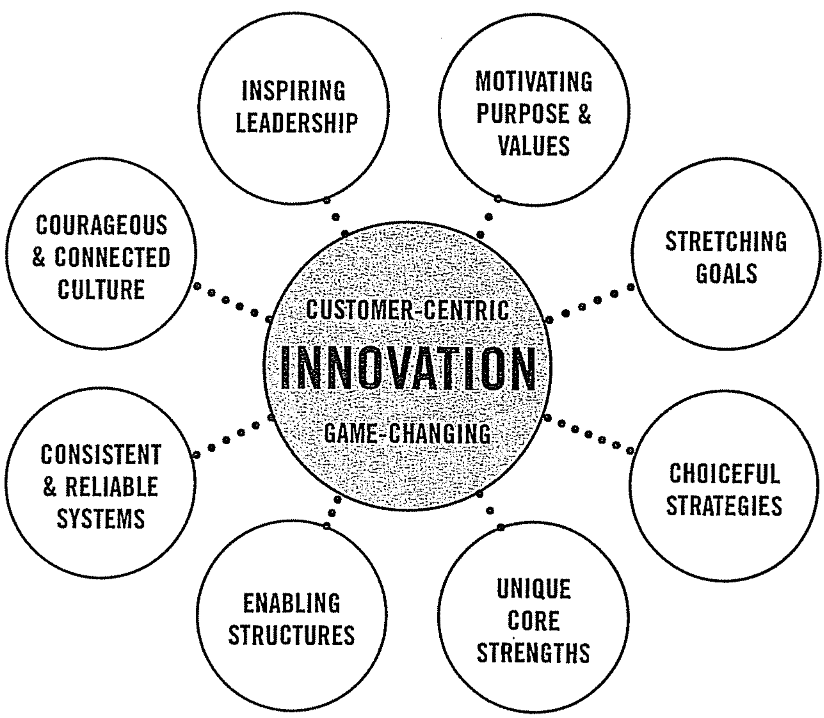
CHAPTER THREE

THE CUSTOMER IS BOSS

The Foundation of Successful Innovation



Every culture has a language; and the corporate culture at P&G is rich in words and phrases that convey what it is trying to do. Of these, the most important is a phrase that sums up all its priorities: The consumer is boss. The people who actually buy and use P&G products are a rich source of innovation—if only you listen to them, observe them in their daily lives, and even live with them. For P&G, the end user is the consumer, what other businesses may refer to as their "customer." At P&G, the consumer is often referred to as "she" or "her" because the majority of purchasers and users of P&G brands and products are women.

Consumer is boss is far more than a slogan. It is clear, simple, and inclusive—not just internally for employees, but also for external stakeholders, like suppliers and retail partners.

"Our business is pretty simple," I told employees in one town hall meeting after another during my first months as CEO. "The consumer is our boss, and we have to win with her at two moments of truth day in and day out. We face the first moment of truth at the store shelf, when she decides whether to buy a P&G brand or a competitor's. If we win at the first moment of truth, we get a chance to win at the second, which occurs at home when she and her family use our products and decide whether we've kept our brand promise. Only by winning at both moments of truth—consistently, every day—do we earn consumers' loyalty and sustain the company's growth over the short and the long term. And, we have to win *both* moments of truth *millions* of times a day in more than 180 countries worldwide."

P&G puts the consumer at the center of the innovation process—from the beginning during the ideation stage through the end, when she ultimately buys the product. As the saying at P&G goes, "The consumer is at the heart of all we do."

KNOW/APPRECIATE/RESPECT THY WHO

The most essential component to game-changing innovation is deeply understanding your consumer at both the rational and the emotional levels. This goes well beyond basic demographics and psychographics. It requires deep understanding of what drives their *emotions.* It requires understanding not only their needs, but also their *aspirations.* You must get an appreciation for who they are, how they live, and—yes, of course—how your product can best improve their lives.

Making the consumer the boss is a promise to identify with her, to respect and serve her, and to take her needs and wants seriously.

As Peter Drucker put it, "The customer has to be assumed to be rational. His or her reality, however, is usually quite different from that of the manufacturer." Understanding the boss's reality helps identify meaningful insights. Consumer insights lead to innovation opportunities. Once you know where the opportunities are, you can bring tremendous innovation resources to the task. P&G needed to see things as they really are—through the eyes of the boss.

I consistently encourage P&G employees to stay externally focused on the men, women, children, babies, and pets we serve. Get out of the office and into homes and stores, no matter what their work is. Understand consumers' reality—for sure!—but, also understand their dreams. It is *always eye opening* to spend time with consumers to understand why they buy or do not buy P&G products. And it is always *inspiring* to understand their lives and how we can help make their everyday household and personal-care experiences more satisfying. I personally make time to visit with shoppers and consumers at least once a month, and I never fail to learn something I can apply to the business.

At P&G we often ask, "Who is your WHO?" How a product innovation team applies their consumer understanding can show up in many different ways. For example, the team preparing for the launch in the United States of the heartburn medication Prilosec as an over-the-counter product created a life-sized cardboard cutout of a consumer they named Joanne. She represented their most important WHO, or consumer. In order to keep Joanne front and center, the team put the cutout of Joanne in a chair in their conference room. Often during meetings, to cut through the debates and focus only on those innovations that would meaningfully impact her life, they turn to her and ask, "What would Joanne think?"

UNDERSTANDING THE WHOLE PERSON

"The human condition," says Jeneanne Rae of Peer Insight, a consultancy that specializes in service innovation, "is a much more fruitful starting point given the level of competition today."

You might think that P&G, of all places, would know this. After all, the company created the first market research department and has long been acknowledged for the almost relentless way it seeks knowledge of consumers. What it was not doing well enough, often enough, was seeing consumers as active participants in innovation. Their role was essentially passive: responding to stimuli in experiment after experiment to provide "quantitative research data"—numbers that could be crunched—instead of being sources of innovation and inspirational partners in innovation.

P&G needed to look at consumers more broadly. It tended to narrow in on only one aspect of the consumer—for example, their mouth for oral-care products, their hair for shampoo, their loads of dirty clothes and their washing machines for laundry detergents. P&G had essentially extracted the consumer out of her own life (and, at times a particular body part as well!) and myopically focused on what was most important to the company—the product or the technology. P&G has since learned to understand and appreciate her and her life—how busy she is; her job responsibilities; the role she plays for her children, husband, and other family members; and her personal and family aspirations and dreams. This has enabled the identification of innovation opportunities that truly provide meaningful solutions to her household and personal-care needs and wants that otherwise wouldn't have been discovered through more-traditional, more-narrow, and often more-superficial methods.

Understanding how a family's income influences the daily decisions they make about the brands and the products they choose to buy and use is another important aspect of consumer understanding. The consumer-is-boss orientation—the understanding and appreciation of the WHO as a whole person—is illustrated in the following story of Carlos and Marta.

