Efficiency and innovation

All businesses can benefit from being more efficient, and sometimes from radically changing how they do things. But efficiency and innovation aren’t always the highest priority or the right things to focus on. Find out what suits your business, how to spot the right time and how to get started.

Why is operational efficiency important?

A business’s operations include all the things it does to create products or services. If your operations aren’t efficient you could be wasting money and effort.

Efficient operations are cost-effective, reducing waste while maintaining quality and service. You can measure efficiency by comparing your operation’s inputs and outputs. Inputs can be recorded by stocktakes or found on your financial statements. Look at the money your business spends on expenses such as raw materials, power, people and time (operational expenditure or OPEX), and on long-term equipment and assets (capital expenditure or CAPEX). Outputs include the amount of product or service you produce, and attributes such as product quality and customer service.

Efficiency boosts make a business more productive. They can help you:

- reduce costs (making the same output from less input)
- increase output (making more output from the same input)
- grow the business (making much more output from a little more input).

Efficiency can free up time to spend elsewhere — working on the business, or family time or a holiday. It can help a business meet customer demand faster. For example, the more quickly a lunchtime café can make sandwiches to order, the more customers they can serve.

Improving operational efficiency is about incremental changes, not radically changing the operation: doing the same thing, but better.

"Operational innovation is a step change: It moves a company to an entirely new level."

How operational innovation can transform your company(external link) — Michael Hammer in the Harvard Business Review

Why is operational innovation important?

Innovation is about more radical change than efficiency — doing a task in a new way, or even finding a whole new approach to reaching your goals. Operational innovation can involve completely new ways of making your product, fulfilling your service promise or managing orders and customers.

Operational innovation can benefit your business by:

- better matching customer needs or demand, resulting in more market share or better
customer retention
- creating a competitive advantage to improve or defend your place in the market.

You can innovate by changing your business processes, or by changing the products or services you offer.

**Process innovation: revolutionising how you do something**

With process innovation you reach the same result in a completely new way. For example, you might:

- outsource production of a component to save time and money
- bring packaging and delivery in-house to fight quality problems
- collaborate by communicating with video or augmented reality in real time.

You can plan for process innovation by identifying room for improvement in business areas where the current processes are already optimised or can’t be incrementally improved.

**Product and service innovation: offering something new**

Product and service innovation creates a new product or service to better meet customer needs. The product or service could be entirely new or significantly improve on what's already available. This means focusing on customer needs, rather than improving processes to meet your needs as a business.

For example, the first cordless drill was more user-friendly than 'normal' electric drills with cords. Battery power made the drill usable further from a power source and replaced having to manage awkward power cords.

You can plan for product and service innovation, for example by working with customers to identify the downsides of current products or the opportunities of adopting new technology. Innovation can also come from noticing advances in other products or services and adapting them to yours.

“Operational innovation is by nature disruptive, so it should be concentrated in those activities with the greatest impact on an enterprise’s strategic goals.”

[How operational innovation can transform your company](https://hbr.org/2004/04/deep-change-how-operational-innovation-can-transform-your-company) — Michael Hammer in the *Harvard Business Review*

**Are you providing a product, a service or a mix of both?**

Most businesses provide a mix of products and services (whether they realise it or not). You probably do too.

Use the tool below to reflect on one thing you provide to your customers. You'll think about whether your product has any service elements, or whether your service has any product elements. Perhaps what you provide is more of a mix than you thought.

You'll use this tool to:

- identify a product, service or mix to reflect on
- identify other elements that provide value to your customers when they buy it
- consider where the most value is
- update your thinking about your product, service or mix.

Once you've used the tool, you'll have a clearer idea of what you provide and what that means for your operations. You may also identify new opportunities for your business.

PSM Loading...
Case study

Aroha’s app — process and service innovation together

Aroha hears about a new coffee-ordering app. She gets in touch with the app maker, and gets it set up for her café.

Frequent customers store their payment details and standard order in the app. Then they use the app to ‘call ahead’, placing their order a few minutes before they arrive at the café. The orders pop up on the barista’s list automatically.

