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Catalyst - Strategy

Involving customers in innovation

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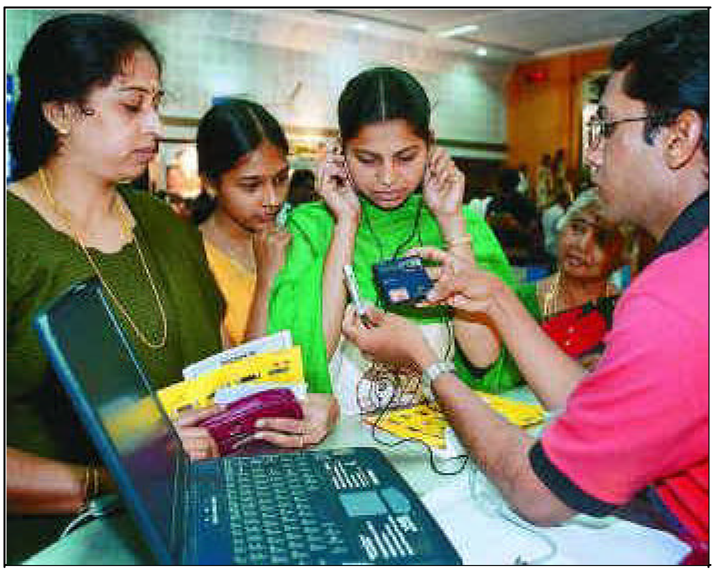
Consumers are good at articulating their need from a product or service; its construction and packaging is better left to the marketer.



INNOVATIONS drive today's market place. And it is innovative companies which can sustain market leadership. As innovations must create value for customers, understanding customer wants is the starting point in the innovation process.

Getting to know customers is not as easy as it looks. Many companies invest heavily in understanding what customers want and invite them to take part in focus groups, interviews and surveys. But when the new product or service is finally introduced, it often flops or is not as successful as expected. According to consultant Anthony Ulwick (*Harvard Business Review,* January 2002), such failures happen because companies do not involve customers in the right way.

When companies ask customers what they want, they typically respond in the form of products or services. Ulwick points out that customers have a limited frame of reference. They only know what they have experienced. They have difficulty in visualising new technologies or new materials. Customers should be asked only for outcomes - that is, what they want a new product or service to do for them. The form the solution must take should be left to the marketer. If we reflect for a moment, we will find a lot of merit in this argument. It was marketers, not customers, who conceived the idea of developing radically new products and services such as Walkman, CNBC (the business news channel), Amazon and Wal-Mart. An average customer could not have visualised them before they were actually launched in the market place. But once they were launched, the customers sensed a lot of value and eagerly started consuming them.

Generally speaking, customers can say what they want if they are asked to make selections within a familiar product category. But when customers are asked to venture into a new territory about which they have limited or no knowledge, they tend to get biased by the way products or services are normally or traditionally used. They are unable to imagine alternative functions. Asking customers to focus on desired outcomes is an effective way to deal with these psychological blocks and to help companies identify difficult-to-articulate needs.

Indeed, the dangers involved in listening to customers too closely while designing products must not be underestimated. One is the tendency to make incremental, rather than bold, improvements. Another is the possibility of developing `me-too' products as customers typically ask for missing features that competitors already offer. Yet another mistake is the practice of listening to the recommendations of lead users or opinion leaders who have an advanced understanding of a product and its use. Such people can offer many new ideas. But since they are not average users, the products based on their recommendations may have limited appeal.

A typical consumer may find such products too complicated or sophisticated. Last but not the least, the inclusion of more and more features based on customer feedback may lead to overpriced products and leave the company exposed to an attack from below by a competitor. Such a competitor may run away with the market by offering a cheaper, simpler product that meets customer expectations reasonably well.

