

Innovation Doesn't Come from the Top or the Bottom: It Must Come from Customers

by Curtis N. Bingham

**CHIEF CUSTOMER OFFICER
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Curtis Bingham is the recognized authority on chief customer officers and the first to promote this role as a catalyst for competitive advantage. He is the creator of the CCO Roadmap, a groundbreaking work containing 100+ critical strategies essential for customer centricity. As an international speaker, author, and consultant, Curtis is passionate about creating customer strategy to sustainably grow revenue, profit, and loyalty.

There are a number of common misconceptions about where innovation starts. Some people believe that great leaders drive innovation. Others believe that the roots of innovation lie in pure research, unadulterated and unfettered by customer issues or complaints. Still others believe that innovation starts with employees and suggestion boxes. However, the landscape is littered with great leaders whose innovations didn't amount to anything or weren't sustainable (think Kodak, or Xerox) and the days of pure research are disappearing like the Bell Laboratories of yesteryear. The new reality is that innovation must start with customers. In this age, customers are taking control of businesses, setting their own agendas, and rewarding those companies that can adapt and better serve them. Chief customer officers, with their intimate customer knowledge, are uniquely qualified to proactively discover customer needs, wants, and desires and help the organization profitably deliver innovations.

Where *Doesn't* Innovation Come From?

There are truly great leaders who've redefined the product and competitive landscape, such as Akio Morita, one of the founders of Sony and the "father" of the Walkman; Steve Jobs with Apple Computer, the iPod, iPhone; Lou Gerstner of IBM; and others. However, the pages of Fortune and the Wall Street Journal are filled with far more numerous, other "great" leaders who've fallen into disgrace after being unable to consistently and reliably generate profitable innovations.

In addition, pure research laboratories such as IBM Research and Bell Labs are shrinking and disappearing. Once the domain of only the largest research labs, small businesses now own upwards of 35% of the world's patents. While at Bell Labs, I was dismayed at the insular arrogance of the Labs as engineers essentially said, "We know what our customers want—we told them so!" Customers were considered beneath them, and it showed in the company's rapidly eroding bottom line. Pure R&D, unadulterated by customer issues, cannot be a sustainable source of revenue-driving innovation.



Employee innovation programs are only marginally better than pure research in that with some exceptions, they are focused internally on improving operational performance rather than breakthrough technology that simplifies customer business processes and enhances customer profit models.

Marketing has traditionally focused on building a brand, creating an artificial need, or creating awareness in hopes that they'll catch a prospect during their purchase cycle. Those days are over. Brands are dead, needs are too expensive to create, and simply hoping to catch someone with a well-timed message is ludicrous. Brands used to serve as a proxy for detailed, analytic product information that was unavailable in times past. In this Post-Information Age, or the Age of Access, consumers have far more detailed product information available to them from companies, reviewers, users, and even competitors. With this overabundance of information and trusted recommendations, there is no need for the brand except as an affinity marker or community alignment tool.

The Root of Innovation

If innovation doesn't come from strong leaders, properly schooled employees, behemoth think-tanks, or from outward-bound marketing, where *does* it come from?

Peter Drucker said, "The purpose of a business is to create and keep a customer." If your purpose is to get and keep profitable customers, shouldn't your primary source of innovation be your customers?

It is no longer possible for any company to simply develop a new product based on some cool idea and throw it over the wall in hopes that marketing and sales can figure out how to create a need in someone, somewhere. Competition is too intense, customers are too demanding, and profit margins are too thin for this kind of mistake.

In short, the customer rules.

Employees are great at recognizing opportunities that customers present. Great leaders are those that recognize innovation when they see it and properly fund and commercialize it. R&D is uniquely qualified to find ways of developing profitable solutions to well-defined customer issues and opportunities. Marketing must be the facilitator of all of these; ensuring the firm's value chain begins and ends with the customer, earning significant profits from start to finish.

How Do We Leverage Innovation?

Proctor & Gamble's senior leaders recently realized that there was no way they could maintain their growth targets with their "Not Invented Here" syndrome because doing so would require the company to grow by \$4 billion each year. Instead, they realized that their goal should be to be the best at understanding their customers. Through their "Connect + Develop" program they're fueling growth by purchasing innovations from networks of smaller companies from around the world that uniquely and profitably satisfy customers and enhance their experience.