THE STORY OF CARLOS AND MARTA

Through a gate on a backstreet in Mexico City, into a courtyard, and up two flights of stairs is the modest two-bedroom apartment of Marta and Carlos. Marta, thirty-two, is a stay-at-home mother of two basketball-crazy girls; Carlos is an accountant at a car repair shop. Their home is no larger than a good-sized hotel room, with a tiny kitchen and a dining room just big enough to hold a table and four chairs. There are no closets, so the couple has put up wooden shelving for their clothing. The walls are scattered with family pictures; on the door is a printed prayer and two crosses. This home is truly their castle. They saved for twelve years, living with Marta's parents, to buy it. Marta takes meticulous care of every inch; even the family toothbrushes are kept in order, snapped to attention by a device that hangs on the wall above the sink. Marta is P&G's kind of consumer. And, in fact, she is a P&G consumer—Ariel laundry detergent, Downy fabric softener, and Naturella feminine protection.

Carlos makes the equivalent of about $600 a month, almost exactly the country's average. In P&G terms, the family is part of the Mexico lower-income consumer market, which is defined as households with income between $215 and $970 a month. These families account for about 60 percent of the country's 106 million people.

The poorest 25 percent of Mexico's people do not have the disposable income to be much interested in what P&G has to offer; as far as the top 15 percent, since P&G entered the country in 1948, it has done pretty well. But for a time it was not as successful with the middle 60 percent, which also happens to be where the most population growth is. "We have to win in this segment today, since the proportion of the low-income segment will not decrease in coming years," the P&G Mexico office concluded in an internal study. It went on to ask, "What are the business opportunities we have with them and why?"

Those are the right questions, and the failure to think them through was costly to us. In one case, innovation did deliver a better product—but it still failed because of faulty understanding of the WHO's beliefs and habits. In the late 1980s, Ariel Ultra laundry detergent was launched. It delivered better cleaning performance while using only half as much. P&G saw this as a significant benefit because most lower-income households have limited storage space—a single shelf, like in the kitchen of Marta and Carlos. Ultra also had enzymes that delivered better cleaning. So convinced was P&G that it had a big winner that most of production was switched over to Ultra and a huge campaign was initiated. Mexican women told P&G otherwise. For one thing, they didn't believe that they could really get their laundry clean by using so little. For another, Ariel Ultra didn't foam. Many members of lower-income households do manual labor and are acutely conscious of odor; they considered foam a signal that their perspiration was being rubbed out. "We totally missed how important aesthetics and visual signals of performance were to the low-income consumer," says P&G's Herrera Moro. In a matter of months, Ariel Ultra was discontinued from the market. He put it bluntly: "We could have understood. We should have understood. We didn't so we failed." And this was not the only time P&G missed the mark with the lower-income consumer.

Starting in about 2001, P&G changed tack. To reach the middle 60 percent, it had to know them better. All it really knew was there was a gap between what it was offering and what the majority of Mexicans wanted.

The "consumer closeness program" developed ways to get people literally closer to the consumer. *Living It* is a program in which P&G employees live for several days with lower-income families (see pages 48–49 for more program details).

Downy Single Rinse is one highly successful example of how to convert insights from such experiences into profitable products. In the early 2000s, the Mexican market share for Downy fabric softener was low and stagnant. P&G wasn't sure what could be done about this since the assumption was that people who didn't have washing machines didn't use softener. Not wanting to compromise the Downy brand by dropping the price too much, the decision was made to see if something specific to the needs of the lower-income consumer could be designed.

One of the things P&G people noticed—often to their shock—by Living It and similar experiences was the problem of water. Before the Europeans arrived in the sixteenth century, Mexico City was surrounded by a lake; now it is parched. Suspicion of drinking water is high; Carlos and Marta buy bottled water, as do a large proportion of families who make much less than they do. Millions of rural women still lug buckets back from wells or communal pumps; in the cities, many have running water for only a few hours a day. Most homes do not have fully automatic washing machines; even fewer have dryers. All this makes doing the laundry a seriously draining chore.

At the same time, lower-income Mexican women take laundry very, very seriously. They cannot afford to buy many new clothes very often, but they take great pride in ensuring that their family is turned out well. Sending your children to school in clean, ironed, bright clothing is a visible sign of being a good mother. On Marta's wooden shelves and hangers, every single item, from jeans and T-shirts to Carlos's suits, is tautly ironed—and she is the rule, not the exception. P&G found that Mexican women spend more time on laundry than on the rest of their housework combined. More than 90 percent use some kind of softener, even women who do some or all of their laundry by hand.

"By spending time with women, we learned that the softening process is really demanding; it required a lot of energy and time," recalls Antonio Hidalgo, P&G brand manager for Downy Single Rinse at the time of its debut in March 2004. A typical load of laundry went through the following six-step process: wash, rinse, rinse, add softener, rinse, rinse. No problem if all this is just a matter of pressing a button every once in a while. But it's no joke if you have to walk half a mile or more to get water. Even semiautomatic machines require that water be added and extracted manually. And if you get the timing wrong, the water supply might run out in the middle. "The big 'aha!' " says Carlos Paz Soldán, vice president of P&G Mexico and Central America, was discovering how valuable water is to lower-income Mexicans. "And we only got that by experiencing how they live their life."

Putting it together, here is what was known. Lower-income Mexican women liked to use softener; they had high standards for performance; and doing the laundry was arduous, time consuming, and required plenty of water for multiple cleaning and rinsing steps. These ideas were put through the wringer, doing the kind of large-scale quantitative research that P&G is known for. They stood up to the scrutiny.

Having identified a problem to solve (making laundry easier and less water intensive) and a consumer benefit, all that was left was to figure out was what product to offer. Specs for performance and target costs were sent to the labs, and they came up with an answer: Downy Single Rinse. Instead of a six-step process, DSR reduced it to three—wash, add softener, rinse. Cutting down on the number of rinses saves enormous time, effort, and water. DSR was launched with the endorsement of the Mexican water and environment agency. There were lots of in-store demonstrations so women could see it work.

DSR was a hit from the start. Hidalgo recalls when he told one mother that he had worked on DSR, her face lit up. "She thanked me," he says, with satisfaction, "and asked me to please bring more of these kinds of products to her life." Hidalgo is, of course, trying to do just that.

Particularly when innovating for lower-income markets, it is important to think about affordability, not price. Lower-income consumers are price sensitive, of course, but the better way to think of it is that they are value sensitive.

By listening to women like Marta, a trusted brand and a profitable product was created. Marta positively purrs when her nieces tell her, "Your clothes smell so good."

BREAKING INTO A NEW MARKET BY UNDERSTANDING THE WHO

Another example of deeply understanding the WHO comes from Nokia, which adapted its business to conditions within India. In the process, it has come to dominate the Indian market for cell phones.

All too many companies trying to tap into the booming markets outside the Western world—China, India, Brazil, and Russia, for example—tweak product offerings and then "push" what worked in their traditional markets. Nokia's success in India is based on its being attitudinally willing to accept that "what worked here is not likely to work there." They were psychologically open to the possibility that their existing conceptions and capabilities—indeed, their entire business model—might not apply.

Understanding and catering to the needs of a new market is not just about marketing, it is also a fundamental business challenge. Being open-minded and willing to listen and probe for insights about not just the product, brand, or advertising, but also the distribution system, the supply chain, and other aspects of the new market, are crucial. This information is the raw material for innovation. Building an organization that can unearth and act on these insights provides the strategic and organizational agility to stay ahead in different markets.

Learning, curiosity, and probing for the precise need gives you that edge. That is what led Nokia to discover that building the market for mobile phones in India would take more than a few tweaks to its existing product. What India required was a new business model, and Nokia created it.

