



High-Yield Methods
A world leader in Outside-In planning & process.

Outside-In

**The interdisciplinary approach to achieving
customer-centricity in business**

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WHAT IS OUTSIDE-IN?

Outside-In, Outside-In thinking, Outside-In business, Outside-In process and several more O-I iterations have all recently burst onto the business landscape and into our business psyches. But just what is O-I, and what does it mean attached to “thinking,” “business,” “process,” et. al.?

Outside-In describes a way of conducting business designed by customers looking in at the company, rather than the company looking out at customers.

Your first reaction to this 20M foot description may be, “Wait a minute, that’s not new.” And you’re right. The Outside-In perspective—which views business success as a function of first adding new value to customers in ways that then add value back to the company—has been ever-present in developed economies, at least at a base level. But on a broader level, this customer-centric approach to business has gone into remission for extended time periods, particularly when buyer demand outstrips seller supply.

Market changes restore customer-centric thinking

The most recent of these “remission periods” started in the early 1950s and lasted for decades. In B2B (business selling to business), customer-centric thinking finally started to make a slow comeback in the early 1980s, without affecting a noticeable amount of business thinking until the early 1990s. In B2C (business selling to consumers), the comeback took even longer, not picking up much steam until the 2001 recession hit—at which point a blast of consumer empowerment fueled by scarcity of demand took most of consumer business by surprise.

This decades-long span during which business could put company interests ahead of customer interests—and still flourish—created expectations among many business executives and pundits that markets would always be seller-driven. Even today, we see, hear



and read these same folks exuding confidence that pricing power, which reflects excess demand and/or sustainable product superiority, will soon return.

However, a combination of economic and demographic changes coupled with technology advancements has all but cut the legs out from under those expecting a return to seller power over buyers. A new and drastically changed environment is dragging business, kicking and screaming, into a new reality—where buyers will be in short supply in developed economies for the foreseeable future.

How is business responding?

Companies that don't change with the times die from them. Companies wanting to continue in business have to adapt—and reflecting the speed of the onset of customer-driven markets, particularly in B2C, they have to adapt quickly. As always during such times of market turmoil, many of these adaptations will fail, taking companies with them, making learning from success stories essential.

Most companies adapting to the new, customer skew in buyer-seller relationships have taken similar routes, with many common departures from business norms.

How companies are reaching customer-centricity

- *Immersing themselves in customer reality, rather than just learning about customers*
- *Allowing customers to drive strategy, rather than designing strategy to meet pre-established financial goals*
- *Aligning process with customer-driven strategies to deliver SCOs (successful customer outcomes)*
- *Creating an interdisciplinary work environment where silo interests always bow to customer interest.*
- *Empowering customer advocates to design work cross-functionally to assure the company presents one face and one voice to customers*
- *Striving for transformational rather than incremental change in how the company works*



Of course, any reasonably consistent set of activities occurring across multiple companies will soon get a name. In this case, multiple parties, all looking at similar sets of events independently, decided to call these activities “*Outside-In.*” The name stuck.



WHO'S DRIVING OUTSIDE-IN

Most business “movements” start within companies, then consultants spread them from innovators and early adopters to a wider circle of the business world. The customer-centricity movement followed the same pattern. However, *which* consultants are leading the charge may surprise you—and has certainly caused at least some confusion in the business community regarding Outside-In.

Marketing doesn't make the grade

O-I's focus on customers creates a natural expectation that marketing professionals would be out front of O-I. Not so, at least not typically. Ironically, marketing has been among the slowest responders among functions to the shift to empowered customers. Despite customers' thinking more for themselves—aided by direct, customer-to customer interactions via social media—so many marketers continue viewing their role as trying to persuade customers to do their company's bidding, not changing promotional communication into learning conversations that allow marketers to enter the customer world. And marketing has continued sinking further into tactical promotion—losing most of the remaining vestiges of strategic vision (although some colleagues would argue that modern marketing has never been strategic). Just think how rare are the examples of marketing looking past building the current brand or selling whatever products and services the company offers—and rethinking everything from a fresh, customer perspective. It rarely occurs.

Instead of marketing driving Outside-In, the impetus came from a different source—the process community.

