

CHAPTER 1

Mastering Digital Innovation

THE ROLE OF DIGITAL AND NEW MEDIA ON INNOVATION AND COMMERCIALIZATION

The former CEO of IBM Corporation once said, “If you can’t write your ideas on the back of a business card, you don’t have an idea.”

How can you begin if you don’t know what you’re doing? The same holds true for innovation. In order to really understand the effect of the digital universe on innovation, you must first define innovation.

This seems like a simple enough concept, doesn’t it? And yet, there are no two definitions alike. And most of them resemble dissertations—tough to fit on the back of a business card.

Needless to say, defining innovation has been a colossal challenge over the years, a disturbing reality to say the least. If you asked an ophthalmologist the definition of ophthalmology, he or she would quickly tell you it’s the diagnosis and treatment of human eye disease—simple, clear, and short. No matter where you traveled around the world, you would get the same definition.

Like the ophthalmologist or an expert in any other field, innovators must first understand their job in order to reach excellence.

I have spent the past 25 years as a Certified Management Consultant in the area of innovation strategy. Over that time I’ve found great success as an inventor with more than 30 U.S. patents.

I also know the definition of innovation and here it is again—it’s oh, so simple:

Innovation is the process of creating exceptional customer value through active listening.

Breaking It Down: The Key Words Are ‘Exceptional,’ ‘Value,’ and ‘Listening’

It’s one sentence. You can put it on your business card if you’d like. But, despite the fact that it’s a simple sentence, several words are heavy with importance. To truly understand innovation, and later learn to be a digital innovator, you must understand the three key words in this definition: *exceptional*, *value*, and *listening*. When I present this definition to my colleagues in the innovation space, they’re often highly critical of its simplistic approach. But it includes all of the necessary ingredients of successful innovation.

Before I go on, I’d like to dispel a couple of common myths about innovation. Most people believe you must be creative to innovate. It’s a common myth that we need more creativity in organizations.

Well, in the United States alone, there are 3,000 patents issued each and every week. That’s a lot of creativity. But unfortunately, less than 2 percent of those wonderful, creative ideas are ever successful in the marketplace.

There are three reasons those examples of creativity did not succeed. Creativity in itself is not the answer. Those patents didn’t succeed because:

1. They weren’t *exceptional*.
2. They didn’t add *value*.
3. The inventor or the organization wasn’t truly *listening* to the customers.

If they were listening, they would be able to develop relevant technologies for their customers. We do not have a shortage of creativity in most organizations. What we have is a shortage of organizations or individuals who are creating exceptional value driven by active listening.

Risky Business: Focusing on Failure Drives Failure

Another significant myth in the area of innovation has to do with controlling risk. Most organizations believe they can succeed at innovation if they can manage risk, or what I call *managing failure*. Because, after all, that’s really what they’re trying to do. Statistics do show that 95 percent of all consumer products fail in the marketplace. Scary stuff. But here’s the catch: Of all the companies failing in the

marketplace, 100 percent of them were using risk-management or failure-management systems. As it turns out:

Managing failure breeds failure.

So we lack creativity, we have a vague, complicated, and convoluted definition of innovation, and we assume we can fix everything through managing risk or through failure management. Turns out, all of this is wrong.

The Open Innovation Myth: No Initiative Can Defeat a Closed Culture

Open innovation is a colossal failure.

Open innovation was a great idea. In fact, one could argue that it's an obvious solution. But here's another myth: Open innovation is a success.

When you look at the money invested in open innovation and then look at the return from open innovation, you see that, with very few exceptions, most organizations have failed. It's not because open innovation isn't a terrific idea. The problem is deployment.

When you have an organization with a closed culture that's compartmentalized, it's virtually impossible to deploy internal or external open innovation initiatives. The good news is there is a wide range of digital solutions that allow organizations to become both internally and externally *open*. You don't have to completely rearrange your organization to plug into the digital world. You do, however, have to make a philosophical shift toward openness.

Jumping In with Both Feet: Digital Innovators Must Become Experts

Innovators must become digital and new media experts. This is something that has been met with a great deal of resistance. Unfortunately, it's inevitable. If your job function is in new business development, new product development, technology development, or in any area that manages innovation, you simply must become a real digital expert. But there's a catch. You can't do this fractionally.

It's much more than opening a Facebook fan page and starting a blog. In fact, those are probably the least interesting of all of the digital opportunities available to innovators. You need to understand all of the fibers of connectivity available for simplex, duplex, and full-duplex dialogue, a communications analogy that we will talk about throughout this book.

