

"Ulwick's outcome-driven programs bring discipline and predictability to the often random process of innovation."

—Clayton M. Christensen, best-selling author of *The Innovator's Solution*

A close-up photograph of a person's hand, palm up, holding the title text. The hand is positioned on the left side of the cover, with the fingers slightly curled. The skin tone is light, and the lighting is soft, highlighting the contours of the hand. The background is plain white.

# what customers want

Using  
Outcome-Driven  
Innovation  
to Create  
Breakthrough  
Products  
and Services

Anthony W. Ulwick  
CEO OF STRATEGYN, INC.

WHAT  
CUSTOMERS  
WANT

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# WHAT CUSTOMERS WANT

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USING OUTCOME-DRIVEN INNOVATION  
TO CREATE BREAKTHROUGH  
PRODUCTS AND SERVICES

ANTHONY ULWICK

***McGraw-Hill***

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# Formulating the Innovation Strategy

## ***Who Is the Target of Value Creation and How Should It Be Achieved?***

- *What types of innovation are possible?*
- *What growth options should be considered?*
- *Where in the value chain should we focus to maximize value creation?*
- *How do we handle multiple constituents with potentially conflicting outcomes?*

The first step in the innovation process is to define the innovation strategy. Specifically, companies need to figure out what type of innovation initiative they're going to pursue; what growth options are best; and who in the value chain should be targeted to maximize value creation in the market. They must know who they want to create value for before they can get the customer inputs they need to make it happen. An upfront evaluation of strategic options is crucial; otherwise, companies run the risk of failure far-

ther down the line. This chapter addresses the questions that managers should consider as they formulate their innovation strategies.

### **What Types of Innovation Are Possible?**

There are four types of innovation that companies should consider for pursuit. Some are more attractive than others depending on whether the company is a start-up or an existing firm and whether it is competing in a growing or mature market.

*Product innovation*, or *service innovation*, which is the most common type of innovation, results from improvements that are made to existing products and services. Nearly all established companies must focus on product or service innovation or risk losing market share to a more aggressive competitor. To succeed at it, companies must discover which customer outcomes (the metrics used by customers to define the successful execution of a specific job) are being underserved and then devise and provide creative features in their products and services that do a better job of addressing those outcomes. Addressing one outcome may result in incremental improvement whereas a product that addresses many underserved outcomes is likely to produce a breakthrough improvement. For example, in 2004 the Robert Bosch Tool Corporation, known as Bosch, successfully entered the North American circular saw market with the feature-rich CS20 professional saw that addressed a number of underserved outcomes. Bosch came up with a unique idea for keeping dust off the cut line and debris away from the user's eyes. This is accomplished with a rather powerful fan that is built into the housing between the motor and the blade guard with vents aimed at the cutting path. Drawing air into the motor to cool it is an old idea. Accelerating and directing that air to clear sawdust from the cutting path and away from the user is new and helpful thinking. Bosch also removed the cord from the saw and replaced it with a socket and cord retention hook in the handle that allows the user to plug an extension cord directly into the saw. This idea has a couple

of benefits for the user. It allows for easy replacement of the extension cord if the saw cuts the cord (a common occurrence), eliminating downtime and saving money. It also prevents the knot in the cord (where the traditional cord is attached to the extension cord) from catching on every edge it runs across. The Direct Connect system is designed such that it cannot come loose, enabling users to continue to lower the saw by the cord from atop a ladder. This saw includes many features that were purposefully included to address the customers' underserved outcomes, making it one of *Popular Science's* "100 Best of What's New in 2004."

A *new market innovation* occurs when a company discovers that people (individuals or businesses) are struggling to get a job done on their own because no products exist and devises a creative product or service that enables customers to get that job done faster and cheaper than ever before; ultimately, the company creates a new market. This type of innovation is attractive to start-ups and new entrants and also outreaching established firms. New market innovation often provides the best path for revenue growth, because it does not siphon revenue away from existing product lines and ultimately results in net new growth. Under this innovation option, companies need to find "underserved jobs"—those unsatisfied tasks that may be related to ones already being handled by the companies' existing products—even if it means developing new competencies as a result. For example, the Palmz-Schatz stent developed in 1994 by Cordis Corporation was a market innovation in the field of angioplasty because it was a new, high-margin product that enabled doctors specializing in intervening heart procedures, to get a job done that they struggled with when performing the angioplasty procedure—significantly reducing restenosis (the recurrence of a blockage). This product gave them a new and profitable product line. The PC, the cell phone, and, more recently, the wireless network are also examples of new market innovations.

