



Customer Innovation Research and Consulting

New perspectives in customer knowledge creation

An OMC Group Insights Paper

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Introduction

Advanced customer knowledge is an essential competitive requirement for most companies. Indeed, developing capabilities to create and act upon customer insight can make a vital contribution to successful CRM as well as product, service and even business concept innovation. Yet whilst customer information in the form of profile and spend data typically provide the decision-making foundation of most CRM and customer-centricity programmes, some companies are beginning to pursue more radical and alternative strategies and methods for sourcing valuable customer knowledge.

The CKM perspective

In an article in the European Management Journal in 2002, University of St. Gallen academics Gibbert, Leibold and Probst identify and distinguish these new forms of customer knowledge management (or CKM as they call it – sorry, another acronym!) from the more dominant knowledge management (KM) and customer relationship management (CRM) perspectives across several dimensions. These include managerial mindset, knowledge-creating rationale, the alternative purpose of customer communications and an extended view of the role of the customer in the company learning process. But perhaps the most significant defining variable of CKM as defined by the three authors is the type of customer knowledge sought by CKM-practising firms. Specifically, customer knowledge managers seek to acquire knowledge from the customer as well as the more typical knowledge about the customer. In doing so, whilst incorporating principles of KM and CRM, CKM they write, “moves decisively beyond both to a higher level of mutual value creation and performance. More specifically, the notion of CKM values the customer as a knowledgeable agent in the (firm's) knowledge creation process.”

Software Pioneers

The concept of pursuing the direct involvement of customers to boost a company's knowledge assets is not new, although to date efforts have been limited mostly to product development and problem solving in the software industry. Here, pioneering CKM businesses (as reported in a 2000 HBR article by Prahalad and Ramaswamy) have shifted their approach from testing products in closed R&D labs to validating and developing them in open, shared customer environments, usually over the internet. At Microsoft for example, more than 650,000 users tested a beta version of the Windows 2000 operating system. In doing so, they were able to contribute to the refinement and overhaul of some of the product's key features. Cisco, the internetworking firm, went even further in its integration of customer knowledge; it still provides its customers with open access to its information, resources and systems through an on-line service that enables them to engage in dialogue. In this way, Cisco customers solve the problems encountered by other customers and each has access to the Cisco knowledgebase and user community. Dell Computers has a similar service. It employs data mining techniques to identify areas of improvement, new services, and ultimately new innovative products based on the discussions among customers in its online forum.

Managerial implications

A shift in mindset towards looking at the customer as a knowledgeable entity has important implications. Significantly, firms developing a CKM capability are more likely to have an external perspective and outlook on knowledge creation and renewal and to exhibit higher levels of market experimentation or "probe and learn" behaviour. Also, to achieve an advanced CKM competency, customer knowledge managers seek opportunities for partnering with customers as equal co-creators of organisational and customer value. They focus on generating growth for the organisation and value for the customer through motivating and incentivising individuals to share their knowledge and to engage in active dialogue with the firm and with each other. In other words, CKM firms are developing new ways to mobilise and then act upon customer knowledge using a variety of collaborative, community and interactive approaches. Of course, many CKM companies use the internet as the primary mechanism for collaborating with customers in order to create new knowledge for product and service development, innovation, customisation and to achieve superior marketing performance. Often, they set-up customer panels to solicit ideas, develop and monitor communities to create dialogue and interaction and implement toolkits to enable the co-design and introduction of valuable new products and services.

Challenges

Yet for many other firms, the opportunity to develop CKM strategies and tools is limited for three reasons. First, there is a cultural challenge in terms of the need to re-think the role of the customer and the implications this has for the mindset of managers and employees within the organisation. Second, there exists a competency challenge in respect of the skills and processes needed to take full advantage of participative customer knowledge sharing opportunities. Third, there is a customer access challenge in that companies may not be able to reach the right customers in their current or even new markets (particularly those who are opinion-formers). For example, they may find it difficult to access people at a sufficiently early-stage in their decision-making process or they may not be capable of providing the right context or incentive for individuals to participate in broad conversations with little perceived value. Equally, customers might not always hold the vested knowledge or the desire necessary to be able to contribute successfully and willingly to a market innovation process.

The customer interaction is king

Whilst some businesses are struggling – despite their best intentions - to overcome the barriers to successful CKM implementation, others are missing out on the opportunity for entirely different reasons. Unfortunately, many firms view potentially knowledge-rich customer interactions as a cost to be reduced rather than as a potential investment in dialogue, learning and innovation. For example, by automating customer interactions (as most CRM IT software systems tend to do) or outsourcing them overseas for example, I argue that many companies are at risk of severely limiting their most precious future assets, i.e. the opportunity to learn from and create value with their customers. In most cases such cost-focused or automated initiatives will fail to deliver lasting value. Why? Because organisations

use them as quick-fixes instead of addressing a more deep-seated underlying problem - a lack of customer knowledge and a limited orientation to learning with and for their customers.

Limited external orientation

Perhaps the problem is that many companies have become so internally focused that they have gotten carried away with their own issues and have taken their eye off the customer and their needs. Until such organisations make a serious effort to understand their markets and their customers better, initiatives designed to take cost out of customer interactions will amount to expensive, time-consuming mistakes. For example, many financial services businesses in the UK are spending too much of their valuable resources on internal operational efficiency at the expense of creating real and lasting value for their customers. But, by considering and then exploring new perspectives in customer knowledge creation and management, they might at least be able to start identifying opportunities to inject a significant boost to their future CRM, product and service innovation efforts.

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- Assess and improve their current innovation, learning and customer experience capabilities for competitive advantage
- Accurately value and select innovation opportunities to make key investments with greater confidence and less risk
- Build a repeatable, predictive and disciplined innovation process throughout their organisation ...
- ... and ultimately, reduce risk and failure rates when creating or improving products, services and customer experiences.

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