

# Outside Innovation

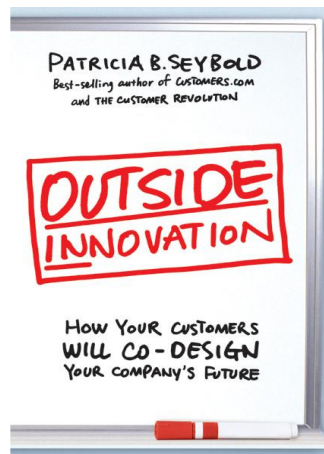
How Your Customers Will Co-Design Your Company's Future

## About the Author



Patricia Seybold is an internationally acclaimed best-selling author. Her ground breaking book, *Customers.com*, published in late 1998, provides insight into how 16 still-thriving companies designed their ebusiness strategies to improve revenues, increase profitability, and enhance customer loyalty.

Patricia's books discuss the impact that technology and evolving customer behavior have on business trends. Ms. Seybold is a strong advocate for the idea that customers should be engaged in the brainstorming work that precedes the conception of successful products and services.



**Author: Patricia B. Seybold**  
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## ■ The Big Idea

The ability to innovate is what keeps your organization at the top of its field. The faster and better you innovate, the more likely you are to remain in the lead and to set the new rules that others will have to follow. But the innovation game is changing dramatically. You no longer win by hiring the smartest engineers and scientists – you win by engaging the smartest *customers*.

In *Outside Innovation*, Patricia Seybold, author of the best-selling *Customers.com* and *The Customer Revolution*, argues that the only way organization can break out of the pack is to open up their entire business to passionate customers and welcome them into every aspect of product and service design.


In fact, those companies that bring customers into the innovation process – the ones that innovate from the outside in – will create products that better meet the needs of prospective customers, revolutionize business models and practices, and build fanatically loyal customers.

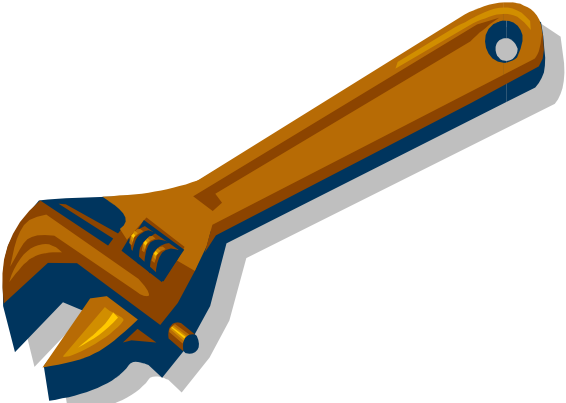


From millions of consumers who collaborate to create and evolve next-generation multiplayer games – games that would normally cost \$100 million to develop – to competing research scientists who work together to create breakthrough medical treatments and heartier crops, customers all over the world are already changing how companies innovate.


## Why You Need This Book

This book provides businesses large and small with the strategies they need to let customers co-design their futures and lead them to success.

## GIVE CUSTOMERS IMPORTANT ROLES TO PLAY IN SHAPING YOUR BUSINESS

Customer Roles	Description
 <b>Lead Customers</b>	Lead customers are a special breed of innovators. Not finding what they need, they invent new solutions themselves, without being asked. Watch them, support them, and commercialize their inventions. Engage them in co-design activities. Give them innovation toolkits that enable them to extend, modify, and/or redesign your products and services. Then watch what they do and profit from it.

 <p><b>Contributors</b></p>	<p>Contributors are happy to donate their work for the benefit of others. For example, contributors may create software or music or designs, and offer their creations freely to others. They contribute their time as debuggers and testers of new products and concepts. They enjoy seeing their contributions and ideas used. They may reap reciprocal benefits but that's not a precondition. Encourage and acknowledge contributors. Make sure their contributions are recognized and appreciated.</p>
 <p><b>Consultants</b></p>	<p>Consultants provide deep subject matter expertise and offer valuable guidance and insights. Invite them to become part of your company. They'll analyze trade-offs, help you prioritize, and recommend winning approaches.</p>
 <p><b>Guides</b></p>	<p>Guides act as advisors to other customers, solving problems, offering insights, and helping create "maps" that will help other customers navigate complicated product lines or explain relationships among complex concepts. Guides classify, filter, organize, and review alternatives. They help others make sense out of confusion. They add value by creating new knowledge.</p>

 <p><b>Promoters</b></p>	<p>Promoters are enthusiasts about your brand and your products. They are happy to spread the word. They come up with innovative ideas about how to attract and delight other customers. They can help shorten time-to-adoption. They may sell and/or promote your wares.</p>
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## LEGO MINDSTORMS

Lego has thrived because of the ongoing customer community that sprang up independently of the company, but which Lego has now embraced.

Customers are now collaborating with Lego in its product design. Here are some best practices we noted that may apply to your business:

- Watch lead users carefully. Sponsor their research with your products. Be ready to commercialize their great ideas.
- Listen carefully to what customers are trying to do with your products and let them know you're listening.
- Identify and appreciate the different customer audiences you have. Gain a deep understanding of what those customers are trying to accomplish – their Customer Scenarios – and make sure that you are supporting them in achieving their desired outcomes.
- Establish and nurture customer communities.
- Give users the tools, information, and capabilities to extend your products.

## STAPLES

Not content with just being a leader in office supplies, Staples went the extra step in engaging customers in a consulting role to create truly innovative shopping processes across channels. Here are tips for what you might do to engage customers for process innovation:

- Tie your customer-centric vision to corporate policies, including communications practices and compensation packages.
- Watch your customers as they do business with you; they will identify the pain points.
- Solicit ideas about process, content and products from your customers, and implement improvements based on these ideas.
- Test new processes/products with customers; validate all assumptions with customer consultants.

