

May 26, 2006

The Essentials Of Consumer-Driven Innovation

by Christine Spivey Overby

BEST PRACTICES

BEST PRACTICES

Includes Consumer Technology Adoption Study data, Client Choice topic



May 26, 2006

The Essentials Of Consumer-Driven Innovation

How The Internet Changes The Economics Of Consumer Innovation

by **Christine Spivey Overby**

with Carrie A. Johnson and Brian Tesch

EXECUTIVE SUMMARY

Internet technologies and Social Computing are changing the ways in which companies involve consumers in the creation of new products, services, and experiences, and Forrester calls this shift Consumer-Driven Innovation (updated from Consumer-Focused Innovation to reflect the central role that consumers play in the process). To thrive in the era of Consumer-Driven Innovation, companies need to master the tactics and tools across three disciplines: discovery, design, and deployment.

TABLE OF CONTENTS

- 2 **Consumers Reveal More Than Brands Take In**
- 3 **Innovation Will Shift From Top-Down To Bottom-Up**
- 4 **The Essentials Of Consumer-Driven Innovation**
- 8 **New And Existing Technologies Support Consumer-Driven Innovation**

RECOMMENDATIONS

- 10 **How To Manage The Innovation Process**
- 11 **Supplemental Material**

NOTES & RESOURCES

Forrester interviewed nine vendor and user companies, including: Accenture, Acxiom, Information Resources, Inc., SAP, and UGS on topics dealing with Consumer-Driven Innovation.

Related Research Documents

["Social Computing"](#)

February 13, 2006, Forrester Big Idea

["Consumer-Focused Innovation"](#)

March 16, 2005, Forrester Big Idea

["Innovation Networks"](#)

June 17, 2004, Forrester Big Idea

RESEARCH CATALYST

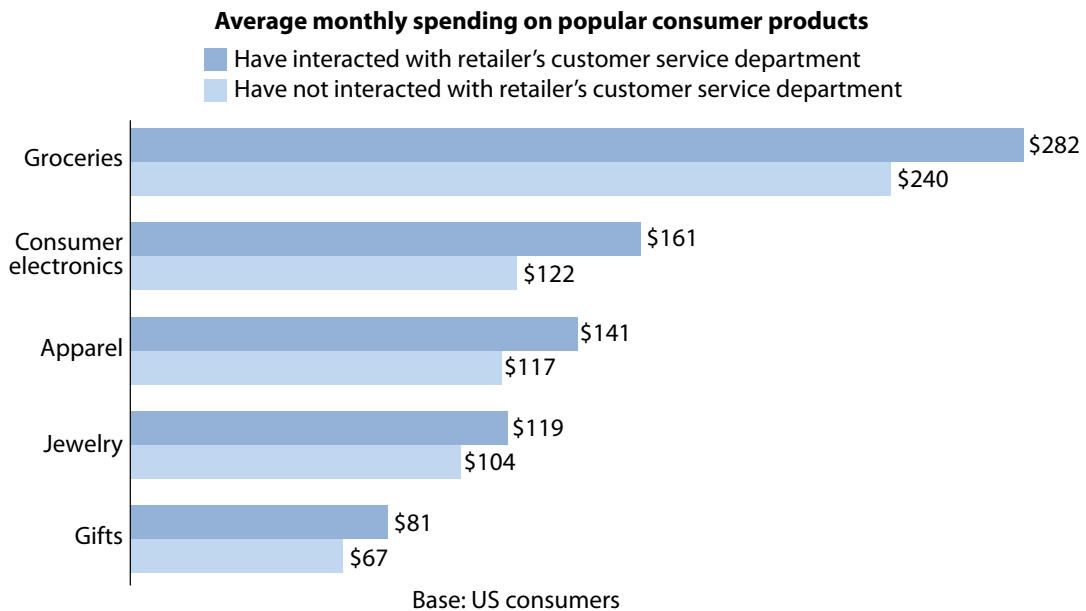
Clients selected this topic for Client Choice research.

