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Selecting Innovations Based on Customer Value

Busting Five Common Myths About Product Portfolio Management

by Sheila Mello

One of the areas that's key to selecting innovations to commercialize for a product portfolio is understanding the voice of the customer. Yet many R&D and product development managers find this area intimidating or subscribe to beliefs about it that simply aren't true. In this article, Sheila Mello, principal of Product Development Consulting, debunks some of the myths surrounding understanding the customer and outlines why it's so important to creating a winning portfolio of products.

Hindsight clearly indicates which products and services you ought to have added to your product portfolio when you were doing last year's plan. From P&G's Swiffer cleaning system to Bluetooth wireless technology, successful innovations are obvious from the vantage point of the present.

Lacking a crystal ball, most companies currently rely on a frighteningly inaccurate mix of erroneous financial projections, analysis of past successes or failures, and strong emotion to decide which innovations are worthy of commercialization. The prevalence of an approach that often resembles the efforts of medieval alchemists to transform base metals into gold in part explains why the failure rate for new product introductions is so startlingly high (estimates range from 50 percent to 90 percent).

Here is a simple theorem that may combat all this flailing around in the dark:

1) Success in the market is born of consumers' desire to purchase your product.
2) Desire arises from the degree to which your product answers a question in the consumers' life -- either a burning question they have struggled with for a while, or, in the case of a new category of products, a question the had not yet thought to ask.

3) A product that answers a question for customers will be perceived as valuable and people will pay you for it.

Ergo: to put together a successful portfolio of products or services, you need to understand what customers value.

The proof for this comes not only logically, but from experience. Companies such as Motorola, Inc. and The Stanley Works have integrated research about customer value into their portfolio processes to produce such successful products as Motorola's 3G technology and the Fat Max tape roll.

But to see how customer value contributes to planning and managing a successful product or service portfolio, we first need to dismantle a few pervasive myths.

Mythbusting I: You Can't Measure Value Before the Fact

One reason companies don't use customer value as a metric in determining what goes into their portfolios is that they believe they can't measure value *before* a product is created. After all, how can you determine whether a customer will pay for a product or service when you haven't yet fully developed the offering?

The answer: you can do it using a documented, repeatable research process for collecting information that represents the voice of the customer. Emotions, pet projects, exciting ideas that cannot be commercialized, and technological wonders can't substitute for the facts established with the adoption of a rigorous customer requirements process. A robust, fact-based system to clearly identify both expressed and latent customer needs also provides a common, unambiguous language to discuss projects with product development teams. Instead of arguing over unreliable financials or engaging in political one-upsmanship, teams can focus on getting done what's needed to meet customer needs.

Mythbusting II: You Obtain Voice-of-the-Customer Data by Asking Customers What They Want

To reveal customer needs, companies try a variety of means to get at the voice of the customer (VOC). They may conduct surveys and focus groups. They may have a mechanism for accepting input from their sales and marketing staff. They may use the phrase *customer-focused* in their mission statements. However, traditional approaches to gathering VOC data fall short of providing the deep insights needed to reveal true (and often unarticulated) customer needs. In short, if you simply ask what customers want, you may never gain the insights into their needs that allows for true innovation. (Ken Olsen of Digital Equipment Corporation is reported to have said in 1977, "There is no reason anyone would want a computer in their home," and customer surveys probably would have proven him right.)

An effective VOC process involves interviewing techniques such as probing questions, digging down for the so-called golden nuggets, storytelling about customer problems, and structured first-hand observation followed by quantitative Kano analysis. Pitney Bowes, for example, treats the process of interviewing customers as a type of ethnographic research. To understand the document management needs of various hospitals, the company undertook comparative ethnographies of the hospitals. This ethnographic approach, combined with on-site customer exploration, helped the company uncover valuable information about how customers viewed documents and record-keeping that wouldn’t have been identified in a focus group or phone survey.

The advantage of such a process is that it provides the insight necessary to evaluate projects. Further, it provides a common unambiguous language to discuss projects with product development teams. Instead of arguing over unreliable financials or engaging in political one-upsmanship, teams can focus on getting done what's needed to meet customer needs. Using these methods, companies can determine the functionality that products must satisfy, as well as those features that delight, disgust, or elicit indifference in customers. With this data in hand, companies can separate potential winners from losers *before* launching into product development. Taking this method of analysis up a level to executive management allows companies to evaluate entire product portfolios using customer value as a yardstick.

Mythbusting III: Value is What Customers Say it Is

When a company decides to steer portfolio decisions using customer value rather than by financial analysis, everyone first must understand *exactly what customer value is*. This may seem obvious, but needs clarification because too many companies *think* they are getting to the essence of customer value, when in fact their activities don't bring them any closer to understanding true customer needs.

The only way to deliver value to customers is to understand them at such a deep level that you know exactly what motivates them. What are their personal goals? What's missing in their ability to achieve those goals? What makes their lives frustrating, difficult, challenging, or impossible? Customer value is defined as *the solution that removes those frustrations, difficulties, challenges, or impossibilities from the customer's life*. Once you understand what drives customers crazy, you can start exploring the opportunity to fix it -- which translates into customer value. You have found the *white space* or the *undiscovered country* in the market where nothing yet exists, enabling you to outstrip the competition by offering a solution first.

Mythbusting IV: An Exciting Innovation Has Intrinsic Value

Value exists only in the extent to which a product provides the desired *results or outcome* the customer seeks. Period. A feature that wows your development team, a chemical based on an elegant formula, or an amazing new material have no value until they are applied to solving a customer problem. Then the remote-control door lock (which helps busy grocery shoppers unlock the car without putting their bags down), the superviscous lubricant (which gives factory managers longer running times between maintenance checks of industrial motors), or the breathable insulation (which retains heat or cold while letting excess moisture escape so homes won't rot) become products for which customers will shell out the big bucks.

Mythbusting V: When the Development Team Presents an Idea, They Have Already Tested its Value

R&D and development organizations generate lots of ideas. When the development committee meets to present ideas, executives often assume that the proposed new product idea *already has market acceptance*. Managers not directly involved in innovation presume that the innovators know the market and thus fail to ask fundamental questions about whether the innovation is connected to market needs and customer value. The idea appears to the executive team as if it had been carved in stone, with its direction already irrevocably determined. At this point, the project simply becomes an exercise in getting maximum payback from the financial investment. The product's success is hit or miss -- maybe it hits the target of satisfying a customer need, maybe not.

The senior executives who oversee portfolio management must take responsibility for ensuring that the project or program requesting resources will create new or greater value for the customer. Accountability at the highest levels is key. Those who serve on committees that approve new product ideas or meet with VPs of development must ask the hard questions about customer value. You can't assume that the people presenting the product ideas -- no matter how intriguing or apparently compelling -- have gone through the work required to determine what customers value and to align the resulting product with the firm's vision, mission, and strategy. As tempting as it may be to give a green light to the VP who says "I can save the company $20 million if we go forward with this project," that savings alone is not enough to justify the project.

A Simple Truth: This Stuff Isn't Easy

Instituting such a system may seem difficult. Personality types who are more comfortable in a lab than at a customer site may resist. You may need to hire people with a different set of skills or develop a those required skills in the people you have, turn your product commercialization process upside down, and become an agent of change in your organization. If you're 100 percent satisfied with the results of your product portfolio, they maybe you don't need to do any of this hard work. If, on the other hand, you see room for improvement, then adopting a portfolio management strategy based on customer value may prove to be your path out of the murky mists of medieval alchemy and into a successful, modern approach to choosing innovations to develop.

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