Nokia's senior leadership knew the market for mobile phones in India could be huge. When Nokia first set its sights on India in 1996, only one out of a hundred Indians had a landline phone. The Nokia team imagined how significant mobile communications could be to people who otherwise delivered messages by riding a bicycle from one town to another, or who lost touch with family members—even spouses—for months at a time. But while the people at Nokia imagined the possibilities, they didn't assume they knew exactly how to meet India's mobile phone needs. They first assigned a carefully chosen team with a broad mandate to understand the Indian market from the ground up. While the team included Nokia employees from California and Finland, it was slanted toward native Indians, for the obvious reason that they would have a better ear for listening to and a keener eye for observing local tastes, values, habits, and culture.

As Nokia was making the effort to understand the Indian market, it looked at the other side of the coin as well and ensured that the new Indian employees understood Nokia. They were brought to headquarters in Finland for several weeks of intensive training. Explains Tero Ojanperä, Nokia's chief technology officer: "We relocate people to headquarters for a while so that they get to know people in the company, and understand the company culture. This is especially important if they were recruited from outside. Then when they return to the country where they are going to work, they not only have a deep connection with the local culture, but they also have Nokia culture in their veins. They get a viewpoint that is both global and local." Frequent visits from Nokia senior managers and product development people also reinforce Nokia culture.

Early on, Nokia recognized that getting mobile phones into the hands of India's vast population would be a major challenge. The big retail outlets selling durable consumer electronics wanted nothing to do with the nascent mobile phone market, because margins per handset in absolute terms were too slim and volume too low. Ojanperä explains, "We realized just how different this market is. To reach this vast market, we needed to redesign the whole business model from scratch: the price points, the value propositions, the product design, and also how we market and distribute."

Nokia turned to HCL, a personal computer manufacturer and distributor, to help it crack the distribution nut. HCL shared Nokia's vision of affordability and distribution far beyond traditional electronics stores that carry products with much-higher price points. HCL also shared many of Nokia's values and became a true partner. Many companies change distributors every two or three years, but the Nokia-HCL partnership has endured since the outset, even as Nokia has, at the same time, expanded its distribution and partner network.

The India business development team talked with a huge number of Indian consumers and soon realized that the mobile phone would have to meet many different needs and be used under a variety of conditions. The team landed on what Shiv Shivakumar, Nokia's vice president of sales in India, refers to as "a digital convergence at the bottom of the market"—that is, the idea that a mobile phone could also function as an alarm clock, a radio, and a flashlight, products that cost 700 to 900 rupees ($14 to $18) apiece, at that time. (As of this writing, it would be $17.50 to $22.50.) People would need to use the phone in arid conditions with a lot of dust, in bright sun that created a lot of glare, and in hot, humid places where hands got sweaty and slippery. Moreover, the vast population of people living in Indian villages have neither plumbing nor electricity and are extremely poor. Their ability to afford a phone increases when multiple families use the same set. With electricity scarce in many places, lighting was a problem.

These keen observations pointed to desirable product features: a better grip, a dustproof phone, a built-in flashlight, a polarized screen. Nokia India, Nokia Global, and HCL discussed the issues with the aim of identifying a product that could be built off Nokia's technology platform and in keeping with the Nokia brand at the right price.

The "right" price wasn't necessarily rock bottom. Indian users couldn't afford the price of a mobile phone in the Western world, but they were willing to pay for value. Initially, the price was about $50, down to about $20 as of late 2007. Those pricing levels enabled Nokia to provide what Indian consumers wanted and still have desirable margins. As president and CEO Olli-Pekka Kallasvuo explains, "Some people try to optimize for cost in developing markets, but you may need to spend a little more to design and produce a better product." Nokia finds, for instance, that some 63 percent of Indians look for style when they buy a phone—which for some means it has great technological features; for others, appearance is what counts; and still others, the sensory aspects, like the screen and keypad, are appealing.

Nokia's biggest insight, however, had nothing to do with the product itself. It recognized that because the big retailers were unwilling to sell mobile phones, Nokia would have to create its own distribution system. Here again, by being close to the market and taking time to understand the particulars of the country without being tainted by previous success, the Nokia team found a solution that worked for the

Indian market. They developed a network of people willing to sell Nokia phones from small stands, about the size many vendors use to sell fruit and vegetables all across India, from the bustling cities of Mumbai and Delhi to the tiniest villages in the hinterland. Nokia, in partnership with HCL, found people who were interested in the opportunity and trained them. There were plenty of entrepreneurial people eager for the chance to make a decent living. The right product at the right price point sold through tiny outlets that could be located just about anywhere gave Nokia tremendous reach and acceleration.

Nokia and HCL's insights extended to the motivations and needs of the individual vendors, discovering that they expected to make their money by turning over the merchandise quickly, not from high margins. The main concern was velocity—how quickly the vendors could sell their items. The vendors did not want to have their money tied up in inventory, even overnight. Fruit vendors typically emptied their cart by the end of the day. Vendors selling mobile phones expected to do the same. In fact, if the products were priced with a 10 percent margin, the vendor would undoubtedly sell it at a lower price, whittling the margin closer to 2 percent, to move the merchandise. What mattered was a steady supply of product and avoiding financial risk. Recently, existing retailers such as pharmacies and supermarkets have begun to sell Nokia mobile phones. As Shivakumar explains, "Now people realize that mobile phones actually increase foot traffic, so every organized trader or big retailer wants to sell mobile phones." In fall 2007, there were one hundred thousand retail outlets selling Nokia products.

Nokia now dominates the Indian market for mobile phones by a wide margin. It has established manufacturing and R&D facilities in India, allowing the product innovation cycle to move even faster. Getting deeper into the Indian market also provides the fuel for continual innovation. For instance, Nokia has identified seven distinct market segments, each with its own priorities. Ojanperä says, "Results are now showing that we seem to have done something right. We have been able to sustain reasonable margins at those very low price points, which none of our competitors seem to be able to match at this point of time."

Product features designed for the Indian market are now part of the portfolio other country teams can draw on as they expand to places like Indonesia and sub-Saharan Africa. But even if members of the Nokia India team are involved, you can be sure they will work hard to define the needs of the new local market. As Ojanperä says, "It is about being close to the market and realizing the diversity of the market and then innovating very close to the market. There is no way our people in corporate headquarters can realize what is going on in India, or what is going on in Africa. Every location is different, and requires an open mind and fresh thinking about the product and every element of the business."

ARTICULATED VS. UNARTICULATED NEEDS

Great innovations come from understanding the customer's unmet needs and desires, both articulated and unarticulated—that is, not only what they say, but, more important, what they cannot articulate or do not want to say. Unarticulated needs help uncover the boss's "real reality." It may include getting a real-world appreciation of their lifestyle and what's most important to them; understanding how they use a product and their real motivations for doing so; beginning to understand their emotions and feelings. Unarticulated needs may also be uncovered by looking at the contradiction between what people say they do and what they actually do. Done well, you uncover *unarticulated* reasons why a customer chooses one brand over another. For example, a woman may say she buys a certain fine fragrance "because it reminds me of my first boyfriend." With insights like this, you can determine which groups of customers have the highest potential to be attracted to your offerings and develop innovations precisely targeted to them.

