PURSUING A CUSTOMER-DRIVEN APPROACH FOR INNOVATION AND MARKETING EXCELLENCE

DUMITRESCU Luigi
Lucian Blaga University of Sibiu, Romania

STANCIU Oana
Lucian Blaga University of Sibiu, Romania

ȚICHINDELEAN Mihai
Lucian Blaga University of Sibiu, Romania

VINEREAN Simona
Lucian Blaga University of Sibiu, Romania

Abstract:

Nowadays, innovation goes so much further than merely products. In order to thrive in this extremely competitive business environment a company needs to innovate its technologies, its business strategies, its business models, and by innovating in research. It is also about reinventing or building new markets in order to meet, satisfy and delight untapped consumer needs, wants, and desires. However, considering the new opportunities and threats that Internet, globalization, and hypercompetition have on an organization's activity regarding selecting and executing the right ideas, right products, and delivering them through the right channels in record time, at the right prices, while promoting them through all the relevant and right communication channels to the target market.

Keywords: marketing research, innovation, disruptive technology, customer-driven approach, customer value

1. Introduction

As Peter Drucker once wrote, a company has only two basic functions: marketing and innovation. And these two business activities are extremely tied together. Marketing is related to the growth and the high performance of a company.

As Phil Bentley, CEO of British Gas, said: “The overriding role of marketing is to own the growth agenda. I regard our marketing director as the chief growth officer.”

Also, innovation is critical in order to win, namely to attract and retain, customers and stay ahead of competition. However, in searching for the next great thing, companies should be careful not to overlook what customers perceive as value, and what are they willing to buy as a offering that corresponds to their need and want.

Constant customer-driven innovation always creates more value for shareholders, for customers, and for society.

A customer to feels a connection with a product or service because it responds to his or her need is more likely to be loyal to that particular company. Of course, loyalty implies a constant level of satisfaction or even higher reaching the level of customer delight, where consumers are advocates and partners of the brand in question.

2. An Innovation-Driven and Changing Business Environment

C.K. Prahalad, in his final article for Harvard Business Review, wrote: “The more successful companies become, the more difficult it is for them to recognize when they must change” (Prahalad, 2010, p. 36). In today’s business environment there are many examples of such companies that stand out as practically unable to tackle market competitiveness, as they are struggling to survive.

The bottom line is that organizations love numbers, spreadsheets that can give them a sense of assurance. Whereas, change implies creativity, pursuing a route in the dark and most of the times this does not translate into market offerings. One of the most important example that falls in this unfortunate category is Microsoft, a company that failed to deliver in crucial modern technologies like mobile, search, media, gaming and tablets. It has even fallen behind in Web browsing, a market it once ruled with an iron fist (Goldman, 2010).

However, Microsoft did foresee the changes ahead. With a staff of almost 90,000, the company has many of the tech world's smartest minds on its payroll, and has incubated projects in a wide range of fields that later took off. Experiments like Courier (tablets), HailStorm/Passport (digital identity), and Windows Media Center (content in the cloud computing) show the company was ahead of the game in many areas, but then it either failed to bring those products to market, or it just did not execute. A company that once symbolized the future is now living in the past.

On the opposite side, there is Toyota, a company that fully recognizes the fact that learning what customers want and delivering precisely that is an ongoing, continuous and systematic process. In May 2007, when all the automakers were in trouble, Katsuaki Watanabe, the firm's president, said "Rather than think about other companies, I feel that we must do our utmost to satisfy customers around the world. There is plenty left for us to do" (BBC, 2007). Whether you are talking about Prius or Lexus, both of them represent a statement car to its target market, because Toyota emphasized creating value for its consumers, either by focusing on environmentallyconscious drivers who need a small city car, or by concentrating on luxury consumers with a different value-enhanced product.

Another example of a company that is does not rely on its current top position in the market is Samsung. In early 2010, Samsung's chairman, Lee Kun-Hee, told employees that the company faced a crisis: "Most of Samsung's flagship businesses and products will become obsolete within 10 years. We must begin anew. We must only look forward" (Nunes and Breene, 2011). Currently, based on its revenues, Samsung is at the top with innovative flat-panel TVs, mobile phones and other electronics, but the company acknowledges the competitive forces in its environment and does not wait to see its sales and profits drop or stagnate, but it takes proactive actions and adopts new strategies to achieve a continuous high performance.

