



## Customer Experience Innovation

Innovation is a vital process, in good times and bad.

By Lawrence A. Crosby and Jonathan L. Masland

**IN A GLOBAL** marketplace that has grown increasingly competitive, the need for companies to constantly innovate has never been more pressing. Michael Porter of Harvard University declared: "Innovation is the central issue in economic prosperity." Likewise, business strategist Gary Hamel has said, "A company can't outgrow its competitors unless it can out-innovate them ... innovation is the fuel for growth." But how important is innovation in an economic downturn? Can companies still afford to innovate?

Companies like Amazon.com, where innovation is a core value, are committed to innovation in weak as well as strong economic conditions. In a recent interview, Amazon CEO Jeff Bezos noted, "My view is there's no bad time to innovate. You should be doing it when times are good and when times are tough—and you want to be doing it around things your customers care about. For us, it's such a deep-seated belief, I'm not sure we have a choice." (*Business Week*, April 2008.)

An important distinction must be made between invention and innovation. Invention is more of a discrete event, and is generally the end result of the creative energy of one or a few specialist individ-

uals. In contrast, "innovation" is a process involving a systematic, organized and (hopefully) continuous activity that ultimately commercializes ideas.

When most marketers think about innovation, they think first about product innovation and the companies that are known for successful, ground-breaking innovations around new consumer products: Companies like Apple, who in recent years has topped lists of the world's most innovative companies with the introduction of the iPod, iTunes and the iPhone. Often overlooked are innovations that can be characterized as business model innovations, particularly those focused on improving customer experiences. Yet the companies best known for innovating around the customer experience have dramatically changed the way we shop, the way we dine, the way we relax—in short, the way we live. Included in this list of most innovative companies are firms like Google, Amazon, Starbucks and Facebook. But even lesser known firms are focusing their attention on creating unique customer experiences.

Cabela's recognizes that passionate customer loyalty depends on providing an exceptional customer experience.

This former hunting and fishing catalogue company has opened about 30 destination stores over the last 10 years, repositioning itself as the "world's foremost outfitter." These are part stores and part natural history museums featuring dioramas, murals, waterfalls, artificial mountains, aquarium tanks and stuffed game. For many shoppers, visiting Cabela's is an all-day family event. The stores still sell guns, fishing rods, outdoor clothing and camping equipment like other sporting goods stores, but have successfully differentiated themselves by providing an exceptional and memorable customer experience that engages the senses, the mind and the emotions.

There has been extensive discussion in recent years about successful strategies for continuous innovation, particularly the value of outside-in vs. inside-out innovation. Inside-out innovation assumes that the best sources of new product or service ideas are your own employees—particularly research and development (R&D) specialists, whose job it is to dream up ideas that will wow the marketplace. Proponents of outside-in innovation, in contrast, believe that successful innovation requires input from sources outside your

organization—especially from customers who ultimately will consume these new products and services and receive increased value from the innovation. As Steve Ballmer, Microsoft CEO, stated, “We can believe that we know where the world should go. But unless we’re in touch with our customers, our model of the world can diverge from reality. There’s no substitute for innovation, of course, but innovation is no substitute for being in touch either.”

The concept of involving customers in the innovation process is not new, but it is certainly gaining popularity across companies focused on customer experience management (CEM). Successful CEM requires innovation, yet many companies lack the organizational capability to effectively manage the innovation

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process around customer experiences. What are some of the key competencies necessary for effective customer experience innovation?

**Setting priorities.** A starting point for initiating innovations around the experience is an effective system for establishing customer improvement priorities. In difficult economic times, there’s little room for shotgun approaches to innovation, hoping that something will hit the target. Resource conservation necessitates a more rifle-like approach. This requires not only a customer experience measurement process but also an analytic methodology for diagnosing improvement priorities. Through measurement, we address the question: “How are we performing on the various touchpoints of the total customer experi-

ence?” Through modeling, we address the question: “Which of these experiences have the most impact on customer behavior?”

**Gaining deep customer insight.** Central to the concept of outside-in innovation is the idea that existing customers can be a rich source of information and insight about new products and services. In fact, who is better to give feedback about the “customer experience” than actual customers? But knowing how to effectively listen to customers in order to gain these deep customer insights is a challenge.

**Effective use of customer feedback requires multiple listening posts—not just an occasional survey or focus group.** In addition to traditional relationship and touchpoint surveys, companies

are turning to ethnographic and observational approaches—including videotaping customers in retail environments, to fully capture buying behavior and the total retail experience.

Other companies are using qualitative research techniques to engage customers in exploring and designing the “ideal customer experience.” This method asks customers to put aside what currently happens when they interact with the provider (e.g., buy a car or contact a call center for support) and asks them to brainstorm together about what they would ideally like to happen in these situations. These insights can then be used to develop blueprints of the ideal customer experience, which can sometimes be in stark contrast to blueprints of the current processes.

**Creating and evaluating ideas.** In order to develop breakthrough customer experience innovations, it is essential to draw on the creativity of people throughout the organization—not just marketing or R&D. One effective way of doing this involves cross-functional workshops that have the sole purpose of developing ideas for customer experience innovations, using insights from customer research.

From this point on, the competencies needed to innovate around the customer experience mirror those necessary for any product or service innovation:

- Designing and testing improvement options.
- Selecting a portfolio of projects for scale-up.
- Communicating the revitalized experience.
- Delivering the revitalized experience.
- Monitoring results.

The key to successful customer experience innovation is to recognize first that innovation is a systematic process—not a discrete creative event. Innovation must be encouraged and rewarded across the organization, and should be fueled by the insights and needs of customers. Only by developing the organizational competencies to innovate around the customer experience can you build lasting customer bonds and continue to grow. ■

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