A good example comes from L'Oréal. The French beauty company designed a mascara for Japanese women, whose short, straight lashes meant they traditionally did not use the product. Therefore, there was no demand for it. If L'Oréal had listened to the market, it would have shrugged and gone on to something more promising. Instead, it came up with the idea of a special mascara that could lengthen and curl lashes. It was a hit. As CEO Jean-Paul Agon told the *Financial Times*, "We never would have seen [the potential] in a focus group." L'Oréal's mission, Agon noted, is to introduce or invent products that customers come to love; that requires anticipating their needs, not just giving them what they ask for.

Just about every P&G billion-dollar brand was launched with a product innovation discontinuity—that directly addressed unmet customer needs—and, as a result, stimulated new consumption. Pampers was the first mass disposable diaper, giving mothers a more-effective, more-convenient alternative to cloth. Head & Shoulders was the first shampoo to provide no trade-off between antidandruff protection, scalp care, and beautiful, clean hair.

In the end, customers cannot always tell you what they truly want. It is up to you to listen, to observe, to make connections, and to identify the insights that lead to innovation opportunities.

Industrial companies also have to know the end user, despite the fact that their offerings often become part of another company's product. Making that connection with customers is the only surefire way to stay relevant. That's how 3M's Optical Systems Division has generated hundreds of millions of dollars in revenues a year and makes a major contribution to 3M's bottom line, despite the fast product introduction-obsolescence cycles and rapid price erosion that characterize the consumer electronics industry it serves. When you use a laptop computer, PDA, or LCD TV, chances are it's using a product from 3M's Optical Systems business. The displays of many consumer electronic products sold by companies such as Sony, Nokia, Sharp, HP, and SAMSUNG use 3M films that "manage" light, making the display more energy efficient and easier to read or even directing the light toward you and not the person in the plane seat next to you.

3M has great technology platforms to draw on, which the Optical Systems team has to be intimately familiar with to build new products. Combining and applying those technologies in innovative ways works only after the team has figured out what the consumer really needs. As

Jeff Melby, optical systems business director and former technical director, explains, "Before you can identify how to put together the 3M technologies, you have to be able to identify what type of product would absolutely delight the consumer while providing real value to the display manufacturer that is your customer. You have to ask a lot of questions and get information from a lot of external sources.

"If you ask a big manufacturer what's important, they'll tell you cost, cost, cost. But that's only one part of what consumers care about. Did you ever look at your laptop computer and say, 'Gee, I wish the backlight were three times brighter'? Probably not. Those are the unarticulated needs. They're harder to discover, but when you find them and meet them, the opportunity is large. Getting at them is the work you have to do."

HOW TO GET ACQUAINTED WITH YOUR WHO

Several years ago, P&G realized that though it talked to a lot of people, it wasn't really hearing them. It has overcome this barrier by taking one of industry's more traditional market research organizations and turning it into a consumer-understanding powerhouse and consumer-insight generator. By investing more than a billion dollars in consumer-understanding research between 2002 and 2007 and conducting research with more than 4 million consumers a year, P&G has moved away from traditional, behind-the-mirror focus groups to more immersive research techniques. In fact, spending on immersive in-store and in-home research is up fivefold since the beginning of the decade.

This is an important shift. Investing these dollars in smarter ways has paid bigger knowledge dividends, unlocked deeper insights, and led to bigger innovation opportunities.

P&G spends far more time *living* with consumers in their homes, *shopping* with them in stores, and being part of their *lives.* This total immersion leads to richer consumer insights, which helps identify innovation opportunities that are often missed by traditional research.

LIVING IT, WORKING IT

One example comes from Latin America. The P&G management in the region, as noted earlier, knew there was a gap between what its brands were offering and what lower-income consumers wanted. "We tend to hire from relatively high (Level 'A') socioeconomic classes," notes Carlos Paz Soldán. But our primary consumer—where most of the consumption and growth is—comes from what we call "C" and "D" household incomes. Continues Paz Soldán, "We were pretty ignorant about them in a deep way. So we couldn't just have our employees do a focus group or conduct some quantitative research of one design or the other. We had to get out of our offices and become immersed in the real-world and daily routines of lower-income consumers and in the stores of the retailers we partner with."

In 2002, P&G created specific consumer immersion programs. *Living It* enables employees to live with consumers for several days in their homes, eat meals with the family, and go along on the shopping trips. Employees experience firsthand these consumers' demands for their time and their money, the way they interact with their social networks, what's most important to them, and which products they buy, how they use the products, and how the brands and products fit into their lives. Another program, *Working It,* provides employees with the opportunity to work behind the counter of a small shop. This gives them insights about why shoppers buy or do not buy a product in a store. They also gain an appreciation of how the innovations they bring to market may make shopping for a product easier or cause confusion at the store shelf—for the person stocking the shelf and for the shopper. Why do these immersion programs work?

- Top managers set the tone in two ways. First, they participate (about 70 percent of P&G executives at all levels and functions have completed at least one of these experiences). Second, they set the expectation that employees participate in these programs as part of their daily work. In fact, participation in the consumer closeness program is mandatory for all new employees to educate the future P&G leaders on the importance of external focus and the consumer is boss from day one.

- Employees have increased job satisfaction when they get out of the office and into the real world. It enables them to connect with the consumers they serve on a human level—gaining an appreciation of their complete lives, which are so different from their own.

- Richer, more actionable insights are identified from what is learned in the context of the real world. These insights and learnings inspire consumer-meaningful innovation ideas that otherwise would not have been discovered.

- Recognition systems are in place to reward innovation insights that were discovered during a consumer closeness session and subsequently commercialized with positive marketplace results.

Living It, Working It, home visits, and shop-alongs are how P&G bridges the gap in consumer understanding; innovation is how they turn consumer understanding into profit.

THE POWER OF OBSERVATION

Close observation of the boss, and her active participation in the process of innovation, results in a more precise definition of the key needs, the price points, the route to reach her, the business model, and the cost structure. And it all starts by doing something simple—keenly watching consumers, face-to-face, knee-to-knee, and listening, with ears, eyes, heart, brain, and your intuitive sixth sense.

Imaginatively connecting and distilling what you see and hear is how observation becomes insight. Marico, a company that makes some of India's best-known consumer products, has mastered this translation with its "Insighting" process. Dialogue with consumers is at the heart of Insighting. People who are Insight team members have to be able to think on their feet, spontaneously shaping the dialogue as it unfolds. They learn techniques to connect with consumers and draw out thoughts and feelings, developing their own style for doing it. The Insighting training also makes them aware of their own assumptions, so their minds are open to what people say. To be sure they absorb everything, the Insighting team members split into pairs or small groups to conduct the dialogues. That way, one person can take notes and observe while another asks questions. And they can cross-check the observations and any hypotheses that result.

The team then regroups to synthesize their findings. A lot of effort goes into sifting through the mass of information and distilling out the insights, and then choosing the ones that are most relevant to the business. While these sessions are typically a day long, they can get extremely intense. It's not uncommon for a team to be totally immersed and work into the wee hours of the morning trying to get to the bottom of the issue. Their passion and perseverance to keep diving deeper gets them to hit on the elusive insights that others miss. Throughout the process, the business that presented the problem stays away from the Insighting team so their biases don't inadvertently creep in.