Possibly the most competitive industry is technology-related, and companies in this line of business can undergo open innovation in order to gain a competitive edge. Cisco Systems ran internal competition for future innovations for years, but in 2007 management decided to invite outsiders to participate in its I-Prize competition, offering a prize of $250,000. Altogether, Cisco received about 1,200 ideas from innovators in 104 countries. The winner was a "smart" electricity grid that deploys sensor technology. In 2010, the second I-Prize competition had as a winner an idea to help individuals connect their activities in the physical and virtual worlds (Nunes and Breene, 2011). The competition gave Cisco a global view of potential new perspectives and business opportunities. Also, because there were people applying from all over the world, Cisco gained valuable consumer insights into relevant solutions for different countries, providing the company with geographical and behavioral consumer segmentation.

In a recent Accenture survey, 89% of executives agreed that innovation is as important as cost management for high performance. But while many companies are investing more in innovation, only a few have a rigorous approach for managing the process. As a result, even innovative companies often fail to realize the benefits that their new ideas could produce.

Companies face different challenges, ranging from fast-changing consumer demands, global outsourcing, and to the need to adopt a business model that would allow them to move faster and speed the process of bringing relevant offering to their target market.

Today, companies are exploring any type of strategies in order to drive performance through creativeness and innovation, considering even coordinating innovation from the center by using cross-functional collaborations. BMW is a company that applies this practice. Each time BMW begins developing a car, the project team's members, namely 200 to 300 staffers from engineering, design, production, marketing, purchasing, and finance, are relocated from their scattered locations to the auto maker's Research and Innovation Center for up to three years. Such proximity helps speed up communications (and therefore car development) and encourages face-to-face meetings that prevent late-stage conflicts between different areas of a business, like marketing and engineering (Business Week, 2006).

3. The Means to Creating a Momentum Effect

Every company asks itself how it can deliver continuous, exceptional growth, year after year. Professor of Marketing at INSEAD, J.C. Larreche, tries to answer this question in his book The Momentum Effect: How to Ignite Exceptional Growth (6. Larreche, 2008). The "Momentum" is what most businesses experience at some point, namely gaining success, while increasing their efficiency and providing exceptional growth. The term "Momentum" is used to describe a phenomenon, something exceptional that occurs under specific conditions.

The conventional business wisdom regarding marketing is that a company has to spend large sums of money in order to achieve high levels of growth. However, a research conducted by Professor Larreche seems to challenge this particular knowledge. He investigated the effect of marketing investments on the long-term growth of the world's largest 1000 corporations, covering a 20-year period, from 1985 to 2004. As a result, three groups emerged: Plodders, Pushers, and Pioneers.

Plodders denoted a relatively stable marketing budget. Pushers pursued traditional ways of pushing their products, and they increased their marketing-to-sales ratio by 3 percent over the 20-year period. Pioneers actually decreased their relative marketing spend in the timeframe, registering a 4 percent slump in the marketing-to-sales ratio.

As expected, the three strategic behaviors had very different impact on shareholder value, measured over the 20-year period and compared to the change in the Dow Jones Index, as presented in the following figure (Figure 1).

