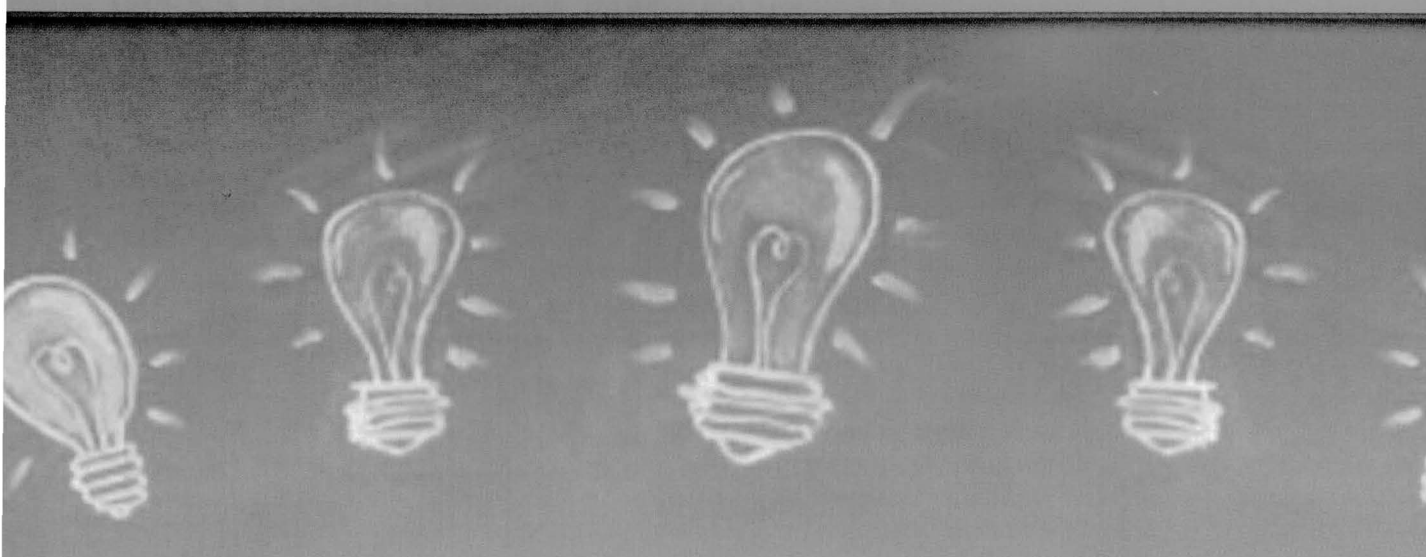
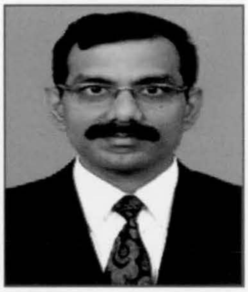


# VALUE INNOVATION – A NEW DIMENSION TO MANAGEMENT ACCOUNTING

*The meaning of Value, according to a dictionary is "….the regard that something is held to deserve, the importance, worth, or usefulness of something.." Similarly, Innovation means "A new method, idea, product etc. Therefore, going by the dictionary, we can say that value innovation is an idea, a new method or a product/service that is of immense importance and usefulness to the buyer. But merely going by the lexicon can never give us a complete purport of the term 'Value Innovation.' It can only further the long-held belief that value is all important but comes at a cost. To dispel this notion, we need to look at value not just from buyer's point of view, but also from the organization's viewpoint.*



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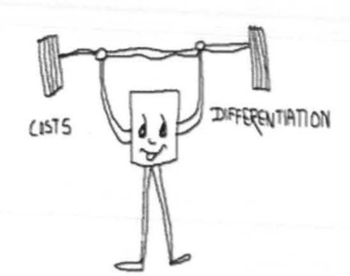
Value Innovation is often confused with value improvement. A little above or below the normal is considered as innovation, while at best, it is just improvement. "New Improved Rin" is still a detergent bar but probably with an added fragrance, or increased weight or a new advertising claim. It is generally understood that anything different is an innovation. However, it is not.

W.Chan Kim and Renee Maugorgne in their recent pat breaking book "Blue Ocean Strategy" have defined Value Innovation as the goal towards creating a Blue Ocean Strategy. It aims to create a 'giant leap in buyer value'

This article borrows tools from Blue Ocean Strategy that the authors have described in their iconic book. It juxtaposes these tools that the book introduces with the general working of Cost and Management Accountant (CMA) and finance professionals. It also suggests how these strategic tools that help to create new markets can also be used by individual professional to reinvent and reorient themselves.

## What is Value Innovation?

It is believed that companies can either create greater value to the customer at a higher price point or cerate reasonable or lower value by offering at a lower price. Which means it is either low price or differentiation, a trade-off. However, Value Innovation is a simultaneous pursuit of low price (Value) and Differentiation (Innovation).




