



Innovation at Scale

Turning Size Into an Advantage for
Customer-Driven Innovation



WHY THIS MATTERS

To succeed and remain competitive, businesses must be able to anticipate and adapt to the changing wants and needs of their customers. In short, they must be able to **innovate**.

But large, established organizations often struggle to keep up with the pace of innovation set by smaller, more nimble competitors. What many of these companies fail to realize is that their size and reach can actually accelerate innovation rather than inhibit it. This report discusses how large, complex organizations, leveraging customer experience management practices and technology, can harness the benefits of scale—identifying more opportunities, testing more ideas, and accelerating learning and innovation across the organization to provide greater value to customers.

Successful Innovation Requires Plenty of Failure

The world's most innovative companies know that few innovative ideas are successful—between 10 and 20 percent, according to a 2010 Strategyn analysis. This is particularly true for large companies. A 2012 study by IESE Business School and Capgemini Consulting found that the majority of companies with high innovation success rates have less than €500m in annual revenue, concluding that “large companies create so much distance between the executives and those that are tasked to innovate that a disconnect exists between them.”

Large companies have traditionally compensated for their inefficiency by outspending and outpricing smaller competitors. Anyone who follows companies like Google, Airbnb, and Uber knows that this strategy is quickly losing its effectiveness. Lean, agile companies can quickly test innovations, pivot to those that show the most promise, and roll them out to their entire customer base. They've found a radically more efficient way to capitalize on good ideas, validating the long-held belief that managing a portfolio of ideas is the key to successful innovation. As a result, these companies are growing and evolving at speeds that would not have been possible 20 or even 10 years ago.

Peter Drucker on Customers and Innovation

The management philosopher, Peter Drucker, famously asserted that the purpose of every business is “to create a customer.” The customer, in essence, defines the business



because it's only when a customer need or expectation is satisfied that a business exists and functions successfully.

Drucker also wisely observed that customers and the broader business environment inevitably change over

time. If a business is to survive, he argued, it must be able to anticipate and adapt to the changing wants and needs of its customers. It must be able to innovate.

But what does it mean to innovate? What constitutes an innovation? When many people think of innovation, they think of industry-altering breakthroughs or high-tech inventions. But for Drucker, innovation was not defined by the size of an idea, its technological prowess, or its impact on an industry. Instead, Drucker defined innovation in terms

of new and better value to customers. Simply stated, an innovation is anything that provides new economic value to customers and, thus, new sources of satisfaction.

Not surprisingly, Drucker believed that for companies to be innovative, they must remain close to their customers, focused on their customers, and, ultimately, customer-driven.

Source: Peter F. Drucker, *The Essential Drucker* (HarperCollins, 2001)

For the most part, large, established companies have been unable to match this efficiency and effectiveness. PwC's 2015 Global CEO Survey identified innovation as the most sought-after growth opportunity for CEOs worldwide. Yet 65 percent of CEOs say their existing R&D function is not up to the task. And only 30 percent of executives say their company has an effective organizational structure for driving innovation.

What many of these companies fail to realize is that their size and reach can actually accelerate innovation rather than inhibit it. With the right approach—and the help of new technology—companies can harness their scale to identify more opportunities, test more ideas, and accelerate learning and innovation across their organization.

We call this approach *innovation at scale*. Done properly, it creates a more agile and adaptive organization, and greater value for customers, in a world where both are more important than ever to long-term success.

Innovation at Scale in Practice

Innovating at scale means leveraging a large customer base and a large, multi-unit organization to enhance ideation and testing of ideas companywide.

Research shows that broad organizational involvement drives successful innovation. Yet only 24 percent of companies have effective organizational alignment around innovation activities.¹ This is unfortunate because many of the best ideas for improving the customer experience come from those closest to the customer—namely, frontline employees. It's important that employees understand the organization's goals and priorities and are empowered to try things that may advance those priorities.

One way companies encourage local experimentation aligned with corporate priorities is by hardwiring experimentation into the organization's core operating systems. An example of this approach comes from Four Seasons Hotels and Resorts, a company renowned for the quality of its guest experience. Four Seasons recognizes that it must continue to come up with new value for customers because they expect (and are paying for) a premium experience. And, it has made a practice of regularly experimenting with multiple new offerings using different properties and customer segments.

