

Customer Driven Innovation

April 5th, 2006

Janet George

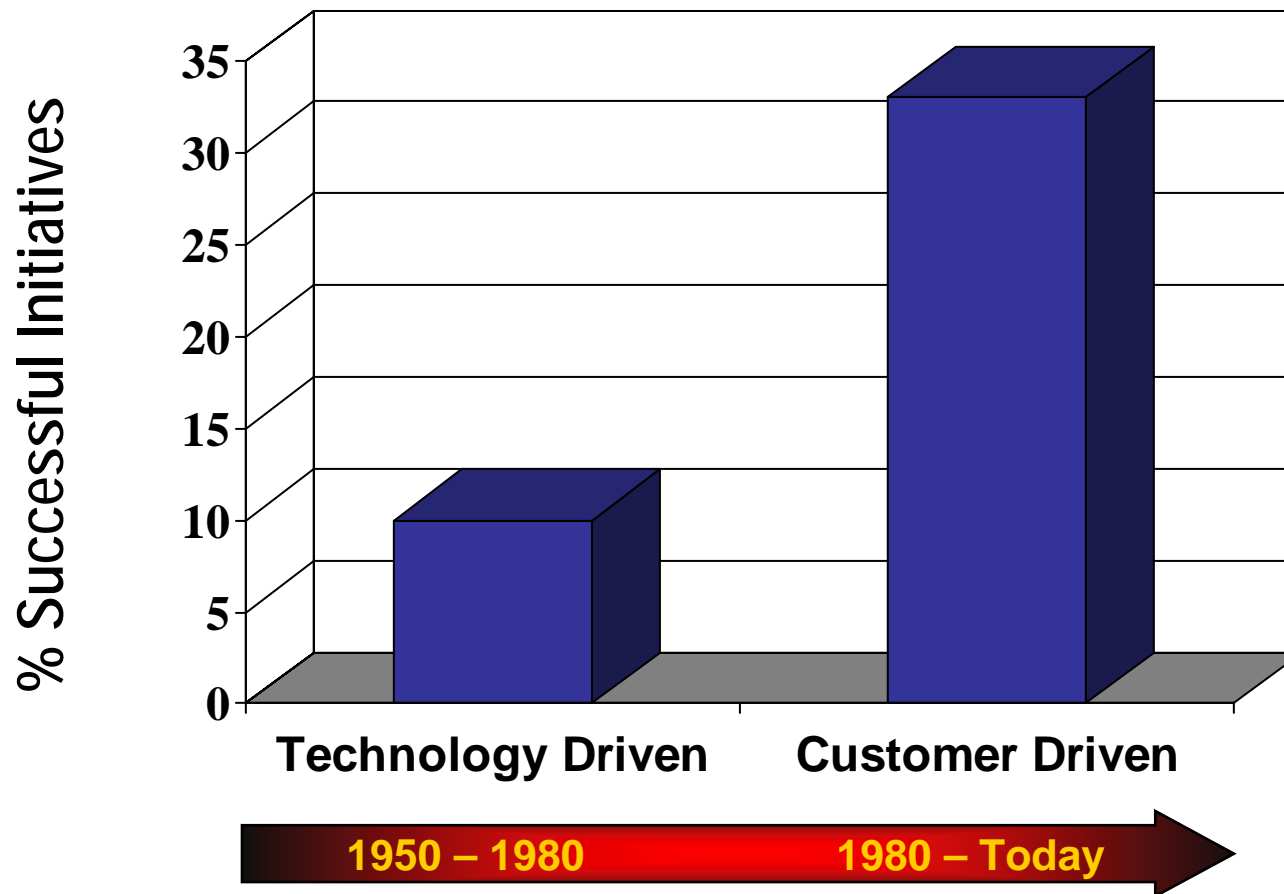
Agenda

- **Background of Innovation and Evolution**
- **Four Steps to Outcome Driven Innovation**
- **Jobs, Desired Outcomes, Process Steps and Constraints**
- **Outcome Based Segmentation**
- **Building Product Strategy, Portfolio and Road Map**
- **Market place co-evolution and co-creation of value**
- **Close**

Background of Innovation and Evolution

Background and History

The Evolution of Innovation



Source : Strategyn Inc,

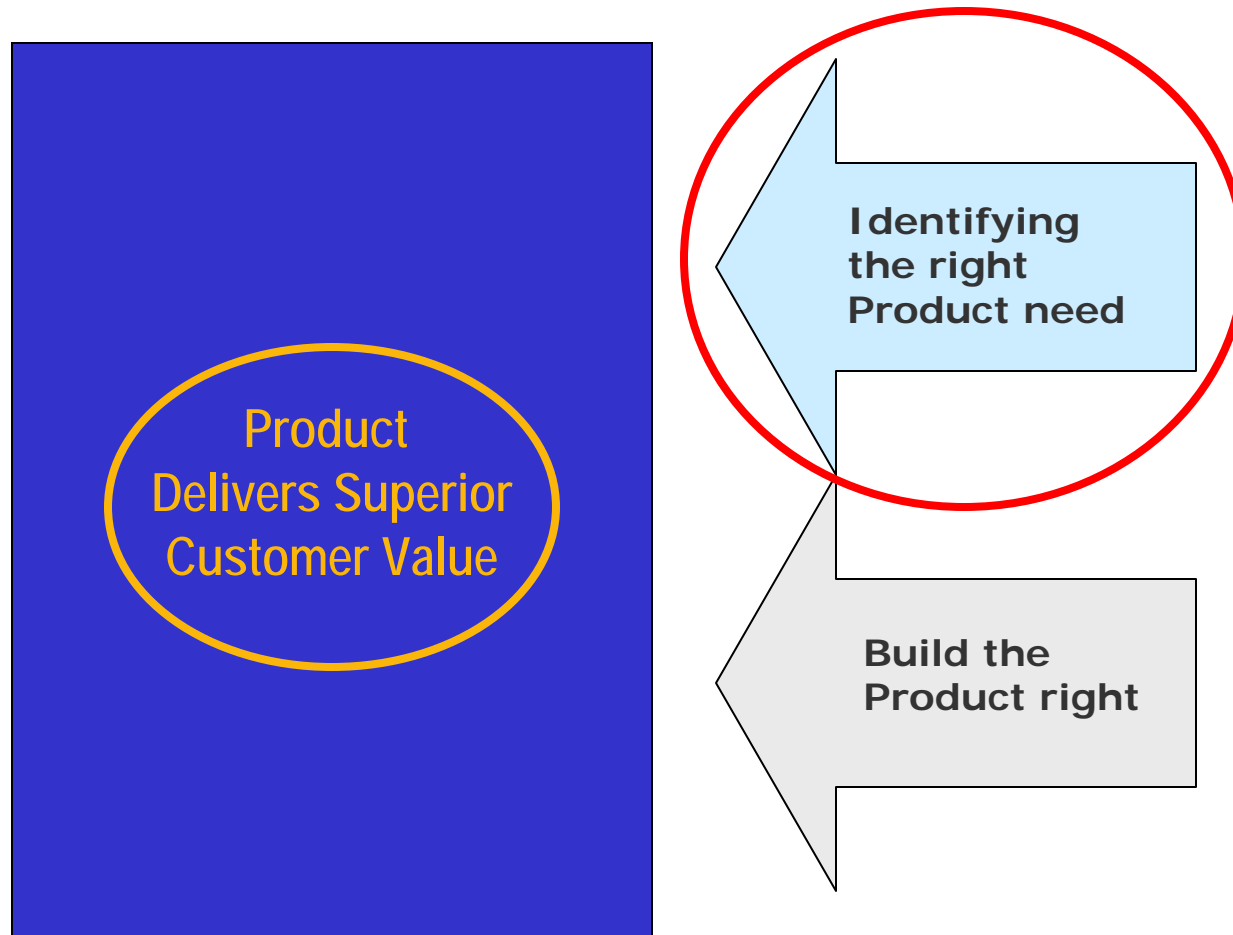
Evolution of Innovation

- **Innovation is often seen as**
 - Piece of “Magic”
 - Personal Inspiration
 - Serendipity at work
- **Innovation is more of a conscious structured approach to analyzing the market for business opportunities.**
 - Technology is not always the main driver.
- **Innovation has three requirements**
 - Strategy
 - Process
 - Culture
 - Skill set

