

Why Didn't I Think of That?

by Erich Joachimsthaler

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They say that love is blind but so is success; or at least success, even in the most innovative companies, can blind you to what you need to do to stay ahead of the competition.

Where, for example, was Sony looking when Apple outflanked it with the iPod? Neither market dominance nor traditional methods of market research guarantee that you won't wake up one day with a rival's new product on the market and wonder, "Why didn't we think of that?"

In the book "Hidden in Plain Sight: How to Find and Execute Your Company's Next Big Growth Strategy," IESE collaborator and the founder of Vivaldi Partner Erich Joachimsthaler shows how to avoid the sort of complacency or inward thinking that can have you upgrading the latest model of your Discman when your customers have all moved on to MP3. It is a case of thinking outside the box, but in a specific and structured way that takes into account and captures the ecosystem of demand.

The author illustrates his argument with case studies of companies as diverse as Sony, Starbucks, the film distributor Netflix and Procter & Gamble, among others. He also draws on his 20 years experience as a marketing consultant.

Outside in

The approach is the reverse of the typical outlook, where you look at your existing customers and think, "What else can I sell them?" It contrasts the thinking that, for example, piles onto a laptop functions, memory and processing power when perhaps all the customer wants is a simple and fast way of downloading files. The outside-in approach implies looking away from the existing modalities of your business, its products and its forecasts and looking at what people want and how they live. In terms of listening to music on the move, the iPod is simply a technological advance on the Walkman. But in terms of how people control what music they listen to and their self-perception as consumers of music - not to mention as iPod owners - it is a quantum leap. The mistake is to continue seeking needs to fill and holes to plug, providing better versions of the same old product. Differentiation, especially for market leaders, can often absorb too much or all of the energy needed to innovate and break out of the mould.

One part of the solution is observation, which is how the Sony Walkman originated, from watching how young people live, their routines and especially how they use their leisure time. Another part is listening to consumers. But listening or observing consumers alone is not equal to understanding them. The outside-in approach means that the key is to map what consumers really do first, not just what they say they do. Joachimsthaler recommends reconstructing the daily life of people into episodes or rituals using a methodology that was pioneered by Nobel Prize Laureate Daniel Kahneman of Princeton. Joachimsthaler and his company, Vivaldi Partners, have applied this methodology of finding the hidden or unarticulated needs and wants of consumers in over 50 studies on behalf of his client companies. The ultimate goal is to have customer advantage as a central tenet of the organization, ensuring that innovation is not a one-off, "we invented that" proposition that in due course blinds the company to changing consumer needs and trends.

The outside-in philosophy is based on a demand-first model, which in turn derives from the pursuit of customer advantage. This entails:

- Understanding the complexity of the changing ecosystem of demand and identifying opportunities for innovation.
- Applying that knowledge to create new opportunity spaces by seeing what cannot be seen by consumers and innovating across their behaviours.
- Rethinking the company's core business with the objective of designing transformational experiences.
- Establishing processes that ensure that companies do not lose sight of why and for whom they exist.

Starbucks provides a classic example of the outside-in, demand-first perspective. Howard Schultz, the proprietor, saw the possibility of creating a space in American lives similar to the space that going for coffee occupied in the lives of Italians and other Europeans. The coffee itself was not the point; the point

was the idea of a space - both physical and social - where people would devote a piece of their day to having coffee, the sort of place that the *almuerzo* occupies in the Spanish morning routine. Starbucks strategy was unusual, concentrating outlets so close together in target areas that they competed against each other, to their mutual benefit. The idea of this coffee moment was developed by having Wi-Fi access in outlets so that customers could log on, download music and, in digital terms, make themselves at home.

Beyond the Box

Companies invest vast sums and put great faith in market research, focus groups and consumer questionnaires. This data can be of enormous importance in terms of modifying and developing existing products, and certainly the consumer must be listened to, but it is also vital to see beyond what consumers think they want, to anticipate demand. As Henry Ford remarked, "If I had asked customers what they wanted, they would have told me they wanted a faster horse."

Companies need to break out of the idea of a world divided between existing and potential customers and the obsession with collating information from existing customers. Furthermore, brand loyalty only lasts as long as the brand is perceived as a winner. To innovate, it is also necessary to think beyond the industry, because competition these days may come out of left field, as with Apple, which only now is a player in the mobile phone market with the iPhone. Companies also need to escape the limitations created by roles and divisions between, say, marketing and technical people. Everyone needs - if not to change - then at least to adapt his or her perspective, and not retreat into a job description. The head of marketing needs to look at things from the point of view of the technical director, and vice-versa.

What lies at the core of this argument is the idea that competitive advantage needs to be replaced with customer advantage, in order to break out of the closed circle of competing on the same ground to look beyond to what people want. Surveys show that people spend only 15 percent of their lives as consumers, in the sense of actually purchasing goods. The rest of the time, they are just living. Innovation and growth depend on coming up with products that enhance people's lives and their sense of themselves, based not just on face values, but that actually use values.

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