A Walk through Your Digital Customer Community

Let's take a quick walk through your customer community. Facebook representatives say that 50 percent of active users log onto the site every day, which breaks down to about 175 million users every 24 hours. That's up from 120 million users just six months ago, according to a recent econsultancy.com article. Facebook currently has more than 350 million active users around the globe. Six months ago that number was 250 million. That's up 40 percent in half a year.

More than 35 million Facebook users update their status each day, an increase of 5 million when compared to the end of July, 2009. Photo uploads to Facebook have increased by more than 100 percent; there are about 2.5 billion uploads to the site every month, up from about 1 billion six months prior.

When it comes to Twitter, that same econsultancy.com article listed more than 75 million user accounts. Fifteen million are active users, using accounts on a regular basis. That is still a fair increase from the 6 to 10 million global users just a few months back. LinkedIn has more than 50 million members worldwide; it has added about 1 million members since July/August, 2009. Wikipedia has more than 14 million articles, which breaks down to 85,000 contributors having written nearly a million posts in the last six months.

Remember, your customers are talking and they're talking about you. There are more than 3.5 billion pieces of content—and that includes web links, news stories, blogs, posts, and so on—that are shared each week on Facebook alone. There are now 11 million LinkedIn users across Europe. At the end of 2009, the average number of tweets per day was more than 27.3 million. The average number of tweets per hour was around 1.3 million. More than 700,000 local businesses have active pages on Facebook. Purpose-built Facebook pages have created more than 5.3 billion fans. Seventy percent of bloggers are organically talking about brands on their blogs.

According to econsultancy.com, 38 percent of bloggers post brand and product reviews. More than 80,000 websites have implemented Facebook content since December, 2008. More than 60 million Facebook users engage with it across the internal sites each month. (Facebook statistics are from the Facebook press office.)

As we said, your customers are talking and they're talking about you. That's the good, the bad, and the ugly. If you are mediocre or even if you're good, you're not good enough. In Seth Godin's

amazing book, *Purple Cow*, he talks about the importance of being exceptional. Exceptional is in; mediocre is out. If your product is just good, you've created an opportunistic environment for entrepreneurs and competitors alike to create the next big thing.

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Fans of Facebook

Take a look at Facebook facts. The average Facebook user has 130 friends. More than 25 billion pieces of content—from web links, news stories, blog posts, photo albums, and notes—are shared each month. More than 300,000 users have helped translate the sites through the translation application. More than 150 million people engage with Facebook on external websites every month. Two-thirds of comScore's top 100 U.S. websites and half of comScore's top 100 global websites have integrated with Facebook. There are more than 100 million active users currently accessing Facebook through their mobile devices. People who access Facebook via their mobile devices are twice as active as nonmobile users. The average Facebook user is connected to 60 pages, groups, and events. People spend more than 500 billion minutes a month on Facebook. There are more than 1 million entrepreneurs and developers in 180 countries on Facebook. (Statistics are from the Facebook press office.)

Atwitter about Twitter

What about Twitter? Twitter gets more than 300,000 new users each day. That's incredible. There are currently 110 million users of Twitter services. Twitter receives 180 million unique visits each month. There are more than 600 million searches on Twitter every day. More than 60 percent of Twitter users are outside the United States. There are more than 50,000 third-party applications for Twitter and more than a third of Twitter users access it via their mobile devices. (Statistics are from Twitter and the Chirp Conference.)

Linked on LinkedIn

LinkedIn is also a very powerful solution, especially business to business. There are more than 70 million users worldwide. Their membership comes from more than 200 countries from every continent. LinkedIn is available in six languages: English, French, German, Italian, Portuguese, and Spanish. About 80 percent of these companies use LinkedIn as a recruitment tool. A new member joins LinkedIn every second. LinkedIn receives almost 12 million unique visitors per day. Executives from all of the Fortune 500 companies are on LinkedIn. (Statistics are from the LinkedIn press center and SysComm International.)

Touring the Blogosphere

More than 77 percent of Internet users read blogs. There are currently more than 133 million blogs listed on leading blog directories. About 60 percent of bloggers are between the ages of 18 and 44. One in five bloggers update their posts daily. Two-thirds of bloggers are male. Corporate blogging accounts for 14 percent of blogs. About 15 percent of bloggers spend 10 hours a week blogging. More than half of all bloggers are married and/or parents. More than 50 percent of the bloggers have more than one blog. Bloggers use an average of five different social sites to drive traffic to their blogs. (Statistics are from Technorati's State of the Blogosphere.)

