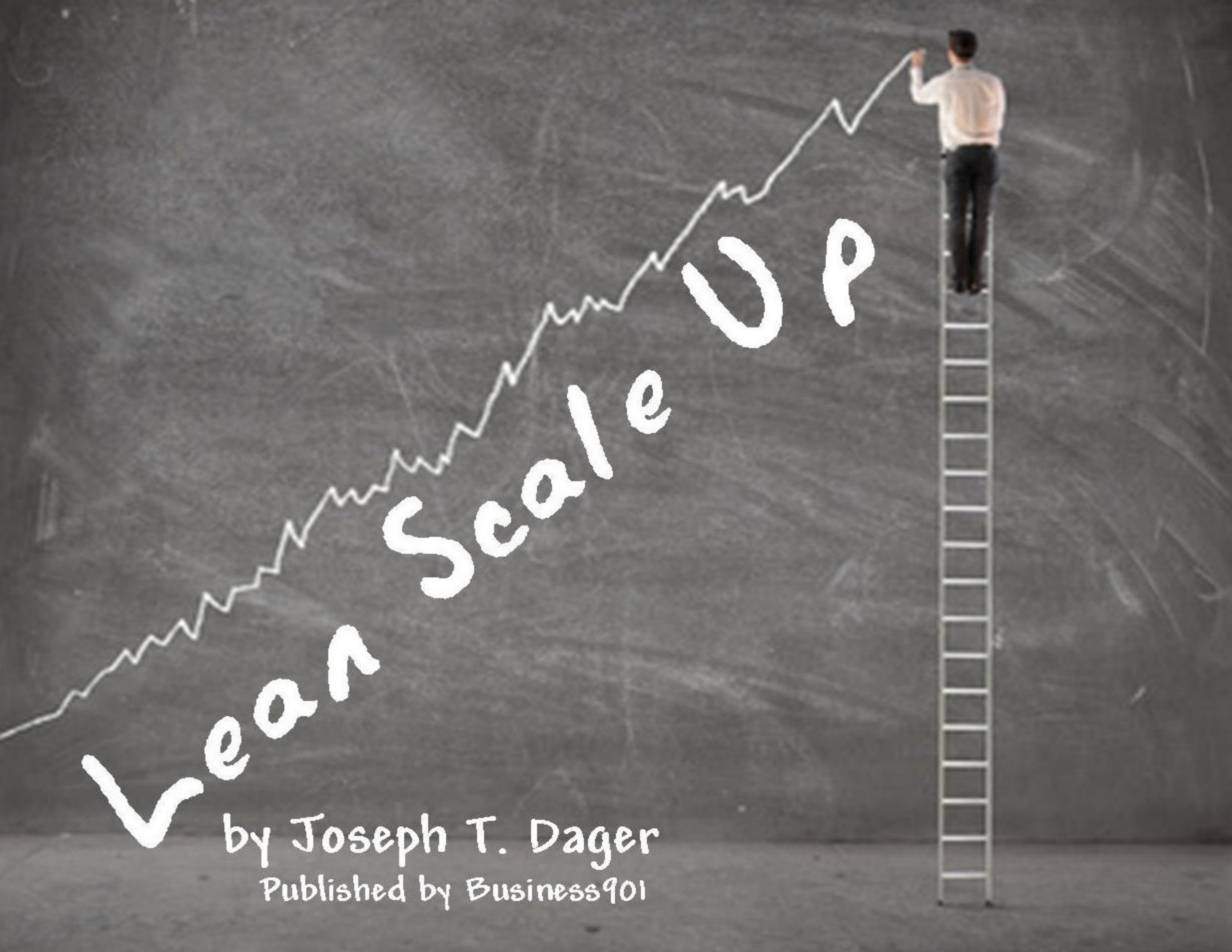


Lean Scale Up
by Joseph T. Dager
Published by Business901

Lean as a Growth Strategy

I first studied TQM back in nineteen-eighties which served as my precursor for Lean. Along the way, I was primarily influenced by Six Sigma, Theory of Constraints and Systems Thinking. I always found my roots and practices best associated with Lean. I never read a book or even knew Lean existed till the nineties but became an avid student and practitioner. In retrospect, I have been doing Lean for over thirty years. I just never called it that; it was just simply what I did.

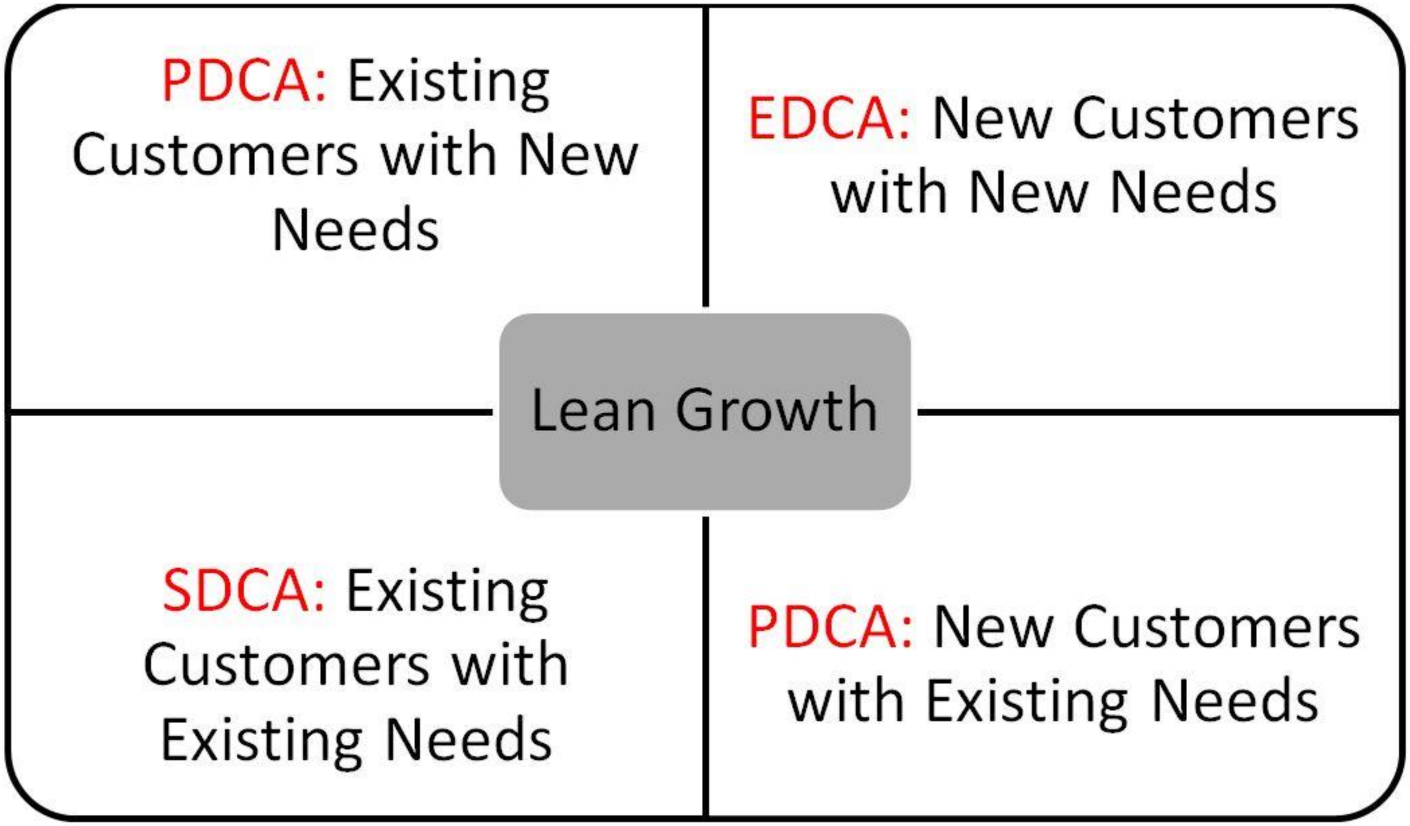
Lean is introduced as a growth strategy through the processes of SDCA, PDCA and EDCA. This three step process for using Lean is defined in this way:

