

Solving the Innovation Shortfall

IT will happen several times this earnings season, because it always does. A company will report strong sales and earnings, only to have its stock drop sharply because investors were expecting more.

"This growth gap, as we call it, springs from the fact that companies are pouring money into their insular R. & D. labs, instead of working to understand what the customer wants and then using the understanding to drive innovation," argue Larry Selden and Ian C. MacMillan in the **Harvard Business Review**.

Mr. Selden, professor emeritus at Columbia Business School, and Mr. MacMillan, a professor at the Wharton School, lay out a three-step process for closing this gap. Their main idea is to move "the innovation effort away from headquarters and the traditional R. & D. lab out to those closest to the customer."

Step 1 in the process is identifying and developing "a deep understanding" of the core customers. For the luggage maker Tumi, the core market was male frequent air travelers. And it turned out that ease of packing and unpacking and mobility were far more important to them than size or style.

Once the company knew what its core customers wanted, they created it, instead of first designing products that the company then hoped to sell.

Step 2 is to enlarge the core business by satisfying the customers' other needs — for example, Tumi's core customers also need bags for laptops — and looking for customers who have needs like those of the core customers. The obvious choice for Tumi was women who travel frequently.

Step 3 is to "stretch segments," that is, find customers beyond the core who can be served with your expertise. For Tumi, this would be young male travelers who are much more interested in style.

In each case, customers, and not R. & D., drive innovation.

WHEN TO CALL Perhaps one of the greatest oxymorons in business is: "For customer service, please hold."

To avoid hearing that frustrating message, call customer service on Wednesdays after lunch.

That is when you have the greatest chance of getting through, John Breyault, a research associate for the Telecommunications Research and Action Center, told **Men's Health**.

If you must call on weekends, Mr. Breyault says, try during a major sporting event. And since call volumes vary by company, ask the person you are talking to — when you finally get through — to tell you the times the call center is less busy.

YOUNG AND RICH Maybe it is time to update that overcited F. Scott Fitzgerald quotation about the rich being different from you and me. It turns out that the young rich are especially different — at least when it comes to the way they invest.

Northern Trust surveyed 1,014 wealthy households — those with more than \$1 million in investable assets — headed by someone 35 or younger and found they had doubts about the American equities markets.

"One-fifth of the young investor's portfolio lies in cash, compared to only 13 percent for all high-net-worth portfolios," Marshall Eckblad reports in **Financial Planning**. "Wary of more domestic volatility and scandal, the wealthy young allocate only 29 percent of their funds to U.S. equities, compared to 41 percent of the whole."

They are also more partial to real estate. While only 6 percent of all respondents said they planned to put most of their new money into real estate in 2006, 21 percent of those under age 35

viewed real estate as their first choice.

They were also more bullish on international equities (23 percent versus 6 percent), and bonds (25 percent compared with 9 percent) than their older counterparts.

FINAL TAKE "Dog owners would be willing to work longer hours, commute a greater distance and even switch jobs or consider a salary reduction if their four-legged friends could accompany them to work," Kathy Gurchiek writes in **HR Magazine**.

She adds that 70 percent of those surveyed by the dog-obsessed Web site Dogster.com and the job search engine Simply Hired said a dog-friendly workplace was an important benefit. There is no mention of how the dogs would feel about going to work every day.

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