Customer Driven Innovation
Outcome Driven Innovation
Market place co-evolution
Co-creation of value

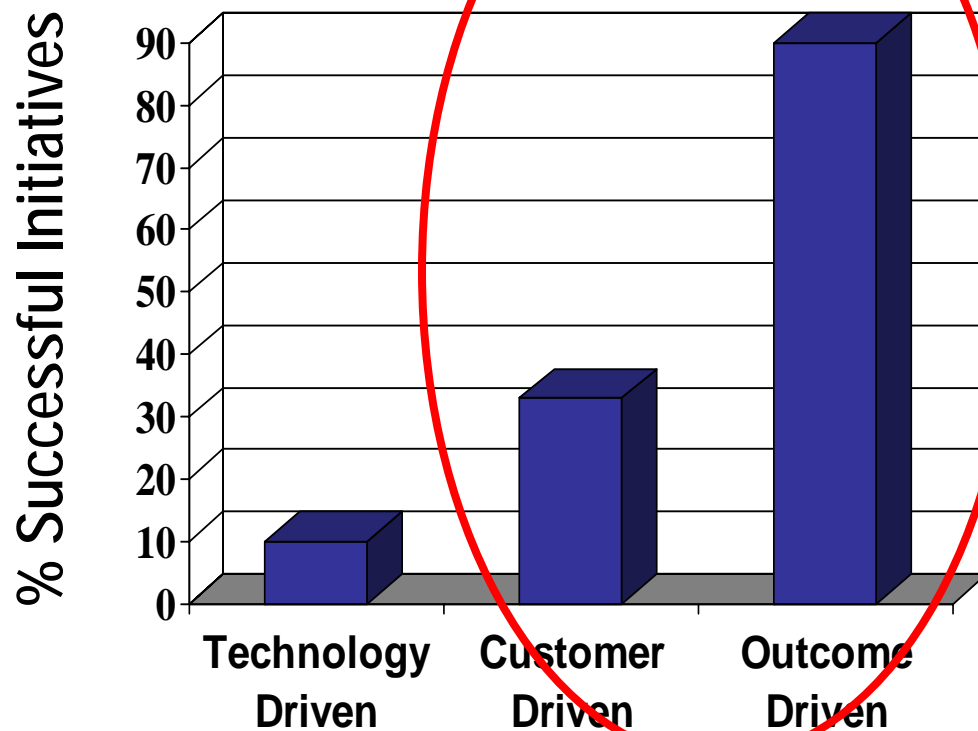
Customer Driven Innovation

Outcome Driven Innovation Focus



Outcome Driven Innovation

The Evolution of Innovation



What is outcome-driven innovation?

It focuses a companies actions and activities toward satisfying the outcomes customers are trying to achieve.

1950 – 1980

1980 - 2000

2000 - ?

Source : Strategyn Inc,

What is Outcome Driven Innovation?

■ Outcome Driven Innovation

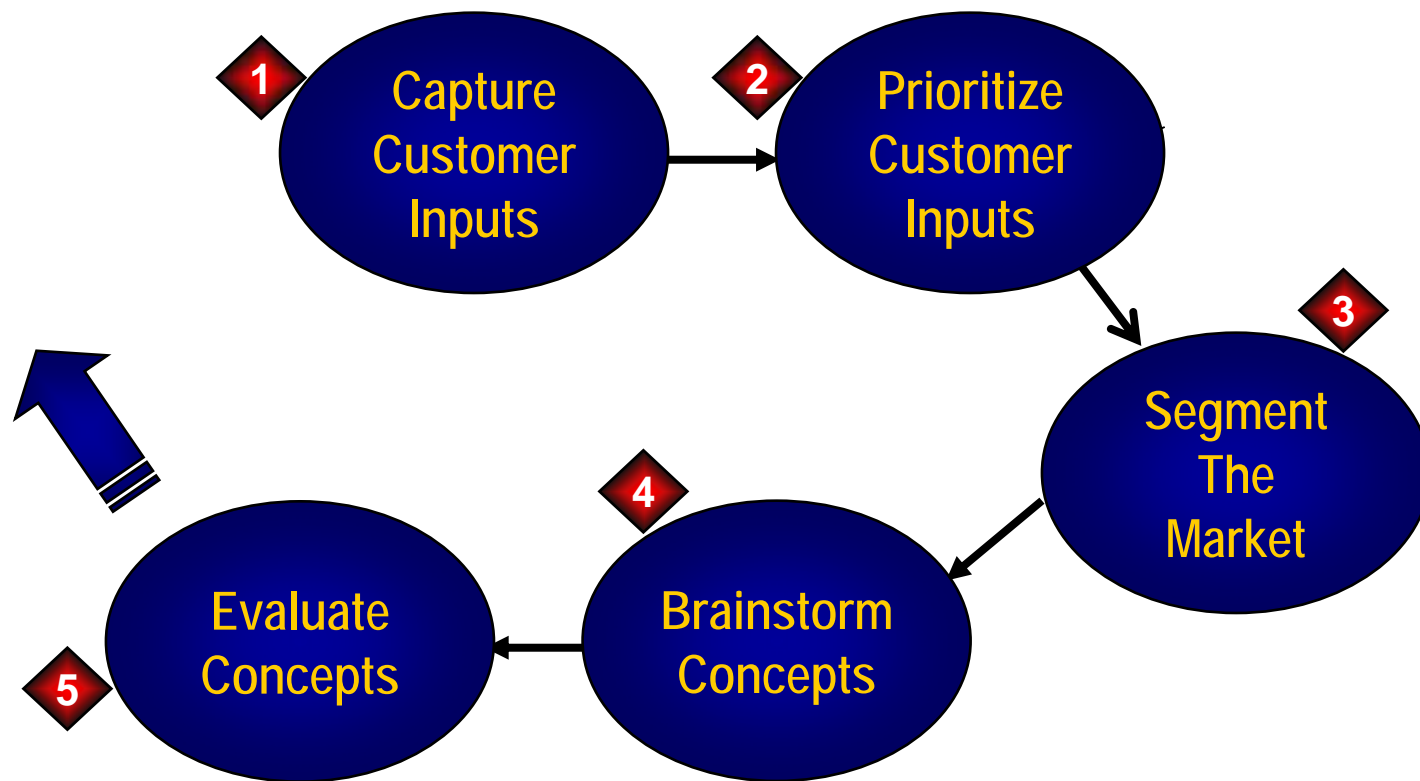
- Helps to understand how customers measure value
- Helps to successfully predict which ideas will succeed and which will fail
- Value of an Idea is quantifiable.
- Uses a measurement system that is based on customers, measures of value.

Customers use a set of Metrics – Measures of value called “Desired Outcomes”

Outcome Driven Innovation transforms innovation from a art to a science

Outcome Driven Innovation

Outcome-Driven Innovation Methodology



Source : Strategyn Inc,

Innovation Statistics and Data

- **6 in 1 Million** ideas or concepts becomes a successful business or successful company
- Bankruptcies occur for **60%** of high tech companies that succeed in getting venture capital
- Mergers and liquidations occur in **30%** of start-up companies.
- **10%** of start-ups that succeed compensate for the other **90%** of the companies in the venture capitals investment portfolio.
- Having a talented CEO greatly increases the chances of the success for the startup.
- Portfolios are returning **4 or 5%** on an average in the venture business, versus expectation of 100%

Source : Venture Finance

Concept/Idea versus Execution

- Ideas are worth nothing unless executed. Execution is worth millions.