1. Standard Work (SDCA): Define core business and put the majority of company resources into the core until it achieves its full potential.
2. Continuous Improvement (PDCA): Most big ideas are made up of a series of successful smaller ideas driven by a simple and repeatable business model.
3. New Markets and Products (EDCA): After defining what it cannot do and exploring what it may want to do?

Lean is not a prescription. It is not the ultimate growth strategy for everyone. It is not easy. For more information; (If less than 1% of companies are successful with Lean).

Lean sets the ideal, however, you must understand your organization, the culture that exists and the culture that your customers expect and are willing to derive value from. You have to make the process your own. You have to rid yourself of Lean or other business

processes. Successful companies that start down a Lean path are not Lean anymore, only the unsuccessful ones are. **If you are successful at implementing Lean, it is simply not Lean. It's yours.**



Standards create the WOW

Many people see Lean as another process methodology still mired down in the process thinking world of the eighties and nineties. The facts are that companies, such as Danaher, Toyota, Ingersoll Rand and Amazon have embraced Lean thinking or similar concepts and have excelled in the new millennium. What makes these companies stand out? They have created repeatable business models with an emphasis on continuous improvement and adaptability. We can create numerous names for this model, but the Lean Business Model has proven to be the most resilient and consistent producer of results and of growth. Lean is introduced as a growth strategy through the processes of SDCA, PDCA and EDCA. This three step process for using Lean is defined in this way:

1. Standard Work (SDCA): Define core business and put the majority of company resources into the core until it achieves its full potential.
2. Continuous Improvement (PDCA): Most big ideas are made up of a series of successful smaller ideas driven by a simple and repeatable business model.
3. New Markets and Products (EDCA): Define what you cannot do and explore what you want to do?

If you are a Lean Startup™ or an Entrepreneur with a new product, you have just completed an exercise that is called Product Market fit (I will use only the word "Product" to describe both products and services). In my thinking or terms, you have gone through the EDCA (Explore-Do-Check-Act) stage and converted it to a hypothesis that is proven

through PDCA (Plan-Do-Check-Act). Once proven, you standardize (SDCA) your product/service and build your first repeatable business model. If you are not sure you are ready to scale your business model, Sean Ellis's book, Lean Marketing for Startups, offers some excellent guidance and worth a $4.95 (Kindle version) investment. If you are familiar with Sean's Startup Pyramid, you will see the same evolution of EDCA (Product/Market Fit) and PDCA(Promise, Economics, Optimize) and SDCA (Scale). Do not scale (SDCA) till you have reached product market fit (EDCA) and a repeatable business model (PDCA).

How do repeatable models succeed? In the books Repeatability: Build Enduring Businesses for a World of Constant Change and Profit from the Core: A Return to Growth in Turbulent Times, the authors use studies from the Bain and Company to point out the three design principles (the parenthesized parts are mine) most associated with success.

1. What is the essence of success? A well-differentiated core (EDCA)
2. How do we make sure we keep improving and adapting? Closed-loop learning (PDCA)
3. How do we align our people to focus on our key strengths? Clear nonnegotiables (SDCA)

In the book, the authors distinguish three different growth strategies based on repeatable business models.

1. Individual business driving core growth (Examples of companies with a single core, simple structure: Vanguard, IKEA, Tetra Pak)
2. Businesses moving into adjacencies by modifying their model (Examples of companies with a single core, complex adjacency expansion: Nike, Apple, Olam)

3. Multicore business managing a portfolio (Examples of companies with a multicore, multi industry: Danaher, UTC, P & G)

The repeatable business models are very diverse. They are highly fluid but repeatable. I view SDCA or Standard Work in much the same way. When we have clear nonnegotiable standards, it allows the fringes of our businesses to operate effectively with little intervention.

Standards are what makes business models adaptable. In recent years, Alex Osterwalder and Yves Pigneur developed the Business Model Generation Canvas. It identifies nine building blocks required for the business model. It is an iterative approach to see what underlying structure is required to institute and develop change for innovation. A PDF download can be obtained here: Business Model Canvas.

What this model does is provide clarity around the core value proposition. You may believe the model is too simple for larger companies. However, I believe that simplification is the point, and a simplified structure is in Lean terms, standards.

Standards are the most fundamental and misunderstood concept needed for growth. Your core values are the way you go about what you do and how you do it. It is what your customer understands and experiences. **Standards create the WOW in your business.** When an employee steps out of the box to do something

remarkable, it is a result of having the clarification that this is what are standards (values) would encourage us to do.

Lean embellishes standards, not as a way of being restrictive. It embellishes standards as a way of clarity and focus providing agility, speed and relevance throughout not only to the organization but to the market. It makes growth more understandable for existing customers, new markets, and new products. When viewing the recent growth of Amazon, Apple or Google, most product/service successes occurred building upon their standards. When viewing the troubles, of Starbucks and Dell, it was a movement from their standards and the correction being a return to them.