The app reduces the amount of ordering and payment work at the counter — a great process innovation. Aroha can spend more time looking after her seated customers, and her barista can focus on making great coffee.

Customers still get their favourite coffee, made by the same person. The coffee app cuts down on waiting time, saves them paying manually each time, and automatically stamps an electronic ‘coffee card’ — service innovation they love.

The app maker charges a small fee per order, but Aroha’s happy that the benefits outweigh the costs.

When should you focus on operational efficiency and innovation?

Sometimes are better for focusing on operations than others. It depends on the stage of your business and the maturity of your industry or product category. Operational efficiency and innovation doesn’t always sit comfortably next to innovation in products and services. Focusing on operations at the wrong stage can be a costly mistake. Ask yourself the following questions to decide where to focus.

1. Is the product category mature?

The product category is a specific part of your industry where your products sit next to competitors’. The product category is mature if there is a dominant design — products are generally similar and customers know what to expect.

If you have a healthy market share for a mature product category, you may want to invest in process efficiency or innovation to fine-tune performance or cut costs.

The product category is not mature if it is fragmented (competing products or services look very different) or there is constant technology disruption (with products or services evolving rapidly). A focus on product/service innovation is often a better fit for this situation.

Product maturity in an airline business and a drone-based business

An airline provides a service that is well-established as a means of transport. Different airlines use similar passenger planes, airports and booking systems. It’s easy to discover and compare flights.

Companies provide a wide range of services using drones, from real-estate images to surveying or spraying. Drones vary in size, payload, flight capability, and functions such as video recording. Drone technology is improving rapidly. Drone service providers don’t have consistent or well-known processes for customers to discover, compare, buy, and use services.

2. Are your customer’s expectations well-understood and stable?

If you understand what customers need, and they know what to look for and want similar and predictable things, you can respond confidently with the right product or service.

Once you have developed your product or service to meet these stable customer expectations, you are safe to focus on process efficiency or innovation.
But if customer needs are changing, or the customer does not know what is possible, you may want to focus on product or service innovation. Pay close attention to understanding customer needs and communicating new opportunities, and you could become a leader in customer value.

**Customer expectations from an airline business and a drone-based business**

Airlines have been operating in a highly competitive industry for a long time now. Customers have defined what they expect, with common basic expectations of safety and reliability and individual preferences balancing cost and service such as travel class or ticket flexibility.

Drones fulfil different needs for different customers within and across sectors. Farmers may want a view of their livestock, or they may want to survey pest areas. They may not be aware of new services, like using drones to spray fertilisers or pesticides over crops, or how drone service prices compare to conventional aerial services. Construction firms might need live monitoring with audio, or just photos from time to time.

### 3. Does your customer value come from your processes or from your products and services?

You get customer value from your processes if you rely on them for qualities like efficiency and reliability and those qualities are important selling points. Processes are also one way you can drive down cost and beat competitors’ prices.

Your product needs to be well-defined and comparable to others in the market for your processes to be the main source of customer value. And a process focus is typically less flexible than a product focus. If your product or service is unusual or unique, or the market is evolving rapidly, more of your customer value comes from your products and services.

**Where does customer value come from for an airline business and a drone-based business?**

Plane flights are a well-defined service. Customers expect planes and the basic features of a journey to be more or less the same with all airlines, but care about journey reliability and cost — both achievable by refining business processes.

The drones used for aerial services are a technology disruption. They can replace several aeroplane or helicopter services, they make new services possible, and they are still evolving rapidly. Customer desire is changing as customers learn more about what’s possible. The value is in the service, so to meet changing customer needs you may need to focus on the latest drone technology, or a unique way to offer it as a service.

### 4. Are your processes mature?

Your processes are mature if they are well-defined and easily repeatable without the business owner. This typically involves documenting processes, teaching people to follow them, and monitoring whether they are followed correctly. Staff holidays or changes should not disrupt the processes if they are mature.

Your processes are not mature if, for example:

- the product or service is not yet stable because customer needs are changing
- the market is fragmented so you need to react to a wide range of customer needs in different ways
- you are still discovering how to provide the product or service effectively and efficiently
- you depend on a particular person’s skills and cannot provide the product or service without them.

