

Customer Insight and the Innovation Process

The need for banks, insurers and asset managers to be innovative is now greater than ever. The combined effects of competition, aggregators, regulation and the ever cannier customer make it increasingly difficult to avoid commoditisation and price based competition in many markets.

In order to stand out from the crowd, companies are placing an increasing emphasis on developing new products, new services and new ways of working. However, despite the importance and resources accorded to them, few innovations really seem to perform to their expected potential, or achieve their aim of improving the position of the innovator. Often this is because of a lack of the real insight into customer needs that is required for successful innovation, and arises in part, from inadequate customer research.

There are two major reasons for this. First, it is difficult to make the judgement about what constitutes relevant insight - that is, insight that is relevant to making a new proposition successful, and worth the investment. Second, it can be difficult to carry out the necessary research in the context of proposition development processes which are often dominated by budgets, deadlines and implementation issues.

In this article we discuss some ways in which relevant customer insight can be achieved and how it can be used best to support the process of developing innovative customer propositions.

I Creating relevant insight into customer needs

The challenge when thinking of a new proposition that is to be sustainable and profitable is that it should have some points of distinction which will make it stand out for the people who are to buy it and use it. These points of distinction need to be based on some unique insight if the proposition is to be sustainable. This may be into customers' needs, their frustrations with the buying process or with the subsequent service process. Ideally, these points of distinction should not be easily copied. If new benefits are to be transparent, they should be based on some aspect of the firm that confers value to customers and that is itself unique or will take competitors a long time to replicate.

The starting point is to recognise that the firm needs to move beyond the conventional wisdom.

Recognising the need for fresh insight

Clearly it makes sense to use available information when considering a new initiative, but there are real risks in relying entirely on corporate myths about customers, or on information that is available to everyone else. This occurs most frequently with segmentation. Sometimes there is an implicit assumption that segmentations are a given rather than the result of a creative approach to the market. For example, wealth managers often use the current level of individual's wealth holding as the basis of segmentation, when provenance of funds or attitude to wealth building or preservation might offer greater insight. Using poorly framed or undifferentiated segmentations can lead to blandness or confusion.

In a retail banking example, our client had acquired an off-the-shelf segmentation for financial services consumers, based only on attitudes, not behaviours, from a multi-client agency which they decided to apply across the business and products. What followed was an attempt to shoe-horn all their previous customer insight into the new framework. All innovation projects were required to demonstrate their value in terms of the new segmentation, but frequently the new approach did not fit. Perhaps worse, the client attempted to fit the new segmentation to existing customers about which they already had a great deal of proprietary information. At best, the client had a segmentation identical to its main competitors with no fresh insight added, at worst, it had shown its customers it did not know them

Very frequently, we find that the main contribution that customer research can add to a strategy is to develop a unique insight into how to identify a target market which is proprietary to the firm concerned.

In a protection insurance example, the insurer, by developing a new way of looking at professional intermediaries, was able to identify a target segment of these intermediaries who were most compatible with their own aims. The intermediaries were assessed according to the quality of the business they brought to the firm, and graded appropriately. This process identified a segment whose priorities were good sourcing and the securing of good clients in the long term rather than maximisation of short term revenue through churning, priorities which concurred with those of the insurer.

This is especially important in the context of innovation projects where the firm will often be concentrating on a new set of customer needs or seeking to do something that it does not want the competitors to copy.

Establishing a genuine dialogue with the market

Developing good customer insight requires a research process, or rather researchers, who are able to establish a genuine dialogue with the market. This means the researcher needs to listen intelligently to what is being said and to respond to it, and the quality of this process depends on the extent to which the researcher understands the commercial situation.

Potential customers are often not themselves consciously aware of what they could need – it can be difficult to imagine a different future – or may volunteer opinions that are not strictly germane to what has been asked.

If the research is approached from the outset in an open-ended, hypothesis-led manner, rather than as a rigid set of questions, these apparent difficulties can become real sources of insight, but the researcher needs to respond to what is being said and to be able to deal creatively with new avenues as they emerge. This requires both judgement about when to go beyond the brief and an understanding of the context of the innovation so that the researcher can be alert to crucial clues the respondent is offering.