Growth Principle: Standards create the WOW

therefore

Standards have to be at the core of your growth strategy.

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Growth is about People, not Process or Product

If you can build a culture of PDCA, a culture of learning, growth becomes part of everyone's job. It is this aspect I believe that separates good companies from great companies.

There is not an internal factor that will be more limiting or more expansive than the people within the organization. Building a learning culture with a properly formed structure is the single most important role that leadership has but often the most difficult. In mature companies, you will hear about transforming to a Lean Culture and the difficulty of change. In startups, we discuss the transitional process that the founder must go through as the company matures. Both areas are significantly different, but the three components are relatively the same; Structure, Culture and Learning.

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I was president of a company that tripled personnel one year from twelve to thirty-six people. All things went pretty well. The core group of twelve was an amazing group and several of them adapted to leadership roles well, we prospered. The next jump from thirty-six to sixty people did not quite go as well. Our organization structure contained to many generalist and we required a few specialist to be hired that just by the nature of the new structure were competing for authority with the generalist. Several of the generalist were no longer in the same positions of authority and, as a result, struggled with their new positions. We also experienced a few more personnel issues as a result of people not being trained and ready for leadership. It was a time that I developed a new sense of respect for line managers. I found out that the company strength and potential for future growth was limited to that last line of management.

What happens in mature companies is that they have an existing structure and frequently do an excellent job of developing people for leadership. Growth often times takes on a different form in this arena; it is a form of specialization within silos. Growth occurs because of this uniqueness and offering. However, the more specialized a silo is the more independent it becomes. This often does not fit with the existing culture and structure. **Structure** is often considered a easy process of drawing an organizational chart and fitting existing people into those roles. We hire to fill the gaps or ask people to wear two hats. After all, we are all flexible. This may work on paper, but in reality it fails miserably. In Lean circles, you will hear **Culture** blamed for just about every Lean failure. You also hear the quote “Culture eats Strategy for Lunch”. I would like to add my own, “Structure eats Culture for Breakfast”.

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Our processes are built as a result of the internal structures of our organization. It is how we get things done. If we do not change the structure, (Review: A New Approach to Lean – Robert Fritz) we will not be able to meet the demands our customers require. The proper structure is a combination of the typical organizational chart and a Venn diagram. The best model that I have found to do this is the Lean model of Leader Standard Work explained in David Mann's book, Creating a Lean Culture: Tools to Sustain Lean Conversions, Second Edition, Second Edition. For more information on Lean Standard Work review the Learning Lean Training Module on LSW.

The Lean practice of Hoshin Kanri allows us to consider what types of structural changes we need to make. This process not only allows for change, it actively seeks it. Change and restructuring become naturally motivated. As we progress, the organization becomes clear about the vision we share and joins together in making change work. For more information on Hoshin Kanri review the Learning Lean Training Module on Hoshin Kanri.

Another important aspect of growth is learning. I am not referring to additional schooling or conferences. My reference is learning from within and outside the organization. However, if you do not build an internal learning structure what you learn from vendors, customers and markets will go for nil.

What people forget about Lean is that it is the change agent for an organization. In its simplest form, you first go and see the current state. Second, you visualize your process. You make your process steps visible. You visualize things in a way that reveals your problems, not in a way to hide problems. If you understand what standards are, how the

process should work because it's very clear, then whenever we see a variation from the process we react immediately. This allows you to choose one problem from the other and just solves them one by one. This is incredibly powerful, this vision we have with Lean systems of increasing our competency, increasing our training without having to take people off line, without having to get to classrooms, but by building it into the way we work. It is this empowering aspect that is not easy. However, it may be the only way an organization can master Lean. – From the training module below.

If you can build a culture of PDCA, a culture of learning, growth becomes part of everyone's job. It is this aspect I believe that separates good companies from great companies. For more information on PDCA review the Learning Lean Training Module on PDCA.

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The Value Proposition of Use

Traditional sales and marketing evolved with linear thinking and the traditional sales funnel. In the past Goods-Dominant Logic thinking created a cost-plus price model for products which limits market scale. Scale must be done by creating something better, faster or cheaper or there must be the availability of increasing markets. Many of our products/services are limited because of this view. They were developed to sell feature and benefits at the point of transaction and not value where use occurs.

What we fail to view is connectivity within an environment allows for the greatest opportunity for growth. If our products/services are designed to derive "value in use", additional forms of innovation can easily occur. This is the opportunity Service Dominant Logic presents for organizations.

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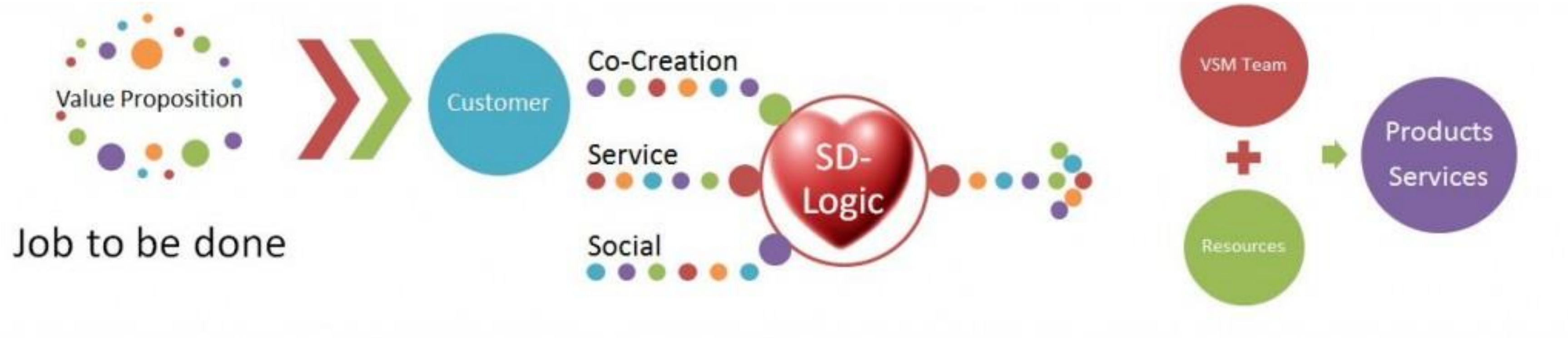
Successful products and services are evolving into an eco-system, and we are only as effective as our value proposition at the point of use. At the heart of this system is Service Dominant Logic.



Business models are changing to more service style proposition versus just transferring the ownership of equipment. They are recognizing the advantage of creating markets for use. This is not limited to digital propositions such as Amazon's Kindle or Apples "I" series. It is also utilized by firms such as Zip Car, Rolls Royce and Akzo Nobel.