To effectively leverage innovation to fuel customer-centric growth, companies need to do three things:

1. Develop and regularly refresh an extraordinarily deep understanding of customers' needs, wants, desires, and attitudes regarding their products, services, and the company itself
2. Assign executive champions for innovation initiatives
3. Create a unified process for identifying and qualifying new opportunities for products, services, markets, or segments

An Extraordinarily Deep Customer Understanding

It isn't too hard to find out what customers need, want, and are willing to pay for. In fact, it is quite the opposite. Customers are demanding to be heard. If you search the web for aberrations of many company's names you'll invariably find sites that customers have set up to voice their opinions (e.g., citibanksucks.com).

Unfortunately, not nearly enough companies make sufficient effort to develop this level of customer insight, choosing instead to operate "from the gut", or rely upon outdated 3rd-party research.

One of my clients, a major financial software vendor, thought its customers were insanely price sensitive. However, in talking with those customers, I found a large and easily identifiable segment that truly valued the vendor's products and were willing to pay double and even triple its current rates. In addition, I also discovered an important business need in the market for a product that they had previously thought to be very low value and were considering just giving away for free.

To effectively listen, you must speak with and learn from customers, vendors, partners, and others wherever they can be found. You need to scour the social web, forums, and user communities to woo lead users, bloggers, exemplars and advocates who can meaningfully contribute to your growing body of knowledge.

Of course you need to solicit information about product issues but there is far more than that to be gained. You must delve deeper into customer attributes, perceptions, dissatisfiers, and business processes in order to quantify, justify, and defend the value you provide and fortify their purchase and retention drivers, as well as to discover new, profitable opportunities.

The CCO Roadmap (<http://www.ccocouncil.org/site/cco-roadmap.aspx>) identifies innovation as one of the key responsibilities of the CCO. The chief customer officer (CCO) is uniquely qualified to identify, evaluate, and refine customer-centric innovations to ensure the greatest success. World-class CCOs have at their fingertips data identifying the most valuable and profitable customers whose needs are most important to consider. In addition, these CCOs have the strongest B2B customer connections and the greatest B2C credibility to garner participation in customer listening activities that discover, test, and refine innovative ideas. Leveraging their in-depth customer understanding, CCOs can effectively ground the most promising innovation efforts in reality.



Assign Executive Champions for Innovation Initiatives

As mentioned before, great leaders are those who can recognize significant innovation and successfully evaluate it, vet it with customers, and commercialize it. Executive leadership alone has the ability to understand potential, forswear risk, fund great ideas, and remove obstacles. Companies must create executive-level support for well-qualified initiatives so they see the light of day and have a chance to contribute to the company's bottom line. As well, these contributions must be formally measured and rewarded to ensure that the desired results are achieved.

A Unified Process to Qualify New Opportunities

With the seemingly unending supply of new business opportunities, how do you go about evaluating them all to determine which ones are viable? For Proctor & Gamble, the process was relatively straightforward: it identified the five biggest customer issues for each its divisions and then spent time with key customers to identify the desired experience around each issue. It then began to source solutions from innovation marketplaces, evaluating each according to potential profit contribution, strategic fit, and overall improvement to the desired customer experience.

While your process may be different, the most important thing is to ensure that there is a unified process that everyone in your organization understands and can follow.

Conclusion

Innovation may be incremental. It may be transformational. Regardless of which, it is clear that sustained, profitable innovation comes from customers. Those companies that strive to intimately understand their customers' needs, wants, and desires and profitably satisfy them better than their competitors are those who will win in the customers' eyes and in the marketplace.

Let your customers guide your next strategic move so you can grow profits as you attract more of the best customers and keep them longer.*

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About CURTIS N. BINGHAM

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About THE CHIEF CUSTOMER OFFICER COUNCIL

The CCO Council is a powerful and intimate gathering of the world's leading customer executives from widely diverse industries. The Council helps executives achieve objectives faster and more easily by leveraging best practices. It helps validate and refine strategies and initiatives to avoid experimenting at customer expense. Membership is by invitation only, and purposefully cross-pollinated with the most forward-thinking companies, large and small, so as to help customer executives deliver solid, customer-centric business results. For more information, email info@ccocouncil.org or call 978-226-8675.



Powerful Influence on Customer Centricity – *Authority is the currency of the C-Suite. Greater Authority means greater ability to influence the organization to take a desired action. So how do you increase your authority and better use the authority that's been granted to you? How can you build stronger relationships and demonstrate and communicate results? In this **Bingham Advisory**, you'll not only learn about the three types of chief customer officer authority: Positional, Borrowed and Earned, you'll also learn five ways to borrow and four ways to earn greater authority, with specific examples of each.*

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