favourite sayings:

"Persistence is an importance element of success
Persistence is an essential element of failure"

Persisting with a bad idea will not make it a good idea; no amount of work will turn a "dog" idea into a "star".

The message is clear; by all means "have a go" but beware, be cautious and listen to the market and the warning signs. If all the indicators are to stop, then it may be time to take heed. Admittedly, some people have succeeded in the face of almost overwhelming odds and "doomsayers", but these are by far the exception. Remember in business life is

about taking sensible risks, it is not necessarily a good idea to try and swim against an almost impossible current.

Remember, that for every successful entrepreneur standing on the podium, one 1000 others have tried, and have lost everything, the trouble is we only ever hear from the winners.

There is no shame in realising the risks of continuing with a possibly bad idea are too great and perhaps changing direction. The aim is to survive and be ready to take on the next opportunity.

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