Four Seasons ensures innovation at scale by incorporating experimentation into its regular goal-setting and budgeting processes, offering recognition and incentives for properties that come up with new ways to delight customers. For example, in one quarter, Four Seasons set a companywide goal: to develop creative ways to improve the guest experience in pools and spas. Many companies would have tasked a centralized team with assessing the need, creating prototypes and deciding which had the best chance of success. After finishing this process—likely over the course of many months—and gaining approval from executives, the team would roll out the winning idea and hope it made a difference.

Four Seasons took a different approach. Once its central guest experience team identified the goal, teams at each property were tasked with prototyping solutions and testing them with actual guests. These local teams used guest feedback to understand in real time how their solutions impacted the pool and spa experience—information Four Seasons used to extrapolate what would happen if it rolled out each solution companywide.

To speed the learning process, Four Seasons used dashboards that automatically tracked guest satisfaction at every property in real time. When the pool and spa scores at a certain property spiked or dropped, others could immediately see—and find out what the property had done.

By building innovation into its regular operating processes, Four Seasons distributed accountability for innovation across its entire organization and made it possible for every property to learn from the most successful innovators.

In the end, the process was successful. Over the course of the testing process, one idea rose to the top: offering free suntan lotion and sunglass cleaning kits to guests lounging around the pool. Guests loved the gesture, and satisfaction scores spiked accordingly. This success gave Four Seasons the justification it needed to roll the offering out more broadly. Providing these poolside amenities is now standard practice for the entire company.

Four Seasons distributed accountability for innovation across its entire organization in order to find a solution faster.

Furthermore, this is just one of the many tests Four Seasons has run. The company has also experimented with mobile app improvements and other offerings using various parts of its organization. Over time, these quick wins add up to significant improvement and creativity across many areas.

Leveraging the Workforce to Innovate at Scale

Four Seasons found a way to use existing groups in its organization—hotel properties—to source and test multiple innovative ideas on an ongoing basis. The approach drew largely from its existing resources and structures. Yet in developing it, the company exhibited the three key behaviors behind effective innovation at scale:

- Go where your customers are to find ideas.
- Run concurrent, ongoing tests using small segments of the customer base.
- Make results accessible to the entire organization, on an ongoing basis.

Let's examine them in detail:

1. Go where your customers are to find ideas.

Great ideas can come from anywhere. This is famously true for groundbreaking innovations like the digital camera and the sticky note, which grew from proactive tinkering by engineers at Kodak and 3M, respectively. It is also true for small, creative service innovations, which often arise from an employee's experience dealing with a recurring customer issue.

Rather than relying on a single team, companies that innovate effectively at scale use the smarts of their whole organization, particularly employees who interact regularly with customers, to source ideas. Sometimes this means giving multiple teams a specific problem to solve, as Four Seasons did. But the process can be far less structured.

While reviewing customer feedback, Tommy Bahama's design team noticed repeated requests for a refreshing cocktail while shopping. The team proactively designed an in-store tiki bar concept and presented it to the company's retail leadership. The concept is now being tested in several locations.



Using Customer Feedback to Inspire Innovation

Customer feedback—particularly the recurring pain points it reveals—is a great source of innovation opportunities. Feedback usually exposes needs rather than solutions.

However, don't ignore practices that are already making customers happy. There might be a way to formalize the practice in a new offering that provides customers with even greater value.

2. Run concurrent, ongoing tests using small segments of the customer base.

Not every creative idea ends up having the desired impact. For this reason, companies that innovate effectively at scale simultaneously test improvements of all sizes and kinds with real customers to see which ideas work best. The more experiments a company runs, the faster it can home in on innovations worth pursuing. Additionally, testing an idea with customers shows its impact more accurately than using focus groups, market research, or informed guesswork.

For companies with a strong brick-and-mortar presence, individual stores often serve as natural testing grounds. For example, when Mercedes-Benz USA developed a new offering that expedited the servicing and repair process, it tested the idea at several of its dealerships and used customer feedback to evaluate the impact. When those tests showed an increase in customer satisfaction, Mercedes was able to justify a broader rollout. The offering, “Premier Express,” is now available at dealerships nationwide.

However, companies do not need brick-and-mortar locations to innovate at scale. For more information on creating sample groups, see the appendix, “Running Innovation Tests.”

