

Further training program “Realisation of customer-centred Innovations”

Modul 2 Motivation

Teaching Material 1 Motivation

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Introduction to customer-centric innovation

This report is prepared within the framework of the EU Program *Erasmus + Key Action 2: Cooperation for innovation and the exchange of Good Practices* funded project "**Digital methods, toolbox and trainings for increasing customer innovation in SMEs**". The aim of the project is to strengthen the innovation capacity of SMEs in Eastern Europe. Thereby, the central problem of resource scarcity in SMEs is explicitly addressed, which causes difficulties in the integration of a customer-centric innovation approach within SMEs. To address this problem, this report provides an insight into aspects of the use of digital methods for the identification, processing, and implementation of customer-centric innovations in SMEs. In addition, selected best practices of customer-centric innovation activities are elaborated. Based on this research, a survey will be developed to determine the status quo of customer-centric innovation activities in the 13 associated project countries included in the project and to derive teaching needs and enable a curriculum for the implementation of targeted trainings.

Customer-centric Innovation

In a changing and uncertain world, the alignment of innovation with the current and potential customers' needs is necessary. To meet these challenges and to remain competitive, especially small and medium-sized enterprises (SMEs) must constantly innovate to add value. In other words, they must design, develop and deploy new product and service offerings that meet the needs of the marketplace. In order to do this they must become customer driven (Griffin, 2004; Zahay and Griffin, 2004).

Customer-centric innovation is very different from customer-focused innovation and customer-driven innovation. In customer-centric innovation programs, innovation is done **with customers – organizations and customers create innovation together**. In customer-focused innovation programs, innovation is done by the organization. In customer-driven innovation programs, the customer is the key player – innovation is done by customers, with minimum involvement by the organization. Customers are the primary source of ideas and the customers of new products and services. They can offer ideas without geographic, and time constraints, and the organization must be able to apply those ideas quickly to the development of new products and services. Without the tools to support such dynamic interaction, it risks losing its customer to competitors.

The type of innovation represents the nature of customers' engagement. In customer-centric innovation programs, the engagement can be described as **“open innovation”** (Zajkowska, 2017); that is, the innovation program is open to customers and they are allowed to be involved with the process, usually at specific points in time with specific processes. In customer-focused innovation programs, customer engagement can be called “closed innovation”; that is, the innovation process is seen as a black box and customers are not directly involved with the innovation process. In customer-driven innovation programs, in contrast, the customer's engagement is dynamic, providing ideas anytime and anywhere. Customers and organizations interact frequently, sometimes in unstructured ways, and organizations need to serve customers' dynamic needs.

Table 1. Customer-centric innovation compared to other consumer-engaging innovations

	Customer-driven Innovation	Customer-centric Innovation	Customer-focused Innovation
Central entity	Customer	Customer and organization	Organization
Degree of customer involvement	Innovation by customers	Innovation with customers	Innovation for customers
Role of organization	Coordinator	Communicator	Innovator
Type of innovation	Dynamic innovation	Open innovation	Closed innovation
Degree of control	Impossible to control	Difficult to control	Easy to control
Degree of coordination	Emergent coordination	Difficult to coordinate	Easy to coordinate
Critical innovation stage	Commercialization (Ideas are over-generated and developed, but difficult to commercialize)	Idea development (Ideas are abundant, but difficult to develop)	Idea generation (Ideas are scarce)
Types of innovation to focus on	Products and services, output interaction with products and services	Communication with customers; customer interaction with organization	Customer segmentation and customer analysis
Critical issues with innovation types	“Sticky” and tacit knowledge transfer requires high levels of human interaction Customer must be segmented for proper analysis	Investment in infrastructure High-quality communication needed Risk of copycats	Analysis must be ongoing Systems must be integrated Information overload possible

Source: K. C. Desouza, Y. Awazu, S. Iha, C. Dombrowski, S. Papagari, P. Baloh, J. Y. Kim, Customer-driven Innovation, Research Technology Management, Taylor & Francis 2008, pp. 35-44.

In customer-centric innovation organizations can control the innovation process, coordination is done by organization and is quite complex, with multiple stakeholders involved. In customer-centric innovation programs, idea development, screening and refinement are central.

