

Achieving Customer Innovation

Fast strategies and tips for switching from Inside-Out to Outside-In

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THE CUSTOMER INNOVATION CHALLENGE

Through The OMC Group web site, we offer to provide bespoke replies, within three working days, to any question related to customer innovation (subject to certain conditions, see below)¹. We were recently presented with the following very interesting question:

Imagine that you have a company which is characterised by average leadership capability and behaviours; top down directive change; poor communication; an inside-out customer perspective; focus on lag measures and metrics; an historical and embedded focus on processes over people – and all operating in the context of an increasingly commoditised and competitive market.

We'd really like to get your sense of:

1. What are the key issues that will drive change?
2. Likely high level internal strategic issues?
3. Some tips for getting started?

In this short white paper, we provide an anonymised version of our response.

THE RESPONSE

1. The good and bad news

First, the good news. You recognise that there are a number of problems with the company. You have identified that in the current environment and with the existing culture, behaviour and practices, the organisation is at risk of losing out to more nimble and innovative competitors if it does not address its difficulties and build new capabilities. However, the bad news is that you face a major challenge to bring about a desire for change and to set a new strategic direction. We can break this challenge down into six component parts:

1. How can you get other managers to identify and acknowledge deep-seated issues with the company and its performance?
2. How can you overcome an organisational reluctance to recognise and respond to the problems?
3. How do you overcome a "more of the same" attitude?
4. How can you create a sense of urgency?
5. How can you set an appropriate direction for change?
6. What can you do right now?

To find solutions to these taxing challenges, first of all it is important to explore the organisational characteristics you mention and examine the key issues in more depth.

(Note that for sake of answering the question, we assume that you are a manager in the company. This makes it easier for us to present our thoughts and ideas about how you might address the difficulties described. We also assume that you have the responsibility to do so.)

In the table below, we list some of the *possible* underlying causes as well as the range of outcomes which, from experience, we know can prevail in a company such as yours. We also add, in the final row, some related issues and outcomes. We reinforce the point that these are assumptions albeit ones grounded in experience.

¹ Questions must be posed by executives from commercial or public sector organisations. They must relate to customer innovation issues or opportunities that are genuine to their organisation. We reserve the right to not reply (although rarely the case).

Key Issues that will drive change? Possible causes and outcomes analysis

Characteristics	Possible Causes and Outcomes
Average leadership capability and behaviours	<ul style="list-style-type: none"> - Managers are managing not leading. - Managers do not behave and act in ways that reflect a culture focused on the customer. - Individual functions are competing for scarce resources. - There are high levels of adversarial activity amongst managers and their staff. - The absence of strong leadership is a significant barrier to any change effort.
Top down directive change	<ul style="list-style-type: none"> - A lack of trust in employees results in command and control management and low employee morale. - There are high levels of staff turnover. - Employees are increasingly suspicious of new initiatives to change the status quo. - Employees regard top-down initiatives to be an implicit criticism of their current efforts. - Employees are not motivated or challenged to come up with new ideas.
Poor communication	<ul style="list-style-type: none"> - There is no common, shared organisational purpose. - There is limited alignment of actions and aspirations. - Employee understanding of company objectives is limited. - Employees do not know what is expected of them or how to behave differently.
An inside-out company perspective	<ul style="list-style-type: none"> - The company is unable to sense or anticipate market changes and therefore formulate winning strategic moves or responses. - It is at risk of losing touch with its market. - Customers or frontline teams are not seen as a valuable learning resource. - Market myopia makes the company highly vulnerable to competitive attack.
Focus on lag measures and metrics	<ul style="list-style-type: none"> - The company is guided by internal measures of efficiency. - Reports do not show up underlying market trends or changes in customer needs and behaviour. - Market research methods are traditional and tend to confirm rather than challenge company-generated ideas. - The company has limited useful insight into customers and their behaviour. - The company does not share and interpret market and customer knowledge. - Day-to-day pressures and focus on these measures leave little energy for thinking about distant problems or opportunities. - There is no credible future plan that guides actions.
An historical and embedded focus on	<ul style="list-style-type: none"> - Projects are focused largely on reducing costs through process reengineering.

Characteristics	Possible Causes and Outcomes
processes over people	<ul style="list-style-type: none"> - Staff have little incentive or motivation to focus on customer success or to bend the rules profitably. - Staff incentives are not aligned to customer needs. - The human factor in the customer experience is underemphasised.
Operating in the context of an increasingly commoditised and competitive market.	<ul style="list-style-type: none"> - There is a high threat of disruption from new entrants. - There are constant pressures to cut prices, thereby squeezing margins and leading to a vicious cycle of cost-cutting and low growth. - Innovation efforts are largely incremental and do not deliver sustained value. - Marketing's role is focused on promotion and sales.
Related issues and outcomes	<ul style="list-style-type: none"> - The market is likely to be changing faster than the organisation - Customers needs are also changing faster than the organisation is able to meet them - Tried and trusted techniques (e.g. in marketing/CRM) are no longer delivering desired results - Closest competitors are largely pursuing similar, undifferentiated strategies with limited choice. However, newer entrants with a different business model are threatening to disrupt the status quo - Strategic planning approaches stifle creativity, dialogue, and insights, particularly from frontline staff and line managers. They emphasise control from the centre. - Low customer trust and low trust in customers - Low trust in employees translates to high turnover and less than optimum customer service and experience - Over-reliance on cost-reduction and operational improvements / process efficiency to achieve margins - Core services are being outsourced at the expense of customer satisfaction - High threat of technological disruption from new entrants