A Social Revolution: People Are Talking All the Time, All Over

Trust me, it's not a fad. In Erik Qualman's excellent book, *Socialnomics*, he proves the point that digital and social media are the "biggest shift since the Industrial Revolution" with a series of startling statistics.

In 2011, Generation Y will outnumber baby boomers. Ninety-six percent of them have joined a social network. Social media have overtaken pornography as the No. 1 activity on the web. One out of eight married couples has initially met on social media sites. And this is a really interesting set of statistics: years to reach 50 million users? Radio took 38 years; TV took 13 years; the Internet four years; iPod took three years; Facebook added 100 million users in less than nine months; iPhone applications hit 1 billion in nine months.

If Facebook was a country it would be the fourth largest in the world, with a population size between that of the United States and Indonesia. Some say China's QZone is the largest, with over 300 million using their services. comScore indicates Russia has the most socially engaged audience, with visitors spending 6.6 hours viewing 1,370 pages per month. A 2009 U.S. Department of Education study revealed that, on average, online students outperformed students receiving face-to-face instruction. One in six higher education students are enrolled in an online curriculum. Eighty percent of companies use LinkedIn primarily as a tool to find employees. The fastest growing segment is the 55- to 65-year-old female.

As you can see, we are extremely digitally connected. What all these statistics tell us is that all of our communities have become digital. Our customers, our internal stakeholders, everyone we will ever do business with is highly digitally connected. The Internet, Web 2.0, social media—whatever you'd like to call it—it's really about communication, the ability for our customer communities and also internal stakeholders to be able to communicate with one another. So it creates a tremendous opportunity, while at the same time posing a threat for mediocre technologies. Once again:

Innovation is the process of creating exceptional value through active listening.

The Exceptional Layer: Defining Value Layer by Layer

If that's the case, then what does exceptional mean? Exceptional is really best described by what I call the Net Customer Value Strata (see Figure 1.1). The Net Customer Value Strata defines the *layers* of value. And remember that value is in the eye of the beholder, or in this case value is in the eye of the customer. Value is determined by the customer, not by the business. The best way to look at it is: Exceptional customer value is the difference between what someone expected versus what they got throughout the experience cycle.

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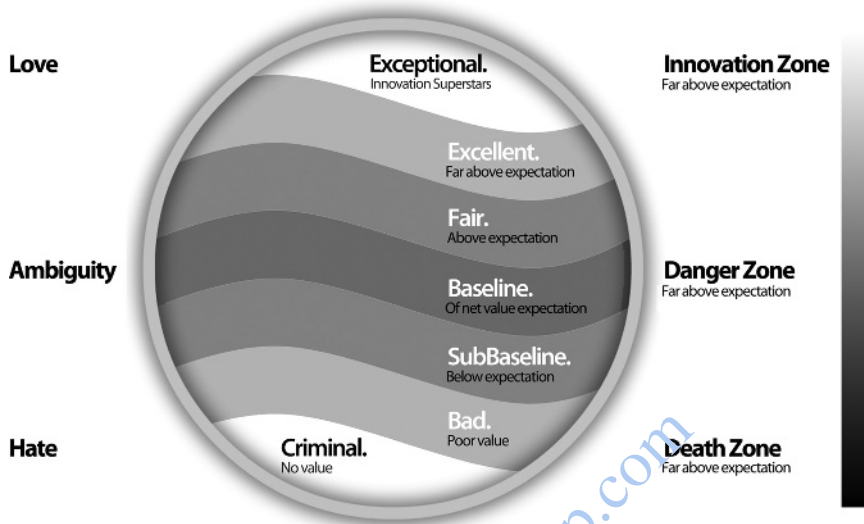


Figure 1.1 Net Customer Value Strata
Source: Lassen Scientific, Inc. 2010. All rights reserved.