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Customer-centric process

Nature abhors vacuums and quickly fills them. Sooner or later, so does business. And the relative absence of customer-centricity eventually led to process invading marketing's



space. While marketing continued advertising and promoting, a smattering of process designers began realizing that process improvement creates benefits for the company when directed outwards at customers—as well as inwards towards efficiency.

Trying to dress up a square peg to fit into a round hole

Process trying to become customer-centric has been a mixed blessing. Post-millennium, the process industry as a whole began grafting “customer-sensitivity” tools onto existing process

Traditional process tools now help companies learn about customers, but they don't drill down deeply into customer reality

methods. Traditional approaches such as Lean, Six Sigma and the hybrid LSS (Lean Six Sigma) grew new appendages to help understand customers—most labeled with catchy three to six-letter acronyms. But

these tools help process people learn *about* customers from a third-party perspective—rather than *learning* who customers are and how they think from a first-hand perspective. Hence, while these customer-adaptive tools do make process more palatable to customers, they fall far short of bringing companies close enough to customers to deliver true customer-centricity that allows customers to shape the whole company.

Finding the round peg

Fortunately, several customer-oriented process leaders blew past the limits of traditional process and only knowing *about* customers. They imagined and invented process approaches that start with “becoming a customer” and letting customer insights rule.

Rather than just allowing customers to influence process design, these approaches let customers

Outside-In process changes what work is done by who (functionally) and with which enabling technologies—while also improving how work is done.

drive process design, including determining change in *what* work should be done; *who* (functionally) should do it; and even which underlying technologies should support customer-centric work. By comparison, traditional process focuses 90% of its attention on *how* work should be done, which O-I process does address—but in balance with the *what*, the *who*, and the enabling technology support.

Outside-In Process approaches

High-Yield Methods founder Dick Lee launched the first, formal Outside-In process approach, Visual Workflow (VW), all the way back in 1996. While the “O-I process” term wouldn't



emerge until 10 years later, Visual Workflow was rooted in the common O-I principles emerging today. VW was also predictive of the current O-I movement towards using customer-centric business strategies as a starting point and then aligning process with these strategies. Rather than applying VW in isolation,

Visual Workflow, launched in 1996, was the first, formal Outside-In process approach

from the get-go HYM coupled Visual Workflow with “Hyper-Planning,” a structured planning method for converting customer understanding into actionable strategy,

Picking up an even earlier thread, in 1992 Steve Towers, now the titular leader of the Outside-In process movement as well as a leading spokesperson for O-I overall, founded the London-based BP Group to provide training in new and advanced process techniques. Towers’ methods continued evolving towards customer-centricity, until in 2006 he formerly introduced CEMM™ (the Customer Experience Management Method), which he described as “Outside-In process,” kicking off the now burgeoning O-I process category. Towers backed up his launch with a global certification initiative that by year-end 2009 had trained close to 8,000 process professionals in CEMM and O-I process.

More recently, a number of leading edge process thinkers have developed new Outside-In approaches—or adapted innovative approaches already in play to O-I. And more O-I methods will emerge going forward.

Outside-In versus Outside-In process versus traditional process

While process helping fill the customer-centricity leadership void has contributed significantly to the forward motion of the customers-first business mindset, it’s also carried two drawbacks.

1. While process professionals are just as capable of understanding customers as marketers, most lack the planning skills needed to convert customer understanding into executable business strategies. When these planning skill sets are missing, process tends to create “point solutions” that add new value to customers at a specific activity level but not across the board.
2. Many trained in traditional process approaches augmented with customer-adaptive tools have started believing they can create customer-centricity merely by knowing about customers and using that knowledge to design process. No planning, no strategies, very limited results.



Issue #1 is relatively easy to solve. In the absence of well-developed, customer-centric business strategies, Outside-In process experts should partner with experienced customer-centric planners to make sure O-I process aligns with appropriate strategy.

Resolving issue #2 will take more time. Traditional process approaches suit production environments far better than the O/S (office and service settings), where the majority of customer-affecting process lives. No problem if process approaches respect their intended contexts. But that's not happening.