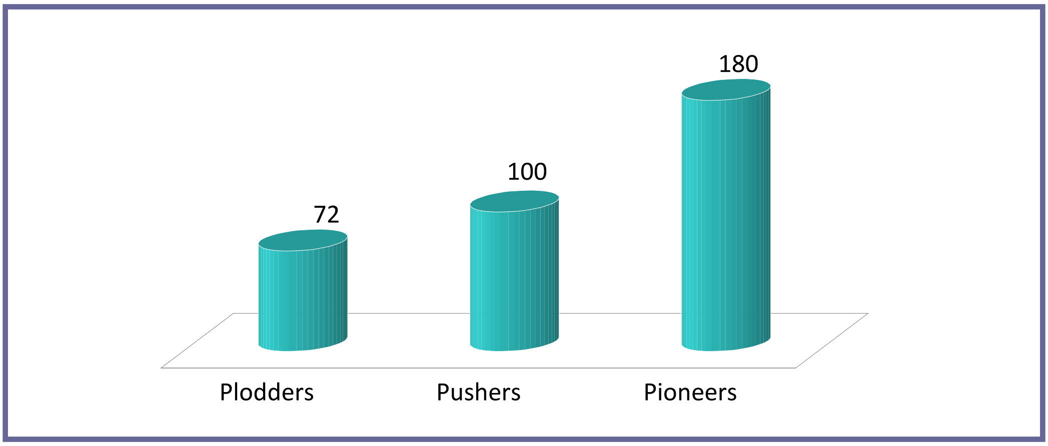

Figure 1: Change in Market Capitalization Against Change in the Dow Jones Index (set at 100) (Adapted from Larreche, 2008, p. 6)

The companies denominated Plodders underperformed the stock market by 28%, the Pushers performed, on average in line with the Dow Jones Index. Nonetheless, if for Plodders and Pushers the evolution could have been predicted giving their fluctuations of marketing budgets, the big surprise was the Pioneers. This category decreased their marketing-to-sales ratio, but managed to achieve 80 percent increase in shareholder value, above the Dow Jones Index, in the examined 20-year timeframe.

The big mistake of the Pushers is that they increase marketing spending, but they cut costs especially in manufacturing (affecting economies of scale) and in Research & Development (affecting innovation). However, for companies that do pursue this line of action and are considering a readjustment, an abrupt decrease in the marketing budget would most definitely cause a plunge of the company's sales and overall growth.

On the other hand, as a matter of fact, Pioneers augmented their total marketing expenditures in real terms, but this proportion to their revenue actually declined. Namely, the Pioneers were achieving superior revenue growth, and even though they were spending more on marketing, and on different areas (R&D, manufacturing), the advertising-to-sales ratio diminished.

Giving the fact that these companies achieved a high level of marketing efficiency, Larreche (Larreche, 2008) appointed the fact that Pioneers are momentum-powered companies, being able to deliver better results by pursuing creative, innovative, exciting, and smarter strategic alternatives, in pursuing their quest for sustainable growth.

At a first glance the research's results might seem paradoxical, but most of the companies invest heavily in marketing to compensate and counterbalance the fact that they market a product that does not respond to specific, articulated and researched needs and wants. Another option for pursuing such a strategy is that they are pushing an inferior product on a saturated market, or there is no creativity involving the market offering and the only way the company in question can stand out from the crowd is by investing in marketing in general and promotion in particular.

Momentum leaders are not lucky, they are smart. They have discovered the source of momentum and, with it, the beginnings of a smarter way to achieving exceptional growth. Managers often talk about "riding the wave". Momentum leaders of momentum-powered companies are not that passive. They live by this motto: "First build your wave, then ride it" (Larreche, 2008, p 14).

The Momentum strategy is based on customer focus, innovation, and marketing excellence, with an interactive involvement of multiple functions within the company (Larreche, 2008, p 21).

4. Staying Ahead of Competition Through Innovation

Innovation can most definitely come from customers and researching, and observing their needs, wants and desires. Former P&G CEO, A.G. Lafley, acknowledged precisely that stating that the most successful decision of his career was the qualitative judgment regarding consumer behavior research (7. Martin, 2011, p.38). In 1990, Lafley wanted to move towards compact detergents, in order to cut production, packaging, and transportation costs, as well as retailers' shelf-space and warehouse needs. However, analysis of consumer surveys (primary research) suggested that only a small percentage would like the new format. But, Lafley did not give up his idea and dove into a qualitative research by reading comments from hundreds of consumers. He found out that most of them were indifferent, namely not negative. So, he made the switch to compact detergents which meant a big win for Procter & Gamble.

As a matter of fact, even nowadays, P&G emphasizes the importance of determining innovations that would respond to research needs, being one of the biggest spenders on all types marketing research. P&G studies its customers, both end consumers and channel members, through continuous marketing research and intelligence gathering. It spends more than €100 million annually on more than 10,000 formal consumer research projects and generates more than 3 million consumer contacts via email and call center. It also put more emphasis on getting researchers out into the field, where they can interact with consumers and retailers in their natural environment (Kotler et al, 2009, p. 423).