Value Innovation means achieving differentiation in product / service at a lower cost that ensures sustainable profits to the organization and creates an enduring value to the buyer. The buyer gets a value if he feels that he is getting more than what he pays for and the organization gets a value if it can get more than what it costs them to produce. Besides, this dynamic process gives an organization a sustainable competitive advantage.

## Management Accounting and Value Innovation

It is often said, ***"Cost is a fact and price is a policy"***. While cost is one of the key factors in pricing, at the same time, in the given competitive scenario, pricing policy should be within the framework of consumer acceptance vis a vis competition and alternative products / services that is under buyer's consideration. Price must therefore, contribute to value, instead of merely reflecting perceived value.

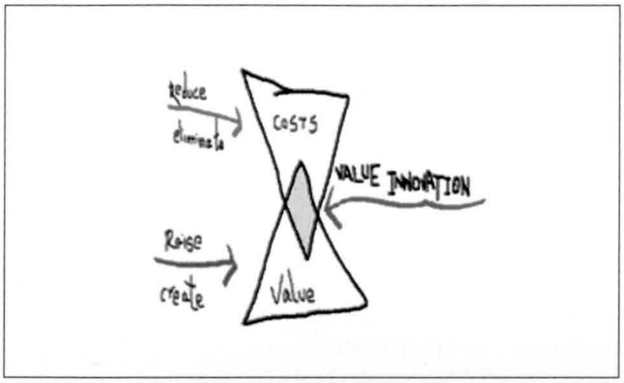
Of late, a gap is widening between what is management accountant's report and stakeholders' expectations. This is essentially because of change in information needs. Employees need more details about how they can contribute to better financials. As employees are the most important resource for any organization, their sense of ownership and responsibility is vital to the health of an organization.

Therefore, reporting trends have shifted towards analytics that support decision that helps in creating a leap in buyer value. This is the emerging trend in Management Accounting.

## Strategy Tool to Create Value Innovation

The one tool that Blue Ocean Strategy uses to drive home that concept of Value Innovation is the '4-Action Framework'. This tool helps to pay close attention to both costs and differentiation simultaneously. Application of these 4 actions creates a whole new value curve. We will be using this tool to create a value innovation in the working of Management Accountants that impacts the most important stakeholder (the employee). In the past people were an item of Profit & Loss Account as 'labour' and were driver of costs. It is time that labour is seen as 'people' and seen as driver of profit. Therefore, it is only in fitness of things the we look value innovation with people.

### How to Bring Value Innovation with People?




The first two factors, Eliminate and Reduce focusses on the cost structure (Value) and the other two, Raise and Create focus on differentiation (Innovation). All that the industry or an organization does which does not create value to the buyer should be eliminate or reduced. This will reduce costs without altering the existing value to the buyer. All that can add value to the buyer should be raised or created. This refocuses the cost structure towards value creation. *(Illustration adapted from "Blue Ocean Strategy" by W.Chan Kim & Renee Mauborge)*

Another way of looking at Value Innovation through this 4-action framework is the lens of 'efficiency vs effectiveness' While efficiency is important, it is not useful without being effective. However, if efficiency is embedded in effectiveness then Value Innovation can be achieved. In other words, it is focussing simultaneously on both the denominator (Cost) and numerator (the revenue or the differentiation).

### Value Innovation – A New Dimension to Management Accounting

So, how can Management Accounting Professional leverage this tool? Let us look at each of the elements of 4-action framework in this context.

**Raise:** Factors that should be raised well above the industry standard

Management Accounting professionals can raise the financial awareness right across the organization. While this is simple statement, it carries a lot of depth. Most people in any organization do not understand the financial information (even if available) and ts impact on decisions.

The authors of this article distinctly remember a incident from their experience. A Senior Vie President of a large confectionary company was planning an annual sales conference and had decided to make a big noise at the event to impress the management. At the event, he had decided to present a cheque for Rs. One Crore (a big amount in the year 1993) to the management. This was the receivables over the period. The Vice President presented the cheque amidst loud music flash bulbs and applause. He believed that he had made the desired impression. The Vice President was sacked soon after the sales conference. He had no idea that the deliberate delay in collecting the receivables has huge opportunity cost to the company besides setting a bad habit. Those were the days when interest rates were significantly high. Raising financial awareness appears to be a simple and done thing but if done with purpose it leads ownership.

**Create:** Factors that should be created that the industry has never offered thus far.

Creating a sense of ownership in the organization is not just about ESOPS, ownership is about responsibility, commitment and accountability. It s important to create and implement these business literacy programs across the organization. This is not just sharing the quarterly results on the company notice board. It is about making people understand how revenues are costs translate into profits. This makes people financially literate. This has a huge impact on the organizations pursuit towards Value Innovation. Ownership given people a completely different view point and helps see things completely different. They just don't do their job they define their role!