Marico used Insighting to move sure-footedly and fast into men's hair cream with Parachute Advanced Aftershower. It achieved a dominant position, grabbing a 43 percent share of the market in less than a year. The Parachute brand had traditionally been targeted at women. While Indian men were increasingly interested in grooming, Marico wanted to find out whether marketing to men would dilute the brand. Many friends and industry experts warned that it would be a huge mistake.

An Insighting team explored with women, men, and barbers how they felt about hair care in general and the Parachute brand in particular. Men often ran their hands through their hair and cared about how it felt. The only time they really discussed hair care was at the barber. Consumers perceived that the core value of the Parachute brand was healthy hair, and a masculine marketing message did not seem to undermine it. These findings helped confirm that Parachute Advanced Aftershower would likely be well received, and also fed into the advertising and marketing programs. A new "barber influencing program," for example, has been giving them good results.

When Marico became interested in expanding its strong brand in edible oils—oils that were associated with a healthy heart—it used Insighting to explore the opportunity. Initial research showed that diabetes was a huge health problem, suggesting there was great potential to serve diabetic consumers. They first assembled a brand team to define the area of exploration, which zeroed in on the area of foods for diabetics. Then the project was assigned to an Insighting team to define the opportunity more specifically and test it. The Insighting team in this case comprised people from several different brands, technology, and HR; they were pulled from a range of organizational levels, from the chief technology officer to newly hired employees.

The brand team briefed the team on the opportunity as they envisioned it. Then the Insighting team got to work. The initial phase was to think through the task and clarify anything they were unsure about. The second phase was to gather and digest existing information, such as research reports. Third, they determined what questions and issues they wanted to probe. One team member suggested exploring post-therapeutic care for people who are serious diabetics, have undergone surgery, and are on an extremely regimented diet. Another suggested focusing on type 1 or type 2 diabetes. Along the way, the team raised the question: Can we make the current diet friendlier for diabetics? Then, a thought arose to look at snacks. The team explored all of those areas to see which was most promising, and then dug deeper.

As part of their "Insighting plan," the team weighed who would be the best sources of information. Diabetics and dieticians were obviously important sources. But the team believed family members of diabetics—spouses and even children—were also important, because they might know things the diabetics themselves wouldn't mention. From there, the team prepared its discussion guide, split into teams of two to conduct the interviews, and held their deep discussions to probe for insights.

As the team pooled their findings, they found that diabetics did want to have snacks. Family members confirmed that in fact they already consumed snacks, and they didn't like having to do so in a very controlled manner. The team learned from the medical community that doctors actually wanted their diabetic patients to have smaller, more frequent meals instead of heavy meals once in a while. These findings, combined with research showing that the number of diabetics was large and growing, pointed to an attractive opportunity for Marico to provide diabetic-friendly snacks. Further insights provided specific information to guide product development and launch.

Marico ultimately decided to start with a popular component of the Indian diet: roti, or Indian bread. In 2006, it test-marketed boxed mixes for preparing roti that would help manage cholesterol and diabetes, and in 2007, the product was scaled up across India. Early results have been strong.

SEGMENTING THE WHO TO MORE PRECISELY TARGET INNOVATION

As you work to better understand the WHO, you'll discover that people use your product for different reasons. They may have different occasions for when and how to use it; different attitudes about the benefits they want; differences about what they think is a good value, and what they're willing to pay. One size does not fit all.

Typically within a broader WHO target, there are subgroups of people who share common beliefs and/or habits. Identifying these clusters enables a team to more precisely understand, prioritize, and target the WHO for the innovations they create. Take, for example, the Charmin toilet paper business. Yes, consumers have different opinions and expectations, even for toilet paper. The Charmin innovation team conducted an intensive consumer segmentation analysis. Using a variety of qualitative and quantitative techniques, they identified several differentiated subgroups of consumers based on a combination of their various behavioral, attitudinal, psychographic, and demographic variables. For example, "Mindy" is a single mother who lives in a small apartment with one small bathroom. While she isn't willing to spend much on toilet tissue, she wants it to be soft enough for her children. Then, there's "Jacqueline," who sees her bathroom as her own private oasis—her time away from the husband and kids (albeit if for only a few minutes each day). Therefore, she is willing to spend on a little more luxury—including her toilet tissue. The team put together a road show to help bring the consumer segmentation model to life for others working on the business—for example, manufacturing-plant employees and retailer partners. The show included pictures of the different types of bathroom layouts, like Mindy's and Jacqueline's, and video clips from live consumers representative of each of the segment groups.

This segmentation is alive and actionable. Today, the Charmin organization has created its entire innovation pipeline tailored to its priority consumer segments—ensuring each innovation focuses on delighting its target consumer on what's most important to her. For example, in 2005, P&G introduced Charmin Basic—a toilet paper innovation that provides basic cleaning with minimal acceptable softness that is sold at a good price. This innovation was developed for Mindy and others like her. Importantly, the Charmin team's consumer understanding is not a onetime effort—it's ongoing. The team now gets data regularly for each consumer segment on every piece of key consumer research performed—including the product and TV commercial. This helps them further fine-tune and strengthen their understanding of the WHOs.

Another example of segmentation comes from Hugo Boss, one of P&G's fine-fragrance brands. The brand had sales of only $40 million at acquisition in 1992. At the time, P&G did not have much experience either in the fragrances category or in selling through department stores and perfumeries. "A lot of people didn't think we would be able to do beauty at all. They didn't believe consumer research or consumer understanding could give us any help," recalls Hartwig Langer, president of P&G's Global Prestige Products.

Early on, it was recognized that while the Hugo Boss brand starts with fashion, the job was to translate the brand's fashion equity into fragrance. (Langer does his part by typically dressing top-to-bottom in Hugo Boss.) So Langer and his team set out to understand what Hugo Boss meant to men. They found that different versions of Hugo Boss appealed to different men. One was named "Hugo"; the other, "Boss."

The "Boss" brand appealed to sophisticated, classic "winners"—successful alpha males who are accomplished and feel formidable. Younger men also go for the look as aspirational; they constitute a type called "the apprentice." Men who believe they have already made it, "the cool leader," also identify with Boss.

The "Hugo" brand, on the other hand, is for a man who sees himself as irreverent, who wants to succeed in his own cool way—but who definitely wants to succeed. (His rebellion does not stretch that far.) Hugo is more fashion forward, a little edgier. While Hugo has a bit of a bad-boy feel, this is a bad boy who also wants to be respected. It's a question of attitude, not age; fifty-year-olds can wear Hugo without feeling ridiculous.

The team came up with these personality profiles by spending a lot of time with men. There were conventional focus groups, of course, but it was found that the kinds of things they wanted to know about do not lend themselves to direct questioning. So they went out in the real world with the men: on shopping trips in department stores, attending fashion shows, and joining them in restaurants and nightclubs.

Once they knew who Hugo men and Boss men were, they could more precisely design fragrances, packaging, and marketing plans to suit each profile. They designed Boss with several different bottle shapes and colors (green, orange, black) for the different segments of its market. This segmentation allows the brand to focus on different emotional benefits, project slightly different images, and hit different price points, without cannibalizing the broad Boss consumer. Again, the fragrance followed the fashion. The original Boss fashion line is associated with the original Boss Bottled fragrance—a simple, classic fragrance in a simple glass bottle. Boss Orange corresponds to Boss in Motion, a metal, ball-shaped package—a little more style and surprise.