Criminal Behavior: Digital Disposes of Every Level below Exceptional

Let's take a look at the criminal layer. Criminal is when somebody takes your money and gives you nothing in return—or nothing good anyway. I think we've all gone to a bad restaurant where the service was poor and the food was terrible and it cost us money. We've all bought technologies that were absolutely in no way similar to what was advertised and cost us a lot of money. These are instances when you've experienced the criminal level of the value strata. The good news (or bad, if you're delivering that service) is: The digital community kills the criminal. It kills the bad companies and it kills the sub-baseliners. Unfortunately, many baseline companies are also destroyed by the baseline buzz. This is why you must be exceptional. You would assume companies that make good technologies would be on the right track. The problem is that when you are delivering at the baseline level of current expectation you are creating an opportunistic environment for inventors, entrepreneurs, and competitive companies to create technologies above that trajectory into the layer I call Innovation Superstardom, which is exceptional.

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A great example of a baseline level product is the Kindle. The Kindle does exactly what it advertises. It's lightweight, it's inexpensive, and it has good battery life. You can store thousands of books on it. It's a tremendous value for buyers. If you bought a Kindle today, you'd expect to be able to read books on it, and that's exactly what would happen. But along came the iPad. When the iPad came out, it was instantly called the Kindle-killer. It had layers of value that can only be described as exceptional. It is an Innovation Superstar[®].

How You Can Become Exceptional: Manage Your Culture to Become a Listener

Can you now see why residing at exceptional is a much better place than the baseline level of expectation? If we want to be exceptional, we must be able to listen, which requires opening up. That concept creates a problem for most organizations because most organizations have a culture that is toxic. What is a culture? A culture is a symptom. The causality of a poor culture is focus.

So our organization develops a culture based on the collective daily focus of the people who come to work at our building each day. And that's really the best way to look at it. Culture isn't some ominous ether that flows throughout the building. It's nothing more than the collective focus of every member of your organizational team.

Culture can be defined as the collective focus of every member of your organizational team.

Are You Trapped in Analog? Comparing Digital Socialists to Digital Capitalists

There are digital cultures, and then there are analog cultures. By this I mean current cultures versus outdated cultures. There are successful cultures and dysfunctional cultures. Dysfunctional cultures often fall under the definition I call “innovation socialists.” These are the old, closed, analog cultures that result in organizational and innovation failure. These groups look inward, focusing on their own needs, problems, and opportunities. They look at ways to control costs and increase efficiencies and mitigate risk. What are the psychographics of that cultural focus? They are internally focused—process focused rather than result oriented; risk centric rather than opportunity centric; and they are reactive rather than proactive. They are all about the next bright shiny object.

Innovation capitalist, or digitally ready companies, are customer focused. *Innovation socialists* are all about the blame. Innovation capitalists are about accountability. Take a look at these two different cultures and ask yourself, which culture describes my organization? And how can I make the transmutation from innovation analog socialist to an innovation capitalist, digital-ready company? See Figure 1.2.



Figure 1.2 Innovation Focus Model

Source: Lassen Scientific, Inc. 2010. All rights reserved.

Communication—The Key to Everything

Let's talk about what digital really means. Digital innovation is communication. It's that simple. It's a new way in which we can communicate with data-rich dialogue, in real time.

Now I'd like to describe it using radio terms. I call one form "digital simplex." This is how we broadcast information to our communities using platforms like Twitter and blog posts.

Once again, let's get back to the essence of digital innovation, which is communication. Communication in the digital universe most often comes in the form of "digital duplex" dialogue, which is a two-way, but not necessarily in real time, dialogue through platforms like Facebook, texting, and online forums. Then you have "digital full-duplex," which are live hosted events and other real time forums.

All of these forms of communication are important, but needless to say, the most important aspect of all digital innovation and digital communication is *listening*.

When bad products—and sometimes good products and services—are quickly destroyed through online communications, this is a byproduct of what I call *digital polarity*. Digital communication moves at the speed of light, which isn't a good thing for those that might not be at the best price point or providing the greatest value. For instance, price comparisons can now be found instantaneously as a result of embedded mobile devices that include Smartphone scanning. Scanning QR codes can instantly provide real information about features, benefits, and pricing and shopping alternatives. Never before has there been a more informed audience. With a click or two, your customer can find all sorts of information on the features, the value, and the reviews of your technology.

Feature benefit roundups and product forums are routinely reviewed during the buying process. Customer communities are quickly inventing the next best thing. The question is, are you listening? Yamaha, for example, through their Motifator website, has spent years listening to their synthesizer customers in order to discover where there are quality problems and opportunities to increase the value of their core technology. As a result, their latest synthesizer was a tremendous success because it was hardwired directly into the soul of their customers. That is, they truly co-created by listening.

