

Experience Innovation

The next frontier to differentiate and drive growth

32



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Sense Perspective

Picture

“Innovation”

Do you think of new technology? Flashy add-ons? Trendy menus? Today’s product innovations, like the growth they generate, are often incremental and fleeting. R&D spending rose 5.1 percent in 2015 and yet revenue for the same companies increased less than 1 percent.* Technology diffusion and globalization are making it harder than ever to stay a step ahead of the competition. And, the radical transparency of the digital world favors “Excellent” reviews over brand loyalty. So what are today’s best, most innovative brands doing to stay distinct and relevant? They’re diving into the experience.

*Barry Jaruzelski, Kevin Schwartz, and Volker Staack, “Innovation’s New World Order,” strategy+business, October 27, 2015, <http://www.strategy-business.com/feature/00370?gko=e606a.html>.

Going beyond the product

Companies are creating new value and gaining brand loyalty not by focusing on specific product features or design, but by reimagining the broader experience of how customers use their products. Car service Uber didn't change the vehicle or retrain the drivers; it fundamentally changed how you order, meet and pay for rides. Airbnb didn't redesign the travel portal or the hotel; it completely rethought how people can find the room they need. The list goes on: Snapchat changed news consumption. Warby Parker fashioned eyewear without big name designers. And while Gillette is looking at one more blade on the razor, innovator Dollar Shave Club shook up the market with a simple, low-cost mail subscription model.

Even legendary product innovation leaders see that they can increase sales by improving the experience. Nike is innovating the fitness experience and the community, not just the shoe. Tesla lets you buy a car using a digital signature, request home delivery and schedule services with roaming technicians who can remotely diagnose issues.

Warby Parker saw that purchasing fashion eyewear is cumbersome and made expensive by the specialist optometry channel. So it redesigned the buying process, from beginning to end, to work over the web. Warby Parker embodies the creative potential of great experience innovation, from the \$95 price, to the donation of glasses to those in need for every frame purchased.

Even traditional players see that innovating the experience creates real rewards. Progressive recognized that insurance can be a boring arm's-length relationship until you have an accident, where its on-site accident assistance provides huge relief in a stressful and unfamiliar situation. In each case, these companies redesigned the customer experience — not just the traditional product features — to address unmet needs, create “talk-worthiness” and drive differentiation and growth.

By opening the product lens to take a broader view, each of these companies discovered adjacencies that wrap around their products or services to create an immersive environment. These companies have mastered a new discipline that we refer to as “experience innovation.” They are taking a broader view of their customers' lives and how they interact with products to create new and unexpected “signature” moments. These experience innovators are solving customer problems in a way unique to their brands, with a rich array of experiences that surround and connect to the core offer. Increasingly, experience innovation trumps product innovation.

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The experience is the brand

Experience innovation, of course, is not new. Virgin's airport clubs, Nike's flagship stores, Starbucks restaurants and Disney's Parks set the standard many years ago. These innovators show us that the experience isn't just about the planes, the shoes, the coffee or the even the rides — it's about how we feel when we use the product or service.

But while many companies may recognize this, very few deliver or approach it the right way. In a recent Forrester study more than 80 percent of senior business leaders said their companies are focused on improving their customer experience. And yet, 85 percent of firms have no systematic approach to determine what a differentiated customer experience even looks like, let alone create one.

The reality is that innovating the experience is increasingly a competitive necessity. In today's digital world, with more brands and touchpoints than ever before, customers can quickly lose attention and affection. Mobile and social technologies enable your brand to accompany customers anywhere and any time, opening up vast new avenues to add value. Innovating the experience allows you to create "talk-worthiness" (as Target's pop-up store with Missoni does), differentiate in unexpected ways (as Tesla does with offers to come to your home to service your car rather than making you go to a dealership) and enhance loyalty (as Amazon Prime does with its free limitless shipping, book borrowing and digital streaming). Innovating the experience generally holds greater opportunity than advancing the core product. But it is also much harder.

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a
different
mind
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Achieving experience innovation is challenging for many reasons. First, within an organization products are typically managed by one owner, while an experience can have dozens of masters, all with separate goals and metrics. If a strategy is forged, changing an experience can require mobilizing and energizing thousands of employees, a much more complex organizational task than aligning the few dozens who lead the design of a product.

Second, experience innovation requires mastering competencies that many organizations lack. Improving the experience is usually thought of as an operational process, not one revolving around ethnographic insights, creative ideation and blue-sky visioning. On the other hand, innovating the product is often a focused exercise — how do we make the thing we make better?

