

Optimizing Value Networks

One of the biggest mistakes people make is to drift along in life. One day they wake up and ask, “What am I doing here?” People who struggle with effectiveness are often people who do not know their roles.

A value network is the set and organization—of systems, processes, skills and people—a company uses in its daily activities. These daily affairs and decisions include, but are not limited to, all manner of business, product development, cost structure, handling of customers, interaction with other companies, and management of competition. A company may have different value networks for different divisions and products.

A value network requires constant review, critiques and updates. Your existing value network serves existing customers and products. But if your customers or your products change, your value network may function poorly or even damage your organization.

Case Study: The Value Network

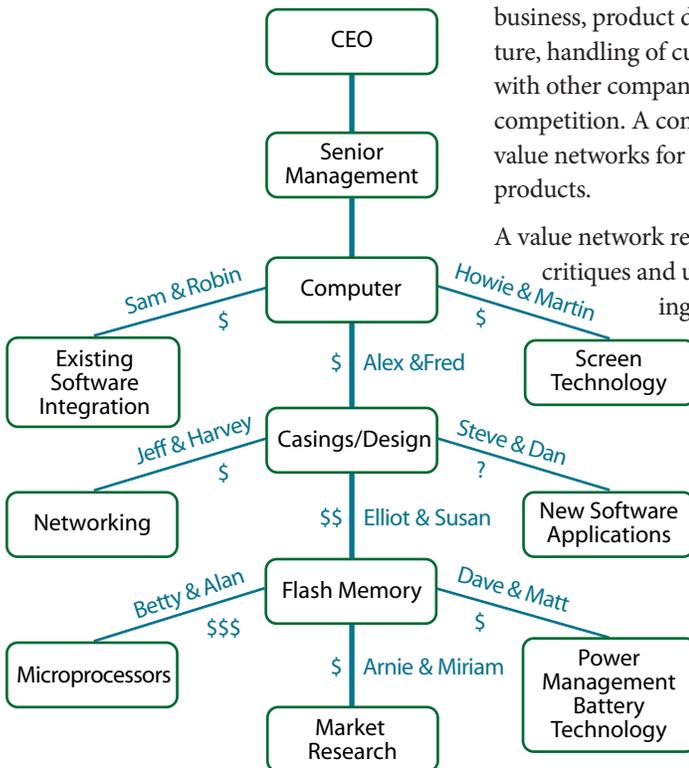
The year is 1998. ABC Motors owns two-year-old manufacturing robots that display on an LCD screen when their parts need service. Managers walk to each robot daily, read the screen, and record this informa-

tion on a note pad. They then type this information into a spreadsheet and e-mail it to the service department. New robots e-mail this information over a data network but the company does not want to incur the expense. ABC asks DEF Computers to design a hand-held computer for managers to simply check-off the parts that need service, and download that information to their desktop PC's.

DEF Computers designs specialized computers for manufacturing. The CEO calls a meeting of senior managers to design the product. Note that the design is influenced by a) personnel b) technology and c) cost, i.e. the company's **existing** value network (see Figure 1). The sequence of development occurred based on the value network as described below.

1. ABC calls DEF requesting a specially designed hand-held computer. The CEO assigns Miriam and Arnie, the marketing team, to meet with managers from ABC to determine what functions the hand-held should comprise.
2. After the focus groups led by Miriam and Arnie, they present the unit's requirements to the CEO, who calls a meeting of the design and manufacturing teams.
3. Miriam and Arnie present the unit's requirements to the design and manufacturing teams.
4. Dave and Matt believe the device should require charging just once a week. This will add cost, but all agree the device will be better received if it only needs recharging once a week.

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“Goals are determined by your values and your necessities.”