Full-Duplex Dialogue Takes the Win

Winners of digital innovation practice regular, full-duplex dialogue. Closed innovation cultures will retard digital growth. And the bottom line is most organizations will not make the full digital commitment. Most of them will never make a true commitment to an integrated digital strategy.

It's important to not only fully commit to a cross-organization or cross-enterprise digital strategy; you must also tie your digital listening to an innovation platform (see Figure 1.3). And that innovation platform will determine what's relevant in terms of what you should be listening for.

Digital Innovation Best Practices: Commanding the Digital World

Digital strategy must be part of an integrated, open culture. Tear down the internal and external barriers. You cannot fix a closed

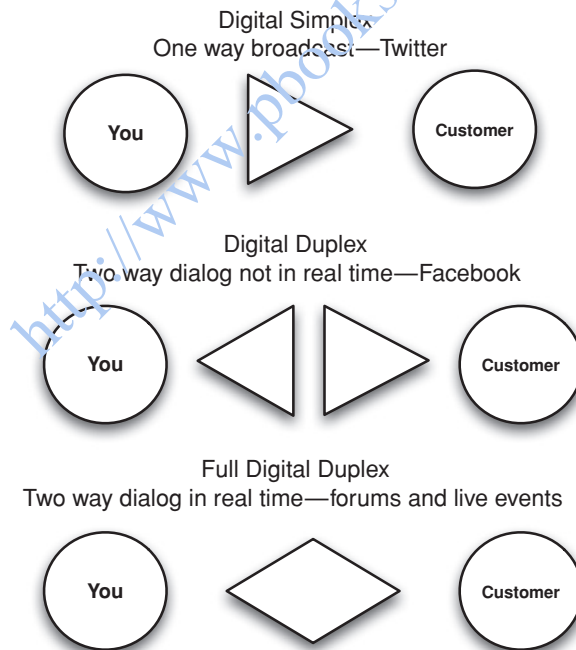


Figure 1.3 Digital Dialog

Source: Lassen Scientific, Inc. 2011. All rights reserved.

organization with digital strategy. One of the biggest mistakes many organizations make is they attempt to rule the day digitally without fixing their organizational culture and infrastructure. You must be digital ready before you begin if you are going to succeed at this.

The digital domain is the ultimate resource you can use to connect you to your customer. Companies that want to become fully connected must develop a digital command center that works as an air traffic control center for all things digital. About five months ago Dell Inc. became one of the first companies to launch a digital command center. The command center looks like NASA. They listen to over 27,000 key words related to their technologies. They listen to the Internet in 11 languages. They've trained 5,000 of their employees to be digital superstars. Now that's a company that's innovative. This digital command center will directly result in increased sales, reduced quality problems, improved profitability, brand building and brand protection, and the list goes on.

Use automated online submission portals that provide prefiltration that's directly tied to your innovation platform. Remember, never operate at the baseline level of expectation; always aim for the exceptional. By participating in online digital communities you drive customer co-creation.

Be very careful of what I call the bumper sticker syndrome. Many organizations have developed internal innovation systems that allow people to post ideas. This sounds like a great idea. The problem is that often the people with the most bumper stickers on their cars usually have the worst ideas. It's a phenomenon I think must be related to having a short attention span. It's not frequency and loudness that wins the innovation race; it's relevance to your innovation platform that matters. This is extremely important. Use your digital presence as a value added resource for all new products and services, not as a shortcut.

It's not frequency and loudness that wins the innovation race; it's relevance to your innovation platform that matters.

Creating Your Platform: Defining Wants Provides Filter Backdrop

It's incredibly important that you develop a well-defined innovation platform. We can't filter innovation ideas if we don't have something to filter them against. In other words, we need to know what we want before we go out listening to our digital communities. I recommend you develop 21 questions that, when answered, will prefilter online submissions. A ratio to live by in the online submission process is 80 percent filtration/20 percent evaluation. This will allow you to access incremental innovation and breakthrough innovations alike, but significantly increase your throughput by eliminating the time spent going through and evaluating technologies that should have never made it inside your building in the first place.

So, here's the playback:

- Launch an online innovation center with innovation submission portals.
- Develop a digital command center. Install and deploy fast-track methodologies in your NPD function.
- Avoid the pitfalls of the bumper sticker syndrome and commit to your innovation strategy at all levels of the organization.