3. Make results accessible across the organization.

Innovation is an iterative process, and even the best ideas require fine-tuning before they're ready for broad implementation. When the hotel chain La Quinta tested improvements to its breakfast offering—an amenity that cost nearly \$40 million per year—one prototype made customers rate the quality of breakfast lower than usual. Rather than abandoning the prototype, which was being tested at 16 properties, La Quinta took a closer look and improved how it trained staff to construct and manage the new setup. After these small changes, satisfaction scores rose far past the original baseline, showing that the idea had strong potential after all.



Running Innovation Tests

Innovating at scale requires the ability to run fast, efficient tests that deliver useful insight. Here are some tips:

- **Quick is better than perfect.** Completely fine-tuning an idea before you test it actually involves a fair amount of guesswork. Instead, test a “close enough” prototype sooner and use the results to inform the next iteration.
- **Embrace failure.** Even unsuccessful experiments can be highly effective if they inform the next innovation or help avoid mistakes.
- **Track changes carefully.** When something works, you need to know exactly how to replicate it.

For more detail on testing innovations using customer feedback, see the appendix, “Running Innovation Tests.”

Companies that innovate effectively at scale share the results of individual innovation tests broadly, creating opportunities for others across the organization to emulate successful ideas and add their own perspective. This can also spark ideas or improvements that might not otherwise have emerged. Three key practices support such sharing:

- A systematic process for observing successful teams.
- Peer-to-peer sharing, so teams can learn from and build on other teams' ideas. This can also promote mentoring and coaching across teams.
- A dedicated team for documenting successes and, when relevant, embedding them within training and company guidelines.

Infrastructure Required to Innovate at Scale

Most successful companies will be able to point to a time when they engaged in one or more of these three key behaviors. But innovating at scale means performing them continuously and efficiently, so the pace of innovation keeps up with ever-changing challenges and market demands. Several capabilities make this much easier.

Companies need a clear understanding of how their customer experience is currently being delivered.

To start, companies need a clear understanding of how their customer experience is currently being delivered. This includes insights from customer feedback as well as information about customer spending, loyalty club participation, and other key behaviors. Such information can indicate which problems need an innovative fix, and it helps to create sample groups that are representative of the entire customer base.

It's also important to have a system for quickly measuring how experiments impact customer satisfaction. When a new idea is implemented, either in a certain location or with a particular sample group, the company should be able to quickly ask customers what they thought and see their feedback in real time.

Finally, the company should be able to distribute results broadly, whether to other testing teams or to employees across the organization. Four Seasons accomplishes this by giving each general manager a dashboard of key customer experience metrics for every property, which updates in real time. When satisfaction scores at a certain property spike or plummet, other general managers can tell immediately and contact the property to learn from its experience.

The Role of Customer Experience in Innovation

Innovation at scale, and the capabilities that enable it, are about far more than running tests.

When companies have a structured, controllable system for sharing customer feedback broadly, using it to inspire improvements, and measuring the results, their entire organization becomes both better at learning and more agile. Companies are also better able to fulfill the implicit promise at the core of customer loyalty: when customers take the time to share their opinions, the company will listen, respond, and use what it's learned to provide additional value.

Endnote

- 1 "Taking the measure of your innovation performance," Bain & Company, May 8, 2013: "Structure, roles and decision processes that foster innovation" and "a culture that values, supports and rewards innovation" are key success factors in innovation. (<http://www.bain.com/publications/articles/taking-the-measure-of-your-innovation-performance.aspx>)

APPENDIX: Running Innovation Tests

For your company to innovate effectively at scale, people across your organization, from centralized teams to frontline employees, need to know how to run a fast, efficient, and productive test using customer feedback. Their know-how should encompass best practices for testing and analysis, as well as a mindset that emphasizes efficiency and learning. This ensures a focus on tests that contribute to improvement.

Prototyping

Once an innovation team, either centralized or at an individual location, has defined an opportunity and possible solutions, prototyping can help identify a winning idea. Prototypes are early representations of an idea that are concrete enough to get feedback. Through rapid prototyping—iterative small-scale tests—you can accelerate learning and determine if an idea is worth pursuing.