CONSUMERS REVEAL MORE THAN BRANDS TAKE IN

Marketers live by “the voice of the customer.” But shifts in consumer behavior and the high failure rate of products, services, and experiences suggest that companies must re-evaluate their listening techniques.

- **Your best consumers are talking to you.** In most industries, consumers who provide feedback are a brand’s best customers. For example, shoppers who have contacted retailers’ customer service departments spend more on a variety of products than those who don’t (see Figure 1).
- **Products are failing.** Products and experiences fail at an alarmingly high rate, despite marketers’ and product managers’ attempts to listen to customers. More than half of consumers could not recall one new product launched in 2004, and only 15% of new products sell more than \$7.5 million in the first year.¹
- **The stakes are getting higher.** Consumers are more independent than ever. Most do not trust traditional media — only 7% believe that companies generally tell the truth in ads — and nearly half believe that price is more important than brand.² With the balance of power shifting from institutions to individuals, companies can’t afford to disappoint when consumers reach out.

Figure 1 A Brand’s Best Consumers Willingly Offer Feedback



Source: Forrester’s Consumer Technographics Q4 2005 North American Survey

Current “Listening” Approaches Fall Short

Why the disconnect between common practices and consumer perceptions? Traditional methods for collecting consumer feedback fall short because they are:

- **Too biased.** Surveys are removed from the point at which a consumer buys or uses a product, and this can skew responses. For example, Kimberly-Clark’s initial surveys suggested a strong consumer interest in premoistened wipes on a roll. But the company had to pull its Cottonelle Fresh Rollwipes from shelves due to lackluster sales — after spending more than \$100 million on product development.³
- **Too expensive.** A typical focus group project costs between \$20,000 and \$25,000 — more if a company needs to recruit certain types of consumers like teenagers or non-native English speakers. As a result, most marketers only employ focus groups and similar methods at select points in a product’s life cycle, such as launch or redesign.
- **Too slow.** Classic market research tactics like ethnographic studies take weeks or months to do right. One telco executive told Forrester that this type of careful planning and fielding means that his company can only employ this tactic on one key innovation per year.
- **Too imprecise.** Conceiving an innovation is only one half of the job. Brands must also successfully bring the idea to market, and execution often suffers from faulty market insights. For example, consumer product manufacturers typically use point-of-sale data that is weeks old or inexact geodemographic segments to determine the stores in which to test a new product.⁴
- **Often misdirected.** Companies that focus primarily on call center operational metrics like cost per call and average handling time reward efficiency, not the identification of new insights. Adding to the problem, agents are often unable to capture consumer insights in aging contact center and CRM applications.⁵

INNOVATION WILL SHIFT FROM TOP-DOWN TO BOTTOM-UP

To break the cycle of poor listening and disappointing products or experiences, companies must involve consumers in the innovation process in more spontaneous and continual ways. Certain technology and social trends provide brands with new methods for doing so:

- **The Internet provides insights about mainstream consumers.** More than 72 million US households were online in 2004.⁶ Widespread adoption means that Internet users increasingly reflect the diversity of cultural, economic, and social groups in North America and Europe. Consequently, marketers can use the Internet to observe behavior across a broad swath of consumers or drill down into almost any market segment imaginable.

- **Consumers' diverse range of online activities reveals their latent needs.** When consumers interact online — whether it's to tell friends about products or provide direct feedback to a brand — they reveal more about themselves, their wants, and their expectations. Broadband users, who at the end of 2005 made up more than 50% of online households, engage in a wider variety of activities.⁷ These households are more likely than dial-up users to customize products and visit customer rating sites, activities that give manufacturers a better view into consumer behavior and the wants and needs that they have a hard time expressing in focus groups and surveys.
- **Emerging social networks amplify the voice of lead users.** Only 3% of North American households published or maintained a blog in 2005, but these users often bear a disproportionate influence on brand favorability.⁸ Nearly half of consumers who maintain a personal blog consider themselves to be opinion leaders. With adoption on the rise, blogs are an increasingly valid way in which brands can monitor the unprompted feedback of influential customers.