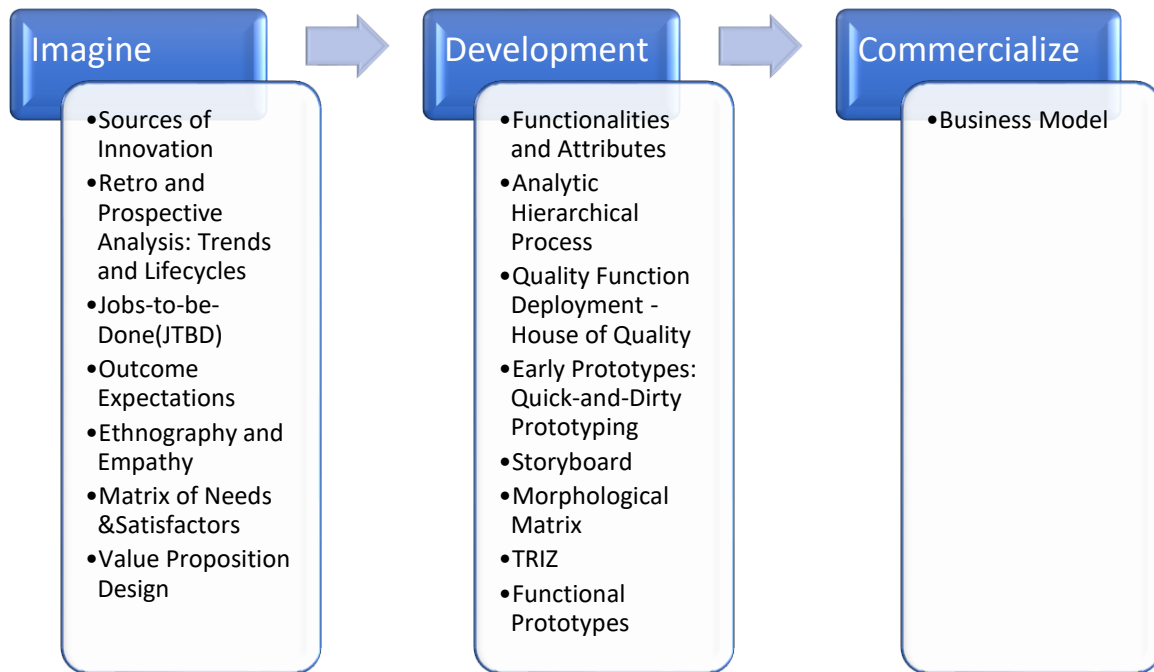
With reference to the presented analysis and taking into account the objectives of this project, the following definition of Customer-centric innovation was adopted for further analysis in this report:

“Customer-centric innovation describes a change from innovating for customers to innovate with customers. Therefore, the customer takes an active role in innovation processes and becomes the primary source of ideas to initiate innovation activities. By integrating the customer-centric innovation philosophy, companies open their research and development activities, meaning that the innovation process happens with input from inside and outside of the company. Customers are involved in all stages of the innovation process.”

(Desouza et al. 2020; Steinhoff & Breuer, 2014; Zajkowska, 2017)

Customer-centric innovation revolves around customers’ needs with the goal of designing a new product or service that delivers on these needs and expectations. Customer-centric New Product Development (CC-NPD) can be defined as a multidisciplinary innovation process that puts customer’s needs and expectations at the heart of the new product development process (Romero and Molina, 2016). Authors’ innovation process puts the customer at the centre of the creative (imagine) development and (early) commercialization stages. Figure 1 illustrates the individual steps within a company that are taken during a customer-centric innovation process.

Figure 1. Customer-centric Innovation Process



Source: own study based on D. Romero, A. Molina, A Multidisciplinary Framework and Toolkit to Innovate Customer-Centric New Product Development, Proceedings: 21th International ICE-Conference on Engineering, Technology and Innovation – June 2015, www.ice-conference.org, available 19.02.2021

Customer-centric innovation raise a range of critical issues that organizations must consider as they utilize customer innovation. The development of organizational processes around customer innovation demands a new lens through which to assess both innovative processes and organizational mission.

Table 2. Critical Issues, Concerns and Checkpoints of Customer Innovation

Type of Customer Innovation	Critical Issue	Checkpoints
Customer segmentation	Customers and categories are dynamic. Staff must be trained and understand purpose. Right types of innovation must guide segmentation to avoid discrimination.	Are types of customer information prioritized? Are there customer protection guidelines?
Customer analysis	Information overload, particularly from automated systems. Systems must be integrated (i.e., form all types of customer interactions).	Can analyses be traced back to specific customers? Are all systems connected?

	Privacy and security of customer data must be protected.	
Customer communication	Complex problems and valuable clients require in-person interaction. High-quality communication must be paramount. Many channels and options for communication must exist for “anytime, anywhere” service.	If outsourced, does customer service still understand customers?
Customer interaction with organization	Investment must be made in infrastructure for agility in adapting to environment. Risks with established relationships whenever communication channels changed. Copycats may rapidly duplicate ideas.	Can the organization’s structure morph? Has groundwork for change been laid with established suppliers, vendors, customers, etc.?
Customer interaction with products and services	Customers and technicians need a common language. Novice and expert customers need to be handled differently. Channels of communication need to be varied and flexible.	Are customers segmented by need and expertise? Do technicians interact regularly with customers?
Products and services outputs	Requires rich, human-to-human interaction. “Sticky” or tacit knowledge can be difficult to articulate. Feasibility must be carefully analyzed and customer needs, not specific products, should be identified.	Are there protocols for eliciting knowledge form customers? Are there metrics to evaluate the marketability of ideas?

Source: K. C. Desouza, Y. Awazu, S. Iha, C. Dombrowski, S. Papagari, P. Baloh, J. Y. Kim, Customer-driven Innovation, Research Technology Management, Taylor & Francis 2008, pp. 35-44.