If your processes are not mature because you lack documentation or people with the right skills, fixing those problems is a good place to start. Otherwise you may want to focus more on your products or services to establish a stable, successful offering first.

**Process maturity in an airline business and a drone-based business**
The processes for booking and loading people on to a plane are well-defined and repeatable. This means they are perfect targets for incremental process improvements or even major process innovations.

Drone services are likely to involve processes that are not yet mature. Products and services are not yet well-established, and the market is fragmented. Customer needs are changing often, meaning processes need to be evaluated or changed often and flexibility is important.

How do you stand out in the marketplace?

Every business, product or service has its own profile of price, performance and customisation. These characteristics define the position of the business, product or service in the marketplace. Different profiles can make two otherwise similar things appeal to different customers. And each thing’s profile determines how it stacks up against a range of competitors.

Use this tool below to compare a business, product or service against its competitors. You’ll reflect on price, performance and customisation to see how you stand out.

Based on your profile, we’ll rate whether you have a strong position in the marketplace. We’ll help you identify some common opportunities and risks.

CVP Loading...

Get inspired to innovate and be efficient

If the time is ripe for focusing on operational efficiency and innovation, the next step is to identify what to change, and how. Here are some practical steps you can take.

Find market-driven opportunities

Use the tools above as a starting point for ideas. Investigate your ideas further to see if they’re feasible.

Researching competitors’ business models and innovations can be inspiring. You might find an emerging new benchmark that you need to keep up with to stay competitive. Or you might notice something that could transfer from a different industry or business setting to yours.

 Suppliers and other people in your supply chain can also be a good source of inspiration — for example, a new supplier might offer something your current suppliers can’t match, or your existing supplier might improve their offering to keep your custom.

Find opportunities in your business

Take a step back and define the overall metrics that are important to the business. These should fit what your customers find valuable, for example:

- if price is important, focus on cheaper ways to do things
- if speed is important, focus on faster ways to do things.

Identify what makes you unique (such as an iconic brand) and what you’re really good at (such as excellent customer service). Are you exploiting these things fully? Could you make them even better?

Use our tool to understand where you have an operational production advantage in the market, and compare your production profile to other products, services or businesses.

Interactive tool: Size up your production (/business-performance/operations-strategy/ensuring-capacity-matches-demand/#e14946)
Ask workers to find ways they think things can be improved — they are closest to the operational activities, and may have great ideas. Offer training, incentives and encouragement. Empowering staff to drive change can boost motivation too.

Use activities like process mapping to study the details of how your business works, triggering insights and defining the changes you want to make.

How to motivate people (/business-performance/management-and-leadership/how-to-motivate-your-staff/)

Mapping your processes

Process mapping is useful for operational efficiency, process innovation and product/service innovation.

When you make a product or deliver a service, you follow a sequence of steps. You can draw these steps into a flowchart diagram, the process map. Once you’ve mapped the current steps of a process, you can create value in a number of ways:

- improving how you carry out specific steps
- eliminating the need for particular inputs or outputs
- removing an entire step
- focusing on an overlooked step
- putting the steps into a different order
- enabling steps to be completed in new locations or at different times.

Even if you don’t change anything, process mapping is a great foundation for other activities. It can support training, quality control and consistency, building institutional knowledge, and planning for business continuity and resilience. It can be a tool for growth too, contributing to the value of your reputation or helping you build a saleable franchise.

How to map a process

Process map of making an espresso coffee

First, identify the process you want to map, and the purpose for mapping it. From the purpose, decide what you need to measure or record for each step, and how detailed to make the process map. The example shows the process for making an espresso coffee. It shows the main steps, but not details such as what grinder settings to use or how much coffee to pour.

Define the scope and the start and end points. The example includes grinding the beans and making the coffee, but excludes getting the machine ready, cleaning up and serving the coffee.

