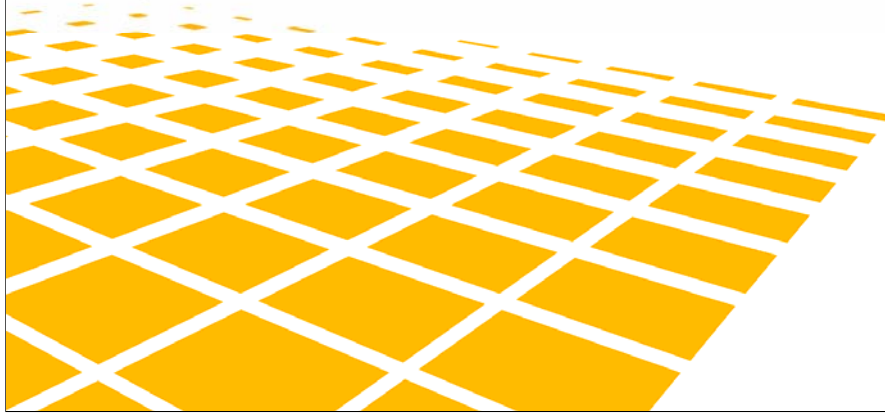




Customer Insight as a Driver of Strategic Innovation

Non-traditional Approaches for Breakthrough Customer-Inspired Innovation



Engaging Customers for Strategic Innovation

- Innovation becomes “strategic” when it is an intentional process focused on creating breakthroughs in the value delivered to customers
- Engaging customers as partners in the innovation process is essential for creating breakthroughs in:
 - New Product/Service and category development
 - Market positioning and new product introduction
 - Creating solutions through strategic partnerships
 - Corporate strategy development
- Breakthrough, **customer-inspired** opportunities include innovations in products, services, business processes and business models that:
 - Transform markets and industries
 - Create new markets and industries
 - Generate beyond-incremental revenue growth



While involving customers/consumers in new product development is quite widespread, involving them as participants in “corporate strategy” development it is practically unheard of – for organizations willing and able to do this it offers an exceptional opportunity for building sustainable competitive advantage.

What is Customer Insight?

- Customer Insight represents a deep understanding of customer needs and the drivers of customer behavior *at a level well beyond what customers are able to articulate themselves*
- Customer Insight leads to opportunities for creating solutions that are tightly linked to the core drivers of human needs and behavior
- Developing Customer Insight includes:
 - Understanding the explicitly stated or “articulated” needs of customers and potential customers, but more significantly...
 - Identifying their “unarticulated” needs
- Customer Insight is the foundation for “**Customer-Inspired Innovation**”



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“Customer Insight” is a “bottom-up” approach that leverages insights into the behaviors, perceptions and needs of current and potential customers by involving them as true partners in the innovation process.

This non-traditional approach brings an organization face-to-face with customers and consumers in order to glean fresh insights into both articulated and unarticulated problems and needs. These grass-roots insights position an organization to innovate at an entirely new level.

Customer-Inspired Innovation - definition

- Customer-Inspired Innovation is the imaginative discovery of new business concepts (products, services, business models, strategies, etc.) by matching deep insight into customer needs with an organization's capabilities in unprecedented ways
- New insight into customers' needs are discovered, new growth opportunities are identified, new organizational competencies are mobilized, new solutions are created
- "Articulated Customer Needs" – Needs that are recognized and communicated (stated) by customers
- "Unarticulated Customer Needs" – Needs unrecognized by customers that – when recognized and satisfied – lead to products and services that delight them
 - While exploring customer behavior the challenge is to "read between the lines" and "make non-obvious connections"



"Articulated Customer Needs"... Needs that are recognized and communicated by customers

Often short-term focused

Often lead only to incremental opportunities

"Unarticulated Customer Needs"... Needs unrecognized by customers that – when recognized and satisfied by us – lead to products and services that amaze our customers

Often lead to breakthrough opportunities

May change the basis of competition, transform an industry, create whole new solution categories

A few examples: when a retailer cannot keep a new product category in stock and everyone is talking about it; or when an organization finds its customers are now interacting in entirely new ways; or when a whole new cultural value set is created and evolves to grab the attention of the market in unexpected ways; when entirely new directions are suddenly opened up... when "other things have now become important"...

Limitations of Traditional Market Research

- Results in innovations based on identification of (or the response to) customers' articulated needs
- Envisions a future more or less like the present
- Assumed bias toward short term improvements
- Engages the customer as an external consumer – a non-essential part of the process
- Thinks defensively and protects the status quo
- Marketing is viewed as the responsibility of the marketing function
- Explores within existing comfort zone and business boundaries



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Customer-Driven Innovation (traditional market research), therefore, falls short in several ways . . .