Innovation in the form of final products and services in an implementation of knowledge form the customer defined as the insights, ideas, thoughts, and information the organization receives form

its customer. An organization must therefore actively seek out such knowledge in order to be better prepared to implement product enhancements and innovations

Involvement in customer-centric innovation

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As part of the project "Digital methods, toolbox and trainings for increasing customer innovation in SMEs" (ICIinSMEs), research and surveys were conducted in the project countries. These led to the following results with regard to involvement in customer-centric innovation.

Eighty-six responses were received to the presence of customer-centric innovation (Figure 1). Overall, forty-six organizations employ customer-centric innovation and forty do not. In organizations with less than ten employees, the proportion of users and non-users is almost the same. In organizations with ten to fifty employees, the number of non-users is 50% higher than the number of users. In organizations with fifty-one to two hundred and fifty employees, the number of non-users is 40% lower than that of users. Organizations with more than two hundred and fifty employees use customer-centric innovation in four times as many organizations as they do not. Summarizing, there is no clear relationship between the number of users and the application of customer-centric innovation.

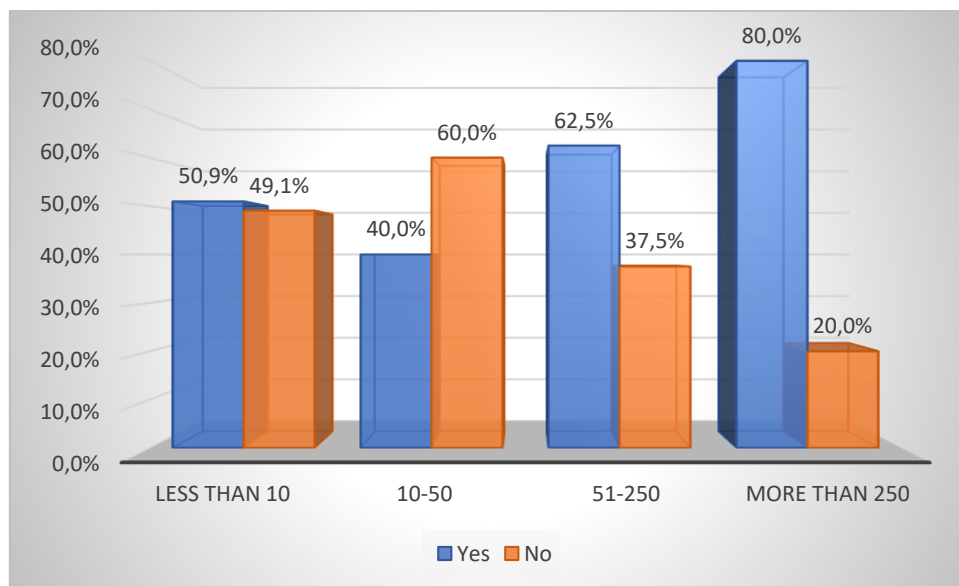


Figure 1 Existence of customer-centric innovation

Distribution of responses sampled from the four countries with the most responses was also examined (Figure 2). For Danish respondents, the number of organizations using customer-centric innovation is slightly more than twice as high as it is not. In case of Hungarian respondents, this ratio is nine times. For German respondents, customer-centric innovation is not used in three times as many organizations as to where it is used. According to data from Poland, the difference between the presence and absence of application is minimal (7 percentage points).

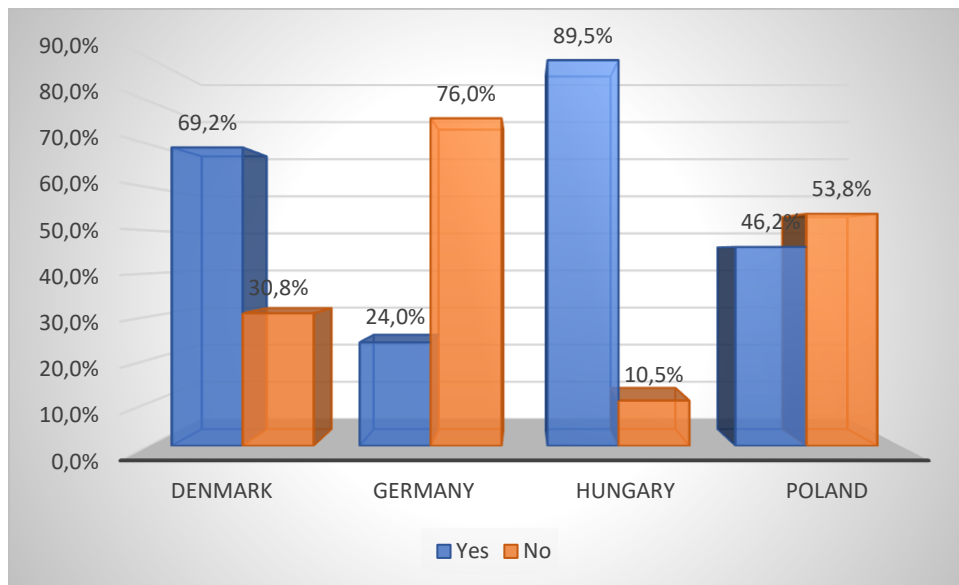


Figure 2 Existence of customer-centric innovation by countries