From the book, [Value & Worth: Creating New Markets in the Digital Economy]:

> *Once we understand it this way, we begin to see why context should be the focus for the future. This is an important change in mindset. Previously we thought of value of an offering as the essence of an object. With this shift in mindset, we can now consider value as the goodness arising from the experience of the object and by logical extension; we have to consider that experience to be part of a system of*

objects and people in creating value. So objects are not seen as having 'intrinsic' value, but are 'positional' within a context.

It is these concepts that will deliver future growth. A Lean value stream becomes first and foremost the listening post for the customer (prospect). It provides the customer with the information, technology, and support that is required. This is done through an understanding of what is needed in the customer's "job to be done" value proposition. The value proposition of use. A Lean Enterprise will react to these offerings more quickly and more effectively than a traditional company. This is how the five principles of Lean Thinking complement Service Dominant Logic thinking.

1. We identify value at the place of use.
2. We map value through the Marketing Gateway of SDCA, PDCA, EDCA
3. We create flow by segment the value proposition determined by the customer.
4. We establish pull through the value proposition offered at the place of use.
5. We seek perfection through the application of continuous improvement with the customer.

For a short version of Service Dominant Logic or start here with the long version in the Lean Service Design Training module.

Creating a Lean Scale Up Budget

The Budget is truly the Fuel for Growth

When you view most budgets they are almost always cost-related with little identification for resources that clearly set aside for growth. How do companies stop being innovative? Why do companies stop growing? Many simply stop planning and budgeting for it. The budget is truly the fuel for growth and innovation.

GROWTH COSTS MONEY

INNOVATION COSTS MONEY

It affects your balance sheet, your profit and loss statement and

YOUR CASH FLOW.

If you are not a financial type person – I encourage you to seek not only professional advice but to become a numbers person. CEO, Founders or anyone in charge of growth needs to understand the numbers. If you presently are not part of the leadership team, and want to be at that table, learn your numbers. Feel comfortable with talking the language of business, money.

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Having a strong foundation is the key to growth. Many companies move prematurely to a growth strategy. They look at growth at the savior to their financial woes. They will disguise cash-flow problems by growth. This, often time, is hidden by increased inventories that are rapidly obsoleting as you grow.

The day of recognition will come when growth stops or slows down. If you have closed down a division or a company, you understand how much your inventory is worth. My rule thumb has always been; if there is dust on it, don't count it.

Starbucks plans their growth in a unique way. When they open stores, they expect to take 25% of their business away from the adjacent store. This way they create cash flow and that famous line of people waiting to get a Starbucks. They were not developing new

customers. They take existing customers and influence others with them. Think about Apple, did they take a certain portion of iPod users away with the iPhone, the same attributes were repeated with the iPad. All products contained an overlap of features and benefits making it a smooth transition between products for Apple, the customer and developer.

This type of growth can be viewed as a progression between the iPod and the development of an eco-system to support it. The next improvement was the iPhone followed by the less than spectacular iTouch, followed by the iPad. All of them were not exactly out-of-the box thinking. Rather, a continuous improvement effort (PDCA) that improved the entire Apple eco-system. They developed the products/services from the core. Apple, Starbucks and many other franchises are developed that way. It is one of the most inexpensive ways to fund growth.

Companies with good ROIC (Return on Investment Capital) typically develop products with high ROIC. It is imperative that you are making money with what you have before moving forward. We are always looking for the silver bullet in the next product, next market, but there is a high cost associated with taking market share away – others are firmly entrenched. How many times do you look at your existing product and think that another market can use it. It makes sense for them. What we forget is that the market is already being served by someone else and more than likely as you move away from your core your product or market, it is not as disruptive as you may think.

The Lean Startup™ movement is being touted as something that is needed in existing

business. It will enable a mature business to innovate better? Many companies are using practices such as Design for Six Sigma, Lean Product Development, Lean 3P, Design Thinking, Service Design and other design practices. Many of these practices have evolved because of existing cultures and structures. My cautionary note is not to quench the enthusiasm of entering new markets but to advise that you must step back and realize the time, money and skill needed to enter these markets.

Creating a Lean Budget for Growth:

SDCA Budget: When we look at a budget it is much easier to create one from a standardized business model. A repeatable one that, pun intended, we can take to the bank. Having this well-defined allows for us to provide the fuel for future growth. It allows us to understand how growth will be funded. Without a standard, you cannot improve. (Something that we have heard before – Taiichi Ohno) For example if we consider that we will have 80% of our resources (time, skill, money) devoted to standard work that creates a foundation for 80% of our budget.

PDCA Budget: Develop a budget for growth based on a philosophy of continuous improvement. This may be taking existing products into new markets or new products into existing markets. Remember, that you must allocate a higher cost to entering these markets or to the development of new products. It is something that can be easily done with an Excel spreadsheet. This not a complicated process since you should be only adjusting a portion (either product or market) of the standard budget.

EDCA Budget: The next step is to develop a budget for a new product and new market, a more difficult task. However, if you have practiced developing one as described in the preceding budget, you are more than halfway there. Discuss and make your best estimates. A word of advice that I learned years ago from Warren Avis, he said something to the effect that create the best and most accurate business plan that you can and decide how much money you will need, then double it. In my experience, he has proven to be correct.

At this point, you have a SDCA, PDCA, EDCA budget. The percentages of each portion will be different for every company but add them together and evaluate if you can prosper or survive with this scenario. Play with the numbers increasing different efforts and see what happens. What happens if you devote too much time growth? How much growth will you have if your core business slows down? What happens if an improvement effort flops? This is not a one-time event, constantly update the sheet and review at least monthly with your leadership team to include your finance people. Hold people accountable, including yourself, to the budgetary process. I encourage you to use the all the financial instruments that are available to you.

Innovation Management about the CFO is a recent blog post that asked these 3 questions:

1. How does the organization decide to take an idea to concept (how do we decide to invest)?
2. What makes for a compelling narrative around a concept? (Financial Model – Expectations of validity)

3. How does the budgeting process work for new ideas and ventures?

Another resource, if you are or thinking that you want to become a public company, I recommend the book, Value: The Four Cornerstones of Corporate Finance

1. **The Core of Value:** a business's value is driven by its growth and return on capital, and resulting cash flows
2. **The Conservation of Value:** value is created when companies generate higher cash flows, not by simply rearranging investors' claims on cash flows
3. **The Expectations Treadmill:** movements in company share prices reflect changes in the stock market's expectations, not just underlying performance
4. **The Best Owner:** the value of a business is not an absolute but, rather, depends on who is managing it and the strategy pursued

Shaping your Customers Vision

Are you looking at growth strategies from a customer's viewpoint? This past week I have referred to the concept of Service Dominant Logic several times and how your value proposition can be viewed from the point of use. This type of thinking opens up a new context for innovation and growth. It moves you past transactional thinking and into the customer's world. However, for long term growth it is not enough.