THE ESSENTIALS OF CONSUMER-DRIVEN INNOVATION

As more companies use Internet-driven “listening” methods, consumers will play a larger role in shaping product, experience, and marketing concepts. Forrester calls this process Consumer-Driven Innovation — where consumers decide the direction of the brand and products.⁹ This innovation model differs from traditional approaches in its use of new methods across three disciplines: discovery, design, and deployment (see Figure 2).

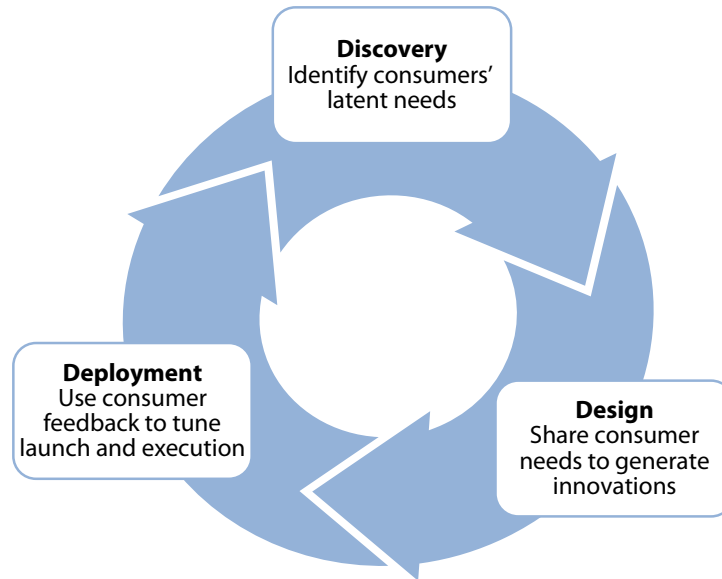
Discovery: Establish Consumers' Latent Needs

Consumers are great at articulating their explicit needs. New methods of discovery will allow brands to better unearth consumers' unmet — or latent — needs. Brands that master the discovery process will:

- **Monitor consumers in “natural” online settings.** Online forums like blogs and customer rating sites allow consumers to share opinions with their peers. Smart companies will pay attention. By monitoring blogs, U.S. Cellular discovered that teens felt “ambushed” by unwanted calls that pushed them over their minutes. The firm used this insight to devise a new program featuring free “call me” minutes and tuned the messaging in television spots. Companies can use blog monitoring tools on an ongoing basis: They only cost between \$30,000 and \$100,000 a year, the price of one or two focus groups.

Figure 2 The Essentials Of Consumer-Driven Innovation

2-1 The three new disciplines



2-2 Moving from top-down to bottom-up innovation

	Traditional innovation	Customer-driven innovation
Source of inspiration	Executives	Customers
Key drivers	Existing assets, products, and positioning	Deep observation of customer needs
Customer involvement	Structured	Spontaneous
Process	Linear, structures	Controlled chaos
Corporate posture	Go out to customer	Invite customer in
Needs assessment	Explicit	Explicit and latent
Tools	Surveys, focus groups, and storyboards	Search, email, blogs, smart POS, and intranets

- **Recruit online panelists during email registration.** Traditionally, panelist recruitment is one of the highest market research costs — particularly if ideal candidates are a specialized group like first-time moms. To increase recruitment rates without adding costs, brands will leverage instances where they already ask for consumer information. Nestlé uses enticing language during email registration on its VeryBestBaby.com site to build its online research panel (see Figure 3).
- **Focus discovery efforts on lead users.** Over time, as brands become familiar with new discovery methods, they will concentrate their efforts on identifying and seeking input from consumers who have a disproportionate impact on successful innovations. By combing Web sites where *Mindstorms* enthusiasts posted firmware modifications, Lego found consumers with particularly novel ideas about its robotics toys. These users, who came together to form the Mindstorms User Panel (MUP), were responsible for key redesign ideas like L-shaped joints for building square robotic frames.

