

Management Briefing

Leading the way in innovation

Moving from customer centric to customer led



Background

Innovation is once again on the CEO agenda. But as leaders undertake numerous innovation initiatives within their companies, they should beware that many if not most of these initiatives will fail, only to be swept under the rug by the time of the next economic downturn. This is not surprising. Innovation, after all, is the discovery and implementation of the new - whether it is new technologies, new products, new customer experiences, new processes, new markets, channels or business models. And as we all know the new is often unwelcome by customers and or even our own organisations.

The challenge is to discover ideas and possibilities that can be implemented which are of value to customers, and devise ways that overcome organisational obstacles to successfully execute and deliver these to the customer.

Creating customer value

Today, most companies confront the challenge of increasing product and service homogenisation and commoditisation. For example, most major airlines have similar seats, the same peanuts or snacks, the same soft drinks, the same routes, similar prices and minor differences in décor and uniforms. Motorcars and computers have become commodities, with similar form factors, prices and capability. In financial services most consumers interact more with relatively undifferentiated automated teller machines than a bank branch. In sum, businesses homogenise and commoditise to a ruthlessly standard experience. This undermines product and service differentiation, pricing power, the loyalty of customers and the value of the brand.

Breaking out of this cycle of commoditisation will require new ways of thinking about customers and what they find valuable in products and services. The concept of value to customers is not easy to pin down. In part the challenge is that value is always in the eye of the beholder.

Value is realised by the customer when they use a product, and when specific product attributes (e.g. features, design, service, support) match their specific needs. We can ask and measure how key product attributes match the various needs of the customer across four levels: basic, expected, desired and unanticipated.

Product attributes

The basic attributes fulfill the core functions required of a product. For example, a fridge which does not cool food, a car engine which does not start, are two examples of failures to deliver basic attributes.

The expected attributes are those that all players within a specific industry perceive they need to compete. In the overnight package delivery business, parcels are expected to be delivered the following morning. The expected attributes are easy to define by observing competitors and vendors not providing them could incur competitive disadvantage.

Desired attributes are usually those that another segment of the industry offers, but that cannot be acquired at the price point of a specific customer. Some airlines have successfully introduced 'first class service at a business class fare' in order to better serve customers who were not ready to pay the premium to upgrade to first class, but still desired that service.

Unanticipated attributes are certainly the hardest to discover. Simply monitoring the competition or asking customers about their needs won't work. Imagination and observation is what is critical. Kodak observed and understood customers were more interested in memories and souvenirs than in cameras per se. Its disposable cameras created a new industry overnight to add sustaining revenues as photography became digital. When Apple invented the iPod, it allowed customers to carry their entire music collection with them anytime, anywhere. Unanticipated benefits delight customers and create new value.

The other side of the value equation is costs. Costs are not just the price but also the efforts required of the customer to acquire and use a product. Customer value is also discounted by risks - such as the functional risk the product won't work, the selection risk that the right product is not available when effort has been expended to go to a shop to purchase it, the obsolescence or delay risks that a product will either be obsolete or not available in a timely way. Understanding value alongside performance attributes, and costs alongside price, risk and effort attributes provides a way to explore how new innovations create value from a customer perspective. It is a first step to customer centred innovation.



Moving to customer centred innovation

Customer centred innovations create value for customers by transforming five key interactions through which customers realise value. These are the buying, using, selling/disposing, co-creation and integration interactions.

Buying - Customers used to have very limited choice in how they bought a product or service. Now eCommerce has created greater variety and driven innovation in how we shop. For example, airlines now offer tickets through their own websites, through online travel sites like Expedia or lastminute.com, through auctions and through travel agencies. Buyers now have more choice to meet their varied needs and risk preferences.

Using - Convenience in use is also valuable for customers. When Airbus, launched the A320 family of aircraft, it created a family of aeroplanes (A319, A320 and A321) sharing most characteristics, and differing only in size. By using similar equipment, pilot instruments, maintenance procedures, etc., Airbus makes it easier for carriers to interchange crews and schedule the use of aircraft. Airbus has continued to design cockpits and fly by wire flight systems that allow for easier certification of pilots across different aircraft, creating value for carriers.

Selling/disposing - eBay pulled together services that allow users to sell and dispose of new and used goods to create tremendous value, propelling it to over \$5 billion in revenues. By creating an efficient market for selling used goods, customers can now switch more easily to newer products. For example, car owners have greater flexibility and convenience in disposing of old cars and subsequently upgrading to newer models.

Co-creation - is partnering with customers to jointly create or assemble a product or service. IKEA, the Swedish furniture giant, transformed the furniture business with co-creation. If customers are willing to drive out of town, transport their furniture home and assemble it, then IKEA will provide them with one-stop shopping for furniture at excellent prices. Today co-creation and partnership with customer can occur in all phases of the value chain - from product design and R&D to the final assembly and manufacture.

Integration - is the combination of multiple products and services to solve a need. A good example is the creation of current account mortgages giving customers the benefit of automatically offsetting current account credit balances against the mortgage loan balance outstanding, thereby reducing interest charges. First Active were the first Irish bank to offer this product but others have since followed suit.

While all the above interactions create value opportunities for customers, most businesses focus only on the buyer and user interactions. Thinking more broadly is vital to creating differentiating value bundles like Ikea, Airbus or eBay.



From customer centred to customer led

Today, innovation is moving from being customer centric to customer led where customers contribute substantively to the innovation. Eric von Hippel of MIT found lead users who often led product or service adoption, a critical source of innovation by their adaptation of products to meet their unique needs. Many companies now include lead users in their innovation processes to capture their ideas and insights. When a leading manufacturer wanted to create a new surgical drape to reduce post surgical infections, it turned to

experts and users for help. By involving hospital surgeons, antimicrobial experts, make-up artists and, veterinarians for a small honorarium in the design process, the company harvested insights that helped it create an easy to apply drape with antimicrobials to reduce infections. The company estimates lead user generated products come to market more quickly and generate higher margins.

Today, more innovation is becoming customer led. Open source software on the Internet such as Linux involves thousands of users testing and improving code. Even traditional software companies are now following the lead of the open source movement. eCommerce and "Web 2.0" is accelerating this trend. Companies like Flickr where users share photos, YouTube where users create and share video have all sold at a premium. In this world, customers can also make or break products quickly, and make it clear as to which innovations work and do not work for them. Thus innovation becomes dynamic, not just a lab exercise, but a process involving customers in key design and delivery stages of new products and services.

The future of innovation

As innovation becomes customer led, companies will have to carefully involve customers in key innovation processes. To succeed managers will have to ask:

1. How will I create effective customer led innovation processes with my organisation?
2. Which customers will I involve in the innovation process?
3. Will my innovation process lead to emotionally resonant customer products and services?

The answers will not be simple. Companies will have to tap into an aging demographic with new product design requirements in developed markets. Companies in emerging markets like China, India and Brazil will have to provide new cost and value propositions. Finally, like the Apple iPod, companies creating emotionally resonant designs or hooking their products to emotionally resonant experiences will be the likely winners in future innovation wars.

How can we help?

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We can assist senior management throughout the process of fostering an innovative culture. We can provide expert and independent advice that is practical, proactive and designed to help stakeholders achieve their objectives in an efficient and effective a manner as possible.

We can assist in the process of fostering an innovative culture through the following services:

- Human capital management
- Strategic and operational development
- Financial management and planning

References

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