## KOKO FITNESS

As true entrepreneurs, with a history of successes, Mike Lanon and Mary Obana understand the power of an unmet need in a readily identifiable market. They paid attention to what they saw and validated all their observations with their potential customers. Here are the lessons to be learned from Koko Fitness:

- Keep your eyes open to a potentially new product that will fulfil an unmet customer need.
- Identify the customers' scenarios and desired outcomes.
- Recognize where the "passion" is, because that's where customers will go.
- Test new processes and products with customers; validate all assumptions with customers.

## ZOPA

Zopa took the idea of an online exchange. Customers have been at the center of the design of Zopa's business. Here are some best practices we noted. Think about which of these practices are applicable for your business.

- Design for and with a very specific audience.
- Understand their emotional motivations.
- Build your brand and your culture to mirror the self-image of your target customers.
- Focus on a critical unmet need.
- Address customers' key scenarios.

## THE BLOGOSPHERE

How can you harness the power of the blogosphere?

- Track what bloggers are saying about your firm and your products. It's easy to set up automated feeds that will tap you on the shoulder electronically every time someone mentions your name, your company's name, or your product's name(s). Staying in touch with what users, customers, critics, and other influencers are saying about your company and its products is essential.
- Find and acknowledge fans and critics; "Support" their blogs. End users' or critics' blogs are big opinion influencers. Think of them as not-so-free PR. You can get great buzz and credibility from a small mention in a popular blog. But don't try to buy those mentions with overt sponsorship or advertising.
- Invite your customers to blog on your site. Offer them enticements by way of free products or prizes to post pictures and comments about they use your products, what works, and what doesn't.

- Put your fans to work! Ask your fans to co-create with you.
- Gain insights from users' own blogs. You'll be amazed at how much customers will tell you about their lives and their workplaces. You can engage in virtual anthropology by looking at users' blog offerings.
- Participate in the blogosphere. By 2000, any company or organization that didn't have a Web address was considered as "out of it" as a business without a fax machine or a telephone. Now, the same can be said of blogs. You aren't credible if you don't have a blog!

## WIKIPEDIA

If you want to harness the contributions of a group of customer volunteers, you need to be very careful about how you structure the governance of your community. Think carefully about the following dimensions before you begin:

- Establish and maintain the authority to set policies, processes, and to enforce compliance.
- Consider carefully the consequences of permitting anonymous posts and comments.
- Determine how subject matter experts and referees will be selected.
- Establish the tone and charter of your community to be clear and respectful.
- Enable work-in-process to be visible but clearly distinguishes from "accepted" or "published" work.

## GE COLORXPRESS SERVICES

Not every company has the resources to build a state-of-the-art innovation environment for co-design teams. But there are a number of important lessons to be learned from what GE Plastics has accomplished:

- Understand your customers' key scenarios, their conditions of satisfaction, and all their related constraints.
- Redesign your business processes to support your customers' goals.
- Provide innovation toolkits.
- Work with customers to deliver their vision; provide the subject expertise they need on a co-design team.
- Ensure customer loyalty by taking mundane maintenance and management responsibilities from them.

## ONLINE GAMING

- Online games are here to stay. They're not only big business, but they've already shaped the expectations of two generations of customers and employees.
- Recognize that "Gen G" customers and employees have different expectations about how they want to relate to companies. They assume that they can add value to your base solutions by rolling their own environments and/or extending yours.
- For a variety of reasons, including cost factors, the next generation of games will be even more customer-interactive. Game companies will be engaging customers in co-designing and contributing much of the rich content and interactivity for the next-generation games.

## FIVE STEPS TO OUTSIDE INNOVATION

### 1. Identify and study lead customers.

The fastest path to true innovation is to harness the creativity and inventiveness of your smartest customers – the ones that are the most knowledgeable and passionate about your field.



**2. Provide customers with tools to use to co-design their ideal scenarios.**

Give customers tools they can use to achieve their desired outcomes. Ideally you want to be able to watch how customers use, customize, improvise, modify, and extend the tools you provide. They'll give you patterns you can learn from.

**3. Nurture customer communities.** Become part of the customer communities that your customers are part of. Ensure that executives and employees at all levels of your organization are hanging out with customers in these communities – both in face-to-face communities and online communities.

**4. Empower customers to strut their stuff.** Encourage your customers to contribute their ideas, their designs, their creations, and their inventions to their peers.

**5. Open up your products and engage customers in peer production.**

Today's customers expect to be able to roll up their sleeves and "mess" with your products, see into your business processes, and access and extend your intellectual property. Don't fight it. Harness it!

## FIVE CORE COMPETENCIES TO MASTER

**1. Story-telling.** Encourage everyone to tell stories about customers, about the situations that customers are in, about the ideas that customers have, about the problems they've encountered, and the inventive ways in which they (and you) solved those problems.

**2. Community building.** Invest in nurturing and supporting online and face-to-face communities. Facilitating healthy communities is not a part-time job.

**3. Customer Co-Design.** There are many people who know how to consult with customers and to solve their problems. But there aren't many people who are experienced at co-designing with lead customers – particularly with groups of them.

**4. Open development.** Take your product planning out of its veil of secrecy and open it up, at least to your lead customers. Don't wait until your products and business models are "baked" before you invite customer to test them.

**5. Peer production and peer promotion.** Build a competency in organizing and running customer-peer group development projects. Lead customers, enthusiasts, academics, and subject matter experts will want and need to be part of co-designing and co-inventing the platforms and solutions that will tackle the world's most complex and challenging problems.

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