

# Innovation in Marketing: Customer Insight at the Core

By Susan Abbott of Abbott Research & Consulting for Schulich Executive Education Centre, Schulich School of Business, York University. Roundtable discussion moderated by Alan Kay of The Glasgow Group and Rick Wolfe of PostStone.

This is one of a continuing research series that has been bringing senior managers and executives from diverse sectors together to uncover the best practices in managing innovation.

## Executive Summary

Marketers see deep customer insight as a core process that can drive innovation in an organization. Translating this insight into innovation also requires having organizational alignment on goals, and an organization that supports effective cross-functional work.

For business-to-business marketers, deep customer knowledge can provide the basis for choosing which customers to focus on, as well as unlock opportunities to create new value for the customer through innovation. Customers assume risks by buying innovative products. For businesses, these risks can be quite substantive. Marketers can reduce the barriers to adoption by reducing the risks to customers.

Some businesses are working to innovate by becoming “greener”, a complex challenge because of the difficulty in evaluating environmental impact over a product’s lifecycle. The desire for environmentally friendly products has been largely driven by members of the public and employees, and is not necessarily a driver for business buyers.

## Does marketing have tunnel vision?

For the marketing function to be innovative, they need to look first at how they define their mandate, and then seek deeper insights into the whole customer.

Marketers struggle to be innovative when they define their role or field of competition too narrowly. One executive on our panel gave the example of thinking about “share of stomach” instead of “share of candy bars”. By defining the market space more broadly, marketers can think more about the whole customer, and all the issues that relate to “stomach” rather than just the product context, “candy bar”.

*“One alignment you don’t see very often is alignment between sales and marketing and HR. We in sales and marketing have a view of our customers and potential customers. How are you going to take that view deep into the organization?”*

## “Reframing the content” to find opportunities

Several good stories of broadening the context for a consumer product were raised.

A candy manufacturer was frustrated by the loss of market share during key holidays, such as Christmas and Easter. Sales experienced seasonal drops as consumers shifted their buying behavior to seasonally oriented confections. The obvious solution took the organization some time to reach: that the brand needed to expand into offerings that addressed seasonal buying patterns.

Another example related to gift giving in China, for a coffee machine manufacturer. Several elements in the environment created an opportunity:

- The importance of gift giving in the culture
- The desire for beautiful packaging for gifts including red and gold colors
- The high status of coffee and luxury-priced coffee shops

The organization was aware that consumers used their machines as gifts, but had never developed a package designed to facilitate this. When they did, it was very successful in expanding the market.

### *Address customer pain to innovate*

By understanding the frustration their customers had in redeeming Aeroplan reward points for air travel, the Royal Bank was able to introduce the successful Avion Visa card to compete effectively with the dominant CIBC Aerogold card.

## Is every customer worthy of innovation?

Some marketers believe that every customer segment can be a profitable segment if the customer is well understood in the broadest possible context. Others believe some customers will never be profitable and that the best strategy is not to innovate to serve them, but to benignly neglect them or outright fire them as customers.

## Deep understanding essential in business marketing

For business-to-business (B2B) marketers, a deep understanding of customers may be even more critical than for consumer markets. While some businesses segment largely based on industry or size of

*"We have the database, but it's the intimacy quotient thing that is missing."*

relationship, others are able to find important distinctions based on value, strategy and culture of their customers.

One panelist described this as understanding what creates value for your customers. Sometimes players in the same industry and of similar size have widely divergent views of value. Some are very interested in innovative approaches, where others are more focused on reliable delivery at a low price.

*How is value created? There are different types of value – economic value in their language and profit. But there is also personal value, things that have better processes, better service, insurance, or guaranteed service delivery. You have to understand value from their perspective. I ask that question more than any other, before I go to a customer meeting. What creates value in your business?*

## Customization drives relationship management in B2B

Because the value creation strategies and organization cultures are not identical even in one industry, a deep understanding of how value is created can open up opportunities.

Although customization tends to be more characteristic of B2B than business-to-consumer (B2C) interactions, companies differ in how much customization is worth to them.