The packaging design is spherical to echo the dynamics of sport that the Boss Orange clothing line is designed for. Boss Black corresponds to the ambitious Boss man at the top of his game. He has arrived at the success level he strived for, but now wants to leave his mark. The corresponding fashion line is in exclusive fabrics with personalized details. The Boss fragrance bottle represents a fine-quality gentlemen's hip flask, and the selling line "Leave your mark" echoes the philosophy of the line. As for Hugo, it has a canteen-shaped bottle, with a canvas strap. The combination of a quasi-military look in a bottled fragrance is a perfectly rendered take on the slightly off-kilter take the Hugo man has on the world. While understanding the different segments of men and how Hugo Boss appeals to them may seem like a lot of effort, it has paid off. While the global fragrance market grows about 3 percent a year, Hugo Boss's compounded annual sales and profit growth rate have been in the steady double digits for the fifteen years P&G has owned the brand.

Another example of identifying groups of customers with similar buying behaviors comes from retailing. In 2002, when Brad Anderson became CEO of Best Buy, the giant retailer of consumer electronics, appliances, and PCs, he started searching for innovation that could reignite growth. He focused the business on groups of customers with common needs and expectations. Then, he combined this new focus with insights gained from employees' daily interactions with consumers to radically shift decision making and turn retailing on its head.

Retailers have long relied on merchandisers to make decisions about what the store will sell and, therefore, what and how much they (the merchandisers) will buy. Anderson wanted to make a profound shift in the flow of merchandising decision making, to let consumers—not merchandisers—drive these decisions. That meant getting to know consumers better, not just through the traditional means of focus groups but also by tapping insights from employees working on the sales floors of Best Buy stores.

Understanding groups of consumers was a starting point. Anderson and his team initially identified six distinct customer groups. They included "Barry," an affluent professional who wants the latest technology and best service; "Buzz," an active, young male who wants technology and entertainment; "Ray," a family man who wants technology that improves life for him and his family; "Jill," a busy suburban mom who wants to use technology and entertainment to enrich her family's lifestyle; and small business owners.

They then set out to define the needs of each of these customers more precisely by mining the gold mine of information at their fingertips: the one-on-one contact their sales assistants had with consumers all day long, every day of the week. Best Buy's employees' daily interaction with customers was a great opportunity to do what Anderson calls "belly-to-belly innovation." If sales assistants were trained and motivated to listen and observe customers and if that data got to the right places, decision making and business results would improve.

Best Buy sales assistants are now trained to better understand each individual customer, with an eye on the customer groups they may be a part of. They are encouraged to watch consumers for ideas and insights, and the company has created processes for capturing them. All employees are encouraged to test new ideas. One creative employee suggested they put together a package for real estate agents, who are part of the small business segment, based on his observation that Realtors often came in looking for one item, say, a digital camera, but often needed others as well, such as a GPS, a laptop computer, and software. He raised it with his general manager, who launched it as a test to see if the real estate package in fact generated more business.

If an idea works, area leadership can determine if it is unique to a particular store or applicable to a broader group of customers. For example, the manager of the Buzz customer group heard a recurring theme from the sales floor that Buzz was also interested in musical instruments. So they put a test project in a single store and watched the response. It was positive, so they expanded the test.

Better consumer insight is unearthing many opportunities for Best Buy to grow profitably and giving it the confidence to move decisively into new areas, whether it's adding more stores, expanding the range of services and capabilities in the stores, creating its own private label products, or tailoring advertising campaigns and physical displays. The consumer-insight work has led to the creation of Magnolia Home Theater stores, a small area within Best Buy stores that sells high-end audio/video and home-theater equipment, and the addition of the Geek Squad to service the PCs Best Buy sells. It even changed the company's view of the playing field. "We used to think we had room for one thousand stores in North America," Anderson explains, "but because of our customer-insight work, we now think there's room for at least eighteen hundred."

Best Buy also uses its firsthand consumer insight to help suppliers innovate, and sometimes to produce products of its own. One group of customers they were underserving was Jill, the busy female with kids. Early consumer-insight work revealed that Jill didn't like Best Buy very much, so the company worked hard to understand her better. Those observations led to the discovery that Jill needed a more durable portable DVD player for her young children. The screens on the existing players couldn't take the rough handling they often got. Best Buy decided to make a portable DVD player just for her, and it is now their best seller.

By digging deeper into consumer behavior, Best Buy came to realize that their appliance department was really serving two distinct groups of customers, younger families and empty nesters, as opposed to the thirty-something value-oriented females they thought they were selling to. That prompted a broader product range and the creation of Certified Appliance Specialists, who handpick people suited to sell to these customers and then train them extensively. The experts are compensated for their higher skill levels. Higher pay combined with work that is more meaningful and managers who actually want to hear their ideas lead to happier, more engaged sales associates. Retention of associates has risen, which means the average experience level is higher. With more experience come better insights, and with that, more innovation, and what follows next is greater customer satisfaction—thus the advantage steadily increases. Not incidentally, dollar profit per employee has increased despite the higher costs associated with raising employees' skill levels.

Other big retailers are adopting their own version of segmentation. Will they catch up? "It's the precision of your segmentation, your ability to organize around it, and then rigorously searching for the insights and acting on them that makes the difference," Anderson says, acknowledging that Best Buy is still learning. "Understanding those customers is the core of innovation. If we can tap that connection with the customer and act on it in a deep way—which we think we're on the cusp of doing—that is a game-changer."

As these examples show, WHO segmentation is a requirement for innovation but only valuable if it is actionable. An actionable segmentation enables a team to prioritize which consumer segments to focus on based on where there is the greatest business opportunity. Segmentation also helps focus the allocation and assignment of the precious and scarce resource of talent. The size of the opportunity needs to include an assessment of marketplace dynamics, consumer trends, and where your business can add the most value. Importantly, when doing consumer segmentation, it is essential that the different segments are large enough to provide sufficient business opportunity. Sometimes segmentation can get too fine and become too niche. Another consideration is to ensure that each group of consumers can be easily identified and reached with your product or service innovation and marketing efficiently and effectively. Developing an innovation without the ability to reach your WHO is time and money poorly spent.

COCREATING AND CODESIGNING WITH THE BOSS

There is one additional important element to the customer as boss: actually getting her involved in cocreation and codesign. At its foundation is clarifying, segmenting, and precisely targeting the WHO before engineering and formulating new-product innovations. That means involving her in the iterative, two-way creation and design of innovation, right from the start. For an example of how this works, consider the LEGO Group, the Danish toy company.

LEGO has three levels of consumer involvement: first, testing a product; second, cocreating a product; and third, designing custom versions. In important (and highly profitable) ways, the company has become a facilitator of consumer innovation.

LEGO is blessed with a loyal customer base. Not only children, but also some adults are fanatical about LEGO building systems. The company knew adults loved its products, because back in 1998 a student at Stanford University cracked the software code for LEGO MINDSTORMS, the kits that combine construction systems with robot technology, just four weeks after the first version was released. The student ended up creating a better version of the code. So in 2004, when LEGO was seeking ideas for the next generation of MINDSTORMS kits, they turned to the enthusiasts for help. Those who volunteered worked side by side with LEGO employees. By the time the product was released, more than a hundred users had been involved.