Take the case of the well-known American company, Black & Decker (B&D). Before 1960, hand-held electric tools were heavy, rugged and expensive. They were designed for professionals. B&D did not come up with a superior product. It introduced a line of plastic-encased tools with motors that would last only 25-30 hours of operation. For most do-it-yourself customers, this was adequate. By bringing the price down from $150 to $20, B&D created a new market.

Customers make choices based on their priorities. As these priorities change, opportunities to innovate are created. Understanding customers' priorities implies identifying more than just customer wants. Wants refer to the benefits and features of products that customers would like to buy. Most market research focuses on wants. But customers work out their needs, the most basic human desires, based on a complex decision-making system. Understanding the decision-making system and the resulting priorities holds the key to a better understanding of the customer. This makes it possible to interpret what customers say they want. It also helps marketers understand what customers are not saying and to anticipate what they will say in the future.

A framework provided by Clayton Christensen, the famous Harvard Business School professor, is useful here. Customers do not `buy' a product or a service. They `hire' a product or service to get a job done. By knowing the job that customers are trying to get done and the jobs that are currently not getting done well, there is scope to innovate.

Sony's founder, Akio Morita, was a master at watching what consumers were trying to get done. He used those insights to come up with innovative products that helped customers do the job better. Between 1950 and 1982, Sony successfully built the original battery-powered pocket transistor radio (launched in 1955), the first portable solid-state black-and-white television (1959), video cassette players, portable video recorders, Walkman (1979) and 3.5-inch floppy disk drives (1981). Every new product launch decision during this era was made personally by Morita and a trusted group of about five associates. They kept observing and questioning what people really were trying to get done. They looked for ways in which miniaturised, solid-state electronics technology might help less skilled and less affluent people to accomplish, more conveniently and cost-effectively, the jobs they were already trying to get done through awkward, unsatisfactory and expensive means.

The great innovators respect customers but they also understand the pitfalls involved in giving customers too much say in the product development process. According to Bernard Arnault, Chairman, LVMH, the French company, which owns famous brands such as Louis Vuitton and Dom Perignon Champagne, "Products which are customer-driven are usually not innovative. Consequently, it is difficult to charge a premium." Arnault (*Harvard Business Review*, October 2001) adds, that by conducting a market test "you will never be able to predict the success of a product ... What a test shows you is limited; whether the product has a potential problem, such as with its name ... Obviously, we won't launch a product if the tests clearly show it is going to be a failure, but we won't use tests to modify products, either ... Our strategy is to trust the creators. You have to give them leeway. When a creative team believes in a product, you have to trust the team's gut instinct."

HDFC owes its success to strong intuition, not conventional market research

Our own HDFC illustrates the importance of strong intuitive thinking as opposed to inviting ideas from customers while launching a new product. HDFC would never have been born if founder H. T. Parekh had gone by conventional marketing research. The world over, the housing finance industry operated with some basic minimum requirements before a loan could be disbursed. These included clear title, ability to provide some collateral and a regular, verifiable source of income. Most sections of the Indian society could not really meet these requirements. Yet Parekh had dogged determination and a firm belief that a professionally managed company would be able to identify and deal with `good' borrowers. These people would be keen savers and go to any length to prevent a default. Parekh's bet proved right and took HDFC to great heights. But for Parekh, the housing finance market in the country might not have taken off.

In a different context, researchers Niraj Dawar and Mark Vandenbosch recently pointed out that marketers often know more about some aspects of their customers' business than customers themselves. That is because marketers come into contact with various kinds of customers. So they have deeper insights about the problems customers face and how they use their products and services. Using these insights, marketers can help customers address problems in innovative ways. Marketers would be committing a major blunder if they tried to solve such problems only with customer inputs. This logic is especially applicable in case of industrial customers.

The lesson which emerges is that ideas for truly innovative products are unlikely to come from structured market research. While gaps in the existing product can be identified through customer feedback, construction of a radically new product is very much the job of the marketer. Customers can only be trusted to articulate their expectation and the benefit they are looking for. It is the marketer who must ultimately come up with the product or service to deliver that benefit.

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