*Operational innovation* happens when a company discovers inefficiencies in a business operation and works to address those inefficiencies through creative solutions. This type of innovation

typically appeals to companies in a commodity business, a mature market, or in other markets where product or service innovation is proving difficult. Operational innovation often requires companies to rethink their value chains and reconstruct them in ways that cut costs and waste; that often means making massive investments in infrastructure. To succeed at this type of innovation, companies must understand all the outcomes employees and customers are trying to achieve when engaged in a customer/company interaction—the manufacture, purchase, or distribution of a product. Armed with this information, companies can then devise breakthrough process improvements that result in new, low-cost business models. Dell, for example, successfully achieved operational innovation in the computer industry by cutting out the middleman with their “buy direct” approach. Progressive Insurance cut out claims-handling inefficiencies by cutting checks at the scene of an accident. Wal-Mart redefined retail with breakthrough improvements in procurement, warehousing, inventory tracking, and sales. And Toyota created a super-advanced production system that led to the speedy customization of their automobiles. Any business that comprises complex and inefficient business processes is well suited for operational innovation. The pharmaceutical industry, for instance, could benefit from this strategy; the sector’s drug-discovery process currently takes nearly fifteen years and an average of \$800 million to produce a successful new drug.

*Disruptive innovation*, as made popular by Harvard Business School professor Clayton M. Christensen, results when a company uses a new technology to disrupt the prevailing business model in an existing market that is filled with overserved customers. This approach to innovation is different. The other three approaches to innovation start with a focus on the customers’ outcomes; the technology is created in response. In contrast, with disruptive innovation, the technology exists, and the company is in search of a customer and an opportunity. Disruptive innovation is much more difficult to systematize because there is no guarantee that the tech-

nology a company has in hand addresses any particular underserved outcome in any market—and trying to find one can be a tedious and expensive process. Nonetheless, many companies (especially those far back in the value chain, such as raw-material and chemical producers) are forced to follow this growth path as they are constantly trying to grow by finding new markets for their core technologies.

In his book *The Innovator's Solution*, Christensen describes two approaches to disruptive innovation. The first is low-end disruption. This strategy is employed when a low-cost technology is targeted at a segment of core-market customers who are overserved with the current products and services and are willing to acquire a less costly, lower-performance product. This strategy disrupts the existing business model and provides a foundation upon which to eventually attract mainstream customers. The second approach is new-market disruption. This strategy is employed when a technology is targeted at a new set of customers (nonconsumers) who do not have the skill or wealth needed to acquire and use available products (if any exist).<sup>1</sup>

The eight-step outcome-driven innovation process defined in *What Customers Want* is applicable to each innovation option. The process works in each case because the objective is always the same: to uncover and address opportunities, whether those opportunities are underserved jobs (new market innovation) or underserved outcomes (product or operational innovation). The process for disruptive innovation is slightly different in that it first requires a company to decide in which market they want to introduce a technology. The company must ascertain in which market the technology will address overserved jobs and enable the creation of a new, low-cost business model. Once this decision is made, the opportunities can be validated, and the solution can be refined using the same eight-step approach.

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1. Clayton M. Christensen and Michael E. Raynor, *The Innovator's Solution: Creating and Sustaining Successful Growth* (Boston, MA: Harvard Business School Press, 2003), 43–49.

### What Growth Options Should Be Considered?

When it comes to product, service, new-market, and disruptive innovation, companies have several growth options. To assist in understanding the ramifications of choosing one option over another and to help companies crystallize their innovation strategies, we have created a customer-jobs matrix. It defines four common growth options that companies should consider when setting their innovation strategies. The options are based on targeting consumers or nonconsumers and new or existing jobs. As shown in the Figure 1.1, Customer-Jobs Matrix, companies can help current users of a specific product or service get the associated job done better; help current users of a specific product get other related jobs done; help

Figure 1.1 Customer-Jobs Matrix

<b>New Job(s)</b>	Devise product or service innovations that help customers get more jobs done—often ancillary or related jobs	Devise product or service innovations that help new customers do a job that nobody is doing yet; no product exists
<b>Current Job(s)</b>	Devise product or service innovations that help customers get a job done better	Devise product or service innovations that help new customers do a job that others are already doing
	<b>Existing Customer</b>	<b>New Customer</b>

new customers do a job that others are already doing; or help new customers do a job that nobody is doing yet.

### **Get a Job Done Better**

More than 80 percent of companies' innovation initiatives are designed to improve existing products and services that already have an established customer base. To succeed here a company must be able to uncover their customers' underserved outcomes and address them. If an initiative is successful, the resulting innovation will help a company's customers get a specific job done faster, more conveniently, safer, or cheaper than before. Cell phones from Nokia, Samsung, and Motorola; financial services offerings from Charles Schwab and Merrill Lynch; and circular saws from DeWalt, Bosch, and Makita are all examples of products or services that have an existing customer base, are focused on specific jobs, and can be systematically improved by focusing on the customer's underserved outcomes. This option is referenced in the lower-left quadrant in the Customer-Jobs Matrix.

