



## Creating Customer Value

As it turns out, customers do know what they want – but companies often fail to capture this vital information. Ironically, they use information that inhibits their ability to innovate.

Companies spend considerable time and effort gathering customer “requirements” - after all, capturing this critical information may result in the creation of the next breakthrough product or service. Although companies rely heavily on what they learn from their customers - they are often disappointed with the end result. Companies often complain that customers:

- ❑ Cannot verbalize needs they do not yet recognize
- ❑ Are limited in their ability to describe possible innovations
- ❑ Frequently change their minds
- ❑ Initially reject solutions that are later recognized as breakthroughs

These limitations lead many firms to the seemingly rational conclusion, “customers do not know what they want”. Although this belief is common, it is misguided. As it turns out, customers do know what they want, but most companies fail to capture this vital information. Instead, companies ironically spend much of their time capturing customer information that inhibits their ability to innovate. This is a paradox in creating customer value - companies spend a disproportionate share of time and money attempting to understand what customers value, only to capture information that inhibits their ability to innovate. In the mean time, the information they need to innovate remains locked inside the minds of their customers. Let’s analyze how this is possible.

Innovation can be defined as a process for creating new and significant customer value. The process begins when a problem is defined - or a market is targeted - and it is completed when a solution or concept is devised that will deliver new and significant value. Therefore, in order to innovate an organization must be able to:

1. Define the criteria customers use to judge value in a given market
2. Define ideas and solutions that will potentially meet that criterion
3. Determine which ideas and solutions deliver the most value

Executing these three critical steps is analogous to solving a complex simultaneous equation, as various combinations of ideas and solutions must be systematically evaluated for their ability to meet numerous customer criteria. Setting up such an equation is dependent on obtaining the required inputs. Solving such an equation is dependent on the systematic evaluation of potentially millions of possible solutions. Not surprisingly, the ability to successfully execute this process is dependent on gathering the criteria customers use to judge value.

So, what happens when companies go to capture customer requirements? Do they capture the criteria customers use to judge value? No, they do not. Rather, they capture lists of requested features, ideas and solutions (the second step in the process) – and the criteria customers use to judge value is never captured. This is the heart of the issue. Based on studies we have conducted, customers state their requirements in the form of solutions or vague statements approximately 90% of the time. This, however, is the result of the questions they are asked, as companies commonly solicit solutions thinking this is the information they should be capturing.

As a result, a typical requirements gathering scenario may play out as follows. Let’s say a company solicits customer requirements on a pacemaker, for example. The customer may say, “I want a longer lasting battery”; so the company includes a longer lasting battery in its list of requirements. In reality the customer wants to reduce the frequency of replacement – this is the criterion being used to judge value – but it is never captured. A request for a longer lasting battery may have been made because it seemed like a good solution. So this becomes the “requirement”. Other solutions – like a human cell power generator - may be far more attractive, but will not be considered because it was not requested. Giving them what they asked for – a longer lasting battery – inhibits a company’s ability to deliver an innovative solution.



As a second example, when asked for requirements on a CD, an audiophile may respond, “I want a bigger CD that will hold more songs”. With this information in hand, a CD manufacturer may go off and design a large CD that holds more songs, but would potentially discount other ideas – like MP3 technology – because it was not requested. A customer requirement – when stated as a solution - actually constrains new thinking. If the customer were to say, “I want music media to provide access to a large number of songs,” the manufacturer may use this criterion to recognize the potential value of MP3.

Unfortunately, the traditional requirements gathering process is filled with ambiguity. Companies often classify wants, needs, desires, specifications, constraints, ideas and solutions as legitimate requirements – without discriminating between the different types of inputs. This practice is the nemesis from which complications arise.

More often than not, companies actively solicit and accept solutions as customer requirements, hoping they hold the answer to future success, but they rarely do. Why? Most customers are not engineers, scientists or technologists and are unaware of future possibilities. They are limited to what they know or have seen in competitive products. By limiting themselves to delivering what their customers request, companies unknowingly and prematurely stop short of innovating.

Do customers need to be better educated about technology in order to offer valuable requirements? Of course not. The problem here is companies are asking customers to play the role of product designers and engineers and provide new ideas and solutions - a role for which they are not qualified. Then they begrudgingly conclude customers cannot verbalize needs they do not recognize, are limited in their ability to describe possible innovations and reject solutions that are later recognized as breakthroughs.

Customers may not know what solutions they want – but why should they? This is not their responsibility - it is the firm's. Companies that expect product ideas to come from customers are abdicating their role as developers and technologists, often to the detriment of the firm. This is a risky proposition.

The irony of the situation is that customers are sitting there all the while with the information that is needed to help qualified company employees create innovative product concepts - but this is rarely the information for which they are asked.

When a company is developing a product or service, it is effectively attempting to find the solution that best satisfies the criteria used to judge value. Solutions should generally come from engineers, technologists - but the criteria used to judge their value must come from the customer. Capturing solutions from customers – and failing to capture the criteria used to judge value - is the root cause of failure in most requirements gathering processes today. In addition, this factor introduces more variance into the innovation management process than another other step that follows.

With this new insight, the perils of requirements gathering can be conquered and innovation can be mastered. With the right process inputs, a company is able to prioritize these criteria and use them to segment the market, define a unique competitive position, define features that meet the criteria and evaluate solutions for their potential to create customer value.

The reality is customers do know what they want - and firms that know how to capture and use this information will become the pioneers of the future, as this knowledge provides the foundation upon which customer value is created.

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