But not every innovation comes from customers. As Henry Ford once put it: "If I had asked people what they wanted, they would have said faster horses." Clayton Christensen is the Harvard Business School professor who coined terms such as "disruptive technology" and particularly "disruptive innovation", term which applies particularly to what Henry Ford achieved.

Disruptive technology, or disruptive innovation, is a term describing a technological innovation, product, or service that uses a "disruptive" strategy, rather than an "evolutionary" or "sustaining" strategy, to overturn the existing dominant technologies or status quo products in a market. It has been systematically shown to the research community that most disruptive innovations are in a minority compared to evolutionary innovations, which introduce an innovation of higher performance to the market. However, examples of true disruptive innovations are rare (Kotler and Caslione, 2009, p 22).

Disruptive technologies bring to a market a very different value proposition than had been available previously. Generally, disruptive technologies underperform established products in mainstream markets. Products based on disruptive technologies are typically cheaper, simpler, smaller, and, frequently, more convenient to use (Christensen, 1997, p 11).

Some disruptive technologies on the five-year horizon include cloud and ubiquitous computing, contextual computing, virtualization and fabric computing, augmentive reality, and social networks and social software. Disruptive technology has the potential to be the ultimate "game-changer" that can create chaos in an entire industry, especially for the incumbents who have not been paying attention to the turbulence quietly swirling around them until it is too late and they are struggling to survive (Kotler and Caslione, 2009, p. 22).

Disruptive Technology / Innovation	Displaced / Marginalized Technology
Desktop publishing	Traditional publishing
Digital photography	Chemical photography
Personal computers	Mainframes and minicomputers
Music downloads, file sharing	Compact discs
eBooks	Paper books
VoIP	Traditional telephones
Ultrasound	Radiography (X-ray imaging)
Podcasting	Broadcast Radio and TV

Table 1: Examples of disruptive technology / innovation (Adapted from Kotler and Caslione, 2009, p 23)

One of the examples of a disruptive technology in Table 1 is personal computers, but today even this distruptor to mainframes and minicomputers may become obsolete to laptops, mini-notebooks, tablets and even mobile phones, due to this convergence of technology characterizing the new business environment.

5. Conclusion

Business leaders have always performed with some level of risk and uncertainty, but today, the speed of change of technologies and new innovations in different areas are greater than ever.

In the business world today, there are more and more Momentum Leaders, as Larreche called them. The biggest and most powerful organizations are run by people who know the customer, understand that they have to deliver value and delight them in new and special ways, whether through product, price, promotion, placement, people, physical evidence or process. Sam Walton (Wallmart) was convinced that there had to be a new way to bring large-scale retailing to rural America. Steve Jobs (Apple) understands that customers can and want to engage in emotional relationships with their gadgets. Richard Branson (Virgin) truly believes and executes on the idea that air travelling does not have to be boring for consumers.

6. References:

BBC, (2007), Interview quote: *Toyota continues to power ahead*, [online] Available at: <http://news.bbc.co.uk/2/hi/business/6637885.stm>

Business Week (2006) [online], Available at: <http://www.businessweek.com/magazine/content/06_17/b3981401.htm> (Special Report – Innovation).

Christensen, C.M. (1997), *The Innovator's Dilemma – When New Technologies Cause Great Firms to Fail*, Boston: Harvard Business School Press

Goldman, D. (2010), *Microsoft is a dying consumer brand*, CNN Money, [online] Available at: <http://money.cnn.com/2010/10/27/technology/microsoft_pdc/index.htm>

Kotler, Ph. et al. (2009), *Marketing Management* – European Edition. Harlow, England: Pearson Prentice Hall Publishing.

Kotler, Ph., Caslione, J.A. (2009), *Chaotics - The Business of Managing and Marketing in the Age of Turbulence*. New York: AMACOM.

Larreche, J.C. (2008), *The Momentum Effect: How to Ignite Exceptional Growth*, New Jersey: Prentice Hall Publishing.

Martin, R.L., (2011), *Don't Get Blinded by the Numbers*, Harvard Business Review, March Edition.

Nunes, P.F., Breene, T. (2011), *Strategy at the edge,* Outlook Journal (Accenture – The Journal of High-Performance), Vol.2., June Issue.

Prahalad, C.K. (2010), *Why Is It So Hard to Tackle the Obvious?*, Harvard Business Review, June Edition.