

Customer-Centric Innovation

Marketing is positioned to take a central role in the innovation process.

by Dr. Lawrence A. Crosby and Sheree L. Johnson



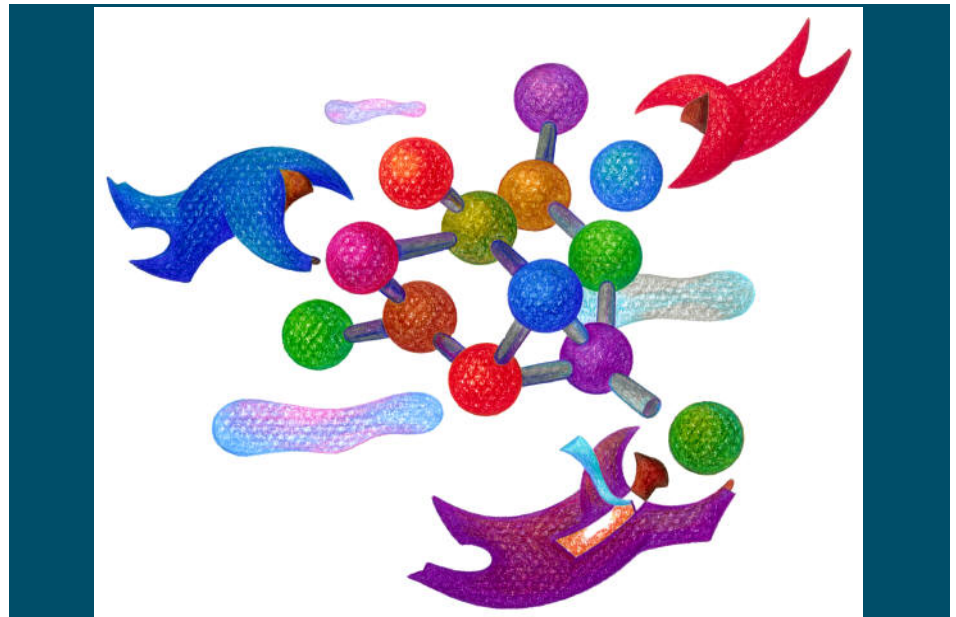
“Because its purpose is to create a customer, the business enterprise has two—and only these two—basic functions: marketing and innovation. Marketing and innovation alone produce results; all the rest are costs.”
Peter Drucker

Drucker made this statement almost 30 years ago. And like most things Drucker, managers nod their heads in agreement with his statements. But most of the managers also struggle to implement such wisdom. A recent survey of senior executives found that increasing top-line revenues through innovation has become an essential key to success. However, the same survey showed that more than half of the executives were dissatisfied with the financial returns on their investments in innovation. Also, of the 30,000 new consumer products launched each year, more than 90% of them fail.

All Shapes and Sizes

Innovation is coming at us from every direction these days. It can change an industry—from corner coffee shops to a Starbucks experience; from FM radio to commercial-free satellite radio; from crowded, commission-driven electronics stores to expert Apple or Sony stores; from smelly circuses for kids to a sophisticated Cirque du Soleil experience for adults.

And nearly everyone has their eye on Google’s innovations these



days. Wal-Mart worries because Google might direct shoppers to competitors with better deals. Telecommunications companies worry about Google’s plans to provide wireless voice over Internet protocol. Banks wonder what payment system Google will provide with its shopping capability—and what if Google becomes a financial services company? Even eBay worries that Google might create some version of “G-bay.”

And in a world where many people think we have too many choices, innovation can also simplify. Walk into the In-N-Out Burger restaurant on Fisherman’s Wharf in San Francisco, and one of the first things that may strike you is the number four: four colors, limited to red, white, yellow, and gray; four cash registers with four

friendly faces behind them; and just four items on the menu. You can buy burgers, fries, shakes, and sodas. All the ingredients are delivered fresh to the store, where they’re prepared in the open kitchen behind the cashiers. With its chain of about 200 restaurants throughout California, Arizona, and Nevada, the family-owned company expanded its sales by 9.2% in 2003 (to \$308 million)—a rate just about double the fast-food standard. Analysts estimate In-N-Out’s margins at 20%.

