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Avoid the risks of customer-driven innovation

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Many firms are developing capabilities to access and harness their customers' knowledge and competence. They are inviting their customers to participate in their innovation and market-learning process – and they are doing so on a more persistent and formalised basis. Companies such as P&G, Cisco Systems, Lego and Microsoft are achieving product success repeatedly by establishing new processes to engage their customers and capture appropriate and valuable inputs from them.

There are several reasons behind the developing trend for firms to involve customers in their innovation efforts on a more formalised and continuous basis. First, customers are more knowledgeable and organised. They have access to the information they need to make more informed choices,

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assess value on their own terms, influence the expectations of other customers and can decide for themselves how they want to transact with firms. They are increasingly able to engage in an active and explicit dialogue with other customers and employees. The result? An active, networked and informed customer is able to both challenge and contribute to the traditional company-centric model of value-creation.

Second, higher levels of uncertainty stemming from fast-changing markets and constantly shifting industry boundaries are increasing the need for firms to drill into their

customers' knowledge reserves. Firms that act as inward-looking, closed systems will often fail to sense changing markets and detect shifting sources of value. Indeed, the consequences of such navel-gazing may be obscured for many years until the company's value proposition loses touch with the market altogether. Such firms may eventually wind down simply because they find it difficult to recover their original position.

Of course, advances in networking and telecommunications are now diminishing the barriers to knowledge sharing and transfer and are helping to blur the boundary between firms and customers. Equally, as products become more "information-rich", there is more opportunity for customers to connect and communicate with firms. For example, most consumer packaged goods are now supported with online information content to help customers understand and use products better. The Colgate Palmolive toothpaste website for example not only provides basic information about their dental products but also offers detailed information about oral hygiene and care, including a tool for website visitors to personally assess their needs and source tailored solutions. Customers get more timely and reliable information whilst Colgate-Palmolive gains important feedback on problems with existing products as well as fresh ideas for new product development.

When managed correctly, open, customer-driven innovating firms enjoy competitive advantage arising from a number of

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sources. These include; better “unlearning” of established assumptions and practices, higher innovation potential and predictability and faster sensing and response to valid and valued customer requirements. Also, customers perceive higher switching costs arising from their own knowledge and emotive investments in the firm which can help with building loyalty.

The risks of customer involvement

Nevertheless, as firms begin to develop new capabilities for capturing, sharing and applying customer inputs, there are important risks they should be aware of when doing so. These include:

1. Companies may fall in to the trap of predominantly capturing expressed customer wants, becoming victims to the “tyranny of the served market” as described by Prahalad and Hamel in their 1994 book, *Competing for the Future*. Here, firms may unwittingly limit themselves to bland, anecdotal, low-risk, incremental innovation if they are too explicitly, customer-driven and responsive.

2. Companies can get bogged down when using House of Quality or Voice of the Customer methods to interpret customer statements into ideas and potential solutions; they may even place unnecessary limits on the total set of customer inputs to make the process more manageable and timely.

3. Customer statements can be “gamed”; that is, staff may select or ignore certain customer inputs based on their own beliefs and assumptions as to what is or is not important. In doing so, valid and important innovation opportunities may be lost. In their 2005 Harvard Business Review article, *“Managing Customer-Centric Innovation”*, Selden and MacMillan suggest that it is essential that frontline employees are put “at the heart of the innovation process”. Yet to do so effectively, customer-facing staff must be trained to sense and capture the right inputs from customers.

4. In extreme cases, internal sharing of customer anecdotes and stories can divert manager’s attention from what is truly

important. Subsequently, they may curtail investment in resources to build deeper customer knowledge and lose their disruptive potential.

5. Lead-user programmes can promote the significance of the technical, specialist needs of the most active, knowledgeable customers at the expense of the requirements of the wider market.

6. Companies can quickly become inundated and overwhelmed with inputs and ideas from customers. They come from a variety of sources – web sites, contact centres, lead user toolkits, customer satisfaction surveys, managers that “walk the talk”, focus groups and so on. What’s more, they arrive in a variety of different formats and technologies, few of which are consistent and actionable. Firms talk about customer needs in terms of solutions, specifications, benefits, expectations and so on; but in most case such statements of value do not allow them to identify precise opportunities for innovation.

