Value Innovation: A New Competitive Edge

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Silicon Valley ALN
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Session Objectives

• Explore some new ways of thinking and break some paradigms.
• Share ideas on how to align the organization around a shared focus on value
• Share techniques for clarifying the line of sight to deliver optimal value
• Hand’s on activity to develop a value model
• Share practical ideas to take back to our organizations tomorrow
Today’s Reality....

• Increasing complexity, competition and constraints
• Exponential (extreme) change (vs. conformance to plan)
• Demand exponentially exceeds capacity
• We need to focus on competitive (value) differentiators
• Increase the amount of work we don’t do!
Our highest priority... continuous delivery of Value
IT Project Waste (in Millions)

Predicted Annual Cost of IT Project Failure in Millions of Dollars

Sources:
The IT Complexity Crisis: Danger and Opportunity
The CIA World Factbook 2010
“The most dangerous kind of waste is the waste we don’t recognize.”

-Shingeo Shingo
Exploring

HOW CAN WE DO LESS . . .
AND ACHIEVE MORE ... SPEED TO VALUE?
Paradigm 1: Do More with Less

• Aim for the simplest thing & deliver sooner
• Understand what customers do and need, not what they say
• Engage clients as co-creators
• Stop doing things that don’t add value by staying focused on, and measuring Value delivered
• Measure Value and Delight (Net Promoter Score)
• Expose and eliminate waste throughout the value stream
Paradigm 2a: Agile is Value Driven

- Predictive Process (Waterfall):
  - Constraints
  - Requirements
  - Plan Driven

- Adaptive Process (Agile):
  - Cost
  - Schedule
  - Value Vision Driven
  - Features
    - The vision creates feature estimates

- Constraints:
  - Cost
  - Schedule

- Estimates:
  - The plan creates cost/schedule estimates
Paradigm 2b: The Agile Triangle

Value
(Releasable Product)

Quality
(Reliable, Adaptable Product)

Constraints
(cost, schedule, features)

Source: Jim Highsmith
Paradigm 3:

You create your own time poverty

Bill Jensen, Simplicity
Paradigm 3: Focus on Outcomes...

NOT OUTPUTS, STORIES, DESIGN, ACTIVITIES, TASKS, PROCESSES. . .
Sources of Waste

Marginal Value Work

64% of work results in waste

Unclear how to measure value and make value-informed decisions

Ineffective Communication
Paradigm 4: Cost of Value

Source: ciant.com
Customer Value Levers

- Increase Value Throughput
- Decrease Operating Expense
- Decrease Cost of Value
Value Life Cycle

Define Value
Assign Value
Allocate Value
Deliver Value
Measure Value

Enterprise value model to provide clear line-of-sight

Targeted outcomes to all Projects within the Portfolio

Measureable outcomes across all Capabilities and Features

and measure against plan within each Iteration

…learning and adapting with every Release
Start with a Value Model

- Cost savings
- Competitive Edge
- Innovation
- Customer loyalty
- New Product
- Talent Development
- Growth / New Markets

Source: ciant.com
Sample Value Model

Profitability

$ 

Value & Values

Revenue 8
- Increase Sales
- Improve Customer Experience

Market Share 5
- Increase Market Share
- Growth – New Markets

Innovation & Competitive Edge 3
- Discovery: New Customers; Unrecognized Needs
- New Products

Operational Efficiencies 2
- Optimized Delivery Engine
- Optimized Value Stream / Org Efficiencies / Simplest Possible Solution

Measure Profits (ROI)
## Value Engineering

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Cost</th>
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<tbody>
<tr>
<td><strong>Portfolio</strong></td>
<td>Financial Business Case (NPV/IRR)</td>
<td>Portfolio T-Shirt Sizing</td>
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<tr>
<td><strong>Project</strong></td>
<td>Same as above</td>
<td>Inception - Revised Cost Estimate</td>
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<td>Iterative Development - Monthly Forecast</td>
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<td><strong>Capability</strong></td>
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<tr>
<td><strong>Feature</strong></td>
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<td>Top Down – Allocation of Value</td>
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<td>Decision Making Sweet Spot</td>
<td>Bottoms Up – Calculation of Cost</td>
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<td>Where we want to start/continue to make</td>
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<td></td>
<td>better informed Value Engineering Decisions</td>
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<tr>
<td><strong>Story</strong></td>
<td>Fibonacci Sequence or other prioritization</td>
<td>Story Points (3,5,8)</td>
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<td>method</td>
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**VALUE** = Benefits/Cost

Jim Highsmith – “Story Points are a calculation of cost; Value Points are an allocation of Profitability.”
Agile Value Curve

Strategies
- Most valuable first
- Evolve features
- Determine right cut-off

Where is the right cut-off point?