In a mortgage example, our research revealed that although many customers did not understand flexible mortgages, some individuals were active in using their flexible mortgages as short term savings pots. Putting a bonus or large cheque into the mortgage meant that it would be credited at the gross borrowing rate rather than the net lending rate – a difference of 2-3%. They were ‘DIYing’. This discovery led to the launch of a product aimed at the SOHO and contractor markets to help micro businesses manage their cash flow, with an additional service to pay out when VAT and tax

were due. In this case, the research process had to be open to the new opportunity presented by respondents and able to feed back the new material so that it could be incorporated in the proposition development process in good time. It would have been easy to pass over the new material as ‘not within the brief’.

The need for a researcher who is able to establish an informed dialogue is especially serious when respondents are not in the mass market. Respondents might be wealthy, financial services professionals or senior people in other fields for whom financial discussions are infrequent but of crucial importance. If the respondent does not think the researcher is credible, then value will be lost, because the respondent will not bother to talk freely about their needs. The client will never know what they could have learned.

In a retail wealth management example, we carried out research with several demanding constituencies: upscale customers of the bank with more than £250,000 in liquid assets, prospects who were typically running their own businesses or were partners in professional firms, partners of large accountancy tax practices, upscale IFAs who had migrated their businesses towards asset management. Being able to create worthwhile conversations with these individuals required researchers with a great deal of skill and experience.

Exploring the entire customer proposition

In financial services markets, there is a tendency to concentrate on the financial instrument as the core of the proposition, so when ideas are put into research the product and perhaps the core service will be tested. But this approach can leave out other, sometimes crucial, aspects of

Figure 1: The customer proposition is a package of benefits, some of which are overlooked in research.



the total customer experience which in many cases may be the key determinants of whether someone becomes a customer and whether they stay. Fig. 1 above shows the main sub-divisions of a typical customer proposition.

Relevant research can reveal how apparently non-core aspects of the customer proposition can be crucial to customer perception and experience because they can be the only tangible contact the customer has with the firm from year to year.

In a pensions example, employees of client firms who were members of a stakeholder pension scheme with their employer were paying regularly into a pension. When payments were missed, employees received a letter from the pension firm threatening them with penalties. This was not felt by the employees to be a good way to motivate them to contribute further, and was felt to reflect the low regard in which the supplier really held customers. The research helped the client to improve their communications and to set the right tone to encourage customers to continue to contribute.

Sometimes, suppliers make much of some kind of 'Promise' in their branding or promotional literature to distinguish

themselves from competitors. If this promise is not fulfilled, customers can feel their needs are not being met.

In a small business banking example, our client was convinced that poor customer satisfaction centred on the relationship manager, since these people were presented to the customer as the differentiating aspect of the proposition (the promise). In fact, poorly coordinated telephone call centres were the root cause for two reasons. First, because customers felt they were routed to call centres and therefore denied access to their relationship managers, although the relationship managers were unaware of this. Second, because

The more intangible the product is, the more important are these other aspects of the proposition because they are often the only demonstrable aspect of value the customer receives from the firm. For payment services and debt, for example, which are about instant gratification (debt being typically associated with a new purchase), tangibility is not such a problem. However, for insurance, personal protection, savings and investment, in which product benefits are frequently not very tangible because they are in the future and often unspecified, customers will look beyond the financial instrument for sources of confidence in the firm.

In a wealth management case involving the creation of new propositions, we discovered through client research that clients were more concerned about the way the firm communicated with them than they were about the underlying value of the investments. First, they did not like the valuation statements they received because they were unclear and contained too much detail about holdings and transactions. Second, they did not like plans to re-brand because they saw this as a 'flashy and unnecessary waste of 'our' money'. In both cases clients saw evidence to mistrust the firm from the communications. We helped to develop a clearer, 'no nonsense' valuation which spoke directly to clients' needs in language they were used to, and to develop a 'low-key' brand.

Researching all the relevant relationships

Looking at the whole of the customer experience means researching the customer view of the sales and service process. However, it is important to include not only this but all the relevant relationships in the sales and delivery process.

First, there is what the sales and service people think about what is delivered to the customer. Sales and service staff may feel a proposition to the customer is not fair, and not something they want to be involved with.

In a retail financial services example, sales staff in many branches were not selling a protection product which was seen by the firm as key to profitability. The firm assumed that this was because the staff either did not sufficiently understand the product or lacked the sales skills to sell it effectively. Our research with the staff concerned showed that staff had a fine appreciation of the product but felt that it was not good value, and would not sell the product into what was in fact their local community. We helped to re-price and reposition the product.