One of my favorite authors, Michael Schrage, author of Serious Play, recently published a new book taking these concepts one step further. Who Do You Want Your Customers to Become? challenges us to take our value proposition of use to a longer term growth platform. He dares us not only to have a corporate vision statement but a customer vision statement saying that our future depends on their future. He phrases all this in something he calls "The Ask" and defines it this way:

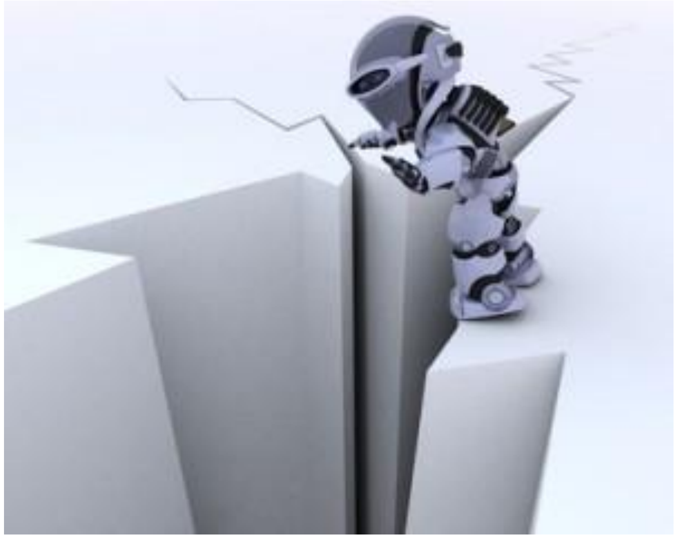
> *Conventional management wisdom has evolved from thinking about innovation as designing for customers, to innovation as designing with customers. The Ask takes the next essential leap: thinking about innovation as designing customers. Innovation should be treated as a medium and method for (re)designing customers.*
> *Making customers the (re)design focus fundamentally changes how innovators invest in change. At one global foods giant, The Ask prompted spirited debate about creating*

> *a "store within a store" instead of redesigning product packaging and point-of-purchase displays. These executives grasped that the future of a brand or a marketing promotion or a product enhancement demanded different conversations than defining their customers' futures. Designing tomorrow's best customer is not the same as designing tomorrow's best product.*

We find our greatest growth opportunities on the edges of the use of our product/services. We must make a concentrated effort to identify and participate in relevant knowledge flows on the edge (EDCA). In the book The Power of Pull: How Small Moves, Smartly Made, Can Set Big Things in Motion, the authors discuss the relationship between the core and the edge. In the excerpt below, think about the core being the standard work (SDCA) of your growth strategy. PDCA provides the bridge between the core (SDCA) and the edge (EDCA).

> *Knowledge flows naturally flourishes on the edge. Why? Because by definition, participants on these edges are wrestling with how to match unmet needs with unexploited capabilities and all the uncertainty that implies. Edge participants therefore focus on ways to innovate and create value by connecting unmet needs with unexploited capabilities and then scaling these opportunities as rapidly as possible. In the process, they create significant new knowledge.*
>
> *Since much of the most relevant knowledge on the edge is tacit knowledge, edge participants naturally place a heavy emphasis on building diverse networks of relationships that will help them to collaborate more effectively with others in the*

creation of new knowledge. For this reason, gatherings where participants can share stories and experiences, learn from each other, and identify potential collaborators become particularly prominent on the edges.



Edge participants often reach out to participants in the core in an effort to build relationships and enhance knowledge flows. But those efforts are often frustrated or at best to marginalize because where participants are too busy concentrating on defensive strategies within the core, trying to protect their profits and position, to understand the true growth opportunities represented by relevant edges. Or participants tend to focus on transactions rather than investing in a long-term effort to build sustainable, trust-based relationships on the edge.

Keep thinking about the relationship between SDCA, PDCA, EDCA. Lean becomes even more powerful in these terms.

More from the Power of Pull:

For this reason, especially, the few core participants to understand the full potential of the edge and are able to reach out and connect into rich knowledgeable flows

> *occurring on the edge will be in the best position to create economic value. They will be able to respond to increasing margin pressure in the core by helping to scale innovation on the edge and in participating rich new sources of profitable growth arising there. Unfortunately most core participants to the extent that they recognize increasing importance of knowledge flows at all, tend to focus and knowledge flows within the core rather than making a concentrated effort to identify and participate in relevant knowledge flows on the edge.*

Why do these edge people or these risk takers even care about the core people? Edges and cores need each other. Unless they become part of the core, edge players never gain access to the stature, money or connections that exist in the core. The core needs innovation from the edge to continue refreshing and regenerating itself. In business terms, edge companies need resources to scale growth and core companies need new growth platforms to compensate for increasing competitive pressures.

When we envision tomorrow's best product or service being used in our customer's future it creates far-reaching possibilities. Our most successful sales people are already thinking in these terms. Recently, I wrote a blog post, Lean Salespeople are Challengers, not Problem Solvers, about how The Challenger type salespeople are willing to challenge a customer's thinking to create new opportunities through more effectiveness or innovative ways. It is this type of thinking of your customer's business, the edges of their business that we must strive to achieve through the methods of SDCA, PDCA and EDCA.

Lean Scale-up Graphic

Some believe The Death of Innovation, the End of Growth is here. Others believe it is a race against technology, The Key to Growth? Race with the Machines. I believe growth is not easy. However, why not simplify the process and use an established methodology, a way of thinking to your business. Don't leave a good idea fail because of a poor process. Processes are not easy. Change is not easy. Lean will not offer you a step by step process to make growth work.

As Michael Jordan said, "If you want a guarantee, go buy a toaster."

Lean does offers you a better opportunity.

Following is a graphical description of the process outlined in this book.