Southwest Airlines had a program. Once a flight attendant was cleaning the trash from the airline and two things struck her when she noticed company log on the used cups and trash bag. One, the passengers knew exactly which airline they were flying and second, used cups were going to be trashed finally. She wrote to the President of the airline asking how much it costs to print the logo on cups. Collen Barett, President, wrote back saying that the flight attendant just saved the company $3000,000 annually. The logos were removed from the cups and trash bags. No value was lost, and the money saved adds to the bottom line. If employees know where money can be saved, it can be done without sacrificing value. This is financial literacy that counts!

Most financial statements are generally couched in jargons. Much of these may not make sense to the last man in the organization. To create the sense of ownership, it is important to get creative and use only a high school language that makes sense to the least educated in the organization. It should also be illustrative and if it does not make sence, the information will not be acted upon.

Imagine your truck driver who knows how much he can save by driving with a keen eye on logistics / fuel costs and these costs saved does directly to the bottom line. Or think of a salesman who understands the cost structure he can optimize his travel plan in such a way that the company can save costs. Financial literacy does create ownership and ownership is a winning attitude.

Let us look at another example in Value Innovation. Granite Rock, a 100 years company in the United States sells crushed granite, asphalt and gravel to construction industry. Even though the product is a commodity, the company decided to benchmark itself in terms of performance with an upscale branded departmental store called Nordstrom, absolutely no comparison but Granite Rock decided to do it.

In a daring move, the company decided to let the customer decide the price of the product. In the invoice that the company raises, it clearly mentions that if the customer is not satisfied with any of the items of the invoice, he simply scratch it off and write a note on why they struck it off and pay the for rest of the items of the invoice. By doing so Granite Rock has put the power in the hands of the customer. It is not refund or discount, what the company did was to get real on customer feedback. It is a feedback that is at once real and actionable. There is no denial and defence to get the feedback. Granite Rock created moments of truth that they must face squarely.

The result, customers loved it and continued to be loyal to Granite Rock. The company charges a 6% premium and has a revenue before taxes of roughly 10% which is comparable to technology giants in those days, a true Value Innovation.

**Eliminate:** The factors that industry takes for granted that can be eliminated

The one main obstacle to sharing financial information could be security factor. This feeling of security has to be eliminated, if one goes to the financial press, one can get all the information on the industry and of any organization. Social media like LinkedIn often sees employees and competitors giving out information. Much information flows from vendors and bankers.

If there are one set of people who need to have financial information in real time, it is the employees. But if secrecy is an overwhelming concern, technology such as blockchain (a sort of trusted network that improves transparency and reduces costs and yet retains security) gives a great opportunity to share information only with designated people without allowing anyone to tamper with the information. It is great tool to share information and create a great value.

**Reduce:** All the factors that can be reduced well below the industry standards has to be reduced.

Creation of business literacy reduces hoarding of financial information while it is important to have professional to deal the critical positions to generate and disseminate information. It is also equally important to reduce the centralization of such functions. It is often said that marketing is far too important to be left to marketing professionals. Similar sentiments can be expressed with regards to other functions too. Reducing concentration of information leads to unprecedented empowerment leading to strong feeling of ownership. Democratizing financial information adds a completely new dimension to Management Accounting!

## Epilogue:

The 4-action framework can be used in almost any sphere with a bit of creativity and understanding of the concept eliminating or reducing concentration of information and raising and creating various ways to democratize information sharing has huge potential to create unprecedented value. It is important to align the whole organization towards this Value Innovation which gives an organization a sustainable competitive advantage. As Management Accountants are warehouse of information they can facilitate 'supply and apply' of this information for engaging and empowering employees towards Value Innovation and profitability. In this digital age, information is no longer just knowledge, it now become way to generate and sustain economic value. Value Innovation contains within itself focus on profitability. It also helps leverage the most important resource any business can have. Real time information can enhance employee behaviour and create great value to people and organization. It breeds accountability and responsibility, the foundation on which effective ownership rests.

It is the time to reorient and add a new dimension to the profession of Management Accounting! MA

## References:

1. Author RR Prasad (rrp@rrprasad.com) has a corporate experience of over 30 years in strategic marketing, change management, branding, skill development and management consultancy.

2. Author Lakshmana Rao (ulrao@yahoo.com) has over 24 years of corporate experience as Cost and Management Accountant, Business Analyst, Controller, SAP FICO Consultant and CFO of Six Sigma Projects.

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# Obituary

***With profound grief, this is to inform about the sad demise of CMA V.R. Iyer, Former President of the Institute (1994-95) on Sunday, 16th September, 2018 at Bengaluru. The Council of the Institute in its meeting held on 20/09/2018 expressed deepest condolences to the bereaved family.***