

Renovate Before You Innovate
Why Doing the New Thing Might Not Be the *Right* Thing
Sergio Zyman

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The author states that for a lot of companies innovation and risk taking isn't the right way to drive growth. He argues that 'renovation' is the right strategy.

Renovation means doing better things with your existing assets and competencies and is starting with what you can sell and then seeing whether you can deliver it.

Start with balancing your core competencies and core essence.

Core competencies are based on four factors: knowledge, experience, resources and people. Core essence is who you really are as a company or brand: your relationship with customers and noncustomers, what your brand stands for and what promises your brand makes.

Businesses identify new growth opportunities that enable them to leverage their core competencies and assets, in order to pursue their innovation strategy (Let's start with what we can build and see if we can sell it).

But if a business is relying on renovation it will identify new growth opportunities consistent with what consumers are willing to buy (Let's find out what we can sell and see whether we can make it).

Businesses considering innovation make one or more of following mistakes:

- ❑ They focus on leveraging their core competencies instead of their core essence.
- ❑ They pursue creativity at any cost and treat all new ideas as potentially equal.
- ❑ They limit their innovations to only new products, forgetting that innovation is about creating new value for customers, consumers and the business.
- ❑ They grow horizontally, rather than vertically.
- ❑ They try to innovate by acquiring other companies, rather than growing organically.

Renovate instead.

Core essence may not be confused with jingles, logos or advertising slogans. Core essence is expressed by everything your company does.

But what you say about your core essence is completely irrelevant: it is what consumers and customers think that counts.

In order to leverage your core essence you have to ask people questions about three things:

- ❑ Emotional benefits: how your product makes feel people.
- ❑ Functional benefits: what makes your brand superior.
- ❑ Attributes: what affects the two previous benefits, without being a benefit themselves.

The conclusions of this survey will allow you to renovate every aspect of your business.

Business or franchise?

Note: the author uses the word franchise with a completely different meaning than what is generally understood by this word.

Difference between business and franchise: a business can grow only in its defined area, whereas a franchise can expand far beyond its perceived area of expertise.

Being a franchise enables a company to redefine its competitive frame, broaden its markets, redefine its basis of competition and leverage its unique expertise.

Becoming a franchise requires at least one of the following:

- ❑ Attitude: if you want to be great you have to conduct your business as if you know you're great.
- ❑ Value: moving into areas where you can provide that value.
- ❑ Experience: expanding experience beyond perceived boundaries.
- ❑ Expertise: leveraging expertise in your existing field.

TACOS: from business to franchise.

Renovation is again the key word.

The author proposes the TACOS formula: Trademark + Area + Customer Offer = Success

- ❑ Trademark: your unique selling proposition.
- ❑ Area: where you place your trademark.
- ❑ Customer offer: your product or service.

Renovation involves overhauling following key components of your business:

- ❑ The way you think;
- ❑ Your destination;
- ❑ Your competitive frame;
- ❑ Your segmentation;
- ❑ Your customers' brand experience.

Renovate your thinking.

Three steps in order to develop a renovation mentality:

- ❑ *Think like the challenger (aggressors) and not like the champion (leader).*
Leaders are often cautious, resting on its laurels and content to kick back.
Aggressors are fast, smart, hungry and have nothing to lose.

So the only way for big players to stay alive is to keep renovating, remain true to it's business core essence and doing better and more relevant things with the existing assets.

Customer loyalty is crucial. You have to remind constantly people why you're great. Each company will find itself at one moment or another in the one of the following situations:

- Being under assault by aggressors. In this case you have to redefine your positioning against these challengers.
 - Being an also-ran in a stagnant category: offering value to your customers instead of just a product or a service.
- *Commit – before you even start – to measure the results of your marketing efforts.*

You have to create control markets and build in measurement criteria upfront. Ask yourself these three questions:

- How much am I spending on marketing?
- What exactly am I spending it on?
- What am I getting in return of my investment?

It is only when you get an handle on your spending, that you will be able to determine the return each activity generates. Then you an focus your efforts on the activities that produce the best returns.

But most of the companies fall into one of following traps:

- They don' track or don't measure.
- They don't use consistent metrics to link activities, investments and sales.
- They don't measure systematically the volume of response generated from any specific activity.
- They neglect to take a structured approach linking marketing investments with brand objectives.