Source: Jim Highsmith
Simple Value Model

Focus on Outcomes

Compete On Value Clarity

DESIGN SMARTER WORK

Track Benefits Realization

Change our Mindsets

Use Time Differently

Do Less (Based on Value)
End Goal

Create an organizational culture that optimizes a continuous, sustainable, rapid flow of value by:

Increasing the amount of work we don't do.
Making it **simpler** to know, use, do and succeed
From What People Need

To understand and measure value and cost
Activity

• Clarify our [Enterprise, Program, Project, Production Support, Team’s], Strategic Vision and Top 3 Priorities (5 minutes)
• Draw a Value Model (5 minutes)
• Add weights and impact analysis/risks (5 mins)
• Discuss implementation ideas (5 mins)
• Share with group – idea gallery (10 mins)
Value Innovation: A New Competitive Edge

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Simplicity is all about power.

The power to do less of what doesn’t matter, and more of what does.
Value links

• Sources:
  – http://ieeexplore.ieee.org/xpls/abs_all.jsp?arnumber=5254242&tag=1 Benefits analysis and Value modeling
  – http://link.springer.com/chapter/10.1007%2F978-3-642-32775-9_53#page-1 Using Value Models to Improve the Cost/Benefit Analysis of Inter-Orginalizational System Implementations
A Framework for Value Innovation

• Value Clarity

• Design smarter Work

• Lead thru Navigating Value Differentiation and Cost
KNOW

What:  Know which few things are most important

Why:   Everyone needs clarity on what will make the most difference

Because:  You need an organizational culture that:

Optimizes a continuous, sustainable flow of **value**....by providing a clear line of sight to value creation vs. cost ..... increasing the **amount of work we don’t do**.
USE

What:  Focus on the tools and resources to help.
Why:   This is how people get the work done.
Because: Even with a shared vision, most people don’t have the tools or training to do what is expected of them. Clarity about the use of tools and adequate levels of training is critical.
DO

**What:** Create and manage expectations around value creation.

**Why:** Every opportunity to create value is an opportunity to create waste.

**Because:** The ultimate creation of value is enabling people to learn, continuously.

![Agile Value Curve](image)
USE TO SUCCEED

Goal: To spend less time working harder, make it easier to succeed

Success: Clear enough so team can manage themselves in day-to-day value informed decision making

Use: Right Tools, Training and Support, Right Way, Right Time

Questions:
• What are my project definitions for success on Measureable Value Results, Milestones, Behaviors?
• How are those definitions aligned with The Enterprise Value Model?
• Does my manager define success in the same way? Project Community? How do they each define success?
• What’s the difference between my definition and theirs? How can we normalize across teams & portfolio?
• How new is this conversation? What can I assume has been discussed before? What am I missing?
• How much learning curve and development time must be allowed?
• Tools, support, resources, processes, technology – what already exists that can be reused?
• What will have to be created? How many people resources are needed? What are the critical skills?
• What resources are coming from inside? Outside? Knowledge transfer and sustainability strategy?
• What are we missing? When have we delivered enough value (re: diminishing returns)?
Traditional Value Curve

Source: Jim Highsmith
- Value must be delivered and demonstrated to **guarantee value perception**
- There are several ways to demonstrate it
Value Point Assignment and Allocation

Business Value Drivers:

NPV = $5 million

"Sales Increase"
5,000 Value Points

...allocation of Value Points across Capabilities and Features...

Project A:
NPV = $5 million

"Customer Experience"
250 Value Points

"Other"
150 Value Points

Important that Value Point allocation be a collaboration between PdM, TM/SA, and PM.

<table>
<thead>
<tr>
<th>Capability 1</th>
<th>Capability 2</th>
<th>Capability 3</th>
<th>Capability 4</th>
<th>Capability 5</th>
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<tr>
<td>(25%)</td>
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<td>Feature C</td>
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<td>(20%)</td>
<td>(5%)</td>
<td>(20%)</td>
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</table>

NPV = $---K

Feature A (35%)
Feature B (45%)
Feature C (20%)
Feature D (5%)
Feature E (20%)
Value Point Assignment

\[
\text{Total Value Points} \quad 5,400 = (\text{Value Points (Financial Business Case)} \quad 5,000 + \text{Value Points (other Business Value Drivers)} \quad 400) / \text{Total Cost (Story Points + Risk/Impacts)}
\]

Value Dials from Model
- COS – Spread
- Fulfillment Costs
- Other?

