The Edge of Innovation

June 10, 2019 By Brad Evert

Innovation has a razor-sharp edge. Customers are more accepting of small improvements, but those only create marginal increases in value. They can go largely unnoticed in the market. Radical innovation makes a big splash, but not every customer wants to get soaked. It can seem like roulette to pinpoint how far to innovate. Understanding the impact of innovation, customer adoption and resistance are key to charting your course of action. Done correctly, you maximize your investment and stay relative in the market without disenfranchising your customer base.

Competition is fierce in banking. Innovation is key to competitiveness in this vertical market. Fresh products and services generate buzz, attract new customers, and retain existing ones. Your bank must compete, so you decide to innovate. You put the project plan together, executing every required step:

- Market/Comp Analysis…. Check
- KPIs and Key Ratios… Check
- Cost Benefit Analysis… Check
- Board Buy-In with Capital… Check
- Vendors/Tech/Security… Check
- Training /Micro-Learning… Check
- Marketing Roll-out… Check

The project is green-lighted. You assemble your innovation team and they set off to realize your vision. The project is work but stays on track and progress is made until finally it's time to train staff to prepare for release to your customers. At this point, you get the first taste of some strange resistant force from employees. The team rallies and pushes through to the end, everyone confident in the positive response you will receive from your customers.

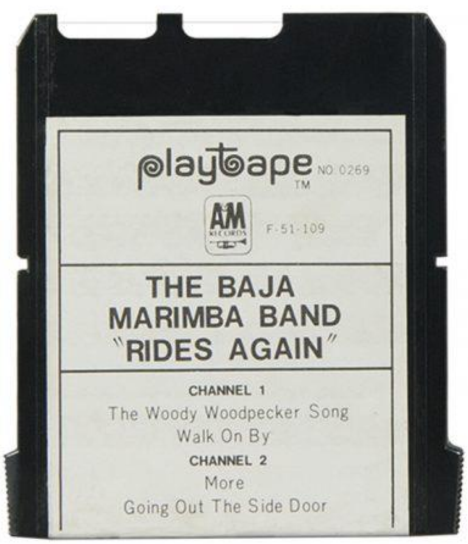
Your new products/services roll out to customers. Sales attracts new customers, and they are thrilled. Before celebrating begins you are introduced to one of the harsh realities of innovation.

"Customers are rarely happy in the face of change, even if they are getting what they've asked for."

Support call volumes increase. Social media turns on you. Negative posts appear from frustrated customers. Your projected goals for customer retention, cost reduction and revenue growth begin to look like Mount Everest. Internal staff becomes dejected and disengaged. Everyone in the organization above and below wants to know what went wrong.

Innovation resistance is real and comes in two forms, passive and active. Customers and employees are often reluctant to accept innovation, even when they provide logical improvements to a service or product. One point to remember is that innovation that directly answers a market need does not guarantee success. Second, the greater the innovation, the greater the resistance is.

There are several studies on this innovation resistance phenomenon [1]. It all comes down to how customers perceive risk and cost. Anything new is unknown and is perceived as risky. Change threatens to devalue current knowledge and disrupt learned behavior. This sparks a fear of failure response in customers, leaving them feeling abandoned and confused. I'm going out on a limb here and ask you to recall (maybe from history books) when 8-tracks were the medium of choice in cars.



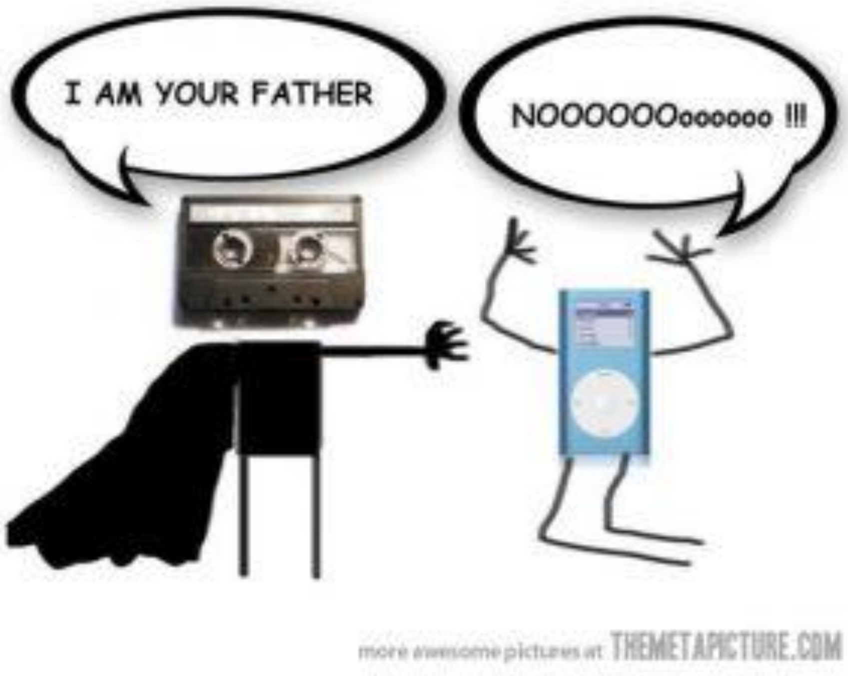
The cassette came out and was not widely adopted. Why not? It was recordable, played longer, and was smaller. Still customers complained about having to eject and flip the tape, something they didn't have to do with an 8-track that played continuously once it was inserted. Cassettes took off once players had auto reverse that let users operate the cassette in a similar way as with an 8-track. They no longer needed to eject and flip the cassette, so the requirement to change their behavior was reduced.