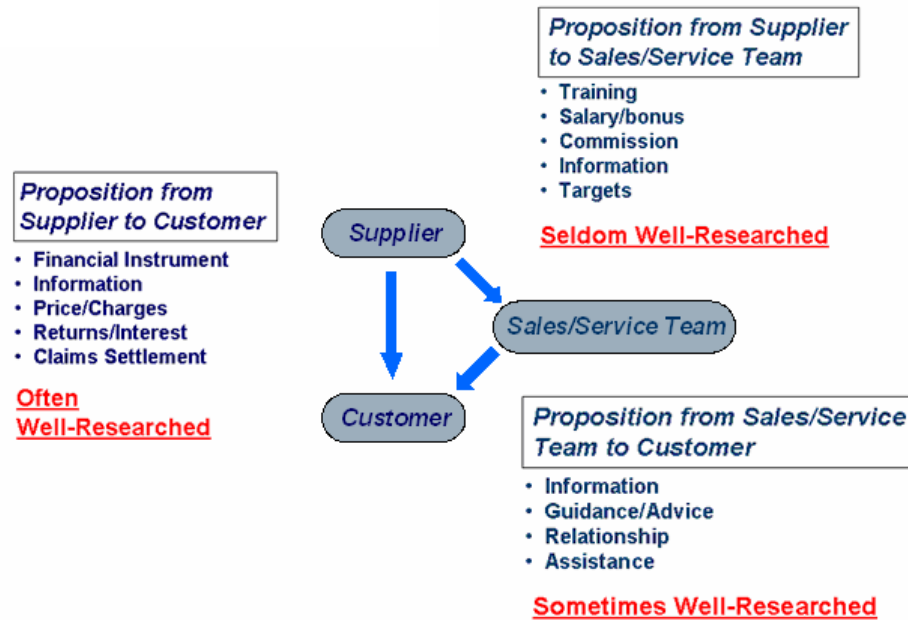
Second, perhaps more crucially, it is important to understand what these staff groups think about what the firm delivers to them as employees. Staff may, for example, not believe the firm's claims that they want to shift the proposition to the customer in a particular way.

In an SME banking example, head office wanted relationship staff to concentrate on customer service, but despite several attempts, customer service and satisfaction measures did not improve. Our research with the relationship staff revealed that these staff did not believe the firm when it said it was interested in service, but instead saw the daily signal from the leadership that near term sales goals were of primary importance and that they would be better rewarded for achieving sales targets. Our research also helped to identify all the ways these signals were being given out, and we helped to develop a programme of interventions to redress the balance.

Third, if the business is intermediated, what the intermediaries think about what the firm is delivering to them, and the proposition the firm offers to sales and service staff and intermediaries is frequently left out of the picture.

In an investment management case, the firm had developed a new product which had many benefits for customers, including making portfolio management, review and life-styling much easier. The product was launched but sales did not grow significantly, despite being well received in public circles and journals. Our research with intermediaries however revealed that the product did not fit well with the traditional definitions of existing products – it was neither a fund nor a product, and so did not fit with intermediaries' decision-making processes. We are working with the client on a re-positioning.

Figure 2: Research is needed for three related propositions



Intermediaries often add a dimension to the overall customer experience which is not only not under the control of the firm, but it may be invisible to the firm.

In the previous case study, the new product was seen by intermediaries as replicating services which they themselves provided to selected customers. Initially, intermediaries therefore saw the new proposition as a threat to their businesses. We recommended repositioning the new service as a way for intermediaries to contain costs for small customers

There are in fact three types of proposition to be explored through research as shown in Fig 2 above.

The potential insight generated by the research is only valuable if the research process can be integrated effectively with the proposition development process and done so in a timely and cost-effective manner and this brings us to our second topic: how research can

best be integrated with the research process.

II Integrating customer research with the innovation process

An innovation process typically involves a pipeline in which a pool of many ideas, starting out as a few words on a Post-it Note, progress through two or three stages of development on to perhaps two or three full business cases and ultimately implementation. The core objective underlying the design of this kind of project is to achieve both speed and efficiency in deciding whether or not to progress ideas to the next stage, and then to focus resources on the chosen few.

This process poses two challenges for the research process:

- The need for research to support two processes in parallel with somewhat different

objectives - a decision-making process and a creative, development process

- **The changing nature** of the questions that research may need to answer during the course of the innovation process.

These challenges for research are exacerbated because innovation projects can be unpredictable from stage to stage, with tight budgets and short timescales throughout.