2. The diagnosis: High-level strategic issues

We summarise the above characteristics, causes and outcomes into the following high-level strategic issues:

1. The company has an internal orientation with limited focus on market-sensing and anticipating the future. It is largely short-term and focused on cost limitation and margin maximisation.
2. The company culture fails to challenge and question established mindsets and assumptions, especially about markets and customers.
3. There is no internal consensus about what the important issues are, let alone what to do about them.
4. There is no shared purpose about the future direction of the company, leading to a healthy alignment of action and aspirations.

5. Management has little time, inclination or desire to recognise and address deep-seated problems.
6. Management are disconnected from the frontline customer interface.

We believe that these issues are high-level because they govern management's willingness and opportunity to change. Other issues are largely outcomes of this managerial mindset – they are influenced and governed by established ways of thinking and doing. Therefore, to drive any change, it is fundamental to alter how managers currently think and to change their underlying assumptions and mindsets about customers, the market and the future direction of the company.

Critically, the managerial mindset also determines the approach by which the company sets strategy and makes plans for its future. With this particular point in mind, we can begin to prescribe ways to overcome the above high-level strategic issues.

3. The prescription: What can be done?

The way any company sets its future direction through strategy is fundamental for its future performance and success. Therefore, any firm seeking to transform itself must ask whether it has the right approach to setting strategy. We believe that there are five important features of an effective strategy-setting process:

1. There is a strong external market focus based on extensive market-sensing and monitoring.
2. Strategy is driven by the market not governed by a rigid planning or budgetary cycle.
3. There is an emphasis on market prediction and anticipation, and a willingness to experiment and learn from experience.
4. The process systematically and continuously challenges underlying assumptions.
5. There is a healthy real-time issues-orientation dictated by for example, market events or failures in the customer experience.

To achieve an effective strategy-setting process, we recommend the *strategic issues analysis method* for creating desire and building momentum.

4. Strategic Issues Analysis Method

Correctly framed and presented issues are the most valuable and effective means to create an impetus for change and set a new strategic direction. This is because:

- They help managers to distil and organise a range of problems and uncertainties into discrete and manageable chunks
- They become focal points for decision-making and investments of management time
- They define needs for gathering information and interpretation

The strategic issues analysis method is useful to identify which issues most concern managers and to assess and surface differences in understanding and assumptions about the customer, the firm or the market. Issues can be internal or external and be reviewed in the following categories:

- The changing customer (and/or customer experience), what they are thinking and behaving
- The changing market
- Competitor activity and focus
- The company's performance (innovation intensity, marketing, sales, retention, staff turnover etc.)

- Aspects of the company current operating model, culture and behaviour (such as the characteristics listed in the question)
- The future

Each issue must be a condition or pressure on the business, created by internal or external developments. As described by George S. Day in *The Market-Driven Organisation*, each must involve:

- *Possible outcomes* that have a high impact on future performance
- *Controversy*, in that reasonable people can take and defend different positions on how to deal with the issue
- *Strategic consequences*, since the resolution may mean implementing a change in strategy

The Strategic Issues Analysis Method consists of four steps:

1. Surface and debate the issues
2. Review and prioritise the issues
3. Formulate the prioritised issues as questions
4. Develop strategies and alternatives to address the issues

1) *Surface and debate the issues*

Generally speaking, there are no cut-and-dried procedures for changing or expanding the managerial mind to get them to think more about strategic issues. Here are a few suggestions for identifying fundamental strategic issues and challenging assumptions:

- Interview selected managers and employees with external help.
- Use a significant event (real or imagined) to start a dialogue about customers, the market, the company's performance, and its future.
- Hold an externally organised workshop with senior managers and customer-facing teams to challenge existing assumptions and practices by presenting new perspectives and thoughts about the future of the market and the organisation.
- Get an external organisation to hold up a mirror to the organisation, one that for example, presents customers' current perception and experience of the company.
- Listen-in to customers and their dialogue with staff.
- Bring in dissident voices from outside to challenge current insights and mental models.
- Use scenario thinking to create a sense of urgency by creating surrogate crises that push managers beyond their comfort zones.
- Look at different markets and examine comparable trends.

2) *Review and prioritise the issues*

Once identified, it is important to review and prioritise the issues based on their immediacy and impact. This can be a difficult exercise if management or staff don't share the same vision, have different views about the customer and the market or disagree on critical assumptions. However, the exercise is useful by default as it helps expose and begin to align these divergent assumptions. This exercise is best undertaken in a workshop environment. In our experience, no more than five to seven high-level issues should emerge as trying to handle any more will dilute time and energy.