Explanation:

- *Awful Idea = -1*
- *Weak Idea = 1*
- *So-So Idea = 5*
- *Good Idea = 10*
- *Great Idea = 15*
- *Brilliant Idea = 20*
- *No execution = \$1*
- *Weak execution = \$1000*
- *So-So execution = \$10,000*
- *Good execution = \$100,000*
- *Great execution = \$1,000, 000*
- *Brilliant execution = \$10,000,000*

Ideas are easy. Execution is hard.

In the real world Ideas only get funded if the entrepreneur has a history of execution.

Challenges?

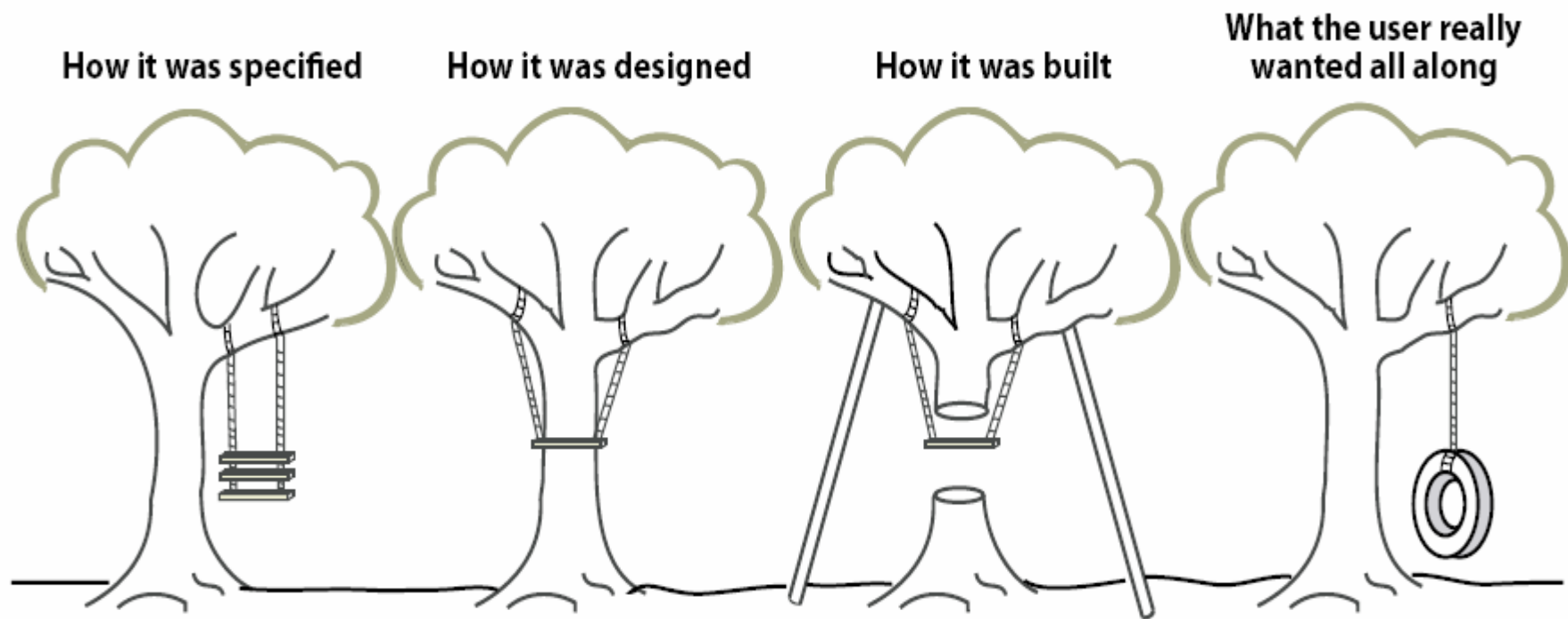
To make a business, you need to multiply the two.

The most brilliant idea, with no execution, is worth \$20

The most brilliant idea takes great execution to be worth \$200,000,000.

The Understanding Gap

Figure 1 The Understanding Gap



Source: The origin and appropriate attribution of this cartoon are unclear: It is widely repeated on the Internet and in presentations in a number of variations.

Source: Forrester Research, Inc.

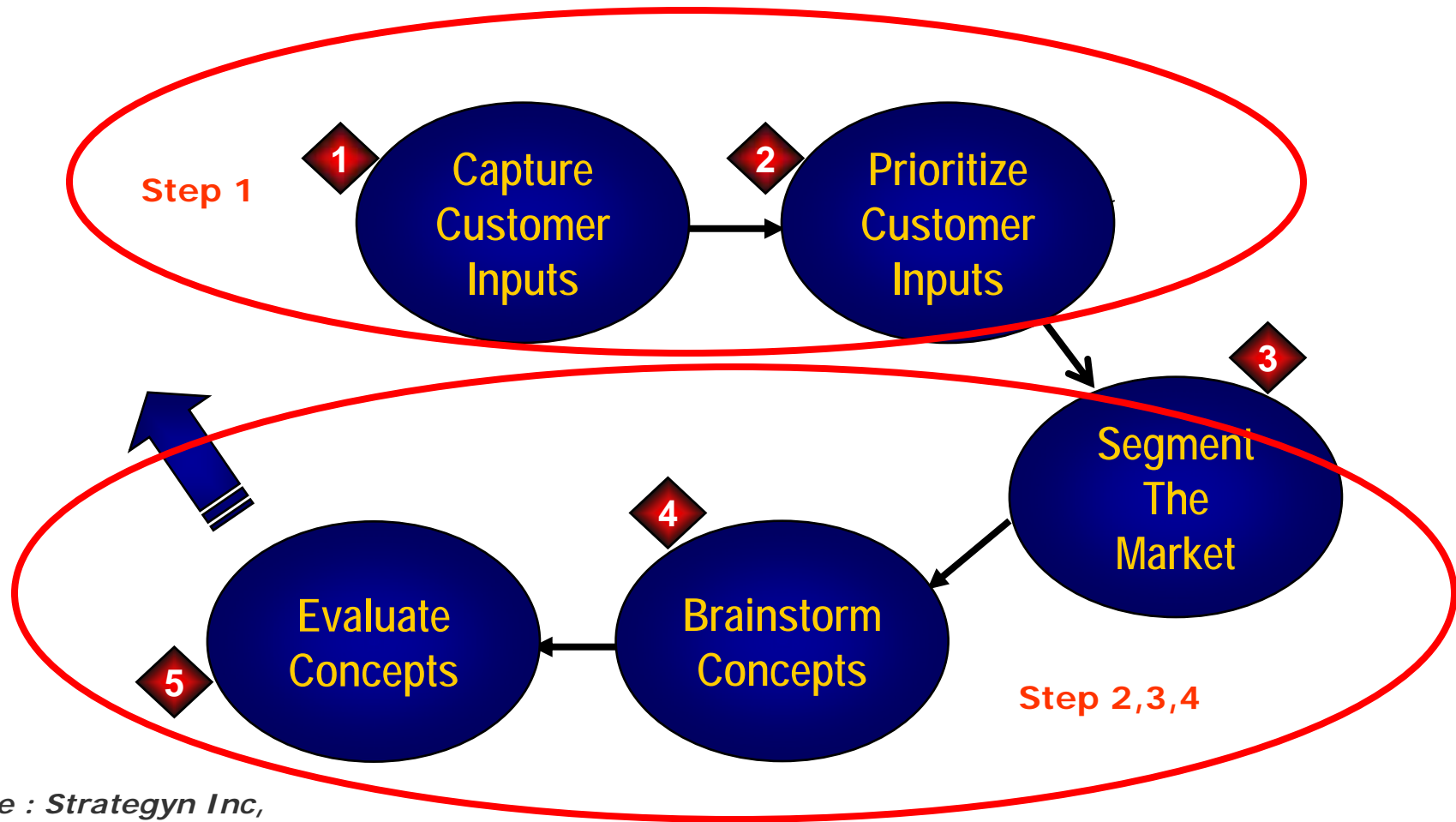
Four steps to Outcome driven Innovation

Four steps to outcome driven innovation

- Step 1 Capturing and prioritizing Desired outcomes
- Step 2 Evaluating alternate ideas and solutions
- Step 3 Quantifying a solutions overall value
- Step 4 Generating ideas, identifying the most lucrative that is worthy of pursuing