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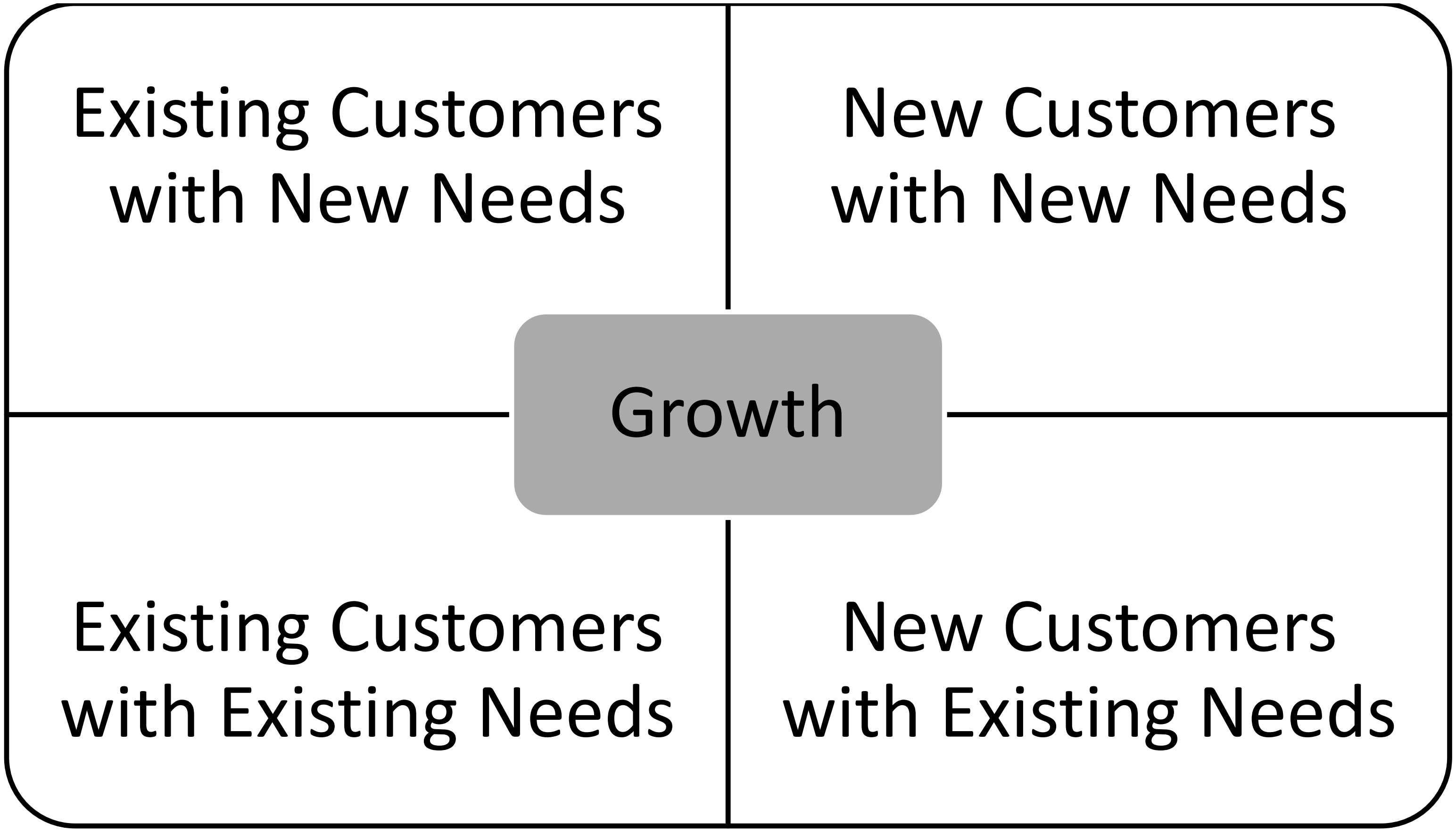
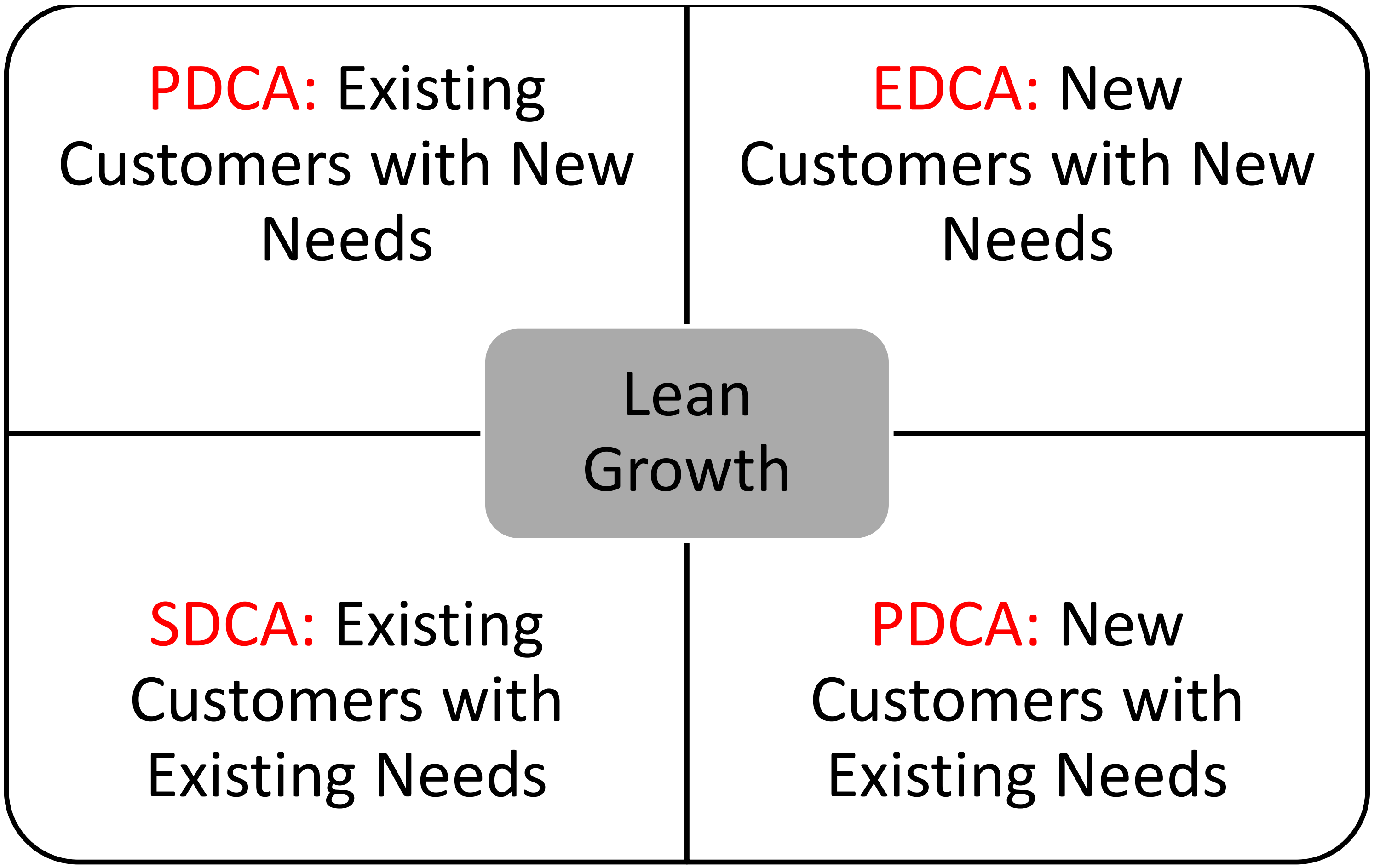
We like to view growth through our customer eyes or are customer needs. It helps viewing this simple matrix and formulating your strategies accordingly. Use of this matrix forces to look beyond our own product and services.