### **Get More Jobs Done**

Companies may know the primary job customers are trying to get done with a specific product, but to find new growth opportunities, companies often need to determine which ancillary or related jobs customers want to complete in those same circumstances and enhance the existing product to help customers get those jobs done as well. Companies that succeed here must capture job-related information from customers (not outcomes), figure out which of those jobs are underserved, and then address them. For instance, the MP3-playing function of Apple's iPod lets customers listen to music, but Apple pulled ahead of the competition because the iPod

also enabled users to address several other ancillary jobs that Apple discovered customers were trying to get done such as buy music, store and organize music files, and share songs. All of these ancillary jobs were previously underserved and represented opportunities for growth. This option is referenced in the upper-left quadrant in the Customer-Jobs Matrix.

### **Help New Customers Do a Job That Others Are Already Doing**

Under this innovation growth option, companies focus on creating innovations that target nonconsumers—individuals who want to get a job done but can't because the products available for doing the job are either expensive or require specialized skills. By targeting these nonconsumers, companies often create new markets. When Canon entered the copier market, for example, it targeted those customers who wanted to use a copier but did not want to go to a centralized copy center to get the job done. Because they were able to understand the outcomes of these new users, they were successful in delivering a product that helped them get the job done. Thus was born the market for personal copiers. And when LifeScan entered the health-care market, it targeted customers who wanted to monitor their blood-glucose levels but did not want to go to a doctor's office or a hospital for testing. Understanding their outcomes led to the successful birth of the market for personal blood-glucose test kits.

Indeed, this innovation option is quite popular in the health-care field, where the objective is often to create products and services that can be used by less-skilled people in a less-centralized location. Medical innovations have allowed cardiologists to treat heart disease with angioplasty balloons and stents, taking business away from heart surgeons who specialized in open-heart surgery, and have given people the ability to whiten their own teeth in the privacy of their homes, taking business away from dentists who performed this procedure in their offices. Other industries can do the same fol-

lowing the same principles. This option is referenced in the lower-right quadrant in the Customer-Jobs Matrix.

### **Help New Customers Do a Job Nobody Is Doing Yet**

Under this innovation option, a company seeks to create a new product or service that is aimed at helping customers get a job done, where no product or service is currently available. In this situation potential customers may be using homemade or piecemeal solutions, but no formal product or service is currently available—the market does not yet exist. Many software products such as tax preparation, note taking, and customer-relationship management software, along with a host of hardware products such as the phonograph, telephone, and television all fall into this innovation growth option. To find opportunities for new market creation, a company must select a population to investigate (retirees, teenagers, or a particular ethnic group, for instance) and determine what jobs the people in that demographic are trying to get done or would like to get done, but can't accomplish today. This option is referenced in the upper-right quadrant in the Customer-Jobs Matrix.

### **Where in the Value Chain Should We Focus to Maximize Value Creation?**

Once a company decides which innovation path and growth strategy to follow, it must then decide where in the value chain to look to maximize value creation. In the case of product innovation, for example, a company must decide whether to focus on the end user, the purchaser, the channel partner, the OEM, or some other relevant customer. If the company is following an operational innovation growth path, it must decide whether to focus on internal customers, external customers, or both. For instance, human

resource managers may be the target customers in an initiative aimed at streamlining the hiring process while both customers and distribution managers may be the target of an initiative aimed at reinventing the distribution process. Making this decision is important because managers must know for whom they want to create value and who to physically contact in order to get the necessary customer inputs—the metrics they use to define the successful execution of a job. When making these decisions, companies commonly make the following three mistakes, any one of which can derail the innovation process.

***The company does not consider the end user directly.*** Companies, especially OEMs and firms that sell only into channels, commonly fail to consider the end user as a target customer, particularly when the end user is not necessarily the primary purchaser of a product or service. In business-to-business situations, for instance, a company engaged in an innovation initiative may be tempted to talk only to the buyer or purchaser. IBM's PC division, in its earlier days, for example, would focus on getting customer requirements from channel partners (remember Computerland) rather than end users—after all IBM had a relationship with the channel partner, not the end user. They also mistakenly thought that the channel partner could give them any customer inputs they needed; after all, the channel partner had a relationship with the customer. What they found, however, was that channel partners are only qualified to provide their own cost-related outcomes, such as “increase our margins” or “increase our inventory turns,” which although interesting do not reveal how customers measure value when getting a job done. If a company was to talk only with channel partners and purchasers, it may begin to think it is in a commodity market, competing only on price, when, in fact, the product may be far from commodity status. The paint division at Rohm and Haas Company, for example, discovered many opportunities in the paint market by talking to the

users rather than the buyers of paints for commercial projects. Companies should focus first on the end user, particularly improving the end user's ability to get a job done, and then consider the buyer or channel as a secondary customer who is mostly concerned with price. Only the end user can legitimately provide the inputs that are needed to improve an existing product or to create a whole new one.