And third, experience innovation requires thinking differently about your business, reimagining things that may be taken for granted. Experience innovation requires a new mind-set and a new process, with several guiding principles.

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It's about creating delight, not just better products.

When companies focus on winning in the customer experience they often fall into one of two traps: targeting specific touchpoints (such as customer call centers) instead of addressing the holistic end-to-end customer experience; or, thinking in terms of operations and process efficiency instead of brand engagement, customer delight and growth. Efforts can quickly devolve into mechanistic touchpoint-optimization exercises: Choose the most important touchpoints, benchmark the competition, pick key performance indicators and execute and monitor operational improvement.

Experience innovation is as much about how to delight as it is about how to deliver, how to identify the true emotional drivers of connection and loyalty. You remember the first time you used Venmo to pay the babysitter, had breakfast delivered to your door by Seamless or completed a sweaty, SoulCycle spin class. You remember because the experience was totally new and different and fun, and it made the product or service more appealing than the competition. These experiences are emotional markers for these brands.

It's about looking at the whole customer "ecosystem," not just where you play today.

Finding innovation opportunities often requires looking beyond your narrow product category. Consider Amazon, a poster child for innovation. Amazon has focused on building a lucrative array of services around its core offering, services that have been the major drivers of its success and growth. What started as an online bookstore quickly expanded into all areas of retail, groceries and recently, video streaming and artificial intelligence. Thinking about the larger ecosystem — the opportunities to meet customer needs in the spaces surrounding your core product or service offering — allows you to expand your base and create new opportunities for growth.

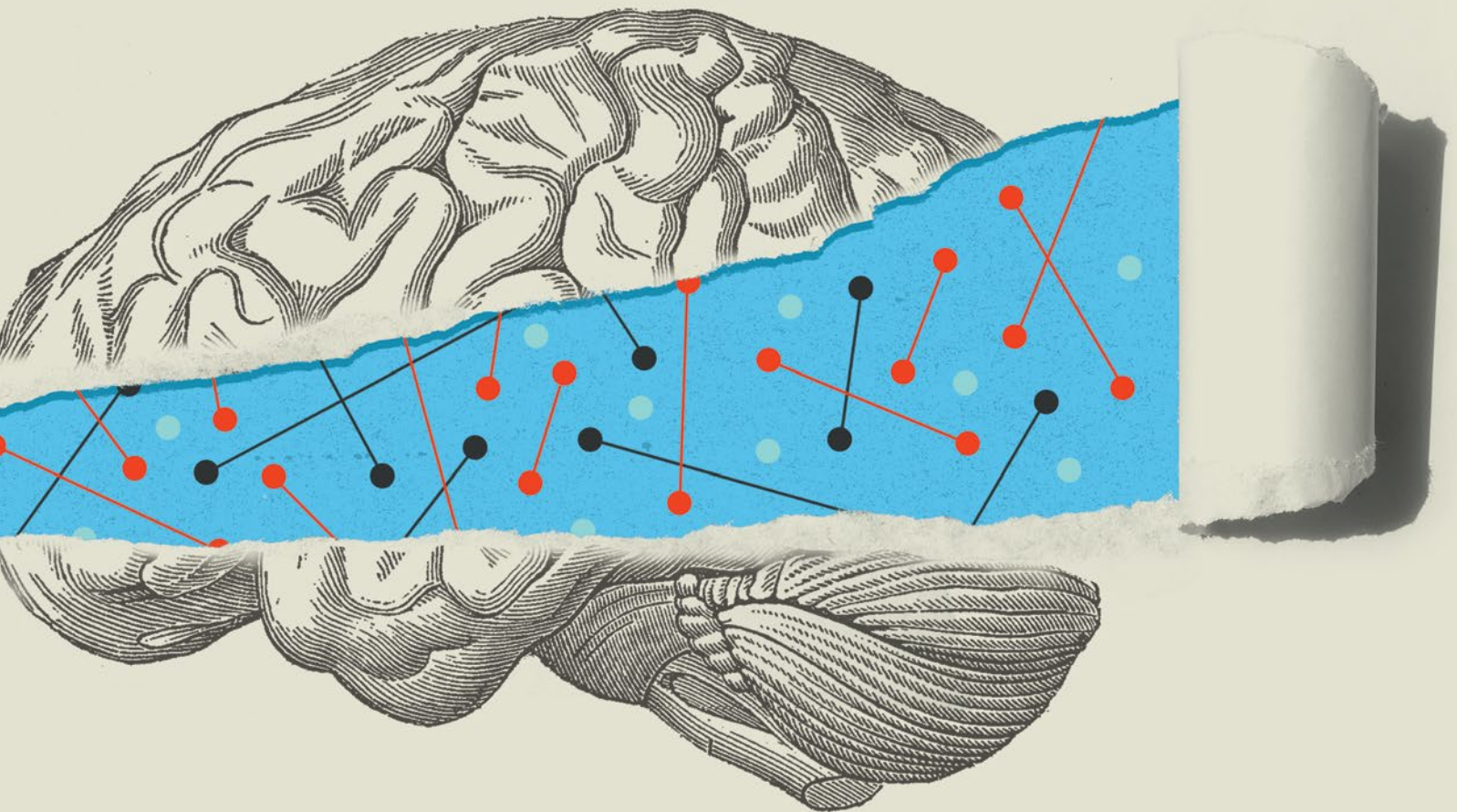
Nike and Starbucks also see the world this way. Nike has surrounded its performance products with fitness clubs, tracking apps, social media and community giveback programs. Once the “third place” to drink coffee, Starbucks has now developed a larger ecosystem that extends beyond morning coffee into daylong “moments of connection” across multiple food and beverage categories. New formats include a wine bar concept, with mobile payment and reward apps to enhance loyalty. Not to mention its plans for a 20,000-square-foot mega store in New York City, complete with roastery and tasting room.