The customer inputs are king

The one common denominator in all the above-mentioned risks of customer involvement concerns the means by which companies capture, filter, share and apply inputs from the customer. Companies, lacking any knowledge of what appropriate customer inputs are needed may often ask the wrong questions, or worse, they may not know what to do with the information once they receive it. Customers, though happy to share their “requirements”, do not know what information the company really needs. No wonder then that such mutual confusion and ambiguity often leads to unexpected failure when companies pursue rigorously the customer-driven path to innovation.

But latent unarticulated needs do not exist

With so many risks, some firms may be tempted to ignore the customer and shut out their inputs. (How often have you heard the “but no customer ever invented the Sony Walkman!” justification for this position?) Unfortunately, their argument for

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doing so also misses the point about customer inputs.

Typically, the case for ignoring direct inputs from the customer rests on one single pillar: customers cannot articulate their latent, unmet needs. Yet this is in fact a major misconception that can severely limit a firm's innovation potential.

It is widely assumed that in addition to their articulated needs, customers have latent, unarticulated needs. The term *latent need*, which is defined as a need that customers do not know they have, was made popular in a customer behavior model developed in the late 1980s by Noriaki Kano, a Tokyo University of Science professor of science. Since then, much has been written about the many techniques developed to capture customers' latent, unarticulated needs.

The misconception however can be stated very simply. It is that latent unarticulated customer needs *do not actually exist*.

The mistake arises from a misinterpretation of Kano's model. He used the term *latent need* to mean a *feature* that customers didn't know to ask for, not an independently stated *need* or an *outcome* they did not know they had.

We suggest that a solution is the tangible feature or product attribute that addresses and satisfies a customer's need to get a job done. Confusion about latent needs enters the equation when the word *need* is used to mean *solution*. Customers do not have latent, unarticulated needs; rather, what they do have is *latent, unarticulated solutions*.

For example, in the 1980s consumers did not know they wanted or could not articulate their need for an in-car navigation system (a solution), but they did know they wanted to minimize the likelihood of getting lost, and to minimize the time it takes to find a route to a specific destination. They also knew they wanted to be notified of traffic problems to avoid delays en-route (a job).

It's not that customers don't know what they need; it's that they don't know what solution will satisfy their needs. This is natural. Customers are not expected to be able to articulate a technically sound and forward-thinking solution – that is the company's job. On the other hand, customers are perfectly able to articulate what jobs they are trying to get done and what outcomes they use to measure the successful execution of a job – even if products to help get the job done do not yet exist. When a need is defined as a desired outcome (as in the desire to minimize the likelihood of getting lost or the time it takes it to find a route to a specific destination), the argument for ignoring direct inputs from the customer is shattered; this is because there is no such thing as a latent, unarticulated outcome.

We believe that many managers conveniently use unarticulated latent needs as a rationale to avoid capturing customer inputs in the innovation process. Often, this may be because customer inputs are at odds with their own personal motivations or beliefs. If they would rather pursue their own ideas, this myth provides just the ammunition that is needed to cast a lingering shadow of doubt on the research. The argument is perfect: "If customers cannot articulate their latent needs, then any research conducted by the company is incomplete. Therefore, we should use our own insight and intuition, not customer inputs, to decide what to build."

It is easy to portray customers as emotional, illogical individuals who are incapable of knowing or communicating what they want, but the evidence does not support that argument. As we have seen, customers do know what they want – we just have to listen for the outcomes they want to achieve, not what features they think they want.

After nearly 20 years of trying, companies remain frustrated in their efforts to figure out how best to use customer inputs to deliver on the promise of customer-driven innovation. Debate continues as to which is the most effective method for capturing the voice of the customer. A number of writers on innovation, including Clayton Christensen and Dorothy Leonard, swear by

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observational research. Others suggest using personal interviews, dyads, triads, focus groups, and customer visits. Others fall back on the lead-user method. But argument over which method to use is unnecessary – another mistake frequently made is that the method matters most, but it does not; it's what customer inputs you are looking for that is fundamental to success.

