

MIT-AITI Entrepreneurship

Lecture 5: Business Innovation and TQM

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Lessons

- What is innovation?
- What is TQM?
- What can innovation do for you?
- Thinking outside the box.
- Changing the rules of the game.
- Business Innovation.
- Fostering an innovative and dynamic culture.
- Case Study: Jan Carlzon SAS

Innovation

- Coming up with a new idea or product esp. by thinking creatively and extending the bounds of the state of the art
- Innovation is about constantly looking for ways to improve your product and business processes by employing new knowledge and creative thinking

TQM

- Total Quality Management – the Japanese way (Kaizen)
- Involves constantly looking for ways to maximize the satisfaction of your customer and evaluating all your business processes to ensure that you are constantly improving in quality and customer satisfaction.

TQM and Innovation

- TQM and Innovation go hand in hand.
- TQM identifies opportunities for improvement
- Innovation comes up with the means of bringing about an improvement i.e. technology and process development
- Companies which practice TQM and innovation are dynamic, change driven and leaders in bringing out new technology and services.

Ask the customer

- Make a thorough research of the customer needs
- What would the customer want to happen in an optimum situation and how much would she/he pay for it
- Optimize your processes such that they deliver max. value to the customer i.e. try and achieve nirvana while getting fair pay for it

How to TQM

- Make a list of all the processes in your business and how much time and resource you spend on each process
- Identify how much value each process adds to the customer
- Align your time and resources such that you maximize the value to the customer
- Identify opportunities for you to lower your costs and pass on some of the savings to the customer

TQM results

- After TQM you can identify how much each process costs you and how much value it gives the customer
- Assess all the processes carefully and identify ways in which you can increase efficiency and speed, lower costs and maximize the value you get.
- Mark processes which are necessary and those which are not

What to do with TQM results

- Get rid of unnecessary processes – usually brought about by bureaucracy or keeping traditions which have lost importance
- Identify which necessary processes you need to optimize. Look at your high cost, low value processes and see how you can get rid of them or lower their costs e.g. American space pen, unnecessary research, etc.

Innovation – Part 1

- In part 1, you should have a list of the expressed needs of your customers
- Think about all the different ways that you could satisfy customer needs using your resources and document them
- Choose the best way to deploy your resources judging by – value that customers receive, costs associated and the long term strategy of the firm

Innovation – Part 2

- Think about all the customer needs that are not expressed but exist – e.g. many people don't just buy clothes to wear them. They buy clothes because they say something about them. So the unexpressed need is “expressing self identity”. This is the real reason why people may buy particular clothes
- Make a list of unexpressed customer needs

Innovation Part 2 Cont

- Make a list of all your resources
- Come up with ways in which you could maximize the use of your resources.
- Find out what other people in the world do with the same resources – the internet is a great resource
- Think outside the box

Thinking outside the box

- Means original and creative thinking that challenges the traditional way of doing things by aiming at constant improvement and efficiency.
- Seeking new solutions to old problems

Changing the rules of the game

- It has been said “If you can’t beat them, join them.”
- An entrepreneur thinks “If you can’t beat them, change the rules of the game.”
- This means that you should constantly identify areas in which you have competitive advantage and go through that area first and then use the loop hole to strengthen your position in other areas

Toyota's story

- In 1937 the Toyota motor company was founded in Japan and run by Kiichiro Toyoda
- He had returned from Europe and America and had visited their car factories
- The company applied innovation and TQM (Kaizen – Japanese) and just in time manufacturing over the years and started by selling cheap cars.
- Using this strategy Toyota was able to compete with American companies and has been the foremost in coming up with the latest hybrid cars.
- In just 5 decades, Toyota has become a dominant car manufacturer and is the most profitable car company.
- It has led the way for other companies like Honda, KIA and Mitsubishi to come in from Japan and Korea
- A classic case of student beats teacher.

Moments of truth

- In 1980 Jan Carlzon became the Chief Operating Officer of SAS Airlines (Scandinavian airlines).
- The airline industry was facing a crisis, the oil crisis was in full swing and after 17 years of profitability SAS was going to make a loss of \$20m.
- The market for airline services had also stagnated.

Jan Carlzon's strategy

- In stead of cutting costs or selling airplanes like the other airlines were doing Jan and his team came up with a new strategy
- They would become profitable by providing the best service.

Focus

- To achieve this, SAS concentrated on the business traveler who must travel in both good and bad times
- They realized that the business traveler had special needs and focused on fulfilling those needs
- Tourist travelers were not so lucrative because they mostly travel in good times and have a more flexible schedule

Reorganization

- SAS scrutinized every expense, every process and every resource. Do we need this for the business traveler?
- If the answer was yes, SAS was even prepared to spend more money on it but if the answer was no then it had to be cut
- Concurrently instead of cutting costs like everyone was doing, SAS increased its investment.

Communicating the vision

- SAS communicated its vision of becoming the best business airline in the world to all its employees in a creative way
- All the employees from the cleaners and mechanics to the stewards knew what the company was aspiring to be. Jan had told them the vision demanded all of them to demonstrate a level of excellence appropriate for the best business airline in the world

Moments of Truth

- Jan clearly identified that the real resources of a company are not its assets but its customers. Therefore he was going to please the customer as much as possible
- A customer's perception of a company is based on the interactions with the employees. Each moment a customer interacted with an employee is a moment of truth which shapes the customer's perception of the company

Moments of truth

- As a result he compiled a list of all employees who come into contact with the business traveler directly and indirectly
- He wanted to make each moment of truth a great experience for the customer and he was going to rally his employees into providing a great experience

Empowering employees

- Since customers are the biggest assets a business, employees who create moments of truth are the most important business asset
- Jan Carlzon changed the company structure and empowered employees who create moments of truth. The company bureaucratic ladder was broken. Cleaners in the company found themselves more respected and better paid and they were allowed to make their own decisions

Effects

- Employees were motivated, trained and the result was that the experience of business traveler was enhanced greatly
- This also opened opportunities to optimize other processes in the company

Jan Carlzon's legacy

- Jan Carlzon innovated by being a leader rather than a manager
- By empowering employees who are considered blue collar he gave them a feeling of being appreciated that made them want to give their best for the company
- In 3 years Fortune magazine named SAS world's best airline for the business traveler. By 1986 SAS was making \$80m in revenues while other airlines were making losses

Group Assignment

- Identify an organization which is inefficient. Explain how you could make it efficient for the customer or user
- Write up a plan that would make that organization the most efficient in the country, Africa or the world

Personal Assignment

- Consider many organizations you've visited and identify moments of truth which affected your overall perception of the company
- What would you have done differently if you were the CEO to increase efficiency and employee morale

Resources

- Read the book by Jan Carlzon called Moments of Truth
- Find other stories that show how company turn arounds were achieved. For example,
- Lee Iacocca and Chrysler Motor Company

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