Barriers occur as a natural result of the innovation in your product or service. These can cause active resistance from customers in how they perceive your product or service. There are three types of barriers: value, usage, and risk. Performance issues (speed, defects) contribute to value barriers. Required behavior changes contribute to usage barriers. This is often a major issue with larger innovation projects. Poor communication and training contribute to risk barriers when customers simply do not understand new features or processes. I will discuss how to overcome these barriers in a bit.

Status quo satisfaction or a high resistance to change [2] causes passive resistance. Passive resistance focuses not on your product or service, but upon the customer's own inability to adapt to change. Unfortunately for banks, both employees and customers are often change resistive. Employees good at repetitive tasks display cognitive rigidity and prefer the status quo. Long term customers have a high degree of emotional attachment to existing products and services and are likely to resist change. Think about back office operations, which have remained largely unchanged in the face of 30+ years of technological improvements from check 21 to online and mobile banking digital channels. There are numerous back office processes that trace back to a time when the 8-track was king. There is no shortage of innovation in the banking industry today, yet the impact of innovation resistance permeates banking customers and bankers alike. As competition increases and margins narrow, more banks will engage in innovative projects of greater scope.

There are several strategies to combat innovation resistance and win the hearts and minds of your employees and customers. In each case, the extent any strategy is used must be tailored to suit both the audience and the disruption your innovation creates. Automated checkout stations in grocery and retail stores were highly innovative and required a change of customer behavior. It took years of re-design before customers accepted them and many now prefer the autonomous experience. Electric cars are finally gaining ground now. For a decade, consumers refused to get behind electric cars. You plugged them in at night and their range was only 30-40 miles, so the change in driver behavior was significant. Customers said no. It took manufacturers adding a gas engine for customers to say ok. Think about that. Customers were ok with plugging their car in at night so long as they could still go to the gas pump once a week. That's double the work of a regular car!

Know your customer is more than a compliance requirement, it is a pre-requisite for innovation. Classify employees and customers by their resistance to innovation and tailor your training and marketing campaigns to target each specific group. Mental stimulation [3] (getting customers to imagine using your new product or service) is highly effective. Benefit comparisons are usually sufficient for customers with a lower resistance to change since they will accept the value proposition. Shaping perceptions is not enough though.



When Apple introduced the iPod, it had poor sound and poor battery life. Everyone expected it to fail, but it had a great user interface. Apple knew using an iPod needed to be as simple as pressing play was on a Sony Walkman (king of the jungle at the time) and designed that simplicity into the product.

Your innovation team should anticipate resistance and seek to minimize it in your service or product. Similar look and feel, any features that can leverage existing knowledge or behavior patterns is always a smart choice. Micro learning, interactive product demonstrations and free trials for services are effective at reducing risk and usage barriers.

Customers are most vulnerable in the face of innovative change. Organizing an adoption strategy and getting everyone on board must occur before rollout [4]. Success requires collaboration between all departments in an organization to provide a consistent and unified message. This reinforces stability and establishes confidence in the new products or services. Your customers will need your confidence to settle them down. They will also need extra attention. Over-touch reassures customers they are still dealing with the same, friendly bank.

Technology is often the spark of innovation, while the change in business process is the real driving force [5]. Major innovation forces organizations to adopt a culture of innovation. This is a difficult process that cannot be dictated or forced. Innovative cultures are grown and must be nurtured. Over time, your company learns it can sustain continuous innovation. It is a journey well worth taking that empowers you to wield the sharp edge of Innovation safely and with confidence for the benefit of your customers.
References:

1. Talke and Heidenreich 2014
2. Oreg and Goldenberg 2015

3. Heidenreich & Kraemer, 2016
4. Laukkanen, 2016
5. R. “Ray” Wang HBR 2015

Images:
https://infocaption.com/en/how-to-introduce-something-new/
http://45recordadapters.com/11-history-of-audio-formats/
http://themetapicture.com/revelation/

About the Author

Brad Evert

Dr. Brad R. Evert is the Director of Development at Automated Systems Inc. He is a business and technology evangelist with over 30 years of experience in the financial sector. Mr. Evert has served as a board member for 8 companies delivering products and services in financial, technical, real estate, travel and marketing call center markets.