3) *Formulate the prioritised issues as questions*

Next, it is important to formulate the prioritised issues as questions, so as to facilitate the later discovery of a solution leading to change. Big issues need to be broken down and

formulated in more manageable chunks. The output of this simple process is a correctly framed set of focused strategic issues, based on a consensus of opinion and uniform assumptions.

4) Develop strategies and alternatives through scenario thinking

The next step is to consider what can be done to resolve the strategic issues. This requires adventurous thinking about new possibilities and a structured and effective approach for the creative generation of options. The company must ask itself, what are the plausible alternatives? We use scenario thinking to help firms innovate strategies and plans for growth.

The benefits of this approach are several:

- Strategic choices are better informed
- Risks are more manageable
- Employees are more motivated to stretch their efforts
- Provides a focus on a desired leadership / future position
- Encourages organisational alignment of actions and purpose
- The firm becomes more aligned to its market and better able to innovate superior customer value

5. Getting started?

To get going, it is important to not only identify the fundamental issues but also select some quick wins. It is especially important to choose one particular opportunity that has the best chance of delivering a significant and visible success, one that can be widely celebrated when it works. The quick-wins and starter tips listed below have a common theme of sourcing bottom-up learning and insights from customers, employees and the market. They emphasise change and learning at the company's interface with customers and the market. It is here that firms can begin to make sense of the changing customer and to find new ways to adapt and build new capabilities.

1. Start listening to what customers are saying! Monitor their conversations and respond with candor, integrity and openness to earn their trust.
2. Develop a strong internal case for exploring customer dialogue and learning using new social computing technologies. Switch some expenditure from broadcast advertising and marketing to blogs, RSS and podcasts. Start small yet aim to quickly prove the value of the knowledge gained.
3. Focus less on control and more on collaboration. Understand and promote the benefits of ceding brand control of customer relationships to build better two-way dialogue and conversation.
4. Create a customer community to stimulate collaborative knowledge exchange between customers. Actively participate in the community and be passionate about maintaining high levels of listening and engagement.
5. Train contact centre or staff in other established channels (such as branch) to ask more open-ended questions to gather contextual customer knowledge and uncover latent needs. Review existing call centre scripts and rules for their adaptability and learning potential.
6. Develop and test incentives for staff to systematically exchange customer feedback with appropriate teams or units within the company.
7. Define a new set of customer performance measures. Review existing KPI's for their ability to promote an outside-in mindset and decision-making. Combine internal efficiency and effectiveness measures with customer-based efficiency and effectiveness measures.

8. Bring expert lead-user customers into the company and ask them about how they perceive, access and value the organisation, its products and services.
9. Design and test incentives to motivate and reward customers to share knowledge.
10. Overcome internal barriers to knowledge sharing by finding new spaces for employees and managers to socialise and exchange ideas.
11. Analyse customer complaints – a source of existing “value failure” and find the root-causes of failure.
12. Hold a customer innovation workshop for managers to connect with emerging market and customer trends and technologies – and the capabilities required to implement them successfully. Use the opportunity to rigorously challenge existing assumptions.
13. Review existing customer segmentation models to identify “fit for purpose”. For example, are needs-based segmentations really providing the insights required to innovate with higher predictability and success?
14. Measure existing levels of customer trust then identify and fix current “trustbusters” in company processes, behaviour and marketing communications.
15. Find new ways to observe customers in their “consumption environment” as they are using your company’s products and services. But again, do so openly and with high integrity.

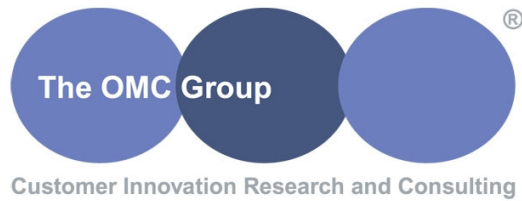
6. Summary

Every company follows a fairly unique path to change. But they are more likely to be effective if the following conditions are met:

- There is visible leadership commitment matched by commitment at all levels
- Key implementers fully understand the need for change
- All employees know what they are trying to accomplish
- Structures, systems and incentives are aligned with the strategy
- All changes are sustained on a continuous basis
- The company is more open and willing to learn with and from customers
- The company continuously scans for new perspectives at the edge of current practice

References

George S Day, (1999) *The Market-Driven Organisation: Understanding, Attracting and Keeping Valuable Customers*. The Free Press. New York



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The OMC Group is a customer strategy, experience and innovation management consultancy with an original blend of advanced thinking and proven methods. We are committed to helping our clients innovate new products, services and customer experiences for successful and sustainable growth. We do so by providing deep insight into their changing markets, formulating incisive innovation strategy and discovering precise opportunities for future growth and customer value creation.

OMC Group Innovation Expertise

We help our clients to:

- Sense and respond to changing markets through incisive customer strategy
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- Assess and improve their current innovation, learning and customer experience efforts and capabilities
- Accurately value and select innovation opportunities to make new investments with greater confidence and less risk
- Build a repeatable, predictive and disciplined innovation process throughout their organisation

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