Principles of Customer-Inspired Innovation

- Envisions a future dramatically different from the present
- Targets and develops both long- and short-term innovations
- Engages the customer as a collaborator, partner and knowledge resource – an integral part of the process
- Thinks offensively and focused on beyond-me-too strategies
- Focuses on customer loyalty
- Calls upon several business functions to contribute to the notion of “marketing”
- Challenges business boundaries and explores beyond existing comfort zone – where breakthroughs reside



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Most organizations would claim they are “customer-driven”, and do involve customers in some ways in their product development processes.

While being customer-driven is a reasonable starting point, most traditional “customer-driven” approaches do not seek out or reveal insights beyond those that a customer is able to verbalize. It is one thing to invite customers/consumers to talk about their needs and wants – it is quite another to purposefully seek out the unarticulated. Breakthrough innovation can only begin when an organization is no longer satisfied with what customers actually say – these organizations open the door to extraordinary levels of innovation.

Traditional Market Research vs. Customer-Inspired Innovation

Traditional Market Research

- Driven by Diminished/Lost Market Leadership
- Rule-Taker Status - Defensive Posture
- Customer Satisfaction
- Incremental Innovation
- Defender of the Status Quo

Customer-Inspired Innovation

- Driven by a focus on Industry Leadership
- Rule-Breaker Status - Revolutionary Posture
- Customer Delight and Loyalty
- Breakthrough Innovation
- Creator of New Competitive Space



Viewed side-by-side, Traditional Market Research sets its sights much lower than Customer-Inspired Innovation

Methodologies and Tools

- *“It’s not just what you do... it’s the way that you do it”*
- Online surveys and discussion groups
 - Cost-effective methods of rapidly capturing insights
- In-person focus groups and interviews – but managed in non-traditional ways
 - “Clean slate”/open-ended/exploratory
 - Not simply reactive to work-in-progress
- Ethnographic Research
 - Observational, in-person research in the natural environment of the customer/user, to understand actual behavior, needs, issues, and to identify unarticulated needs
 - consumers - at home, during their free time, while shopping
 - business users - in the office, at the factory bench
- Business Customer Visits – “Customer Exploration Safaris”
 - Non-traditional, collaboration-based visits, that call for careful orchestration, expert in-session facilitation and results-oriented follow-up
 - Watch-for: You can’t just “put people together and hope for magic” – it has to be creatively managed



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There are a number of ways to create a deeper understanding of your company’s external stakeholders and their needs.

Some are suitable for end-consumers... others are more suitable for business customers.

Some of these may appear traditional – but (in order to obtain innovative results) must be approached and managed in non-traditional ways... “It’s not just what you do... it’s the way that you do it”.

Process: Inquiry, Creation and Refinement

Two phases of consumer/customer involvement:

1. Exploratory/Generative phase (Divergent – open-ended)
 - Inquiry - Engages participants to articulate perceptions, issues and needs, as well as views of their future and anticipated needs
 - Creation - Engages participants to create preliminary concepts for products, services and growth strategies
2. Developmental phase (Convergent – refinement)
 - Testing - Engages participants to gain feedback on preliminary “concepts/ideas-in-progress” – and to refine/evolve them



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First is an Exploratory/Generative phase, that engages respondents to articulate current issues and problems; it also solicits respondents' views of their future/anticipated needs, etc. It then seeks out respondents' preliminary ideas/concepts for potential new products, services, and other ways to address their issues.

The preliminary concepts offered by the respondents are then developed by the client Core Team after the customer involvement sessions.

The Developmental phase allows new product and service concepts (or strategic growth concepts) to be tested and refined by customers before they are recommended to senior management. The Developmental Phase typically takes place after an infusion of new, future-oriented information (see discussions of “Industry Foresight”) , which, (when coupled with insights from the Exploratory/Generative phase and the client’s organizational and technical competencies), drives the ability to get ahead of the customer and anticipate their unarticulated needs.

Beyond Customers & Consumers

The Customer Insight approach is not restricted to customers but often involves other stakeholders in the value chain:

- Channel partners
- Suppliers
- Manufacturing partners
- Other potential alliance partners
- Employees
- Media
- Investors



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For the sake of simplicity we use the terms “Customers” and “Consumers”, but many different kinds of participants can be brought into the process... who do you need to hear from? Channel partners? Manufacturing partners? Other potential alliance partners?