Outcome Driven Innovation

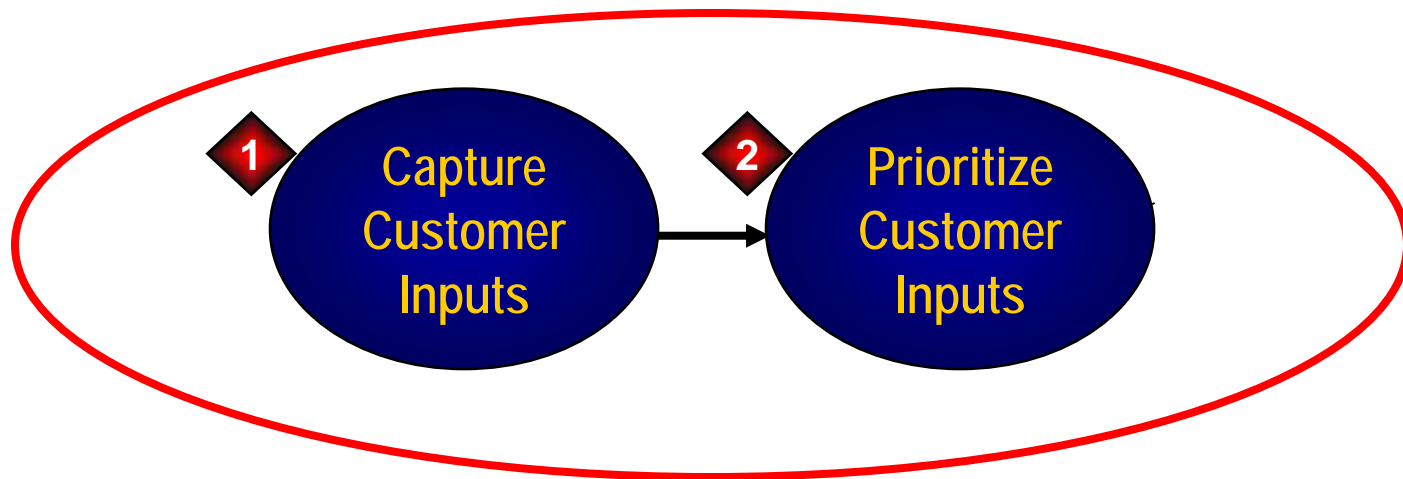
Outcome-Driven Innovation Methodology



Source : Strategyn Inc,

Capture Customer Inputs

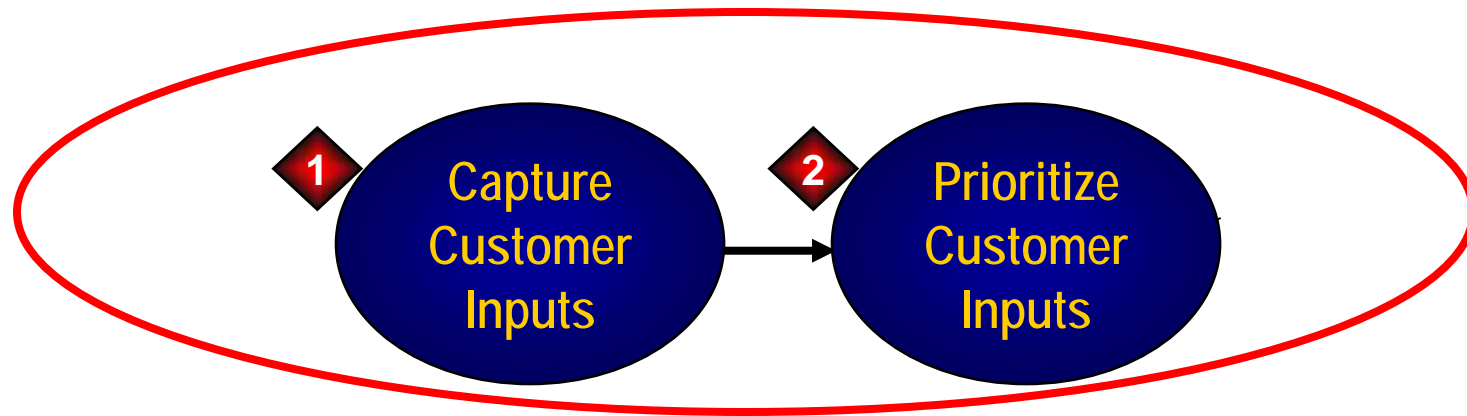
Step 1 Capturing and Prioritizing desired Outcomes



Understanding customer outcomes is mandatory for the innovation process

Capture Customer Inputs

Step 1 Capturing and Prioritizing desired Outcomes



Observable behavior : Behavior which can be noted through one of the senses, (seen, heard, tasted, smelled or felt) usually described by action words, doing, writing, searching, listening.

Measurable behavior : Is a bit more complicated. In order to be measurable it must first be observable, in addition, the observer must be able to clearly determine whether the behavior is occurring, count the occurrences of the behavior and/or time the duration of the behavior.

Why can't we just ask the customer?

- Get customer requirements?

School of thought 1 : All innovations start with conversation, observation, and understanding of the customer (current or potential) with the goal of surfacing and then filling the unmet need. Conversations with customers to “think ahead” and get them to imagine possibilities and cultural anthropology helps to “find a need and fill it”

School of thought 2 : Customers don't know what they need, at least until they see it, and sometimes a need doesn't even exist until a solution is available to fill it. True understanding of a problem such as a need only emerges in parallel with, and codependency with, awareness of possible “solution” or approaches.

Customer Driven Innovation

TOOLS

Jobs, Desired Outcomes, Process steps and Constraints

Customer Driven Innovation

What is it?

■ Jobs

- Job is what customers hires a product or service to do.
- Primary jobs, Supporting jobs and Ancillary jobs

■ Process Steps

- Aid in Methodical gathering of desired outcomes.

■ Desired Outcomes

- Criteria customers use to evaluate different solutions for a given job or set of jobs.
- Structured as a true Metric or measures of value.
 - A direction of Improvement (Minimize or Increase)
 - A unit of Measure (Number, time, Frequency)

■ Constraints

- Roadblocks that stand in the way of performing the job altogether.