Most production environments today are “processed up,” relying on LSS, Lean or Six Sigma to manage operations. As a consequence, demand for process professionals in production would be declining, were companies not wringing every last bit of excess cost out of production to counteract the effects of the recession. But once this last bit of belt tightening runs its course, demand for production process support will decline.

The opposite condition exists in the O/S. Most companies have ignored office and service process or used “process-light” to remove glaring inefficiencies and obvious customer turn-offs—making the O/S the primary process opportunity going forward.

Naturally, an increasing number of traditional process professionals are now trying to carry their production skill sets into the O/S. That's led to misrepresentations that traditional process approaches deliver O/S outcomes comparable to O-I approaches, leading to numerous mismatches of process approach to setting.

Hopefully, the following comparison of settings will reinforce that process approaches *are* context-sensitive—and that using approaches out of context degrades outcomes.



Outside-In (O/S) context	Production context
Low repetition	High repetition
Decision-based business process	Fixed business process
Adaptability critical	Consistency critical
Hundreds of key workflows	Dozens of key workflows
80 - 90% of defects up at workflow level	Majority of defects down at individual work process level
Majority of work activities interdependent	Many work activities independent
Invisible defects	Visible defects
Knowledge workers	Rote workers
Empowered staff	Compliant staff
Resist “external” input	Accept “external” input
Business process <u>is</u> the work	Business process guides the work
Fully joined workflow & information flow	Partially detached workflow & information flow
High-dependence on application software	Partial dependence on application software

Seeing the polarity between the settings, applying a process approach designed for production in the O/S (or the other way around) seems improbable and non-productive. Yet forcing highly structured, prescriptive process on O/S knowledge workers needing decision-making space and flexibility continues.

Conflict between doing what you know versus doing what's right

In one sense, ignoring the context sensitivity of process approaches is not surprising. Most people with considerable investment in their training and experience resist leaving behind their investment to learn and adopt something new—even when the market for what they already know is shrinking.



Fortunately, not all traditionally trained process professionals show this reluctance. Most people Steve Towers and the BP Group have trained in CEMM come from a traditional process background. The same applies to most people HYM has trained in Visual Workflow. The net of this dual training is reduced reliance on a single process approach and increased incidence of choosing the right approach for the particular work setting—including combining within one company traditional approaches in production with O-I approaches in the O/S. Hopefully, we'll see more of this going forward and less pounding square pegs into round holes, or is that round pegs into square holes.



WHERE IS OUTSIDE-IN HEADED?

Currently, in 2010, both terms—“Outside-In” and “Outside-In process”—are rapidly gaining popularity. And more importantly, so is the work they represent.

The urgency of responding to increasing customer empowerment (other than with resistance) along with the failure of incremental approaches to achieve customer-centricity is driving companies towards Outside-In as a comprehensive approach to competing in newly customer-centric markets. And as more companies head down the O-I path, methods of getting there continue to grow more sophisticated, reflecting a now longer learning curve as more and more companies migrate.

Planning

As Professor Ranjay Gulati of Harvard Business School articulates in his 2009 book, “Reorganizing for Resistance,” the greatest impediment to getting to O-I is converting

Aligning strategy to customers, process to strategy and technology to process is the heart of the O-I approach to business

thought to action. One example is converting all the knowledge gained seeing through customer eyes into actionable business strategies. Once strategies are aligned with customers, process

can be aligned to strategy, and technology aligned to process—creating fully customer-aligned, Outside-In companies.

But far too many companies skip planning and substitute customer culture-building customer experience projects for the much harder work of aggregating customer inputs and running them through structured planning that identifies and prioritizes customer opportunities—and then builds interdisciplinary strategies around customers. Or worse yet, they turn to CRM, which has become 95% about software.

O-I planning needs serious upgrading, both in technique and frequency. But most likely the additional planning leaders needed will have to be “home-grown”—until the marketing profession replaces the “selling this stuff” mindset with “deciding what stuff to sell.”



Process

Outside-In process can be used as a “point solution,” as MacDonald’s accomplished with introducing a range of salads in response to increasing customer nutrition concerns.

MacDonald’s as a whole remains an inside-out company. But the menu planning folks scored a big customer win by hearing customer concerns and addressing them.