I use this same matrix but add Lean thinking to the concept. Nothing changes, except we now assign a Lean Process to achieving the outcomes in each individual box.



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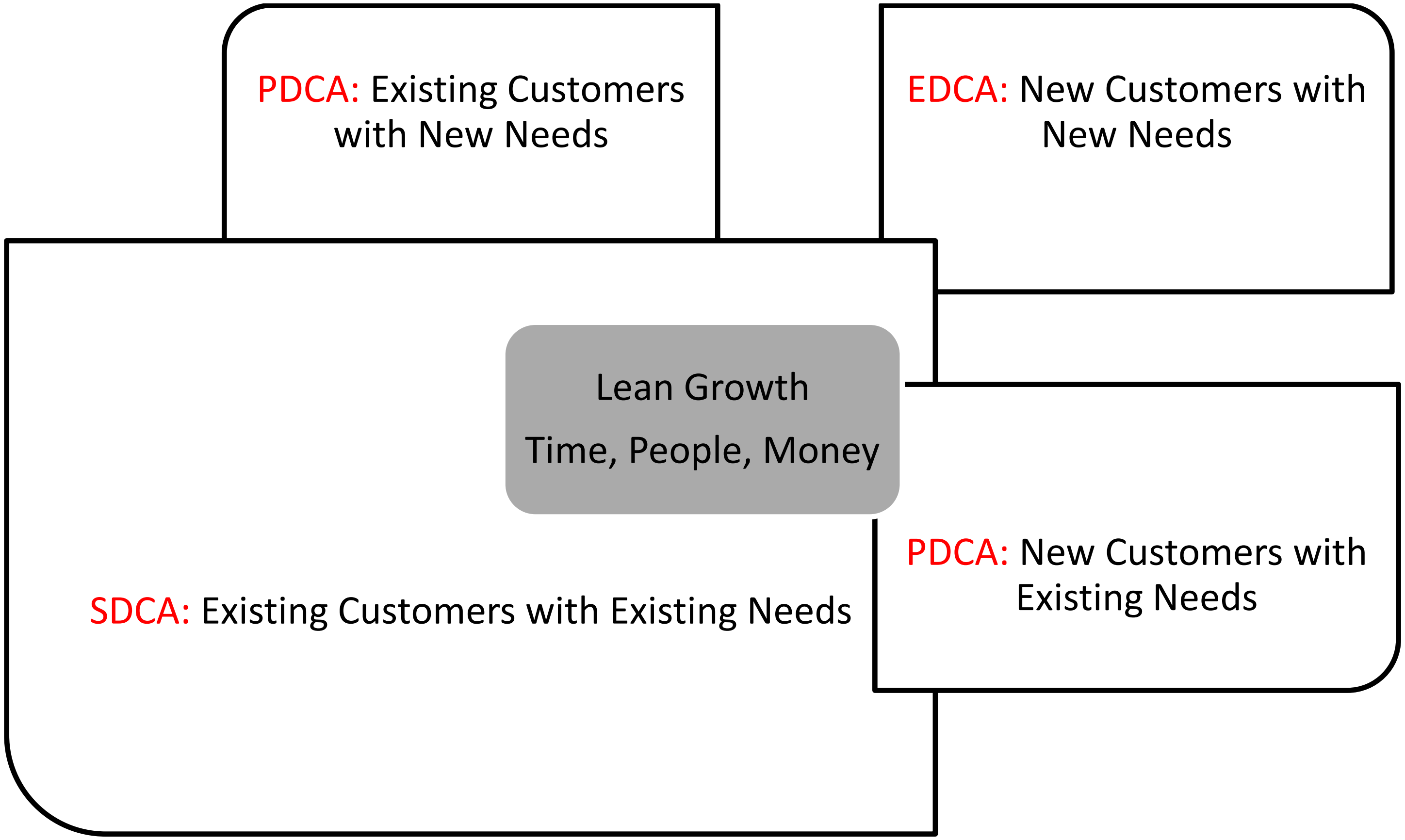
The next step of the equation is to allocate your resources (Time, People, Money) associated with your different growth strategies. Of course if you believe, which I do, that you must have a profitable and well-differentiated core most of your resources will be allocated to SDCA. This would be the pattern found in established companies.