50-150 Desired outcomes are used to measure value of a product or service

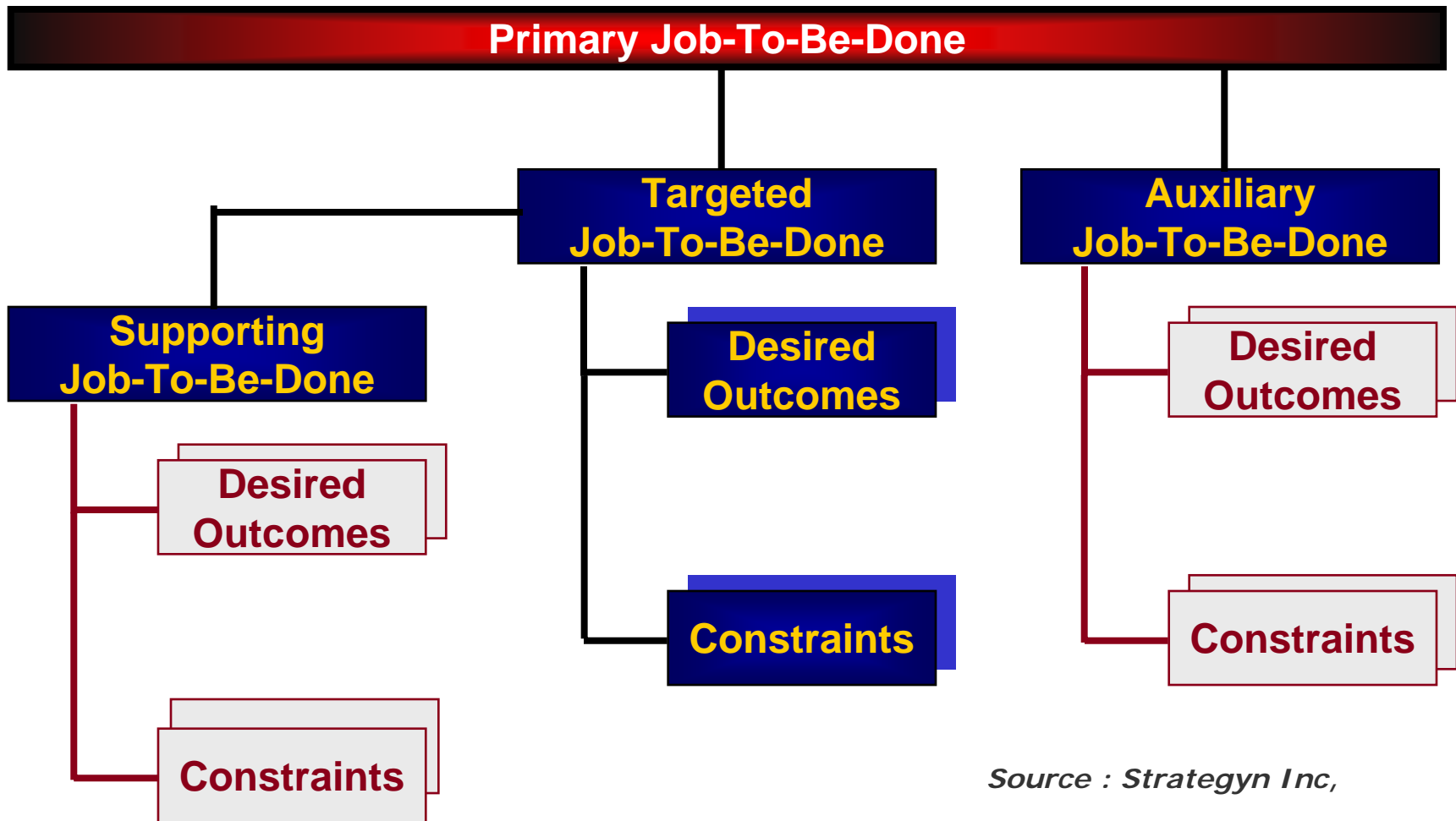
Products with 3% or more of incremental value will fail

Products with 5-10% of incremental value will maintain the market position

Products with 25% of incremental value creates dramatic, break through solutions

Primary Jobs

Process Step1 Step2 Step 3 Step 4



Source : Strategyn Inc,

Customer Driven Innovation

Case study of Cell phones – Jobs and Outcomes Methodology.

Primary Job

Stay Connected

Target Job

Ancillary Job

Other Ancillary jobs:
Obtain driving directions
Text messaging.
Ability to photograph

**Supporting/
Secondary Job**

**Make phone calls
on the move**

Play Games

**Store names and
phone numbers**

Increase
likelihood of auto
dialing

Inability to easily
punch in names
and numbers

Increase likelihood of
staying connected
anytime, anywhere

Inability to use
cell in certain
buildings

Minimize the
likelihood of
boredom at idle time

Limited battery
time

Other Desired Outcomes :
Minimize the likelihood of errors while dialing.
Minimize the time to power up.
Minimize the likelihood of dropping calls
Minimize the likelihood of phone breaking when dropped.

Key learning's

- **Primary Job** **(ALL JOBS ARE NOT EQUAL)**
 - Understanding the primary job or jobs that customers are trying to get done when using a product or service is critical.
- **Supporting Jobs**
 - Supporting jobs are **executed in conjunction** with the primary job.
 - Often helps gain dominance e.g. Apple ipod & itunes
- **Auxiliary Jobs**
 - Often has the potential to **identify tremendous growth opportunities**
 - Often has the potential to create the **"WOW"** factor.
 - E.g. Beverages – Satisfy thirst and get vitamins.
- **Constraints**
 - Roadblocks to success.
 - Often stands in the way of customers using a product to do a job.
 - Often prevents users from executing the job altogether.
 - Prevents use of product under certain circumstances.

Constraints that prevent customers

1) Gaining full utility

2) Using a product altogether – Represents Significant opportunities for Growth.



Finding new ways to **overcome constraints** creates excellent opportunity and generate massive new growth.

Getting to a Job

- **Q – What do you do when you have a health situation?**
 - A I go to the doctor.
- **Q – What do you hope to accomplish when you go to the doctor.**
 - A Get information, knowledge or a cure for my health situation
- **Q – What does it mean to get information, knowledge or a cure your health situation?**
 - A Understand the symptoms of my condition and what I need to do to get myself cured.
- **Q – What do you hope to avoid by going to the doctor?**
 - A I hate being sick or to die or not knowing what health problems I am having.
- **Q – Why do you hate being sick?**
 - A Because I want to be/stay healthy and have a prolonged life.
- **Q – So you are trying to determine how to be/stay healthy [paraphrase]**
 - A Yes

Job: Determine How to Stay Healthy

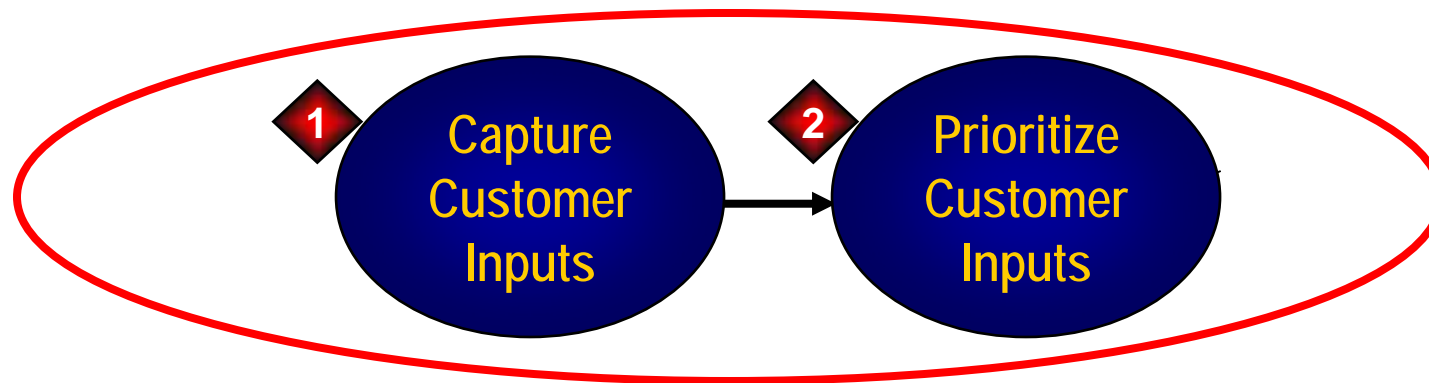
Capturing Inputs from the Customer

- Get out there in front of the customer and learn
- Requires asking the right questions to get the right inputs.
- **Ask neutral questions. No leading questions**
 - E.g. "Wasn't that easy?" — 
 - E.g. "Tell me about that" — 
- Leave opinions, assumptions and biases behind
- Probe and listen, listen, listen.
- Ask why a lot.