Tips:

- Change the way you think.
- Break down you overall marketing budget.
- Calculate how much sales is driven by each marketing element.
- Define net profitability of each element.
- Focus on things that generate the highest return.
- Dump the things that lose money.

- *Get rid of the idea of giving price concessions.*

Everything you communicate – even your prices – say something about your brand. But it seems that most companies fail to manage their prices at all. Think long before lowering your prices: temporary price breaks tend to become permanent. Avoid the downward spiral that leads to decreased profits.

Renovate your business destination.

Think about your current circumstances, determine what obstacles you're facing and how to get where you want to be.

First develop your destination statement: how you want the consumer to think, feel and act in relation to your company and brand; and the outcome you want to achieve in the marketplace.

Your destination statement should address these questions:

- What business do we want to be in on a long-term basis.
- Who should we sell to, directly or indirectly, now and in the future? (Our target)
- What attributes and benefits will customers ascribe to our brand? (Thinking)
- What intangible higher-order benefits and attributes do we deliver? (Feeling)
- What do we want customers to do as a result of the thinking and feeling? (Acting)
- How will our company benefit from all this over the long term?

This destination must be specific enough (painting a clear picture of who you are, what you believe, where you're going and what drives you) to guide your decisions. It must also lay out how customers interact with you, how they think about you, how they feel about you and the role you play in their lives.

A clear destination leads to more effective objectives and marketing strategy. Your value proposition – the answer to the customers' question 'What's in it for me?' - will be clarified. This value proposition operates on the three levels of the customers' perception: emotional benefits, functional benefits and product attributes.

Renovate your competitive frame.

Be aware that your real competition is the entire set of viable alternatives to your product that compete for your customers' money and time. This is your competitive frame.

The author gives here the example of Coke in Russia: the biggest competitor wasn't Pepsi but the city bus (people didn't have the money to pay for the bus and a Coke).

A narrow competitive frame is maybe safe but usually a big mistake. The broader your definition, the more purchase occasions you will capture.

Differentiation is where you create value and is what you separates from the pack.
Consumers are buying relevant emotional benefits!

Renovate your segmentation.

Through segmentation you are grouping markets, customers or consumers in order to maximize profits. When you go by the traditional assumption that everyone in each group will behave the same way you will get segments that are:

- Meaningful and mutually exclusive.
- Measurable
- Substantial
- Attainable and actionable.

If you want to grow you need to allocate your resources to the segments that produce the highest profits.

That is why you need a completely different approach to segmentation; a segmentation based on values, attitudes and behaviors. This is called demand-based segmentation.

Three steps:

- *Identify your most valuable customers.*

Start from the 80/20 rule and see that the 20% customers buy more by segmenting them based on their usage.

This segmentation might look like:

- Hard opposition: write these people off.
 - Soft opposition: winning them will be hard and expensive.
 - Undecided: you can win them but not their loyalty.
 - Soft support: you can easily move them to greater loyalty.
 - Hard support.
- *Segment the opportunity.*

You can segment your customers based on their response to specific benefits, products, services or promotions.

Questions to ask:

- What specific products and/or services will increase consumption?
- What is the probability of increased usage due to specific products?
- What amount of increased usage can be expected?

- Segment the occasion.
 - Purchase occasions: penetrating additional places where the decision to purchase is made.
 - Communication occasions: think outside the normal methods of communication.

Renovate your customers' brand experience.

Think: I'm selling an experience (not a product or service) because this is often the only significant thing that separates you from your competitors. Mostly, experiences have little to do with the products themselves (Harley-Davidson motorcycles = wind in your hair, American classic

It is important to know that research found out that after 9/11 consumers started to put more emphasis on family and relationships. Consumers are more attracted by 'easier' and by products that make their time more enjoyable.

So the competition is going to be based on experiences: feel and touch, change emotions and attitudes.

Some of the experiences can be service-based. To provide a fully service-based experience every employee in your company must know and fully support the company's core essence and business destination.

You build loyal customers by delivering experiences that create value beyond mere satisfaction. Consumers are looking for experiences that complement their lifestyles and brands that say something about their aspirations.