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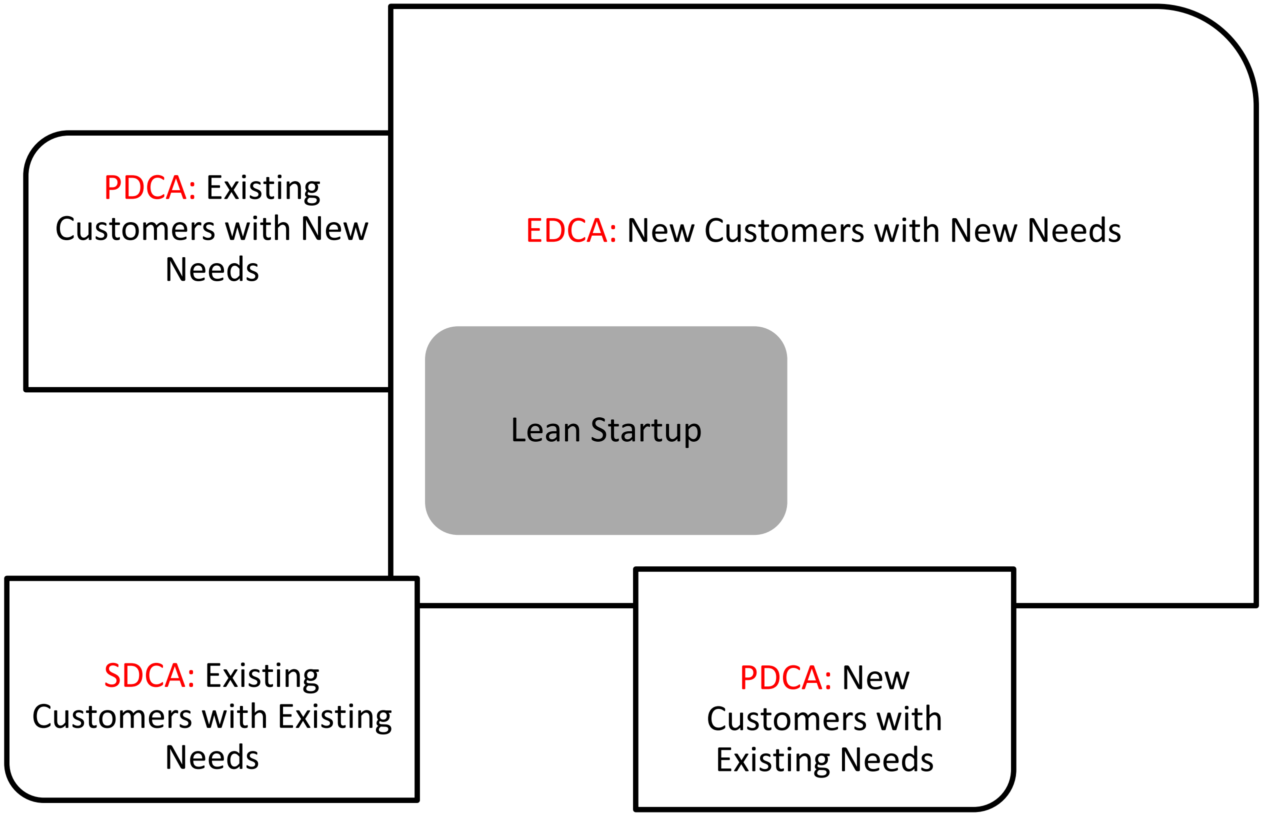
What does a Lean Startup look like? The Lean Startup will look something like this. The cycle of EDCA is basically similar to Lean Startup and that is where your resources are until you prove product/market fit. After doing that, you will not standardize your product immediately, instead you will PDCA till a standard market and customer becomes well defined.



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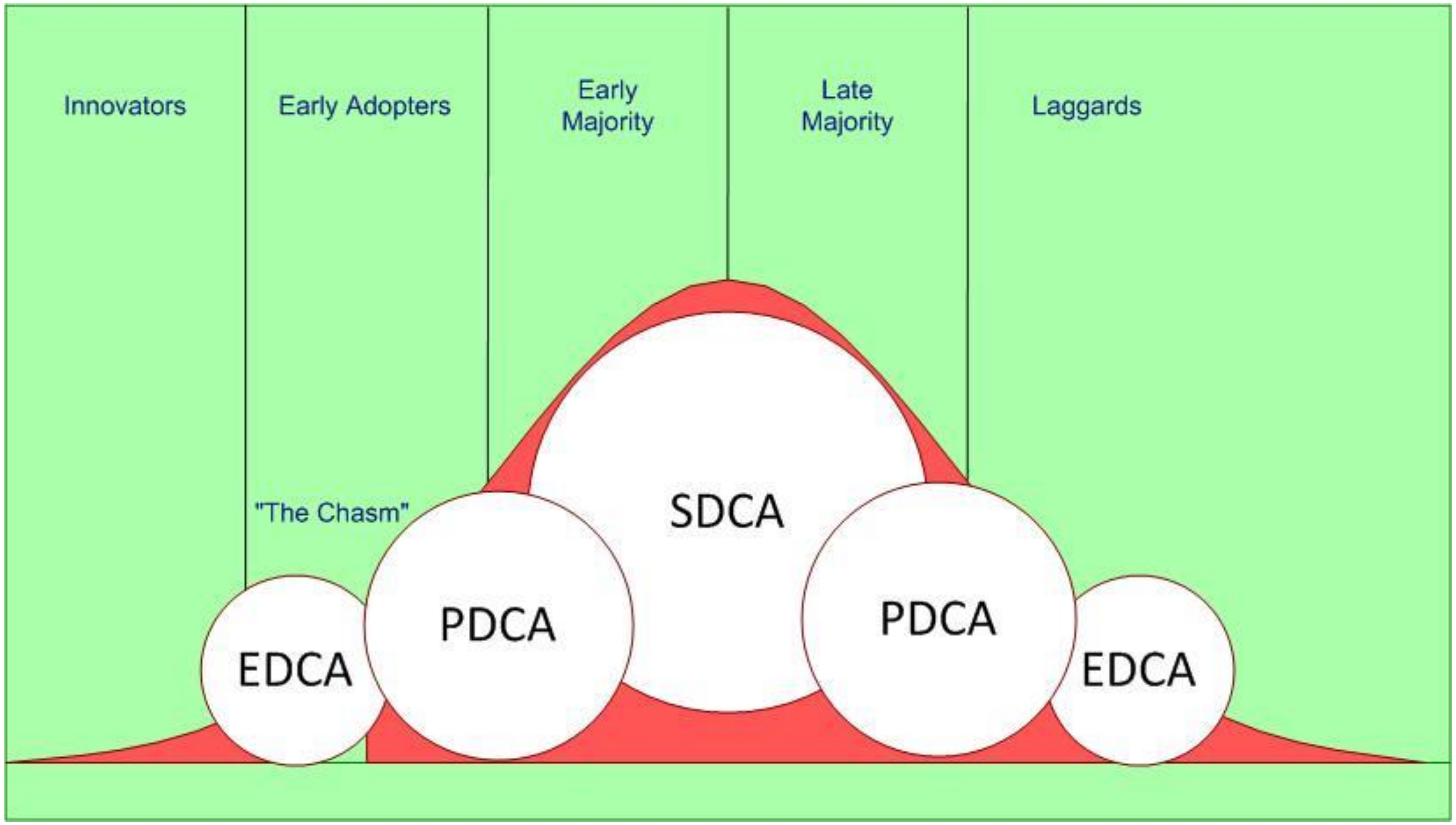
So how might the adoption curve look in this scenario?



The foundational principals of Lean can and should be applied to your growth practices.

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Visit the Lean Marketing Lab*:* Being part of this community will allow you to interact with like-minded individuals and organizations, purchase related tools, use some free ones and receive feedback from your peers.