

Defining the Path to Value Innovation

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Value Innovation can be defined as...

- ...“the simultaneous pursuit of radically superior value for buyers and lower costs for companies” (Kim & Mauborgne 2004).
- The path to value innovation requires a *different mindset* and a systematic way of *looking for opportunities* where senior executives identify, articulate and challenge the company’s prevailing strategic logic.



The paper is based a two-year action research programme...

- ...embarked upon in PEG, the Irish manufacturing subsidiary of a US multinational corporation competing in Europe.
- This programme was directed towards a desired future state of PEG to become a lead factory (Ferdows, 1997) within the corporation.

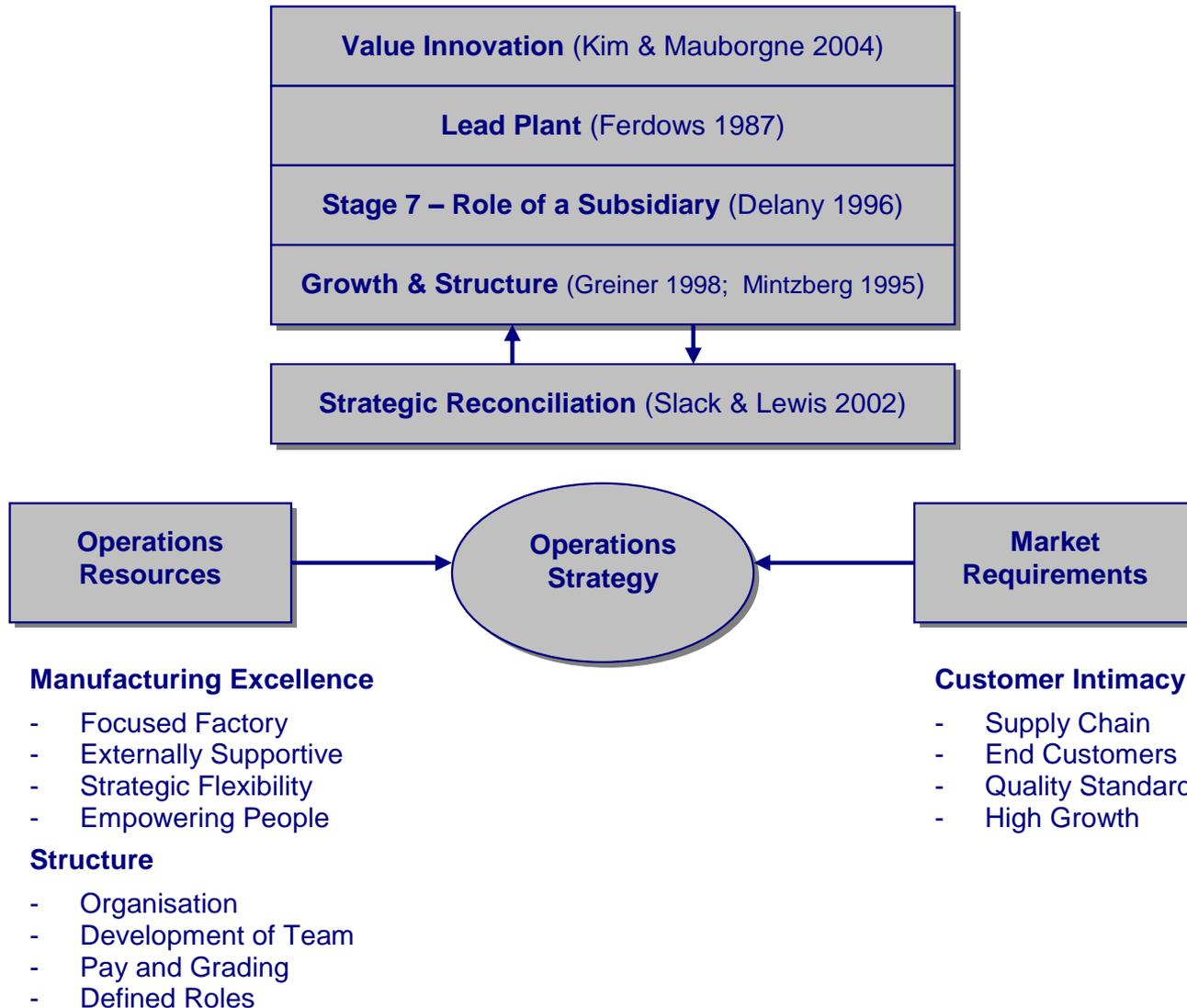


The Vision for PEG was...