Value Layered Innovation: Invent at Each Point of Contact

Remember the customer value strata—once you have completed your innovation, make it better, and then better again, layering on the value. And also remember to invent to each point of contact, and by that I mean innovating where the customer buys the technology, the packaging, and the customer's experience with the technology. The entire innovation cycle must be addressed during your innovation process.

Most organizations do not invent at each point of customer contact. This is a colossal mistake, as each point of contact has its own unique and special opportunity to deliver layered value (see Figure 1.4). These experiences include:

Pre-Touch or Brand Noise—This is the impression that customers have of you prior to their first point of contact. Needless to say, your brand noise is driven by what your customers are

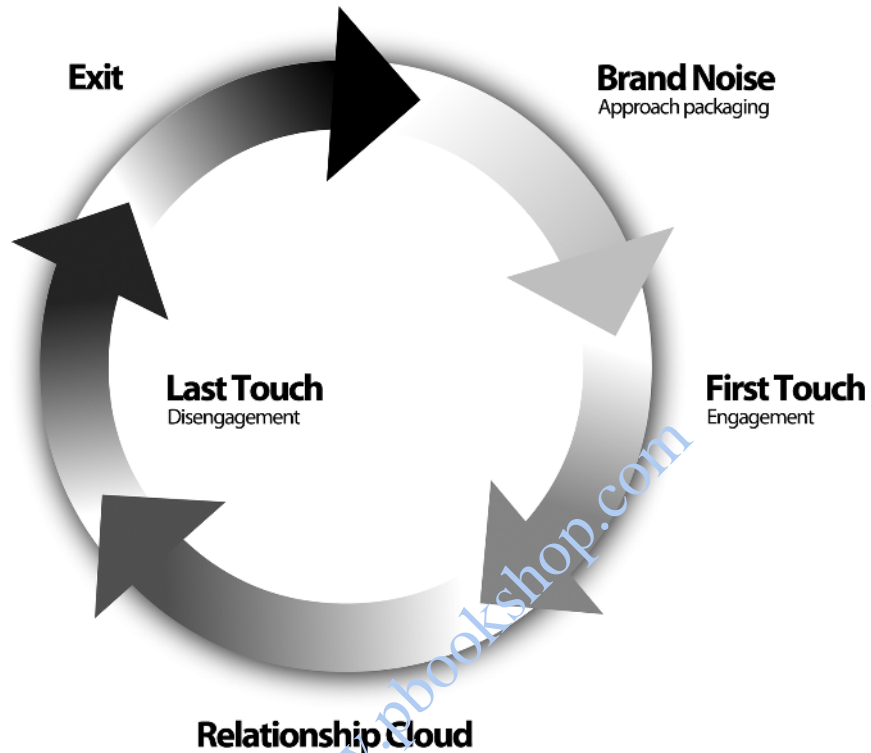


Figure 1.4 The Innovation Cycle
Source: Lassen Scientific, Inc. 2010. All rights reserved.

saying about their experience with your product, service, or technology.

First-Touch—This first point of contact is extremely important and heavily weighted. Some experts suggest that 80 percent of a customer's lifetime opinion of you is based on the customer's first experience.

The Cloud—This is what a customer is experiencing while they're engaged with your product, technology, or service.

Last-Touch—This is the last impression you leave a customer with when disengaging with him or her.

In-Touch—This is how you remain customer connected in a way that serves the customer value.

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As you can see, each one of these contact points affords you an opportunity to create layered exceptional value. Don't just invent technologies; invent exceptional customer experiences.

Lastly, own the digital domain. The only way you can do that is to commit 100 percent and develop a digital command center. I believe that if you deploy these simple systems within your innovation function, you will see colossal results. There's no better way to develop exceptional solutions than to hardwire to the soul of your customer through digital innovation.

Chapter Takeaways

- To be a successful innovator, you must first define innovation, and it should be simple. I believe innovation is the process of creating exceptional customer value through active listening.
- The three active ingredients in that definition are exceptional, value, and listening.
- Managing failure results in more failure.
- Innovators must now become digital and new media experts.
- To fully connect with your customers, you need to understand all the fibers of connectivity including simplex, duplex, and full-duplex dialogue.
- The social revolution isn't a fad, as evidenced by the vast numbers on networks such as Facebook, Twitter, LinkedIn, and the thousands of blogs on the Web.



The Digital Innovation Playbook is a living book. We are constantly updating the book online so you can watch uploaded videos, read the latest best practice on digital media and even participate in free ongoing webinars.

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