Capture Findings – Memories are unrealizable

Capture Customer Inputs

Step 1 Capturing and Prioritizing desired Outcomes

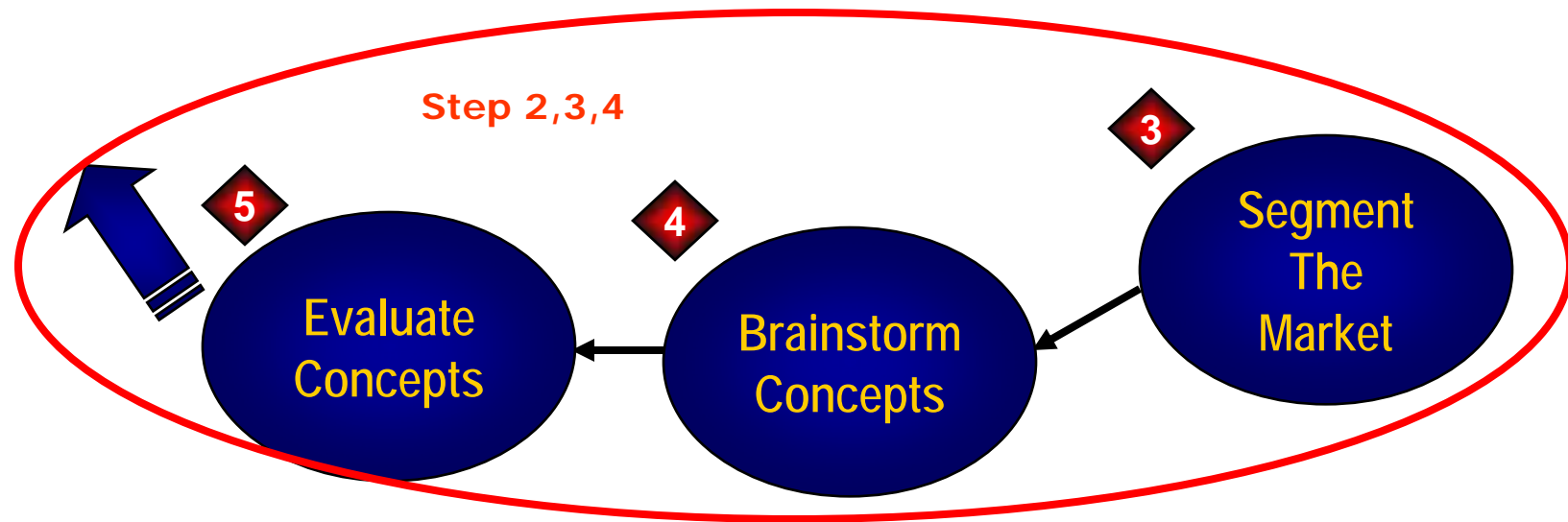


E.g. Case study Pratt & Whitney (P&W) jet engine division of United technologies

- 1) Captured 85 outcomes to measure value
- 2) Administered a quantitative survey to a large sample of P&W customers base.
- 3) Survey was designed to capture, **importance** of each desired outcome and **satisfaction** by P&W and its key competitors
- 4) Use opportunity algorithm to prioritize outcomes
- 5) Highest **opportunity** score had the most potential to add value.

Opportunity Algorithm
Opportunity =
Importance +
F (Importance – Satisfaction)

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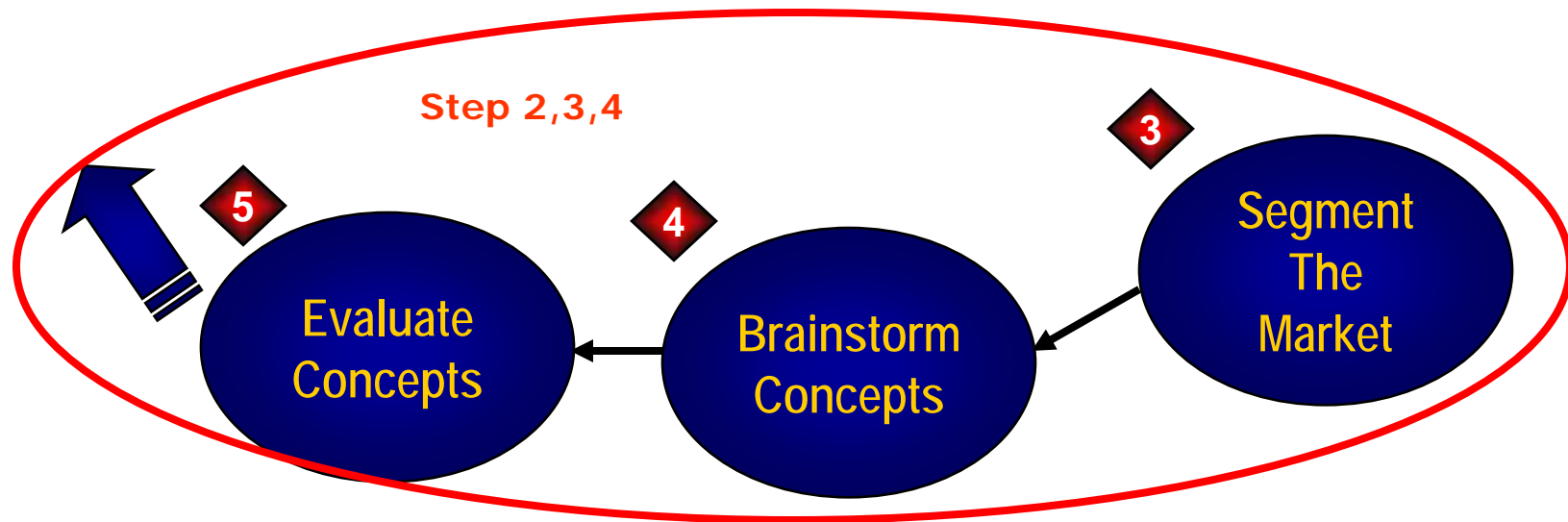


Step 2 Evaluating alternate ideas & Solutions

E.g. Case study Pratt & Whitney (P&W) jet engine division of United technologies

- 1) Quantify the amount of value provided by current solution and competitions solution
- 2) Use satisfaction data points captured directly from customers in the quantitative survey.
- 3) Determine where along the continuum value is created.