One example used was the creation of innovative media strategies for advertisers. These strategies can require significant levels of integration and time investment on the part of the supplier, but are not equally valuable to all clients. And all clients do not want it. Instead of trying to refine customized strategies for an entire marketplace, organizations need to carefully identify where this effort will be valued, and focus their resources on those opportunities.

## Systematization of customer intimacy: the "intimacy quotient"

The level of customer understanding required to make these decisions typically far exceeds what is captured in databases. Our executive panel tended to agree that this implicit knowledge is often at risk when the person who possesses it departs for any reason.

One panelist described this as the "intimacy quotient". The type of customer knowledge that permits innovation is often difficult information to categorize in a database. The database may contain

*"I spoke with one manufacturer who said, 'we lose so many sales around Christmas and Easter because people are buying other things, like Easter eggs'. So I said, why don't you have solutions for those occasions? They said, 'no we cannot do that.' They have since done it."*

information about every e-mail, every sale, and every appointment, but lack the information about client motivations, likes and dislikes.

*If a key person were to leave tomorrow, you would not get a handle on his key relationships. ... What are their pushbuttons? What do they like, dislike? We don't know. We don't have a clue – he knows.*

While a research effort into all prior customer communications might reveal this learning, panelists could not see most people making the effort to do this, and wishes for a "snapshot" for each client.

*I guess you could look at all the e-mails and figure it out but there is really no snapshot. ... I know we had some turnover in the U.S. and to get a new person up and running. How can you go to a design firm in Chicago, for example, and know if it's worth pursuing or not without knowing the nitty-gritty details. There is no summary page.*

In consumer marketing, modeling tools are available to assist in evaluating which customers warrant the investment in direct marketing offers. These tools either don't exist in B2B, or are very ad-hoc tools that are created by individuals to meet their own needs.

## Innovation in communication

New communication tools are creating opportunities for innovation in several domains. For marketers, there is the opportunity to create new forms of marketing communication through media as different as television and web-logs, more commonly called blogs. But these new communication tools also create process management opportunities.

*I'm seeing a lot of innovation in the way information is disseminated. We are looking at the evolution of social networking and looking for ways to bring it into a large staid corporate culture.*

The emergence of social media on the internet through tagging and social networking tools is opening new possibilities for managing and disseminating information, both inside the organization and outside.

## "De-risking" your customers

Customers are not always ready to try a new company, new product or new building materials. Trying something new entails risk on several dimensions, especially in business-to-business purchasing environments.

*"The department that I manage is the 20% that requires 80% of the work. Its got the largest potential for growth but it's a struggle every day because every product is going to be new. There's nothing cookie cutter about what we do. Frankly I love it; I love the pain of that".*

New and innovative building materials, such as bamboo-based materials present a good example of the challenge. A designer may incorporate these materials into a design, only to find resistance from the builder and trades people that are unfamiliar with the materials. If the new materials cause delays or wastage, the cost of assuming these risks typically falls to the trades. The process of education, at a minimum, needs to be carried by another party in the economic value chain.

Our panel observed that there are few easy ways to aggregate and distribute this kind of risk on a portfolio basis, as there is with financial instruments such as insurance contracts.

Taking the risk out of a new situation or product or type of purchase can help remove barriers to purchase for innovative products and services.

## Green products in demand, but difficult to evaluate

Some of our panelists' organizations have invested considerable time and resources in evaluating the environmental impact of their products and substrates. While they observed that clients definitely were interested in environmental impact, finding clear metrics and improvements is not at all straightforward. Some of the challenges mentioned:

- Going back far enough in the value chain to assess impact of harvesting, manufacturing and shipping the product, it's components or the raw materials
- Going forward far enough in the value chain to assess impact of disposal of the end product
- Evaluating impact during use of the product, such as from maintenance activities
- Evaluating a given product or material against the next best (or the current baseline) alternative. For example, a paper cup versus a china cup, where the inputs over the lifecycle vary significantly.