- ... to achieve value innovation and high profitable growth.
- This vision was to be achieved by moving from a source manufacturing site, through contributor to a lead plant within the Corporation (Ferdows, 1997)



Putting together the elements of the vision



The process involved three AR cycles



Cycle 1



Cycle 2



Cycle 3



Cycle 1: Issue/Problem

Company was too far down the value chain
from its customers.

Cycle 1: Pre-Step - Context and Purpose

Value Chain Analysis

Value Add Migration



Cycle 1: Diagnosing

- Manufacturing Excellence
- Quality Standard - ISO TS16949 required
- Improving the level of Customer Intimacy

Cycle 1: Planning Action

- Adding similar processes as USA
- Gaining Accreditation to ISO TS16949
- European Sales Meeting at Manufacturing Plant



Cycle 1: Taking action

- *April 2003*
 - Purchased State of the art Heat treatment furnace
- *May 2003*
 - Gained Accreditation to ISO TS16949
- *June 2003*
 - European Distributor meeting held in Ireland

Cycle 1 - Evaluating Action

- Able to do business in Auto industry
 - Met with European Distributors
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Cycle 2 Pre-Step- Context and Purpose

- How to progress the vision further

Cycle 2 - Diagnosing

- Targeted German Distributor
- How to achieve customer intimacy
- New action plan agreed with German Distributor



Cycle 2 Planning Action

- A number of operational actions for company to achieve
 - Fully equipped test laboratory
 - Applications Engineering and Test Engineer in Europe
 - CNC Machine for quick turn around of samples
 - Automatic Camera Inspection Machine for zero defects



Cycle 2 Taking action

- *July - November 2003*
 - Action plan was carried out. Daily contact established with German Distributor
- *December 2003*
 - Company quoted on some large volume project for Auto industry in Germany.

Cycle 2 Evaluation Action

- *End 2003*
 - Many building blocks in place to compete in Auto Industry.
 - Actions taken were beneficial in getting to know customers
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Cycle 3 Pre Step - Context and Purpose

- The actions from previous cycles had not moved company any closer to the end customer or eliminate any steps in the Supply chain.
- Tight margins in the Auto industry would not allow for excess shipping costs to UK

Cycle 3 Diagnosing

- Business needed flexible pricing and no excess costs

Cycle 3 Planning

- Quote under catalogue prices while maintaining margins
- Ship directly to European Distributor



Cycle 3 Taking Action

- Two steps were removed from the supply chain
 - *Jan - March 2004*
 - Continued to quote on auto projects in Germany and France
 - Two customer opportunities developed simultaneously:
 - in France
 - in Germany
 - Guest Engineer and Manufacturing team visiting end customers
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Cycle 3 Evaluating Action and Meta Learning

- Company gained an unprecedented level of customer intimacy with two major customers
- Exploration of value add migration challenged the prevailing strategic logic
- Company needed to add a value discipline - customer intimacy



Three conclusions emerge in relation to the path to value innovation:

1. Achievement of value innovation requires development and alignment of manufacturing excellence, strategic flexibility and demand
2. It takes many cycles of specific design, manufacturing and supply chain actions to achieve value innovation and new levels of profitable growth
3. It takes a sequence of actions to achieve value innovation and new levels of profitable growth



So, as we reflect on this experience...

- What is the context and purpose of the intervention and the research?
- What data was gathered? What actually happened? Can we list and name events and incidents?
- What actions and clinical interventions were still in prospect?
- How did we analyse the data? What theories did we draw upon to make sense of what took place?
- What working hypotheses are emerging which might be understood in terms of theory and concepts?