OR:

First sheet: focused on value
Value Framework

“Assign Value”
...to all Projects within the Portfolio

Who: Portfolio Executive Steering Committee

Where: Portfolio Executive Steering Committee

Visualize using:
- Business Case/Portfolio of Projects
- NPV/IRR
- Value Points or Dials assigned (new) e.g., Epics
- Parking Lot Diagrams (status) for each Project
- Clear understanding of capacity

“Allocate Value”
...across all Capabilities and Features

Who: PdM, TM/SA and PM

Where: Inception Phase and throughout project lifecycle (Iteration Planning)

Visualize using:
- Parking Lot Diagram during Inception Phase and value informed decisions:
  - Capabilities/Features
  - Associated Value/Cost ratio
- Story/Value Tracking Tool
  - Capability/Feature/Story breakdown
  - Allocation of Value
  - Roll-up of Costs

“Deliver Value”
...with each Iteration

Who: Entire Project Team

Where: Release Planning and each Development Iteration

Visualize using:
- Parking Lot Diagram (status) at Iteration Open/Close Meeting
- Release Plan with Slicing/Packaging at Iteration Open/Close Meeting
- Story Cards (with assigned Value of Feature) on StoryBoard

“Measure Value”
...with every Release

Who: PdM, TM/SA and PM

Where: Iteration Open/Close Meeting of Release

Visualize using:
- Value Curves
- Customer Focus Meetings
- Benefits Realization
- Data Analysis: Actual Value Delivered compared to Planned Value (with explanations & learnings)

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The What – Value Framework

- Portfolio Management
  - Value Currency:
    - Standard Financial Business Case put together during the Opportunity Assessment phase
    - Assign Value Points to all Projects in the Portfolio (starting w/ Financial Business Case)
  - Value Measurement:
    - START to measure Value before, during (value points delivered), and after project implementation
    - START to measure Value delivered (opportunity vs. realized) by each project with each and every Release
    - CONTINUE to reassess Business Case post implementation – did we realize planned financial benefits? How can we apply and share what we learned?

- Project Execution
  - START to allocate Value Points during the Inception Phase (and as new scope is identified during project execution) in a collaborative effort between PdM, TM/SA, and PM to ensure delivery against both extrinsic (business) and intrinsic (technical) quality/value
  - START to better visualize Value through a combination of new techniques (e.g., Parking Lot Diagram, etc.) and modified techniques (e.g., Story Cards)
  - START to measure Value Points delivered each and every Release across Projects

Value is the summation of business benefit and operational savings expressed in “value points”.
Paradigm Shift: More is better...to...Less is Best

**Enablers (Fuels)**
- Keep it simple: Relative vs. absolute value
- Common currency: Profitability
- Vision: Speed to Value
- Focus on Quality to get Speed
- Paradigm shift: from “more is better” To “less is best”

**Inhibitors (Rope)**
- Accelerate Speed to Value
- Create a Motivated Value Culture
- Minimize the amount of low value work
- Eliminate Waste
- Improve Quality
- Normalizing across portfolio
- How to balance functional value with Technical Debt
- Over engineering
- Team’s overwhelmingly busy
INNOVATION with planned Value

Ten Types of Innovation

Configuration
- Business
- Alliance
- Structure
- Process

Offering
- Product
- Product System

Experience
- Service
- Channel
- Brand
- Cust. Engage

Collective Ownership & Common Understanding
Travel Light, Explore & Play
Focus On Simplicity & Intention

Service Design
Innovation Games
Data Driven Design
IDEO Methods
Emotional Design
More ...

Why & How

Insights

Independent
Negotiable
Valuable
Estimable
Small
Testable

Incremental & Small

Validation & Learning
- Value Model & Dials
- Relative Est. & KPI
- Data Driven Validtn
- OKR & Hoshin Kanri

New Ways of Collaboration (Gamestorming + Visual Thinking + TeamScience)

Agile Mindset (Agile Values & Principles, Lean Principles, Scrum Values)

IDEAS

Services

Jobs To Be Done

Customers

PROFITS

Source: Luk Lau

VALIDATED LEARNING with actual value