LEGO also found enthusiasts around some of their more-traditional product categories, such as LEGO Castle and LEGO City. People were buying old LEGO sets on eBay and exchanging information about their building projects online. Some of those fans knew more about how to create the perfect LEGO castle than LEGO's own designers. LEGO brought them into the fold to tap their ideas early in the development process and will soon be releasing some of the sets those users helped create. CEO Jørgen Vig Knudstorp says, "They are the best LEGO castles that have come out in many, many years." In effect, LEGO has expanded from about one hundred and twenty designers (the number who get their paycheck from the company) to something like a hundred thousand. There can be no more literal example of consumer cocreation.

While people at LEGO believe in "letting consumers run with the brand," they struggled with the fact that some of the ideas the adult users generated were too advanced for children. Designers had to translate the suggestions for its broader market. At the same time, they wanted to find a way to serve their sophisticated fans. That led to the creation of a service that allows users to design a 3-D model of their project in virtual bricks with software they can download for free from LEGOfactory.com. Users can then have LEGO produce a customized kit they can build themselves, or they can simply display their creation in an online gallery. Many do; by mid-2007, more than 2 million users had downloaded the software, and more than 150,000 creations had been uploaded for display.

CONSUMER LED, NOT CONSUMER DECIDED

Regardless of which segment or target your product may appeal to, innovation must be consumer led. That is not the same thing as consumer decided. As Henry Ford put it, if he had listened to the marketplace, he would have built a faster, cheaper horse. But he understood that what people really wanted was a way to travel that was easier and faster and gave them more freedom.

A good example of the difference between consumer-led and consumer-decided innovation comes from Febreze. Launched in 1998 as a product to take odors out of fabrics, its excellent performance made it dominant in a category it pretty much created. Says then marketing director Martin Hettich, "I never worked on a brand where consumers had this much deep emotion and deep love for the brand."

The key business challenge was that there just wasn't that much occasion to use it. In 2001, the Febreze business in North America was only $140 million in sales. When the team went into people's homes to talk about it, they would ask to see where consumers kept the Febreze bottle. Inevitably, it was stuck in the back of a shelf, sometimes dusty with disuse. People loved Febreze, but found a need to use it only a few times a year; the average repurchase time was eighteen months. The total market for fabric refreshers was about $300 million, and P&G had about half of it. There just wasn't much room to grow. So the innovation team began to talk to the bosses. They found that the most committed consumers were spraying Febreze all over the place, not just on their clothes and furniture. "The consumer," Hettich notes, "thought of Febreze as a freshener long before we did."

The team tested three options to grow the brand: add more laundry benefits like stain removal ("Care for where you live"); expand the brand to work on hard surfaces like kitchen countertops ("Just cleaned freshness"); and enter the air-care market like air-freshening sprays ("Breathing life into your home").

And then—the crucial point—they didn't just go with the winner. Instead, the team chose to focus on the "breathing life into your home" concept although it came in second place. This concept better addressed the business challenge of increasing consumers' frequency of use, as consumers indicated they would choose more products and use them more often based on the "breathing-life" concept compared to the other two ideas.

The team was led by consumers' thinking, but it did not let consumers decide for it. In addition, it changed the original "breathing-life" positioning to "breath of fresh air," in large part because this was the term consumers kept using.

Starting in 2004, Febreze extended into the air-care market. The team has since expanded its offerings to things like air freshener sprays, scented candles, and plug-ins. Further, Febreze has been added to other brands like Tide and Bounce. By listening to the bosses, Febreze has become a $750 million brand in North America alone and the team aspires to hit the billion-dollar mark before the end of the decade.

WHAT DO CONSUMERS WANT? 360-DEGREE DELIGHTFUL EXPERIENCES

The P&G definition of innovation focuses not just on the benefits a product provides, but also on the total consumer experience—from purchase (the first moment of truth) to usage (the second moment of truth).

The consumer doesn't just want clean hair or shiny floors; she wants to feel beautiful and have more time on Saturday morning. P&G needed to develop a broader understanding of what consumers really wanted beyond the functional benefits of clean teeth or an effective diaper, and design products to deliver a total experience that is different, memorable, preferable, and a better value.

To get there, P&G had to think in broader terms. For an analogy, look at the Apple retail stores. Of course, they are selling branded products that do specific things; but the stores are also an experience in and of themselves, and are all designed to promote a vision of Apple as an experience and a style that consumers literally buy into.

For P&G, the key was to think more holistically. A brand is a product that creates an experience and ultimately a relationship. It needed to work harder on delivering the promise that is the essence of a great brand. Game-changing innovation works through the whole cycle; it creates the kind of loyalty that makes consumers reach for the same product time and again.

The differentiated content of the product—the chemistry that makes Tide great, the scent in a Hugo fragrance—is necessary in the innovation experience. But it is not sufficient. Innovating to create a holistic 360-degree delightful experience involves many other aspects the consumer may interact with—functional, emotional, and experiential—from the packaging she sees on the store shelf to the brand or product's website, from what the product dispenser looks and feels like to how the product smells and how easy it is to use.

A good example is SK-II, the prestige skin-care brand that originated in Japan. When P&G acquired it, SK-II sales in Japan were approximately $50 million, and had earned a reputation for offering superior products and delightful experiences to its discerning consumers. SK-II contains Pitera, a secret ingredient for beautiful, clear, translucent skin. Inspired by the chance observation that the hands of older workers in a sake brewery appeared incredibly young and smooth, Pitera was discovered after more than five years of research into yeasts and fermentation processes.

SK-II has created a holistic consumer experience based on its unique Pitera ingredients, the fermentation legend, and its distinctive skin-care regimen. SK-II has used new innovation models for consumer bonding, beauty counseling, and creating delightful in-store experiences. SK-II marketing surrounds its consumers with a high-touch, highly personalized approach, consisting of exclusive burgundy-red counters in department stores that showcase powerful timeless Japanese beauty and include sophisticated beauty-imaging computer systems to assess and monitor the skin's condition (for example, microscopic skin lines, wrinkles, texture, and spots). Consumers receive personalized recommendations from highly trained beauty counselors who have a passion for service and a desire to work with their consumers to help them achieve their ideal skin beauty. Consumers experience best-in-class, high-end packaging and aspirational testimonial advertising from beautiful women with clear, flawless skin. SK-II creates an ongoing relationship with its core group of users through personalized touches, like sending women roses on special occasions.

This highly innovative, 360-degree experience has enabled SK-II to develop a loyal group of women who are fanatics about the brand and its ability to give them a totally new skin-care experience—the miracle of reborn skin. In fact, it is not uncommon for these women to spend more than $5,000 a year on SK-II products—a phenomenal testimony to their loyalty to a brand and a unique line of skin-care products.

Today, SK-II has more than a half billion dollars in annual sales and a growing group of millions of loyal users around the world. In fact, sales for the brand have increased tenfold since acquisition—a track record few brands ever achieve. SK-II aspires to become one of P&G's billion-dollar brands in the years ahead. Using 360-degree holistic innovation to draw on unique sources that surround consumers with delightful experiences at every touchpoint is a key contributor to consistent, reliable, sustainable brand growth.

EARNING THE LOYALTY OF OUR BOSSES

The most important element in innovation is the consumer closing the loop by buying the product. Then the challenge is converting a onetime buyer into a repeat buyer and a loyal user. Loyal users are less price sensitive. They use more products in the line and often become ambassadors for the brand. Loyal consumers are what drive P&G's innovation engine.