Figure 3 Nestlé Recruits Online Panelists During Email Registration

Select the feature(s) you would like below.

<input type="checkbox"/>	 <p>FREE subscription to the very best baby collection™ Every FREE issue is tailored to your stage of pregnancy or to your baby's age and packed with lively articles on topics of interest to moms-to-be and new moms. Plus, you'll receive valuable checks for savings on infant nutrition products!</p>
<input type="checkbox"/>	 <p>Receive informative e-mail pregnancy and baby updates! Yes, I would like to receive FREE very best baby e-mail newsletters that include stage specific information tailored to my stage of pregnancy or baby's age. Plus, I'll receive immunization reminders about my baby's vaccination schedule.</p>
<input checked="" type="checkbox"/>	 <p>Join Our New Product Team! Yes, I want to be a part of the very best baby Consumer Panel and get an advanced look at new baby products before they're in stores. I'd like to help Nestlé offer the kind of products I want by responding to occasional questions via e-mail.</p>

36186

Source: Forrester Research, Inc.

Design: Turn Concepts Into Profitable Products And Experiences

After the initial discovery, brands will use the Internet to test concepts on consumers and emerging collaboration technologies to share ideas internally and with trading partners. In this stage, good ideas become potential revenue streams. This requires companies to:

- **Use online prototyping to broaden feedback.** New prototyping platforms allow brands to test thousands of concepts on a wider range of users. Procter & Gamble used online prototyping to test Tampax packaging ideas — logos, graphics, and instructions — on more than 800 consumers. With less need for time-consuming physical prototyping, P&G shaved four months off its package development process. And brands can use these tools for more than just packaging ideas. Pepsi tested more than 1 million combinations of snack foods, movies, and games for a marketing campaign. The result? A successful in-store campaigns linking Doritos, Sierra Mist, and *Star Wars: Episode III — Revenge of the Sith*.
- **Take design cues from Web configuration.** Online configurators reveal consumer preferences for product options and customization. When balanced against operational costs and production constraints, these tools can inform product mix and distribution. Subaru was planning a 75%/25% automatic/manual transmission mix for its new Impreza WRX. But when site data showed that buyers preferred manual transmissions, Subaru changed its product mix to 95% manual — and the launch was a success.
- **Enable collaboration with employees and relevant third parties.** Once brands have collected consumer insights, they need a systematic way to share ideas across functional groups and relevant third parties like ad agencies or trading partners. Whirlpool used existing intranet technologies to redesign an innovation portal — a one-stop shop for employees to share learning and access innovation tools such as facilitation guides and workshop models. Adoption of the portal is high, thanks to Whirlpool's efforts to create a culture of innovation, such as training 15,000 employees on Consumer-Driven Innovation.

Deployment: Tune Launch And Execution

Advances in consumer segmentation and customer service technologies provide brands with cheaper and more precise ways to incorporate consumer feedback in launch and execution. Brands will maintain a continual feedback loop when they:

- **Use new segmentation approaches to plan offline tactics.** New initiatives from retailers and vendors like Kroger's "customer first" strategy and Acxiom's Personix offer segmentation models that link household demographics and attitudinal data with hard-to-get offline behavior like retail point-of-sale. The benefit? Brands can use these segments to inform regional marketing and distribution decisions. For example, Kroger suppliers use the retailer's segmentation models to deliver more relevant promotions and communications at the point of purchase.

- **Maintain feedback mechanisms on Web sites.** Brand Web sites represent a prime opportunity for companies to solicit consumer feedback. ING Direct offers “grade the bank” functionality on its Web site. Key areas like “the account opening process” and “ease of getting around on the Web site” tie in with ING Direct’s corporate brand attributes — in this case, “simplicity.” The difference from more traditional surveys? This functionality is always available on the ING Direct site, so it is able to tie organizational metrics and compensation to customer feedback.