Sometimes it's not even necessary to build the real solution to test its efficacy. "Pre-prototypes," or "pretend prototypes," can allow you to get feedback faster. They are also easier than full prototypes for innovation teams at individual locations to build on their own. IBM offers an example: in the 1980s, the company was considering a major investment in speech-to-text technology. Rather than building a prototype, IBM asked test subjects to use a computer and microphone that it secretly connected to a human stenographer next door. After a couple of hours using the "program," participants started to tire of dictating everything. For much less than the cost of a true prototype, IBM was able to test the underlying concept.

Testing

If a prototype shows promise, a more structured experiment can quantify its impact. A simple but decisive test can often be conducted rapidly, especially if the organization is already wired to quickly see changes in customer satisfaction.

The goal of a test is to provide a confident estimate of an innovation's impact without the expense and risk of a full implementation. Even "failed" experiments—those that do not yield a positive result—can be highly effective if they inform the next innovation or help avoid mistakes.

The trick is to design tests that are likely to give conclusive results quickly while minimizing cost and risk. Figure 1 outlines questions to ask at this stage. On the following page, Figure 2 shows an example of these questions in practice.

Figure 1: ACT for innovation tests

- A** **ACTION**
What specific change are you going to make in the business?
- C** **COMPARISON**
What comparison will tell you if it was an improvement?
- T** **TIMING**
How soon can you start and how long will it take?

Figure 2: An Example of an Effective Innovation Test

<p>1. ACTION</p>	<p>What is the specific action in the business that you are going to test? Greeting customers and offering them assistance as they enter our retail stores ("Hi, is there anything I can help you find today?")</p> <p>What is the impact you are hoping to have on your customer and/or your customer's behavior? What is the additional value it will add? Make it easier for customers to find what they want, increasing spending and improving the experience.</p>
<p>2. COMPARISON</p>	<p>Can you randomize and track who experiences the change? If not, is there another way to get an apples-to-apples comparison? Every other day for several weeks at four pilot stores, station team members at each entrance to greet and assist customers. Compare CX scores and transactions on days when there was a greeter to those on days when there was no greeter. (Since this is not true randomization, we need to be very careful that the days with the greeter are not systematically different in other ways—e.g., more likely to be on a weekend, or days with more available staff.)</p> <p>What is your success metric? Percent of promoters (scores of 9 and 10) on the survey, total transactions per store per day, average spend per transaction.</p> <p>How much data will you need? With 2,000 responses total (1,000 with greeter and 1,000 without) we could find a significant result at the 90 percent confidence level if the percent of promoters increases by 3.5 percentage points. (Further power analysis is needed for assessing impact on transactions and spending.)</p>
<p>3. TIMING</p>	<p>How soon can you start and whose help will you need? Three weeks to train about a dozen employees at each store and coordinate alternating days. Need the buy-in of each pilot store's manager.</p> <p>Are there seasonality concerns or other initiatives happening at the same time to consider? For this first test, we need to avoid the holiday season, when stores are too busy to spare the team members to do the greeting and assisting.</p> <p>Given how much data you need, how long will it take? With response volumes of about 20 per day per store, getting 2,000 survey responses will take about four weeks if we do the test at four stores.</p>

Common Testing Pitfalls

Here are some risks to look out for when conducting innovation tests.



Overcrowded tests. Whenever possible, don't evaluate multiple ideas in a single test. If the test is successful, it can be very difficult to identify which idea was responsible. One idea's success can even mask another's negative effects.



Half the picture. It's okay to evaluate prototypes with no control group. But to really quantify a test's impact, you need a baseline to compare against. If you're testing an iPad checkout process, for example, it's better to use a metric that's applicable to all customers (e.g., efficiency of checkout) than just to ask how the test group liked the process.



Apples vs. oranges. Don't test innovations using very different populations—for example, offering a service innovation to loyalty program members and using non-members as a control group. You won't be able to tell whether results stem from your innovation or from differences between the groups.



Not enough data. Is the difference between average satisfaction scores of 8.8 and 9.1 statistically significant? The answer depends on sample sizes and variability. Estimate in advance how much data you need to find a trustworthy result.



"We'll do it later." There are always competing priorities and potentially valuable opinions to include. But waiting to factor in all of them before starting your test slows the rate of learning. Tests are never perfect. Start sooner instead of later and iterate if necessary.



The slow drip. Running a test in an environment with a low volume of outcome data can slow your test to a crawl. Avoid situations where you are waiting a year for results that could have been collected in a few weeks by including more customers in the test.



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