

Open your borders and invite your customers in

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Customers never asked for the Sony Walkman. Nor did they express a desperate desire for fax machines, digital cameras, mobile phones, even the humble hoola-hoop. So if customers are frankly so useless at suggesting innovative, breakthrough products and services, why are many firms now actively trying to access and harness their customers' knowledge and competence? Why are they tearing down their borders to invite their customers to share in their innovation and learning processes?

There are in fact several reasons. First, customers are more knowledgeable and organised. They have access to the information they need to make more informed choices, assess value on their own terms, influence the expectations of other customers and can decide for themselves how they want to transact with firms. They are increasingly able to engage in an active and explicit dialogue with other customers and employees. The result? An active, networked and informed customer is able to both challenge and contribute to the traditional company-centric model of value-creation.

Second, higher levels of uncertainty stemming from fast-changing markets and constantly shifting industry boundaries are increasing the need for firms to drill into their customers' knowledge reserves. Firms that act as inward-looking, closed systems will often fail to sense changing markets and detect shifting sources of value. Indeed, the consequences of such navel-gazing may be obscured for many years until the company's value proposition loses touch with the market altogether. Such firms may eventually wind down simply because they find it difficult to recover their original position.

Of course, advances in networking and telecommunications are now diminishing the barriers to knowledge sharing and transfer and are helping to blur the boundaries between firms and customers. Equally, as products become more "information-rich", there is more opportunity for customers to connect and communicate with firms (for example, most consumer packaged goods are now supported with online information content to help customers understand and use products better). Customers get more timely and reliable information whilst firms acquire better knowledge for their needs. At the same time, they gain important feedback on problems with existing products as well as fresh ideas for new product development.

Finally and most importantly, open, customer co-creating firms enjoy competitive advantage arising from a number of sources. These include; better "unlearning" of established assumptions and practices, greater commitment to experimentation and learning, higher innovation potential and predictability and faster response to latent customer needs. Also, customers perceive higher switching costs arising from their own knowledge investments in the firm which can help with building loyalty.

Despite the favourable evidence, many managers stay true to their belief that customers are incapable of contributing much of significant value to a firm's innovation activities (how often have you heard the "but no customer ever invented

the Sony Walkman!” retort). They contend that customers cannot envision new products and services because their eyes are permanently trained on the rear-view mirror. In other words, they are only able to define their needs and requirements in terms of what is currently available on the market. Companies who avidly “listen to the customer”, the argument runs, will limit themselves to bland, low-risk and incremental innovation.

Whilst slavishly listening and responding to every dissatisfaction and whim of the customer may indeed limit a firm’s innovation potential, the “Ignore the Customer” school of thought tends to miss the point. To “open your borders” to customer innovation requires seeing past their sometimes short-sighted and superficial inputs. It means asking them different questions, devising new assumptions and finding alternative ways to continuously learn about their problems and unmet needs. In particular, these critics often fail to recognise the difference between asking customers to identify problems and expecting them to come up with solutions. It is true that 15 years ago, most customers were not demanding books over the internet, downloadable music or in-car navigation systems. Yet there were ongoing problems and limitations to be solved, as well as deep-seated, latent needs to be uncovered and satisfied – otherwise these innovations would not be as successful as they are.

OK, it may be true that not all customers are a blessed with the brains (or the motivation) in the innovation department. Yet it is true that every company will have some customers that possess a deep understanding of their products, and maybe even those of their competitors (the trick is to find them through advanced segmentation approaches). And nearly all customers will have some opinion on a recent experience they have had, whether good or bad. In fact, every day, your customers (and prospects for that matter), are trying to tell you how to serve them better. Through the questions they raise and the problems they report, you are already sitting on a potential goldmine of proprietary, customer intelligence.

But if you are not tapping into this rich resource, could it be that your CRM system is holding you back? Perhaps it is not capable of sensing, interpreting and acting upon customer knowledge? Maybe you do not see any value in investing in your customer interactions to source useful learning about the market? Rather, your emphasis is primarily centred on maximising efficiency and cost-limitation? Then again, maybe your IT department are not actively exploring, developing or deploying technologies that support real-time customer experimentation and innovation, multiple hypothesis generation and testing, open dialogue and advanced customer questioning? Perhaps your customer interface is more akin to a form of border control and is actually limiting the free and open passage of customer ideas and insights into and out of your company? If the answer to all these questions is a resounding “yes”, I suggest that you are probably gazing at that rear-view mirror just a little too much as well....

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