Fortunately, there is a better way. Instead of relying on the literal voice of the customer or a subjective translation of that voice, companies can seek to capture three distinct types of input that are fundamental to the innovation process and its successful execution. To create a breakthrough product or service or to successfully enter a new market, a company must know the following: (see the new book *What Customers Want* by Strategyn CEO, Tony Ulwick for a complete explanation of these types of customer inputs):

1. What jobs the customer is trying to get done
2. The outcomes the customer is trying to achieve when performing these jobs in a variety of contexts
3. The problems and constraints that stand in the way of adoption of a new product or service

1. Jobs to be done: Key inputs for growth

Customers buy products and services when they need help to get a job done. Understanding what job a customer wants to get done with a product or service is critical to a product's success. Less obvious however are the growth possibilities that may result from knowing what supporting, ancillary or related jobs customers want done with the primary job of interest.

Offering solutions that address additional jobs frequently results in the creation of a breakthrough product or service. For example, beverage producers have started making products that not only quench thirst (a job) but also enable users to obtain vitamins, nutrients and herbs that may improve performance in certain contexts. SoBe Beverages, Red Bull Energy

Drink, and Glaceau Vitamin Water address the related functional jobs customers want the drinks to perform when quenching their thirst. Such products now account for a sizeable percentage of beverage sales.

Customers also often want a product or service to perform more than one job at a time. Yet companies tend to focus on their offerings on only one job because addressing the ancillary jobs often necessitates developing new or different competencies or crossing organisational boundaries. While developing these capabilities may indeed require new skills and resources, addressing all the jobs customers are trying to get a product or service under a given set of circumstances can certainly reap rewards.

2. Desired Outcomes: Metrics to drive innovation

In addition to wanting to get more jobs done, customers want to get a specific job done more effectively. By providing them with the means to do so, a company creates value. The first step in this process is capturing from customers the metrics, or measures of value, that define how they want to get the job done and what it means to get the job done perfectly. We call these metrics the customer's *desired outcomes*.

When executing the job of driving to a specific destination, for example, customers may want to:

- Minimise the likelihood of meeting traffic delays, e.g. roadworks, rush-hour hotspots and incidents
- Minimise the likelihood of getting lost
- Minimise the time it takes to adjust a route, e.g. when driving
- Minimise the time it takes to reach the destination
- Minimise the frequency of junctions and turns
- Minimise the amount of fuel consumed

It should also be noted that when captured correctly, desired outcomes are stable over time. People who were driving their cars back in the 1960s for example, wanted to

minimise the likelihood of getting lost and reduce the time it takes to arrive at a specific destination (others may wish to increase the number of attractions en-route if they are driving for pleasure) – just as people do today and always will in the future. Desired outcomes have this unique quality because they are fundamental measures of performance inherent to the execution of a specific job. Indeed, they will be valid metrics as long as customers are trying to get that job done. Consequently, knowing what outcomes customers are trying to achieve gives a company short-term as well as long-term direction in selecting which ideas and technologies to pursue.

The outcomes that should be the focus for improvement however do change over time as new and better technologies are introduced. When in-car navigation systems became portable from one vehicle to another for example, customers were better satisfied with their ability to minimise the time it takes to transfer one system from one vehicle to another. This meant that the opportunity to create new value along that dimension was diminished and that manufacturers had to determine which other outcomes were important and unsatisfied before new value could be created.

3. Identifying Constraints: Barriers to Customer Success

Another way to create value is by helping customers overcome constraints that inhibit them from getting a job done. It is common for numerous constraints to stand in the way of product use or adoption. Determining why a product or service would not be used – even if it satisfies all the stated outcomes – identifies a third, often very promising avenue for potential growth.

Summary

By dissecting a job – that is a task for which a product or service is used – into its discrete steps and then asking customers what performance and quality metrics they use to measure success in executing each step, we can obtain a set of customer desired outcomes. When the resulting outcome statements are used as inputs into the innovation process, variability is held in check, and the risks of customer-driven innovation are overcome. Moreover, companies are finally able to reliably boost their efforts at customer-driven innovation.

References

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