It’s about being customer-centric, but not customer led.

Experience innovators recognize that consumers can’t tell you about the things they need but haven’t yet imagined. And consumers can’t articulate how they will do things differently in the future. When Delta brought the lounge directly to the gate, it created a new experience for frequent travelers who had never thought of the gate as a café and social destination. The space takes advantage of Delta’s ability to deliver on its essence of “21st century graciousness” in a way consumers might never have articulated in a focus group — and provides an opportunity for a new revenue stream.

It’s about connecting the total experience together under the brand, not just delivering “a breakthrough idea.”

Finally, great experience innovation isn’t coming up with a single idea, but delivering a connected journey from one brand. The ecosystem of Mac, iPhone, iPad, Apple TV and now Apple Music ties together to create a uniquely Apple experience. Disney delivers magic with bracelets that optimize your waiting time in the park, a reimagined cruise experience, global vacation packages with a Disney twist and carefully curated apps that bring the experience to life for kids. One distinct idea, even a big one, is usually not enough. Product innovation might rely on one-off improvement; but experience innovation ties together multiple moments and experiences.



Think big for big returns

Experience innovation may be more complex than product innovation, but the rewards can be significantly greater. Focusing on the experience can create returns regardless of the degree of ambition.

At a basic level, companies can create a series of connected unique brand moments — such as the Starbucks barista ritual, personalized mobile app, and unique merchandising and store environment. Second, there is the opportunity to drive real preference with major signature

Innovating the experience finds untapped sources of differentiation to drive loyalty, preference and margin. Behavioral science research shows that buying an experience, such as a vacation or a concert, is more rewarding than buying a product alone. The more pleasurable the experience, the more people are willing to pay. And great experience innovations create meaningful switching barriers — witness Nespresso’s capsule subscription model or Amazon’s Dash button.



It’s often much easier to find differentiation to drive loyalty from an experience than a product.

experiences that differentiate and delight, such as BMW’s distinctive vehicle delivery service and exclusive driving school. Finally, and most impactful, taking a broader view of the customer can unlock entirely new avenues for growth and business models. For example, IHG is opening a new revenue stream with the launch of Even Hotels. This innovative hotel offering caters to health-conscious travelers wanting to keep up with their daily routines, with in-room fitness equipment, healthy food options and natural, relaxing spaces.

With one of our recent technology clients, we found 50 percent of customer renewals to be driven by the software’s quality, ease of use and functionality. But the other 50 percent was driven by the sales and needs identification process, the contracting, the education programs and the ongoing service. These experience elements could be improved almost twofold with creative thinking and hard work, whereas product improvement had a ceiling of 10 or 20 percent.

The business models are more efficient.

Investing in experience innovation does not mean higher costs. Many customer experience innovators reduce the cost to serve customers as they create better, more endearing experiences. When Progressive provides on-site accident support, it reduces its fraud losses by assessing damage at the time of the accident. Streamlining the process of buying glasses reduces selling costs for Warby Parker, allowing the company to offer more for less. Health-care innovators such as CareMore and Iora Health initially add costs by engaging wellness coaches who proactively engage patients to head off health problems. But this experience innovation saves orders of magnitude more than it costs by reducing downstream acute care costs.