Outcome Driven Innovation

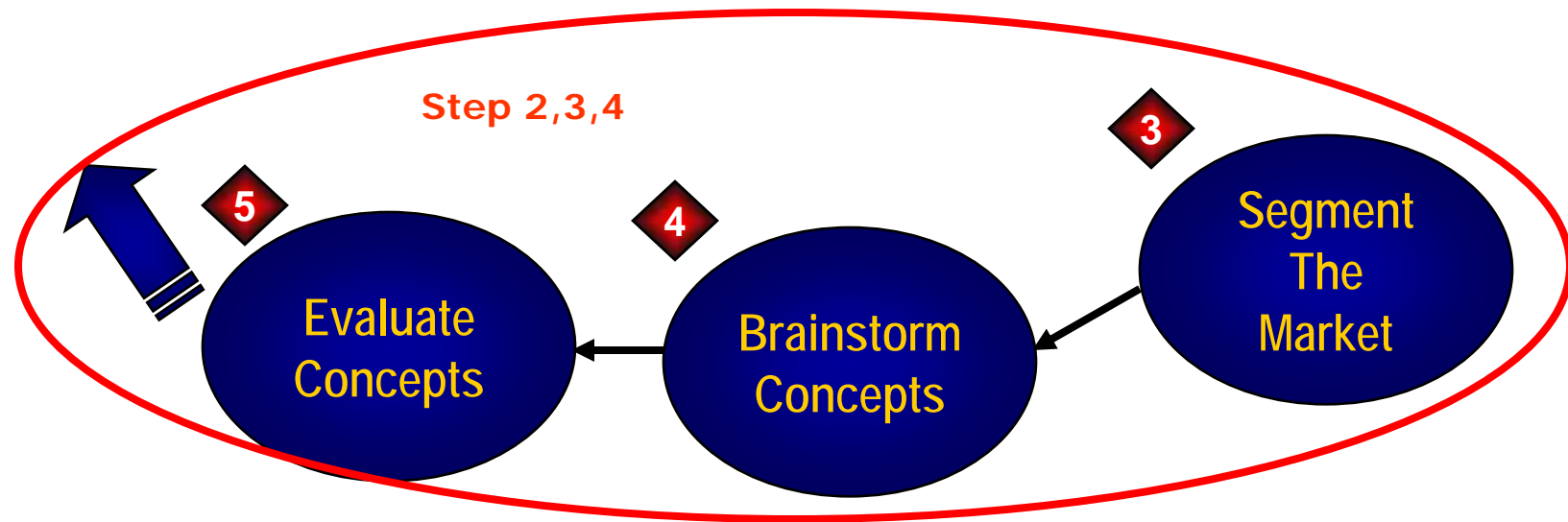


Step 3 Quantifying a Solution's Overall Value

E.g. Case study Pratt & Whitney (P&W) jet engine division of United technologies

- 1) Calculate the amount of value delivered by concept or proposed idea
- 2) Weight the desired outcome.
- 3) Determine the degree to which the solution satisfies the desired outcome.
- 4) Calculate cumulative amount of value the proposed solution delivers.
- 5) P&W proposed solution delivered 49.8 % desired value as compared to 48.3 % delivered by existing offering versus competition solution which delivered 53.4.

Outcome Driven Innovation



Step 4 Generating ideas, identifying the most lucrative that is worthy of pursuing

E.g. Case study Pratt & Whitney (P&W) jet engine division of United technologies

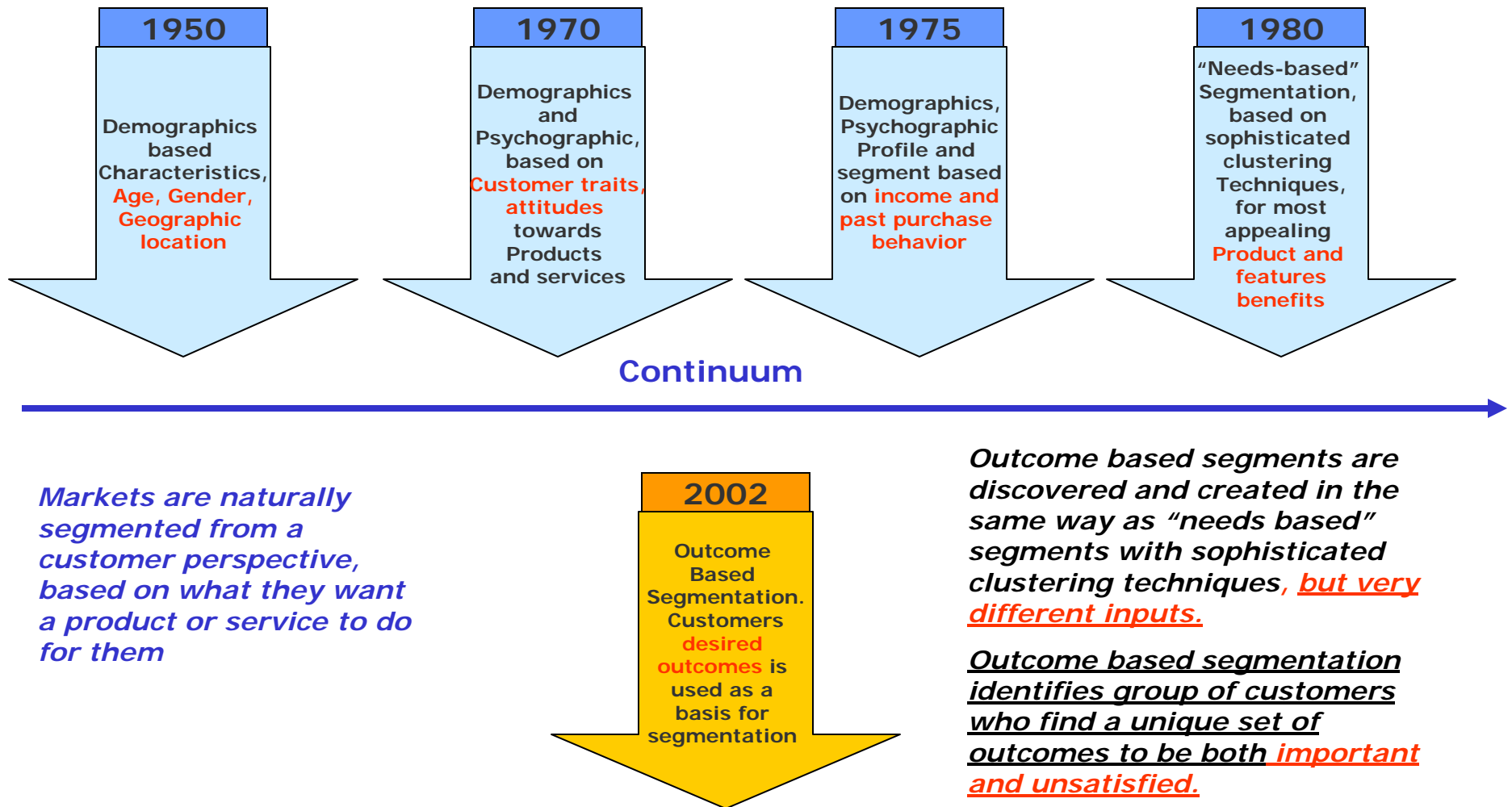
- 1) Recognizing that better satisfying desired outcomes that are already adequately satisfied will not create additional value
- 2) Knowing where and where not to create value is the key to outcome driven innovation.
- 3) Satisfying one or more of the desired outcomes while inadvertently taking value way from others will dilute the total value of the solution.
- 4) To successfully generate breakthrough solutions, identify and address the right opportunities through the "Ideation Process"
- 5) Deliver at least 25% more value than existing solution of 48%, so the breakthrough solution has a total value of 73%.

Customer Driven Innovation

Outcome Based Segmentation

Outcome Based Segmentation

History and Evolution of Segmentation.



Criteria for Outcome based Segmentation

- Identifying **what outcomes makes customers different** is key to outcome based segmentation.
- Only Outcomes that **explained differences** in what customers wanted to achieve when getting the job done were included in the clustering process.
- Different segments of opportunity want to get the jobs done in a unique way and **value improvements along different dimensions**
- **Discovering the existence of such segments** is the key to uncovering **high-growth market opportunities**.