Critical Success Factors - 1

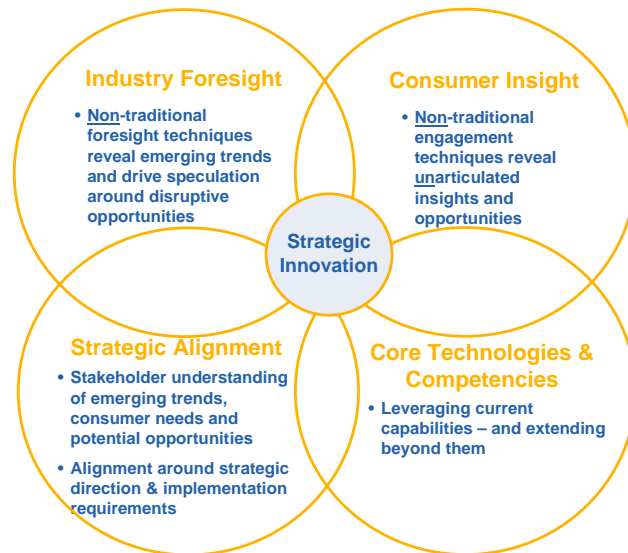
- Not being satisfied with an understanding of articulated customer needs – going further, to seek insights at the unarticulated level
- Looking deeply and insightfully into customer needs to discover what drives behavior and motivation
- Involving teams from multiple functions/ business units
- Coordinating management involvement and buy-in

Critical Success Factors - 2

- Willingness to think flexibly and creatively about current and future business opportunities
- Suspension of business boundaries (“Think Different”)
- Actively identifying and monitoring current and emerging trends (Industry Foresight”) as a broader context for a grass-roots understanding of Customer Insight
- Using long term view to drive short term planning & action

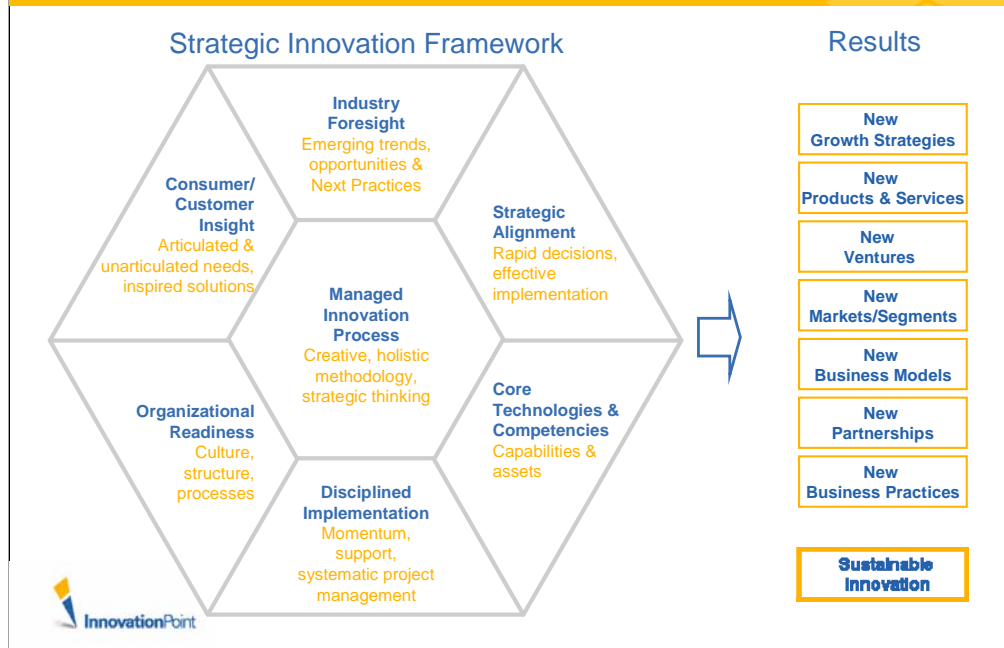
Strategic Innovation: Key Elements

- Strategic Innovation is created at the intersection of Industry Foresight, Customer Insight, Core Technologies & Competencies, and Strategic Alignment



- Industry Foresight is one of three core elements within a holistic approach to opportunity planning.
- Traditional strategy development is limited -- and often delivers uninspired, incremental results.
- Conversely, Strategic Innovation is created at the intersection of Industry Foresight, Customer Insight and Strategic Alignment.

Holistic framework: seven dimensions critical for Strategic Innovation



There are seven dimensions of Strategic Innovation.

Most companies are ALREADY employing one or more of these.

But you can imagine the success that might result... if you were to pay attention to ALL of these. . . Companies that innovate strategically manage to: CONNECT THE DOTS between these seven key dimensions.



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