***The company doesn't consider all relevant customers for innovation.***

Companies that are far back in the value chain (such as producers of raw materials or semiconductors that sell to OEMs) and those that sell directly to the end user (such as makers of computer hardware and software) often don't take the time to consider all relevant customers for innovation and therefore fail to capture or consider their inputs. In the case of companies that are far back in the value chain, they often talk with only the OEMs; they fail to directly consider the outcomes of purchasers or end users. As a result, they remain isolated in the value chain and must rely on the OEMs and others to help them figure out what customers want. For their part, the OEMs and others in the value chain are struggling to make this happen, because they, too, tend to capture the wrong customer inputs. Companies that are far back in the value chain should actively identify customers' outcomes throughout the value chain, thereby making themselves more knowledgeable and more valuable to the OEM and others in the value chain.

In the case where companies sell directly to end users, they often fail to consider *secondary*, but still critical, customers in the value chain. A printer manufacturer designing a new networked printer, for example, may focus on end users' requirements, but not on Information Technology (IT) directors' outcomes related to printer management and administration. A manufacturer of medical devices may focus on creating innovative products for physicians but neglect to consider nurses' desired outcomes or the hospital administrator's

inputs. It is important to consider all relevant customers in the value chain. Businesses that overlook important constituents increase their risk of failure.

***The company lets one customer speak for another.*** To formulate effective innovation growth strategies, companies must correctly determine who in the value chain makes the most important judgments about value and go to that source *directly* to understand what metrics they use to judge value. Often, companies take shortcuts and let their immediate customers, such as an OEM or a channel partner collect, interpret, and provide them with the requirements of others in the value chain. Companies that have a strong channel partner, such as makers of appliances or power tools, for example, may not talk to end users directly. Instead, they may accept the channel partner's list of end-user requirements as gospel, incorrectly assuming the channel partner has a good handle on what customers want. Unfortunately, the channel partner is unlikely to have the needed customer inputs as it makes the same mistakes in collecting good customer inputs as everyone else. (We'll talk more about these mistakes in Chapter 2).

Companies also like to rely on their sales forces for customer information, letting them speak for the customer—often another big mistake. Companies often believe that because the sales team is close to the customers, the sales people must know what customers want. But salespeople invariably talk about customer requirements as “solutions” and “specifications”—not as outcomes. They may know what solutions the customers are requesting and feel adamant in their position, but they, more so than others in the organization, can unintentionally mislead the rest of the organization with such feedback. Let the salespeople do what they do best: sell. When it comes to collecting information about customer requirements, let trained professionals go directly to the sources.

## **How Do We Handle Multiple Constituents with Potentially Conflicting Outcomes?**

Companies often hesitate to consider multiple customers in the value chain when devising their innovation strategies. Doing so would add complexity to the process, executives think. Instead, companies limit the number of constituents they consider, simplifying the effort, but adding unnecessary risk to the innovation process. A critical objective of the innovation process is to discover as many opportunities for value creation as possible, so it's advantageous for businesses to consider multiple constituents and their underserved outcomes when devising their innovation strategies. When trying to come up with new products and services, an auto insurance provider, for instance, may want to consider the desired outcomes of the insured, the insurance agent, the agency owner, and those who handle auto repairs. Software developers may want to consider the desired outcomes of end users, purchasers, IT administrators, and corporate executives. Manufacturers of health-care products and services should consider the desired outcomes of patients, care providers, hospital administrators, buying groups, insurers, employers, Medicare, and other federal agencies. Once such information has been collected and analyzed, companies can discover opportunities across all constituents and then prioritize the weighting of each constituent's inputs.

### **Summary**

Companies have several factors to consider when formulating their innovation strategies. They must first determine what type of innovation initiative to pursue: product or service innovation, new market innovation, operational innovation, or disruptive innovation.

The option chosen will depend on the organization's particular market situation and circumstances.

Companies must also determine which jobs to address and whether to target current consumers or nonconsumers. Here again, they have four options: help consumers get a specific job done better, help consumers get more jobs done, help nonconsumers get a job done that others are already doing, or help nonconsumers get a job done that nobody is doing yet. Although most companies routinely focus on helping customers get a specific job done better, the other three options often represent unique opportunities for growth and innovation.

Companies must also decide where in the value chain to focus their value-creation energy. They may target the end user, the buyer, the channel partner, the OEM, or someone else in the value chain. Companies often make three mistakes when choosing where to focus. They focus on the wrong customer, often excluding the end user from consideration; they exclude an important customer when more than one constituent should be considered; and they accept secondhand information about customer requirements.

Before a company can figure out what customers want, it must first decide for whom and how it wants to create value. Once these decisions are made, the data collection process can begin.