The opportunities for growth are more abundant.

Thinking about “end-to-end” customer ecosystems enlarges the “sandbox” in which a company plays and creates significant adjacent opportunities for new growth. The activities and services associated with using a product are often

10 times the size of the market for the product itself. For Apple, iTunes attracts millions of users a day, and iCloud and AppleCare offer peace of mind for its customers. These ancillary services strengthen Apple’s customer relationships, and they represent \$12 billion a year in incremental revenue. Nike’s move into Nike+ has opened up a whole new business beyond shoes and apparel. And Victoria’s Secret, which burst into the slow-growing intimates category a decade ago, has grabbed a 50 percent market share of a commodity business, building a \$5 billion brand by integrating a destination shopping experience with additional clothing, fragrance offers and a signature annual fashion show on TV. Experience thinking can dramatically expand the addressable market.

Lippincott’s study of more than 500 consumer-facing brands shows the stock price of experience leaders appreciated an average of 8 percent per year more than laggards, significantly outperforming the S&P 500. Given these payoffs, the shareholder value gains from experience innovation can be significant.

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A road map for creating connections

The process of designing a truly innovative experience is complex. It can neither rest on the “process excellence” of classic customer experience improvement efforts nor the “creative brilliance” of the marketing team. Hard work, collaboration and new tools and processes are required. In our experience, successful customer experience innovation needs to be grounded in the following key elements:

Map your customers’ world, broadly.

Start with a broad and detailed exploration of the customer journey — and how it could be different. Don’t ask customers what they need, but observe how they behave and what makes them happy or sad. Build a fact-based case as you watch how customers behave and react at every step in the product experience. Imagine new opportunities and push yourself to think of new spaces where you could play.

Find points in the journey to change the game and make an emotional connection.

Look at the map of what people do (their most frequent touchpoints) and assess what people could do. Think about what they will notice and what they will remember. Look for the big moves: Can you take entire steps out of the process, change the sequence, add new value in unexpected places? But also look for the little moves, as they can be surprisingly powerful emotional drivers (Disney unexpectedly opens the park gates five minutes in advance, feeding off the “I’m about to be at Disney world” thrill). Focus on defining signature experiences that deliver not just functional enhancements but also emotional connections.

Connect experiences to each other and to the brand.

Create an integrated vision for the future of your brand experience that is bold and forward-looking as a way of inspiring internal teams and setting a broad direction for innovation. Use a clear and proprietary set of guiding principles to make sure every moment tells your story and connects to your brand in your unique way. Think in terms of a portfolio approach to execution by balancing simple changes that build momentum with longer-term investments that require more radical changes and resourcing.

Engage the whole team.

When broad-based, interdisciplinary teams take these steps together, surprisingly powerful results can ensue. Drawing on expertise across functions is essential to push the thinking on what is possible and to forge connections across operational silos that enable real-world success. But, beyond getting the strategy right, thoughtful organizational engagement is essential to execution. Successful experience innovation requires inspiring and training thousands of employees. The early involvement of leaders and frontline champions begins a process that should expand to inspire and transform the entire company.

experience
innovation
is a
differentiator

Experience innovation isn't a new marketing gimmick. It's a new approach to business differentiation and growth. It gives you the opportunity to look at a spectrum of ideas, from category evolution to disruption, to maintain vitality and differentiation as you redefine the ecosystem and drive new growth.

How much does your company devote to thinking about how to innovate on the broader customer experience? If you're like most companies, 95 percent of innovation focus and resources goes into traditional product innovation. Shifting even a fraction of this effort and resource to experience innovation can yield big results.

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Your brand is the sum of thousands of impacts and experiences that make or miss a consumer connection. How critical is a focus on customer experience innovation for your company's future?

Ask yourself these questions:

1

What is the experience around your core offer?

2

How must you define your brand to stay vital and relevant?

3

What opportunities will create growth through experience innovation? How big is your potential ecosystem?

4

What exciting signature moments can you create across the customer experience? Do you innovate around key touchpoints to engage and delight your customers?

5

Do you meet as a group across functions and silos to talk about the customer experience and how you can improve it?

6

Does your entire array of experiences connect together — and to your brand?

7

What is your vision for your future?

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