NEW AND EXISTING TECHNOLOGIES SUPPORT CONSUMER-DRIVEN INNOVATION

Consumer-Driven Innovation would not be possible without new technologies that aggregate consumer feedback from far-flung areas of the Internet. At the same time, companies will find new uses for existing technologies such as idea management and internal collaboration tools — both of which support the systematic sharing of new insights. The lower price point and redeployment of existing technologies reduce the risk of testing these new approaches, and at the same time, they change the economics of innovation by allowing companies to use them more extensively (see Figure 4).

Figure 4 Technologies That Support Consumer-Driven Innovation

Tool	Benefit and application	Who can help?
Ethnographic studies*	By having anthropologists study and interact with customers in their natural settings, firms can learn to tailor their business models to match users' socio-economic and cultural context.	IDEO, frog design, Industry @ Saatchi, Ziba Design, Esselte
Lead user generation*	R&D can gain breakthrough product and business model insights by tracking lead users — early adopters in existing and noncore markets who develop their own solutions.	IDEO, frog design, Design Continuum, Industry @ Saatchi, Ziba Design, Esselte
Brand and blog monitoring	Using natural language search and linguistic analysis, brands can identify relevant bloggers and their comments about products or brands, as well as personal observations that could be relevant to the brand.	Umbria, Nielsen BuzzMetrics and Intelliseek, Accenture, LexisNexis
POS analysis	Direct, store-level point-of-sale data — linked with a household identifier in the case of loyalty cards — offers a better understanding of consumer demand by store and relevant segments.	ACNielsen, Information Resources Inc. (IRI), Teradata, VeriSign, Vision Chain
Social Computing*	Using technologies like RSS, instant messaging, and blogs, R&D can frequently interact with customers worldwide and gain insights into their explicit and latent needs.	Communispace, Wikipedia, del.icio.us, PriceGrabber.com, MySpace.com
Web analytics	Reports on Web and cross-channel activity allow companies to observe consumer behavior in online environments.	Coremetrics, Omniture, Visual Sciences, WebTrends
Interactive prototyping*	R&D can use online customers' immediate reactions to new product/service prototypes to iteratively improve features and increase innovations' commercial success.	Affinova, UGS, Parametric Technology Corporation (PTC), Infor, IDEO, frog design, CoCreate, Centric, Fitch
New consumer segmentation	Packaged consumer segmentation models offer household-level behavioral insights, often combining demographic/psychographic and attitudinal data with retail purchase history.	IRI/Acxion, Consumer Direct (AC Nielsen and Yahoo!), dunhumby
Collaboration	Internal collaboration tools such as collaborative authoring, dashboards, idea management, and Internet portals can be used to share innovation concepts across functional groups and relevant third parties.	IBM/Lotus, Microsoft, Oracle

*Tool first appeared in the March 20, 2006, Best Practices "Transforming R&D Culture"

38186

Source: Forrester Research, Inc.

RECOMMENDATIONS

HOW TO MANAGE THE INNOVATION PROCESS

These best practices have one thing in common: The innovation process is organic, and the high degree of consumer involvement makes things more chaotic. To manage this type of innovation, companies need a flexible structure that requires innovation across multiple departments.

