Bringing Focus to the Fuzzy Front End

By Kathy Morrissey

A recent senior management study on innovation conducted by the Boston Consulting Group [1] found that spending on innovation in 2005 is up 64% compared to 2004, but less than half of the executives interviewed are happy with the financial returns to their innovation investment. Although there is strong commitment to the concept of innovation, in practice, execution is lacking as evidenced by the following problems cited by a significant number of executives: time-to-market is too long, new products are not well received by customers even after performing customer insight activities, and many executives feel their competitors are better innovators. What is going on?

We believe two issues are at work in the fuzzy front end, that amorphous early stage where opportunities are identified and concepts are developed. One issue is lack of *focus in innovation activities* and the other is *misdirected customer insight activities*. Let's look at these one at a time.

A typical innovation project begins by talking to the customer, and although we fully believe that customer input is critical, we believe it is the wrong place to start. Starting with the customer is too scattershot and can result in a binder full of unusable ideas that don't align with your business strategy.

The first step is to determine what kind of innovation is needed, because this determines what kind of customers you need to talk with. One model of innovation is Clayton Christensen's work on innovation [2]. He describes three types of innovation:

- Sustaining innovation is successfully undertaken by market leaders. This type of innovation extends the current business models, and offers better performance to the most demanding customers who find the current products inadequate. This type of innovation is very expensive because it requires significant investment in the development of new technologies, but it can pay off because the most demanding customers are willing to pay higher prices for better performance. If you plan to pursue this type of innovation, you would want to talk with lead users [3], thought leaders, etc., rather than a broad spectrum of your current customer base.

- Low-end disruption targets what Christensen calls "overshot" customers. These customers do not need, and are not willing to pay for, improved performance. What they need is a cheaper, more convenient solution than the market leaders can provide. Many new entrants have successfully entered markets by developing a business model that allows them to service this less demanding customer at a lower price. If you plan this type of innovation, finding overshot customers is key; speaking with lead users would mislead your efforts.

- New market disruption targets non-consumers of a product. These potential customers lack the resources to use current solutions and must hire experts, but would be willing to purchase a product that made it simple and convenient to do the task themselves. The market leaders cannot service these non-consumers because of their existing business models. Again, many new entrants have succeeded by finding a way to make a complicated product easy and cheap to use. Obviously in this case, you need to speak with non-consumers who use another method for accomplishing what your product does.

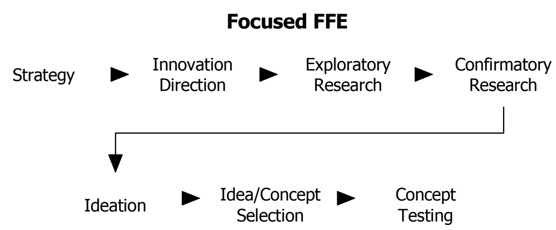
The above discussion of innovation makes it very clear that new entrants probably should not pursue sustaining innovations because of the expense and the likely response of incumbents, and market leaders would probably not be successful in pursuing disruptive innovations because of the conflict with their existing business models.

Consider the case of Liquid Audio, Inc., a new entrant to the music industry, who built the first complete end-to-end solution for the sale and secure delivery of digital music. Liquid Audio was dependent on the major labels to provide compelling content for the service and attract paying consumers. The problem was, this service was perceived as a sustaining innovation, and thus a threat, by the major record labels who either refused to participate or did so on very unattractive terms. The major labels and the RIAA (Recording Industry Association of American) put together a consortium called SDMI (Secure Digital Music Initiative) to develop an alternative to Liquid Audio that would in essence be completely controlled by the major labels.

Ultimately, Liquid Audio found its business model unworkable in this environment. It has sold its digital rights management patents to Microsoft and is struggling to create a business with its remaining assets.

Following the Christensen model, new entrant Liquid Audio should have looked for a low-end or new-market disruption that would not have been perceived as a threat by the major labels. Perhaps the success of iTunes is partially explained by timing; the failure of SDMI may have tempered the ability and resolve of the major labels to fight a new entrant.

There are other ways of categorizing



and thinking about types of innovations, but the point is that the first step a company must take is to consider what types of innovations it is willing to undertake and fund, and much of this is driven by strategy. The chosen direction determines the types of projects that should be in your innovation portfolio and the types of customers to study. By focusing your efforts, you avoid the misdirection that a scattershot approach can result in.

Now, let's look at the other issue: misdirected customer insight activities. It is critical to obtain customer input in the innovation process, and one-on-one interviews and focus groups are standard ways of obtaining input. These methods allow you to probe from various angles and pursue lines of thought to completion in ways that a survey does not allow. From the information gathered in the interviews and focus groups, you can identify themes, such as why customers use the product, the problems they encounter with current products or solutions on the market, what prevents them from using the product at all, etc. This information is critical to the ideation process in which you brainstorm new products and services to meet these identified needs. There are two temptations at this point: one is to use solutions that customers may have offered during the interview or focus group, and the other is to jump straight to ideation.

What is the problem with using solutions proposed by customers? Most customers do not have the technological know-how to devise the best solutions to their problems, but your company should. By using the customer proposed solution, you risk producing a product that is inferior to the one you could have produced, or worse, that your competitor may produce. Focus on what the customer is trying to accomplish, while eliminating problems and constraints to use.

And what is the problem with using the information gathered in the ideation process? You don't know how important each of the identified needs are, what portion of the market cares, and whether potential customers already have solutions they are very happy with. Interviews and focus groups are performed with a very small number of participants and as such are not representative of the market. If you charge ahead, you may pursue developing a new product that a very small portion of the market cares about, resulting in sales that are too low to justify the development effort. Now is the time to field a survey to get at these issues and to size the market. Once you have this information in hand, you can determine which needs you should focus your efforts on.

Consider another example from the music industry. MP3.com created a service that they said would level the playing field for independent musicians who could now promote and distribute music without the backing of a record label. MP3.com invited musicians to create a promotional page on the MP3.com website, promising that millions of music fans would visit, discover the independent musicians and purchase their music. The problem was that music consumers generally didn't care. Most music consumers take a very passive approach to discovering new songs, such as listening to the radio. Visiting MP3.com required sifting through tens of thousands of Indie musicians in order to find the few the consumer enjoyed. Most consumers would not make the effort and despite some very creative promotional efforts, MP3.com ultimately failed. It is essential to determine what portion of the market actually cares about the product or service you plan to offer.

At Strategy 2 Market, Inc., we believe that addressing these two issues, focus and quantification, are crucial to the innovation process. Ignoring these issues can result in these common problems: an ideation process that results in binders of unusable ideas; ideas that don't align with corporate strategy, resources and strengths; and products that ultimately fail in the market.

[1] See "Innovation 2005," BCG Senior Management Survey published by Boston Consulting Group.
[2] See for example, Chapter 2 in Clayton M. Christensen and Michael E. Raynor, The Innovator's Solution, (Boston: Harvard Business School Publishing Corporation, 2003).
[3] See for example, Eric von Hippel (1986) "Lead Users: A Source of Novel Product Concepts," Management Science 32, no. 7 (July): 791-805.

Strategy 2 Market's motto is *Creativity Realized.* Our consultants help your organization gain focus in the Fuzzy Front End. We are experts in finance, strategy, exploratory research and statistical analysis.

We don't leave you with a three-inch binder of unproven ideas; we actively work with you to ensure that your business gains focus to succeed in the marketplace.

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- Ensuring strategic alignment
- Increasing speed to market
- Determining customers unsolvable problems
- Quantifying what portion of the market cares
- Launching successful products, services & go-to-market models