Consider the humble tampon. Feminine protection has been a checkered category for P&G. It pulled the Rely super-absorbent tampon off the market in 1980 because of toxic shock syndrome concerns that were eventually vindicated. Three years later, Always and Whisper sanitary napkins were introduced. These became market leaders very quickly, in large part because they were innovative, featuring a patented topsheet that provided a cleaner, drier feel. P&G built on this success by introducing Wings—patented side extensions that improved coverage and thus cut down on staining. And then, in 1990, it introduced another innovation in ultrathin pads. In each case, P&G proved it had a grasp of what women wanted—protection, comfort, and a clean dry feeling when wearing the pad. Always and Whisper were hits; both remain big earners. This success was a strong foundation when P&G decided to get back into tampons, with the acquisition of Tambrands, maker of Tampax.

The Tampax tampon was a disruptive innovation, if there ever was one. Debuting in 1936, it was the first tampon to have an applicator. Other than some tweaks to packaging, when P&G bought the brand in 1997, it had hardly changed in sixty-plus years; Tampax was very much your grandmother's tampon. P&G's competitors had not been so diffident—Playtex introduced the plastic applicator, for example. Tampax was almost exclusively cardboard, and was losing market share—more than eight points between its acquisition and 2001. The remedy for winning was clear: a dose of innovation.

Beginning in 2000, P&G stepped back and made an effort to understand the market, asking the bosses (i.e., menstruating women and girls), "What do you want? How can we improve your life?" Their answer—comfort, protection, and femininity. The result was Tampax Pearl, which launched in 2002. Tampax Pearl was conceived with the objective of introducing a fit and finish to the tampon that women would appreciate for more than functionality. Instead of regarding the tampon strictly in terms of performance, the Tampax Pearl team took a broader view, making it their mission to try to make the experience of having a period and using a tampon a more positive one. "The product," says Melanie Healey, then the president of Global FemCare (she has since added health care to her portfolio) "wasn't just about better protection, which was a given, but also about delighting her in every way."

The words *delight* and *tampon* are not often found in the same sentence. Nevertheless, with "delight" as its goal, the team set about reimagining every aspect of the tampon. For example, on the old Tampax, it was not obvious which end to open; moreover, upon opening, the package crackled loudly—a source of embarrassment to some women, particularly teenagers. We know that tampon choice is often established early on; once about two-thirds of women choose a form of protection they use it forever. A silent package could help us appeal to younger women—and perhaps get a customer for life. "Teens," as Healey says, unself-consciously, "are the lifeblood in this category."

The thing is, teens don't necessarily want to talk about their periods to a bunch of suits in a conference room. Ohmigod, gross! So P&G turned to its Home Lab, a series of rooms designed to look like a middle-class American home. One of the rooms is decorated to look like that of a teenage girl's room—feminine bed coverings (messy, of course—this is supposed to be realistic) and pictures of horses. Then the P&G team brought in a group of girls, fed them pizza, and got them talking with a youngish, female moderator. And the team listened.

The team also hosted a poetry jam for teenage girls who had recently started using tampons or were about to. They asked them to write either a poem or a short essay about their periods and feminine hygiene—and then to perform it. No one to bias what they had to say, no one to make them nervous about what they were saying, because they had the chance to think it through before they came to the event, which we held in a space converted to look like a club. While much of what they said was familiar, it became much more real: "When in need, tampons are a friend indeed," one fifteen-year-old wrote. "I think without a tampon / My life would not be the same. I'd be handicapped for a week / Letting bulky pads drive me insane," noted another. Perhaps nothing for the anthology books here, but it helped the team understand the boss.

The same kind of thought went into the design of the Tampax Pearl applicator; it is rounded, with a contoured grip that makes it easier to hold. The fact is, no one looks for long at a tampon applicator, but Tampax Pearl is smooth and pearlescent; the team wanted a quality look because if it looks comfortable, it becomes more comfortable because women feel more confident. And the absorbent material itself was redesigned. Instead of a tubelike shape, it expands inside the body into something that looks more like a butterfly for better coverage. The string is braided, capturing any overflow. Both features reduce leaks. And the packaging itself was enhanced, with a see-through window so the consumer can actually see the product, and some other features that give the package a touch of class.

Tampax Pearl debuted in 2002 and demonstrates how innovating for a target WHO results in closing the loop at the end of the innovation cycle. The Pearl brand is now the market leader with sales of more than $200 million per year and is the number one plastic applicator tampon, passing the Playtex brand, which had created the segment. Tampax Pearl is priced above Playtex Gentle Glide and almost double above store brands. Consumers willingly pay for this price premium because they get both a superior product and a superior experience—one that is attentive to the nuances of women's needs. And women will pay for Tampax Pearl's better value—month after month. Impressively, once women buy Pearl, they become loyal. More than one in two women who buy Pearl once have bought it again.

While it sounds painfully obvious, innovation will not be successful unless and until you know WHO the consumer target is and WHAT she wants. Find out who she is, find out what she wants, and then give it to her. There is no deep dark secret here. The formula for innovation success is as simple as that.

Of course, the hard part is pinpointing the WHO. There are, for example, few mass markets left in consumer products. Most consumer products have segmented and even begun to fragment into a dizzying complexity of niches. In this situation, the key is to understand who the primary prospect is for your new innovation—for your new brand, product, or service. It's critical that you know as much as possible about her and him; that you know how to connect with, communicate with, and reach her or him; and that you can attract enough hers and/or hims to create a viable going business.

P&G does after-action reports on failed innovation initiatives. The single biggest reason for failure is either an inability to pinpoint or segment the target consumer or an insufficient number of target consumers or primary prospects to make a viable business. Sometimes P&G gets the consumer right, but misses the real need or real want. Sometimes persistance will get it right on the second or third try. But, this is always more costly.

Tide laundry-detergent users are different from all other laundry-detergent brands. Dawn dishwashing-liquid users are different from users of all other dishwashing brands. Bounty paper-towel users are different from users of all other paper-towel brands. Pantene and Olay users are different from other hair-care and skin-care brand users. Hugo Boss and Lacoste fragrance brand users are different from other fragrance brand users. Understanding how they are different and understanding the different WHOs are the keys to successful game-changing innovation.

ASK YOURSELF ON MONDAY MORNING

- Do you know your WHO—your consumer or customer? Do you understand your marketplace dynamics, and the broader WHO for your product/service/brand?
  - *What are your WHO's beliefs, needs, aspirations, and desires—both articulated and unarticulated?
  - *Where are the biggest gaps in what consumers currently perceive they get (from your product/service and those of competitors) and what they want?

- Within the broader WHO, can you identify and prioritize which WHO subgroup(s) your innovation will most appeal to and design for that primary target?
  - *Do you deeply understand each precise WHO subgroup?

*How does your brand, product, or service fit into her or his life?
*What aspects of consumers' lifestyle impact how they purchase? How do they use the product?

• Can you identify how to engage your WHO in cocreation and codesign so your innovation is game changing—i.e., meaningfully improves her/his life?

• Can you convert onetime buyers and irregular users into loyal consumers who buy and use more often?
*Why do some consumers try but not buy your product/service again?
*What do you need to do to make your business more customer- or consumer-centric?