For some segments of business buyer, environmental impact is much less important than overall price and distribution considerations. Most of the environmental push is coming from employees inside the company, or from members of the public, not from business buyers per se. Executives are looking for ways to innovate to reduce environmental impact as a way of differentiating themselves, but have not yet found this approach a powerful competitive strategy.

*“Does it mean better service for the client or does it mean we’ve just moved the desks around facing east instead of west?”*

*“At some point it will change— paper, plastics, something’s going to change there. I think it will be driven by growing awareness by the consumer of the environment.”*

## Corporate structures can be a barrier to innovation

Having good customer insight processes in place doesn’t necessarily translate to a customer focus in terms of product creation and distribution.

Siloed corporate structures that are built around products can present barriers to the conversion of customer insight into innovative end results. Working across the organizational structure to integrate all the components needed to meet customer needs in an innovative and profitable way takes time and executive involvement. Organizational processes, culture and evaluation structures are not always conducive to cross-functional work.

*Most people take customer insight and try to ram it through a products infrastructure rather than working through all the components in how we deal with a customer and re-engineer companies into segments that are highly profitable.*

From a marketing perspective, multi-line consumer products and services companies can only become more innovative when they start to bring innovative thinking to internal processes and cross-functional work.

The merits of organizing by customer segment instead of product are believed by some marketers to create a significant improvement in customer focus. Others believe that reorganizing around customer segments, at least as an isolated strategy, often has no meaningful impact on the customer’s experience.

## How committed is the organization?

For an executive to lead a significant change effort around innovation, he or she needs to have some real confidence that there is executive commitment, beyond lip service. One panelist suggests that genuine commitment is only demonstrated when specific individuals can be named as involved in the change effort, and can discuss how they are supporting the effort, and what resources they have committed to it.

*You’ve got to find out who the key decision makers are, how decisions are made and what their vision is toward the future. There are enough people there in the right positions that know*

*“There may only be – depending on the culture of the organization – there may be only 1% of the population or 20% of the population. But there is a percentage of the population that wants to innovate and they will come from all walks of life.”*

*the survival of the organization depends on their ability to change. I met with those people and they were totally committed and they were building resources.*

## Alignment in the organization

Organizations that have weak alignment between functional areas tend to lack the capability to create major innovation, because the resources have different – sometimes competing – missions. For the marketers, a traditional locus of this misalignment is between sales and marketing, and sometimes human resources.

The human resources function has more ability than other functions to look across the organization and foster alignment, including, among other things, the hiring strategy.

*If you go into finance they are talking balance sheets. If you walk into operations, they are talking units or some other measurement. But HR is talking to everybody or has the ability to talk to everybody in their language and bring to them the value of the customer. And they hire for all the departments. What they can do for you is – they can put up on the screen when they are looking for people in finance they want sensitivity to the customer not just a passion for the numbers but a sensitivity to the customer.*

## What helps

The external environment can be a major force for change. One example mentioned is CBC, where the shift towards measuring audiences and measuring revenue represents a profound change in the decision making values of the past. Translating that change into the routines of every day is still a challenge because of the magnitude of the shift.

In some industries that are very stable, engaging people in change can be challenging, as there is no immediate need and perhaps no obvious payoff.

Executives believe that linking individual passion for what people enjoy and love in their work with the economic benefits of innovation can be a productive strategy.

*If you can link their passion for doing what’s right for the customer with the economic model, that’s where you’ve got possibility.*

*“Don’t just focus on your business, but try to understand the whole customer”*

To sustain their own energy and motivation, executives find it helpful to locate others in the organization that want to innovate. By working together with these others, it is easier to seed new ideas and grow the seeds of innovation in the most fertile ground.

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For more information about the Business Pulse Project on Innovation, please contact Alan Middleton, PhD. or Elaine Gutmacher at Schulich Executive Education or any of the research partners listed above.

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## Resources mentioned by panelists included:

- “Intelligence in War: The value – and limitations – of what the military can learn about the enemy”, by John Keegan, Vintage, 2004.
- “Intelligence in War: Knowledge of the enemy from Napoleon to Al-Qaeda”, by John Keegan, Knopf, 2003.