

Managing the Risk of Customer Integration

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The necessity and the advantages of integrating customers into the innovation process are widely recognized. There are, however, inherent risks to customer integration that can be reduced by comprehensive risk management methods. Based on intensive desk research and in-depth workshops with nine companies, this article provides a detailed description of the various risks and offers advice on how to minimize them. Diverse risk management methods theoretical backgrounds are introduced, while examples from companies that have had vast experience with all aspects of customer integration illustrate their practical applicability.

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Introduction

Customer integration into the innovation process is about to become best practice. Empirical studies have established that customer integration increases a company's potential for innovation (Urban and von Hippel, 1988). Among its many advantages are: early customer integration leads to a stronger relationship with the partner, a better understanding of market needs, fewer errors in the early development process, and a better product quality. These advantages do not only apply to the innovation process's macrolevel but also to the microlevel. Customers can provide first-hand information regarding their needs, can help create innovative ideas for new products, and provide feedback regarding concepts and prototypes (Bruce and Bie-mans, 1995).

When customer integration is considered, one should remember that customers are not only end-consumers but can be found along the whole value chain.

The question of how to integrate customers has been widely discussed. Various concepts have been developed and are being tried out. Best known are von Hippel's lead user approach (von Hippel, 1986) according to which trendsetting customers are identified and integrated, the empathic design method (Leonard and Rayport, 1997) which examines customers' use of existing products and analyzes their behavior, and, most recently, the IT-based virtual customer integration (Dahan and Hauser, 2002) which makes use of customers' ideas with the aid of purpose-designed toolkits and online communities.

Whereas the positive aspects of customer integration and its implementation in the innovation process are a focus of scientific interest, the negative sides have so far met with little attention. However, the inherent risks should not be neglected: the company's loss of know-how to the customer, the company's dependence on customers, and the company being limited to only incremental innovations, are just a few of these risks. The consequences of these risks are, however, wide ranging: from financial disaster through investment in the wrong product, to supplying a competitor with know-how via a disloyal integrated customer.

The indisputable risks of customer integration have to be weighed carefully against its established advantages, but should not lead to abandoning the concept altogether. An intelligent risk management can minimize the dangers. This article will focus on this minimization.

Minimizing the Risk of Customer Integration

The primary risk, even before customer integration into the innovation process, is in respect of innovations themselves: many of them fail dismally. This is why, apart from the wish to increase their innovation potential, companies combined forces in order to

better identify customers' wishes in the early 1990s (Miotti and Sachwald, 2003). At the same time, more and more companies wished to commercialize both their own ideas and external innovations and tried to deploy other companies' processes for their internal research activities. In 1995, the input of external knowledge in respect of innovative products amounted to 34–65% (Conway, 1995). This required a considerable change in innovation policy: the hitherto solid boundaries between a company and the outside world had to be transformed into a semi-permeable membrane enabling at least a limited flow of information. This opening of the innovation process is called the "open innovation" paradigm (Chesbrough, 2003; Gassmann and Enkel, 2004). It comprises three archetypes of the open innovation process – the outside-in process (integrating external knowledge, customers and suppliers); the inside-out process (selling/licensing ideas outside the company); and the coupled process (a combination of both, mostly through cooperation with competitive or complementary companies) (Gassmann and Enkel, 2004). Customer integration is a phenomenon of the first process type. The management of customer integration's inherent risks has been discussed by some authors (Becker and Peters, 1998; Gassmann and von Zedwitz, 1999), although not within the open innovation context.

Customer integration has gained importance within the open innovation model's reference frame, complementing, and sometimes even overtaking, the longer-standing cooperation with suppliers and scientific partners. For example, *Zumtobel AG*, a global market leader in electronic light technology, stresses the importance of open innovation with regard to customers, since it derives many innovative impulses from international light designers and architects. However, the history of customer integration has not always been one of unequivocal success. *Rasselstein Hoesch*, a producer of tinplate, toyed with a concept for cans that could be closed again after opening. A can-producing customer was integrated into the early phase of the innovation process, but because he would have needed new production units to manufacture those cans, *Rasselstein Hoesch* eventually discarded this idea. Another example of an unsuccessful integration is *SIG allCap's* (packing solutions) cooperation with a customer at an early stage of the innovation process. After jointly generating an idea for a new product and developing it further to a solid concept, the customer took this know-how to a competitor for the final product development.

Research Methodology and Data Sample

The results presented and analyzed below were gained from a research project that ran from October 2003 to November 2004 and concentrated on all as-

pects of customer integration. In a first phase, a total of 141 companies were questioned on their experience with customer integration by means of a questionnaire. These companies were spread across different industries, as Figure 1 illustrates, and were of different sizes (19% had under 1000 employees, 42% 1000–10,000 employees and 39% more than 10,000). The effort aimed to illustrate customer integration behavior across industries and company sizes to come up with more general than industry- or size-specific results.

In a second phase, nine companies representing this sample were selected for in-depth case studies due to their experience with customer integration projects, but also due to their goal to develop a risk management system that would decrease the risks associated with customer integration projects that they had already experienced many times. These nine companies (*BASF*, *EADS*, *Getzner Werkstoffe*, *Helbling Technik*, *Henkel*, *KABA*, *Merck*, *Schindler Elevators*, and *SIG allCap*), each with a different technical background and products, were chosen to participate in a series of workshops focusing on this subject. Extensive data were collected from these companies, which formed the basis of the nine individual in-depth case studies on their customer integration activities and the risks they face in the process. In order to discuss risk minimizing issues, the participating companies over a period of nine months met in seven workshops, organized and moderated by the authors of this article. Each workshop centered on one topic that had been previously identified as crucial for dealing with the risks of customer integration. From each company, two experts provided examples of their experience with the topic of the day; the subsequent discussion contributed to a better understanding of the problems and assisted in finding more general applicable results than company- or project-specific solutions. The deliberately limited number of the participants facilitated intensive discussions and an open exchange of best and

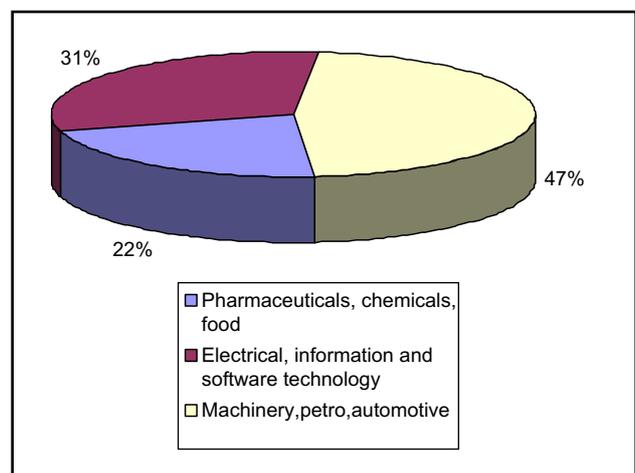


Figure 1 Industries of the Sample Companies

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