

# Outside Innovation

## Defining Principles

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### What is outside innovation?

It's when customers lead the design of your business processes, products, services, and business models. It's when customers roll up their sleeves to co-design products and your business. It's when customers attract other customers to build a vital customer-centric ecosystem around your products and services.

### Customers have taken control.

Their rampant comparison shopping is eroding your margins. Their renegade behavior is challenging your business models and endangering your intellectual property. This customer-led outside innovation movement is inevitable. It's scary. It's exciting. And it's dangerous to your business if you're not prepared. What can you do to channel this customer energy into a positive direction—one that will power your business rather than sink it?

### Here's the answer.

Engage your customers in more ways to help you redesign your business, your products, your processes, and your business models. You've started to open the floodgates. Now turn the spigots on full.

### Invite customers to play more roles in driving your business.

In this book, we describe a “new” approach to the process of business innovation. In particular, we describe innovation approaches that intentionally involve outside parties, most notably customers and potential customers, in the process of creating new value. You'll see how customers designed, hacked and improved LEGO's highest revenue generating product, MINDSTORMS™. You'll discover how customers co-designed an open source telephone system that sells for one-tenth the cost of competitive offerings.

You'll learn how Staples redesigned the retail rebate process

### Storytelling

This book uses storytelling to draw from dozens of outside innovation pioneers:

- Amazon
- BBC
- Charles Schwab
- Cisco
- Flickr
- GE
- Hallmark
- IgoUgo
- Karmaloop
- Koko Fitness
- Kraft
- LEGO
- Mozilla
- Muji
- National Instruments
- National Semiconductor
- SEI
- Skinny Corp.
- Snap-On
- Staples
- Unilever
- Wikipedia
- Zopa

in response to customer demand. You'll learn how GE Plastics empowers designers by providing them with direct access to its most proprietary knowledgebase and to a cross-disciplinary team of experts. You'll discover how Hallmark, Kraft, and Unilever have harnessed customers' insights and creativity to drive new product development.

## **Will your company miss out on outside innovation?**

There's an underlying assumption that drives traditional innovation: "our experts are smarter than our customers." This is the traditional "inside out" approach to innovation. The "outside in" approach is to flip the innovation process around and assume that customers know what they want to achieve, they have deep knowledge they have to do things today. about their own circumstances and contexts, and they are not happy with the way

### **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. Get into their heads. Learn what they care about.

#### ***2. Provide Customers with Tools to Use to Co-Design Their Ideal Scenarios***

Give customers tools they can use. These may be interactive feedback tools, or exploration and design tools, or ones that unlock your firm's domain expertise. The co-design part is important. You want to be part of the customer's creative process.

#### ***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 involved—both in face-to-face and online customer communities. Leverage customer communities to provide you with continuous feedback and to help you prioritize decisions.

#### ***4. Empower Customers to Strut Their Stuff***

Encourage your customers to contribute their ideas, their designs, their creations, and their inventions to their peers. Acknowledge and reward customers for contributing content, for providing tips and techniques, for spotting great new products or trends, for solving each others' problems.

#### ***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! Take a page out of the open source book and set a structure for productive community development. Set clear guidelines, be open and honest about what's allowed and what isn't (and why not).