Meeting needs for creativity and decision-making together

An effective innovation process focuses resources on the projects which are most likely to succeed and this means two important processes have to take place in parallel, which are, to some degree in tension:

- **A decision process** in which the large number of initial ideas are turned into the tens of opportunities to be investigated and handful of propositions to be seriously investigated for every one launched.
- **A creative, development process** between these decision points in which ideas are developed, 'stretched' or combined with other ideas to improve the likely success of the resulting customer propositions.

Good research can help to drive both these processes, but to do so the research carried out may need to do double duty ie address both decision making and creativity needs -to contribute to how best to build an idea into a successful customer proposition, and to the decision whether or not to progress with it in competition with other ideas.

Adapting research to the stage of the process

As the innovation project proceeds, the form of the decision-making and the type of creativity required evolve. This is because, as the project unfolds, the understanding of a given proposition and its commercial potential develops. Increasingly specific questions can be addressed in customer research which would not have been possible when the proposition was just one of up to 100 ill-formed ideas. So, for example, the questions around the target market and proposition may progress from:

Is there likely to be demand for this idea, and does it add some economic value?

through to:

Who are the prospective customers, how large is the addressable market and will they pay good money?

and finally:

What are the priority segments and how do we differentiate ourselves in each, how do we reach them, and what are the price/benefit trade-offs which will make us money?

The form of the research must therefore also be adapted to the key questions to be addressed at each stage of the innovation process and provide relevant customer insight when it is required if it is to be valuable.

At the start of the project, the research may be wholly qualitative in nature, aimed at understanding needs and frustrations and tasked with exploring several different propositions at one sitting.

Table 1: Research tasks and methods must be appropriate to the stage of the innovation process

Stage	I Ideas to Opportunities	II Opportunities to Propositions	III Propositions to Business Case:
Creative Process	Creative idea generation	Stretching and testing ideas, building more robust propositions	Building a full case for proceeding Refining sales, marketing, and positioning
Decision Criteria	Is there an opportunity? Does it have 'legs'?	Do people like the idea? What is the addressable market/segments? Will they buy it?	Are target segments viable? Will enough people buy it for us to make money? Will channels work? Can we build a business?
Typical Research Methods	Well-focused desk research Exploratory interviews/group discussions Initial concept tests Issues/needs/frustrations	Qualitative research: Group discussions / in-depth interviews Concept tests, needs & Frusts. and benefits development With prospects, customers, sales and service staff and intermediaries	Qualitative research: Segment level research on benefits, sales process, communications/ positioning, brand Channel research Quantitative research: Scoping, prioritising segments Take up, trade-off research and analysis to underpin revenue and pricing projections
Next Stage Spend	£15,000 – 20,000	£200,000 – 300,000	Several Million

At the commercial proposition stage, the research will still be qualitative, but focussed on one proposition and tasked with identifying attitudinal and behavioural segments in order to tie in with desk research or quantitative research to determine the size of addressable markets.

At the business case stage, the research will likely be mostly quantitative to scale price/benefit trade offs or channel usage, and qualitative research may be used to further develop the benefits or communications aspects of the proposition.

Table 1 shows a typical set of research methodologies through the course of an innovation project.

Dealing with unpredictability, thin budgets and tight deadlines

Unpredictability is inherent in innovation projects because it is not possible to be sure which ideas will make it through to the next stage, and therefore what, specifically, may need to be researched.

On budgets, the point to remember is that at each stage in the process some judgement is required about which ideas will progress to the next stage – what is at stake is the cost of the work in the next stage of the process not the eventual decision to invest millions in the project. So at the opportunity stage, any customer insight work is done to support a decision to spend £15,000 - £20,000 on further development.

In an insurance example, the all-in budgets at each stage of the process were in the region of £3000 - £5000 per opportunity, £30,000 - £40,000 per proposition and £200,000 - £300,000 per business case. The role of research in progressing early stage

opportunities to propositions was clearly limited, but so was the scale of the next stage of investment.

As the successful propositions pass successive stage gates, so the budget available for each proposition expands, but the skill is in supporting a commercial judgement about which propositions to back.

Timescales can often present a further challenge frequently because the logistics of research are often more suited to the researchers than they are to the client. When

an innovation process is underway, the team do not have the luxury of taking a few weeks out to do research, the research needs to be designed to fit the imperatives of the innovation process.

To achieve this kind of integration, what is needed is a very close communication with the researchers, with as few separate teams involved as possible and flexibility in the scheduling so that the overall process can proceed seamlessly.

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Getting good customer insight is a subtle process but it does not have to be difficult. With researchers who understand the business context and are able to focus the research around the innovation process, it can provide a real competitive advantage.