Outside-In process can also be used to streamline O/S operations. Ironically, redesigning

Fusing customer-centric planning with O-I process creates a whole equal to far more than the sum of the parts

process around customer needs creates greater efficiency than redesigning process to eliminate inefficiencies. Many companies experience a

20% reduction in O/S FTE requirements following an O-I process redesign that empowers line workers, reduces supervisory requirements and eliminates non-value adding work.

However, Outside-In Process’ greater purpose is taking the strategies arrived at in customer-centric planning and converting them to action through aligning process with strategy.

Fusing planning with process in this manner creates a whole equal to far more than the sum of the parts. It also places O-I process inside more encompassing strategic O-I, which leads the entire company to customer-centricity

Going forward, we’re going to see much more incorporation of Outside-In process into the broader strategic context.

Organizational design

As with all new movements, not all the necessary pieces to Outside-In dropped into place at one time. First came the planning piece. HYM’s Hyper-Planning was originally formulated by Dick Lee as a graduate business class curriculum in the 1980s. Other forms of customer-centric planning driven by customer perspectives have since followed. Next came process.

But understanding of Outside-In’s organizational implications and how best to deal with them remained sketchy until Gulati, who’s an

Overcoming the influence of functional silos removes a primary impediment to reaching Outside-In

organizational dynamics specialist, contributed foundational concepts for approaching the change management aspect of O-I. He strongly emphasizes functional silo “bridging,” as he terms it. And those who have led inside-out to Outside-In migrations well understand both the importance and the difficulty in getting managers and staff working cross-functionally to



provide customers with a seamless, positive experience—rather than a series of inconsistent and often company-centric encounters.

Gulati’s message, reinforced by more voices from experts in designing organizations to cope with change, needs to reach CEOs, many of whom start off assuming that getting to customer-centricity is a mostly tactical exercise.

Fusing planning, process and organizational design

Here’s the real future of Outside-In. It would have been shocking had all the components of achieving O-I come neatly bundled up and fully integrated. Each component had to grow and explore on its own. But now it’s time to put the pieces together to open an easier path to customer-centricity for the legions of companies needing a huge push to get them over the top and into Outside-In environments. Few companies have the internal resolve to make it to O-I mostly going “solo,”—as Best Buy, Procter & Gamble and USAA accomplished.



OUTSIDE-IN COMPANIES

Companies get to Outside-In in one of three ways: 1.) Their founders believed from the get-go that putting customers first was good business; 2.) They see business opportunity in migrating from inside-out to Outside-In; 3.) Fear of Outside-In competition and/or fear of customer abandonment drives them.

“Legacy” Outside-In companies

No surprise that these organizations have and continue to outperform, despite interruptions in several cases caused by management changes that temporarily brought it inside-out execs: 3M Company; Amazon.com; Apple; Enterprise Rent-A-Car; Costco; Fed-X; L.L. Bean; Nordstrom; Southwest Airlines; the Virgin companies; Zappo’s; lower profile B2B companies and a myriad of mid to small-sized organizations with smart founders.

Opportunistic Outside-In

Companies adopting Outside-In for opportunistic reasons include: Amica Mutual Insurance; Best Buy; Geico; Gilead Sciences; Marriott; Procter & Gamble; Publix Supermarkets; Ritz Carlton; Tesco; USAA; Verizon Wireless; and a raft of B2B and SME organizations.

Opportunistic companies are attracted to Outside-In by the combination of:

- *Stronger customer relationships*
- *Improved work quality*
- *Organizational streamlining*

Defensive Outside-In

This list of household name companies is still small but growing: Barnes & Noble; Charles Schwab; Four Seasons Resorts; Jaguar; Qwest; Target Stores; UPS. A much longer list identifies companies trying to reach Outside-In but not yet there. Some, like Ford Motor Company, may make it. Others, like Sprint, may not. Market conditions will swell the numbers of “en route” companies enormously over the next several years.



Where does your company fit into the Outside-In picture?

The changeover from sellers markets to buyers markets is creating winners and losers among companies—with the “in between” category steadily shrinking. It’s time, and before long it will be past time, for companies to choose their fork in the road.

*For more information about Outside-In
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