5. Betty and Alan suggest a RISC chip, to increase processor speed. This will allow spreadsheets to load instantly. All agree speed is important and approve the extra cost for a RISC chip.
6. Elliot and Susan describe flash memory requirements. All agree.
7. Harvey and Jeff suggest using a cable to connect to a PC's RS-232 port to provide an inexpensive method for managers to download data to their PC's. All agree.
8. Steve and Dan develop new software applications. Their skills are not required for this project. But they are music aficionados and half-jokingly suggest adding mp3 software— a technology that formats music digitally— so managers can listen to music while they walk the assembly lines. No one is amused.
9. Sam and Robin can modify an inexpensive spreadsheet for the data that needs to be checked off at each robot. They decide to add a small word processing program, as they feel it would be useful for managers to be able to type additional notes. All agree.
10. All agree to use inexpensive screen and casing designs.
11. All agree to use inexpensive screen and casing designs.
12. Miriam and Arnie do another round of market research and report that ABC's managers are satisfied with the planned design and functionality of the unit.

After the meeting, Harvey and Jeff have lunch with Frank, a recent hire who wrote his PhD thesis on the safety of wireless networks. Frank suggests that ABC could set up a wireless network and as soon as a manager closes the file on a robot it could be e-mailed wirelessly to the service department. Harvey sends an e-mail with the suggestion to the CEO who copies it to the design and manufacturing teams, requesting feedback.

The consensus is that the managers asked to be able to download data to their desktop PC's, and a wireless network would add expense for ABC and the device. The project moved ahead as planned.

Analysis of DEF Computer's Value Network

This is a classic case where using an existing value network limited the value of the project. Specific problems at each step will be identified.

1 and 2. The handheld could have been used by other companies with different software, yet no one thought of discussing the concept with other customers, real or potential.

8. Steve and Dan's suggestion to add an mp3 player was laughed at. In hindsight we can all laugh at the fact that mp3 players are now big business. But even in the business world, people do listen to music at work. The group did not even consider adding an mp3 player nor was this idea presented to ABC managers in the follow-up marketing focus groups.

12. As mentioned, when Miriam and Arnie met with ABC managers for follow-up focus groups, the idea for a music player was never discussed. Similarly, the idea for a wireless network was never discussed. In fact, Miriam and Arnie never learned that the managers walk miles a day over the one hundred acres of the factory. Incorporation of these ideas could have made their job both more enjoyable and more efficient.

Frank is not listed in the value network diagram the company created last year. A frequent cause of missed opportunities is that no one champions an idea. Frank was willing to, but he was not given the opportunity. Naysayers abound. When they received the e-mail about Frank's idea it was easy to think: "The design meeting is over, I don't want to have to go to another one." So people simply respond in the negative: "It wasn't requested, it's too far out, it's too

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expensive.”

Though an Mp3 player could have become a new product for DEF, it was outside the company’s mission. Wireless networking capabilities in a handheld computer would have been within the company’s mission, yet it was not even considered internally nor discussed with ABC’s managers. ABC’s managers, who frequently walk the one-hundred acre plant, would likely have had additional uses for wireless data transfers that would have made installing a network worth the cost.

Focus groups, whose goals are design, market research, or anything else, are often too focused! The joint design/manufacturing meeting set a goal to create the product specifications. They reached that goal but may have missed other opportunities. Market research is often conducted in focus groups. In this case, the product specs were simply brought to ABC’s managers who simply agreed to them. **Sometimes too focused, is too focused!**

Techniques To Update Value Networks

1. Review value networks twice yearly to be sure they are up-to-date and functioning smoothly. It is best to conduct market research with a minimum of three groups— known customers, possible customers, and unexpected customers. The value network broke down in this case because the market research staff worked to please the existing customer only—an old fashioned paradigm.
2. Update value networks both in diagram and in fact. Be sure to include all employees from their first day on the job. A new employee may have the exact skill to do the job.

3. Never allow what sounds like a good idea to die in e-mail. If any employee thinks he has a good idea, the value network should have built in mechanisms for him to bring the idea to a senior manager or the CEO. The employee who expressed the idea should be invited to any meetings where the idea is discussed. Ideas often sound better when championed and the champion, having thought about the idea, often has responses to the naysayers concerns. Don’t require employees to work for twenty years, or even five, before their ideas are considered. You not only will lose their ideas. You will likely lose them as well.

Suggested Reading:

1. Christensen C.M. *The Innovator’s Dilemma*, New York, Collins Business Essentials, 2003

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