It’s the Process

A recent study of the top 1,000 global research and development (R&D) spenders found that superior results seem to be a function of the quality of an organization’s innovation

process—the bets it makes and how it pursues them—rather than either the absolute or relative magnitude of its innovation spending. For example, Apple's 2004 ratio of 5.9% trails the computer industry average of 7.6%, and its \$489 million spend is a fraction of its larger competitors. But by rigorously focusing its development resources on a short list of projects with the greatest potential, the company created an innovation machine that eventually produced iMac, iBook, iPod, and iTunes.

marketing officer, in charge of generating innovation and creativity.

One of Comstock's first initiatives was to bring in anthropologists to audit GE's culture. They came back with praise for GE's famous work ethic but noted that employees wanted more "wow"—more discoveries from the company founded by Thomas Edison. Comstock also studied best practices at companies such as Procter & Gamble, FedEx, and 3M. She brought in creativity consultants, futurists, and design gurus to

get strongly engineering-driven companies that don't really appreciate the emotional attachment people have to products, or their emotional reactions to them—and think it's all about very specific product attributes."

One of the reasons customer-centric innovation is not applied everywhere is the existence in many firms of institutional barriers. The traditional functional organization model for innovation was aligned according to activities, such as R&D, marketing, and operations. Product developers and marketing employees do not work together often enough, so there is too little cross-pollination between the two disciplines. The use of cross-functional teams in product development is one way smart firms try to close the gap between technical know-how and customer understanding. At Hewlett-Packard, for instance, the company requires everybody on the team to go together to a prospective customer and hear the customer themselves.

The new forms of innovation are based on an intimate understanding of the customer.

The survey suggests that a company's overall approach to innovation, rather than the amount of time and money it spends on process improvements, correlates with the results obtained. Companies with an established process for continuous improvement coupled with periodic transformational initiatives had the best overall results and the highest level of satisfaction in the progress of their innovation initiatives. Still, some 40% of companies either have no formal process for improving performance or describe their improvement efforts as opportunistic or ad hoc.

lead sessions with different operations. GE is expanding its army of designers to bring businesses closer to customers. And Comstock is staging "dreaming sessions" where Immelt, senior execs, and customers debate future market trends.

What Can Marketing Do?

The new forms of innovation are based on an intimate understanding of the customer. Marketing needs to rise to this challenge. What is innovation after all, other than products and services that offer fresh thinking in a way that meets the needs of customers? No one in the organization knows the customer better than marketers.

The most effective product development and commercialization processes have always been based on a dynamic exchange of ideas and interests among engineers, marketing experts, and customers. Engineers, left to their own devices, often become so focused on solving technical problems that they overlook the ways in which the customer defines value. George Day, a professor of marketing at The Wharton School of the University of Pennsylvania, says, "I think the biggest problems occur when you

Step Up to the Plate

Marketing's job is to put the customer front and center for the whole company. The goal is for marketing to utilize customer input and insight to guide R&D, rather than waiting for the engineers to throw new products over the wall and then scrambling to sell them. The shift to marketing-led innovation is just beginning. No longer can marketing focus just on promotion, short-term efforts, and PR—it must accept new responsibilities for focusing the organization on customer value and innovation. As the demand for innovation and growth grows in the C-suite, so will the role of marketing. ○

Creativity and Quality

Jeff Immelt, CEO of General Electric (GE), inherited one of America's most successful companies. One of his major goals was to raise GE's average organic growth to 8% from the 5% of the past decade. The skills his predecessor Jack Welch prized—cost-cutting, efficiency, the continual improvement of operations—couldn't deliver that. Immelt needed to change the corporate structure and culture to spur creativity. He appointed Beth Comstock to the newly created position of chief

About the Authors

Lawrence A. Crosby, Ph.D., is CEO of Synovate Loyalty. **Sheree L. Johnson** is Synovate Loyalty's Global Director of Strategic Marketing.

To learn more, visit www.synovate.com/loyalty