



Stanford eCorner

Operational Excellence Zone

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Video URL: <http://ecorner.stanford.edu/videos/1325/Operational-Excellence-Zone>

Moore talks about the operational excellence zone and its innovations: value engineering, process, integration and business model innovation.



Transcript

So how are you going to take cost out of the system? Now we get into the operational excellence zone. So, here, it begins at value engineering, where systematically now people who have complex systems start designing out the complexity by swapping out proprietary components for standardized components. Swapping out is a challenge for everybody in a complex system world, but you have to do it in order to do the value engineering. And you could see it in the enterprise and in the consumer. It's a critical part of adjusting to mainstream. And that means you have to give up. The product leadership guys are wanting to design the next proprietary component and you're saying "Stop. Start swapping the ones we have out for more standard stuff. We're moving to the surface." Process innovations have to do around either just taking a process and just making it radically more efficient. The first is product.

The second is process. Integration innovation is when you start saying, "You know what, you have all these various things around here. There's a total cost of ownership problem, how about if I bring them all together into one thing. I'll take care of the whole thing for you. You just give me one check; we're kind of done." You see that in anything that becomes a suite. And one of the ways we saw with the Microsoft Office Suite - - the SAP ERP Suite. Cisco's saying, "We've got a router that's got a switch. We've got security in here. We've got your voice in here. We've got your mediate here.

Blah, blah, blah. All in one box." So integration innovation and platform innovation sometimes play off each other a bit, okay? And business model innovation which has been extremely interesting, we say, "How can I just take cost out of the whole equation by, for example, not carrying inventory?" So Wal-Mart did an incredible business model innovation when they got their vendors to actually manage their own inventory in Wal-mart stores. Now all of a sudden, that cost went on the brim. The whole contract manufacturing business model changed. This gone through which causes the contract manufacturer to carry the cost until the time of shipping. Those kinds of things. All these things take cost out of systems. And so by taking cost out with operational excellence and adding what they call delighters through customer intimacy, you can maintain a margin improvement even though the actual price of the thing is going down, you can still have a very attractive return on capital.