- **Leadership: Take steps to encourage cultural change.** Consumer-Driven Innovation requires cultural change that starts at the top. C-level executives must embrace and evangelize the “moments of truth” when a consumer evaluates, buys, or uses a product or service. P&G has incorporated moment-of-truth metrics to measure performance in most departments.
- **Marketing: Turn marketing channels into feedback loops.** New channels like the Internet and Social Computing, as well as existing functions like customer service, enable not only outbound marketing but also feedback loops that enable listening. Marketers require an organizational structure that knits these components together to aggregate consumer feedback across all touchpoints. Often, this means that marketing should take more ownership of functions such as customer service. In France and Japan, Nestlé has rethought traditional call centers, turning them into “relationship centers” in which brand managers and executives sit by call center reps to hear consumer feedback.
- **IT: Serve as the technology broker.** Firms should use existing technologies — customer databases, collaboration tools, and corporate intranets — to support Consumer-Driven Innovation. By opening the customer database to others, IT makes insight available not only across the organization but also to trading partners. CVS is now sharing its loyalty data with its suppliers, resulting in more relevant promotions for its most profitable customers.

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Accenture	Information Resources, Inc.
ACNielsen	SAP
Acxiom	UGS
Affinnova	Umbria
Communispace	

ENDNOTES

- ¹ Source: Nat Ives, “56% Fail to Remember Any New Products,” *The New York Times*, January 14, 2005.
- ² In 2005, 48% of US consumers believed that price was more important than brand — up from 43% in 2000. Indicators like this combine with the democratization of technology to put more power in the hands of consumers, a phenomenon that Forrester defines as Social Computing. See the February 13, 2006, Forrester Big Idea “[Social Computing](#).”
- ³ The initial Kimberly-Clark press release cites both consumer survey results and product development costs. Source: “Kimberly-Clark Corporation Announces Cottonelle Fresh Rollwipes, America’s First Dispersible Pre-Moistened Wipe on a Roll,” Kimberly-Clark press release (<http://investor.kimberly-clark.com/news/20010116-35431.cfm?&t=n>). Copernicus Marketing Consulting provides an account of the rise and fall of this project. See http://www.copernicusmarketing.com/about/docs/surviving_innovation.htm.
- ⁴ Depending on the retailer, some syndicated point-of-sale data is not granular enough to show store-level demand. Geodemographic segmentations show demand by neighborhood but fail to capture more precise insights on a household level. See the March 28, 2006, Trends “[Boosting The Store IQ](#).”
- ⁵ Blended, results-based metrics should strike a balance between value and productivity. See the April 9, 2004, Forrester Big Idea “[Why Marketing Should Own The Contact Center](#).”
- ⁶ Forrester publishes an annual guide to technology adoption and forecasts, device ownership, and online behavior based on a mail survey of 68,664 households. See the July 29, 2005, Data Overview “[The State Of Consumers And Technology: Benchmark 2005: Consumer Technographics North America](#).”
- ⁷ More than 50% of online US households are using broadband today. While cable is still in the lead, DSL is gaining ground. See the April 7, 2006, Trends “[The State Of Internet Access](#).”
- ⁸ Source: Forrester’s Consumer Technographics® 2005 North American Benchmark Study.
- ⁹ Forrester originally called this concept Consumer-Focused Innovation. We have modified the term to Consumer-Driven Innovation to more accurately reflect the active and participatory role that consumers play in the innovation process. See the March 16, 2005, Forrester Big Idea “[Consumer-Focused Innovation](#).”

FORRESTER®

Helping Business Thrive On Technology Change

Headquarters

Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617/613-6000
Fax: +1 617/613-5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

Research and Sales Offices

Australia	Israel
Brazil	Japan
Canada	Korea
Denmark	The Netherlands
France	Switzerland
Germany	United Kingdom
Hong Kong	United States
India	

*For a complete list of worldwide locations,
visit www.forrester.com/about.*

For information on hard-copy or electronic reprints, please contact the Client Resource Center at +1 866/367-7378, +1 617/617-5730, or resourcecenter@forrester.com. We offer quantity discounts and special pricing for academic and nonprofit institutions.

Forrester Research (Nasdaq: FORR) is an independent technology and market research company that provides pragmatic and forward-thinking advice about technology's impact on business and consumers. For 22 years, Forrester has been a thought leader and trusted advisor, helping global clients lead in their markets through its research, consulting, events, and peer-to-peer executive programs. For more information, visit www.forrester.com.