Outcome Based Segmentation allows to **discover market entry points for disruptive technology** and goes a long way in establishing the foundation of a market and product Strategy

In Outcome Based Segmentation the resulting segments are quite literally **segments of break through opportunity**

Building Product Strategy, Portfolio, Road Map

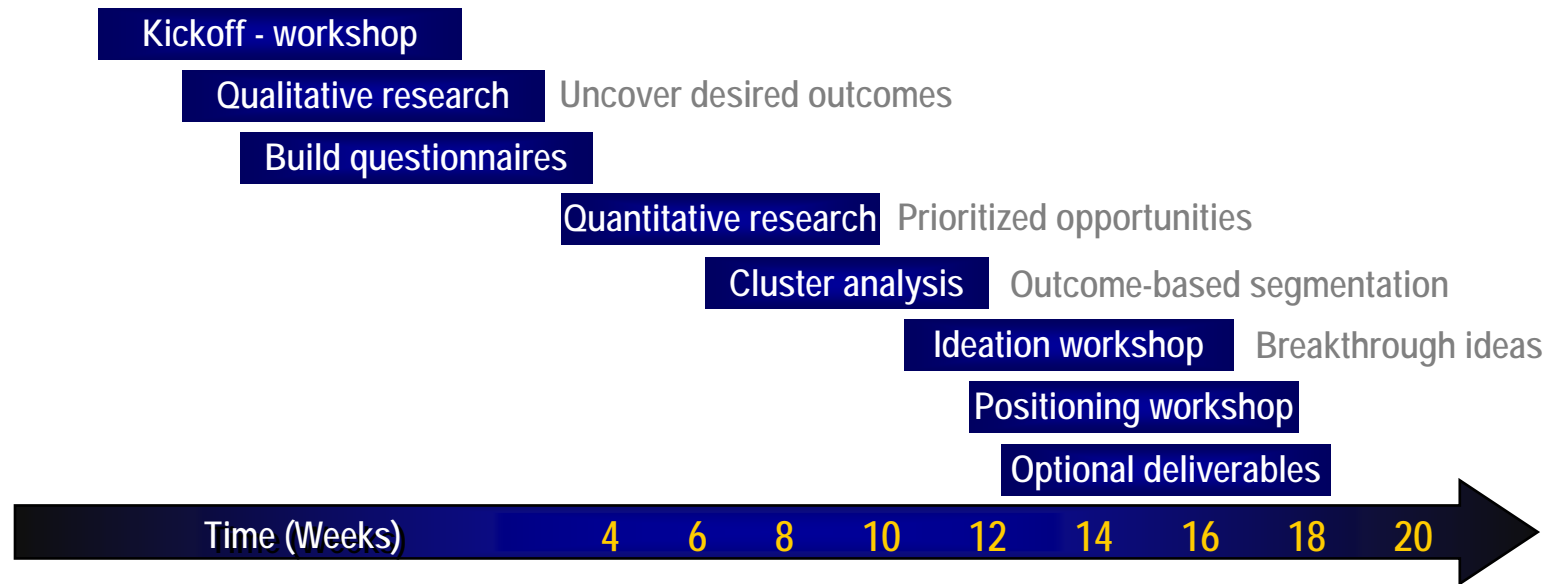
Building Strategy, Product Portfolio and Road Map

- Ability to identify which outcomes are **valued across the markets** and which are **valued uniquely within specific segments** of the market.
- Ability to create the platform of products that includes features and functions of universal appeal.
- Ability to create additional features uniquely valued by users in each of the targeted segments.
- Target Customers pay for features that they value in their segments contributing to higher levels of customer satisfaction.

**Pitfalls: Managers fails to distinguish one type of information from the other.
Even though each type of information is distinctly
different and **drives the innovation process in a different direction****

Outcome Driven Innovation Timeline

Outcome-Driven Innovation Timeline



The outcome-based methodology typically takes less than 4 months to complete.

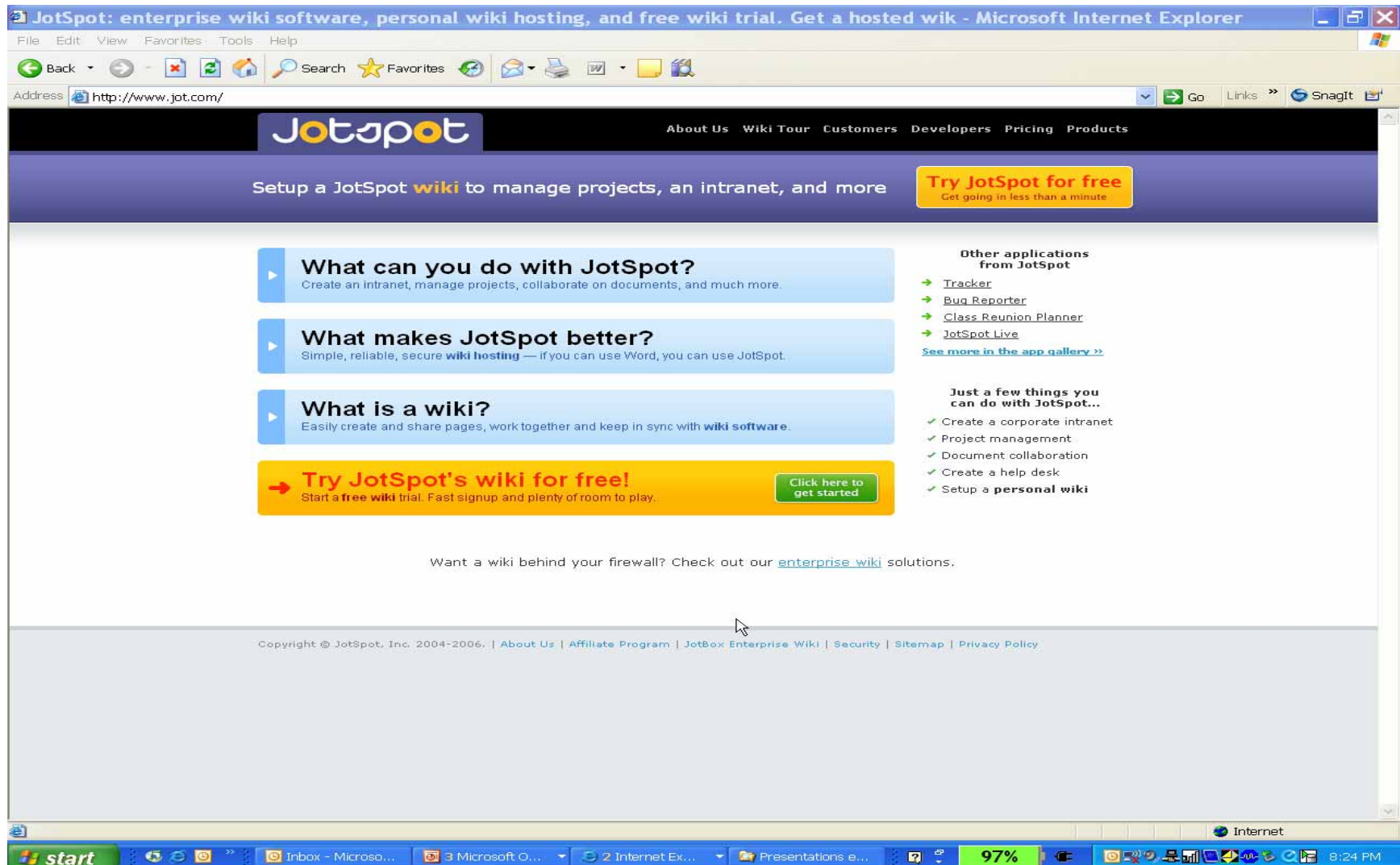
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Market place co-evolution
Co-creation of value

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Close

“A systematic way to find and solve important customer problems others have missed”

- Scott cook