Draw the process map. You can use flowchart software or office software that lets you draw diagrams, or keep things simple with just a pencil and paper or sticky notes. Useful steps to show include the start and end points, process steps, and any decisions and different branches the process could follow. A more detailed process map for the coffee example could split at a decision point for the type of coffee ordered and show the size of cup to choose, how much coffee to pour, or other process details.

Add the most important information for your purpose, such as:
• timing or cost for each step
• who does each step
• rules for decisions
• sources of errors
• links to other processes in your organisation or beyond.

A good process map should be easy for its audience to understand. If you plan on sharing it or using it to document how your business works, use simple and standardised symbols such as diamonds for decision points and rectangles for tasks. They will help with continuity as your business grows or staff change. Keep flow in one main direction, and keep the process map as simple and tidy as possible.

The example shows a simple flowchart layout. Other layouts are also available, such as a detailed flowchart with 'swim lanes' for the different people involved, or a process chart with columns for each type of activity.

**Process mapping for efficiency**

Process mapping can help you identify where you have bottlenecks or other capacity problems, build-ups or shortages of inventory, problems with quality and other opportunities for improvement. You can identify inputs and outputs, and see the cost of each step. Process mapping can also highlight where problems with people, machinery or other processes could cause your process to break down — starting points for improving efficiency and identifying and mitigating risks.

Mapping old and new processes can show you the time or materials you will save, or how a suggested change might have flow-on effects. This can help you identify unintended consequences and measure potential gains.

[Ensuring capacity matches demand](/business-performance/operations-strategy/ensuring-capacity-matches-demand/)

[Managing inventory](/business-performance/operations-strategy/managing-inventory/)

[Assessing and ensuring quality](/business-performance/operations-strategy/improve-quality/)

**Process mapping for innovation**

Mapping a process might show that problems are concentrated in one part of the process. Maybe you can rethink that part of the process more dramatically instead of just adjusting it, for example:

• doing preparation tasks separately to remove bottlenecks and shorten the overall time your process takes
• using your process map to define contract requirements for outsourcing the process.

If you’re planning a big change, process maps can also help you explain the change to workers, or to investors who might provide the funding you need.

Mapping the process your customer goes through when they use your product or service is a common technique for insight and innovation. These ‘customer journey maps’ show the problems they encounter and the steps they find useful or annoying.

**Case study**

**Wiremu makes life easy for clients**

Wiremu the electrician specialises in jobs where homeowners extend their properties to add extra rooms. Customers love his workmanship and his friendly approach, and he has built up a 3-month waiting list.

But sometimes customers complain about costs that are much more than they were quoted initially. Wiremu already tries to review his quotes with customers before starting the job, but finds customers often forget changes they’ve made to their plans since talking to him initially. When he calls customers they’re often busy or distracted, and remembering to call them later is a pain.
Wiremu documents his processes, and finds this quote review step is a big time-suck and his biggest source of negative feedback. Searching for a solution, he finds an online quote management tool he can use with his customers.

The tool provides a shared place where he and the customer can see the quote and add any notes or changes at any time. Instead of having to remember to call them back, the tool reminds them about the quote every few weeks and checks for any changes. And customers can upload changes to their plans whenever convenient, meaning fewer forget to do it. The process is more formal, but it’s also more flexible.

As a nice side-effect, the tool provides a definitive record of Wiremu’s quotes — no need to check through his phone call notes or emails and compare versions.

**Operations strategy content**

- [Ensuring capacity matches demand](/business-performance/operations-strategy/ensuring-capacity-matches-demand/)
  Fine-tune your capacity to make the most of sales opportunities and minimise waste.
  
  [Learn more](/business-performance/operations-strategy/ensuring-capacity-matches-demand/)

- [Managing inventory](/business-performance/operations-strategy/managing-inventory/)
  Find out the pluses and minuses of holding inventory, and how to order inventory wisely.
  
  [Learn more](/business-performance/operations-strategy/managing-inventory/)

- [Quality matters](/business-performance/operations-strategy/improve-quality/)
Understand it and make it part of your business. Save time and money, cut waste, and improve your brand.

Know your networks

Understand it and make it part of your business. Save time and money, cut waste, and improve your brand.