



### The Customer: An Overlooked Component of the Innovation Process

Where would YouTube be today if not for its millions of users? What good would Wikipedia be without all of those contributors? And how successful could IKEA possibly be if its customers weren't willing to assemble their own furniture?

[Stephen Brown](#) says the answer is simple: If not for the contributions of their customers, all three of those remarkable business

successes would be anything but successful.

And there's a lesson in that, says Brown, for companies of all kinds.

"Our view is that the customer has been a truly forgotten component of innovation," says Brown, a professor of marketing and executive director of the W. P. Carey School's Center for Services Leadership. "We're not necessarily saying that customers are completely ignored. But we are advocating a much more substantive effort on the part of companies to get their customers involved in the innovation process."

In a new paper that challenges some long-standing theories about both *what* innovation is and *how* it's achieved, Brown and co-authors Stefan Michel, an assistant professor of marketing at the Thunderbird School of Global Management and Andrew Gallan, an ASU doctoral candidate, argue that the time has come for companies to rethink the ways they approach the innovation process.

### Rethinking the process

Innovation, according to Brown, Michel and Gallan, is no longer solely the domain of techies or engineers working in isolation in a lab. Innovation now includes the collaboration of creative customers, who find ways to address their own wants and needs in the product or service.

In other words, Brown and Michel say, just as *users* were responsible for making YouTube a global sensation, *customers* have power to create value for any number of other products and services.

"The premise for this research is that when people typically think about innovation they tend to only think about products," Brown said. "They think of something tangible, and imagine a process that the company undergoes that is somehow completely independent of their customers. ... But now, we are seeing that innovations will not be successful unless customers co-create value for it. YouTube is a dramatic example, because YouTube would be nothing if not for what its customers did with it."

Added Michel: "The major question we asked was this: Are there some things out there that are truly innovative, but cannot be explained by the traditional

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innovation literature -- things that were, for example, not developed by R&D labs but nonetheless changed the lives of millions of people?"

The answer to that question is yes.

The researchers say customer-based innovation has played a role in the development of any number of products, goods and services that, today, people may take for granted.

IKEA, for example, leveraged the power of its customers to create an innovative, completely new and remarkably successful furniture retailing experience. The Swedish company provides hip, exciting and inexpensive furniture, presents those pieces in their all-inclusive destination stores, but then relies on their customers to both transport the furniture home and put it together.

In Switzerland, the newspaper *20 Minuten* has changed the newspaper business by crafting something specific to their customer's daily lives. The short, easily digestible newspaper takes just 20 minutes to read -- about as long as the average train commute.

According to Michel, *20 Minuten* harnessed customer co-creation of value in a much broader way than co-producing content (YouTube) or assembling chairs (Ikea). *20 Minuten* changed the role of the user. First, it altered the anatomy of the transaction; payers became non-payers, because *20 Minuten* is free. And obtaining the paper no longer depended on customers making a decision to pick it up. Instead, it is handed to them (a push) when they are boarding the trains. As a result, many non-readers became readers -- the ultimate role transformation.

Another example is the medical technology sector, which has developed revolutionary glucose monitoring systems that employ customers -- in this case, diabetes patients -- to improve diabetes self-care and create long-term value for a useful product.

"In the past, these patients would rely totally on their physicians to measure glucose levels," Brown says. "Now, using this system, patients are self-monitoring. The whole system, the value of it, was co-produced and co-developed by engaging the customers."

All of these products, services and ideas, Michel, Brown and Gallan argue, have enjoyed success -- and have derived much of their value -- because of the way customers used them. All of them are also clearly innovative.

### **An expanded perspective**

According to traditional models of innovation theory, however, they wouldn't be recognized as such.

The old innovation theories, the researchers say, are flawed because they have focused almost solely on products and have ignored service offerings. They've also recognized firm-level innovation -- the work of R&D departments, for example -- while ignoring the value-added contributions of customers.

Brown, Michel and Gallan's approach breaks down that long-standing wall separating product innovation from service innovation, counting the contributions of customers as every bit as important as those of a company's R&D experts.

"We are basically asking companies to focus a lot more on how customers are actually going to use what they're offering," Brown said. "The tendency of many companies has long been transactional -- 'How can we get the customer to buy this?' -- but we're saying what you want to know is how the customer is going to *use* the product. It's very powerful for a software vendor to know, for example, how their customers are going to use their products."

The researchers say their new approach to innovation challenges firms "to take a broader view of innovation," looking at customers not just as "payers," as traditional models do, but rather as "payers, buyers and users."

"This expanded perspective," Brown, Michel and Gallan write, "enables managers to see more ... innovation opportunities that are not related to the discoveries made in R&D laboratories."

The idea is not all that complicated, nor is it anything new. Customers have been adding value to products for years -- it's just that companies haven't always recognized those contributions as important to their bottom line.

But that may be changing.

"Think about the way you use your PC," Brown says. "Everyone has their own unique way of using their PC, and a PC is basically as innovative as the way a customer uses it. There are millions of customers all over the world using PCs, and they're all using those PCs somewhat differently. ... I guess the key idea that we want to get across is that, increasingly today, customers are the ones co-creating the value in what companies and firms offer."

Adds Michel: "The thing that is important is that the customer is not just the receiver of value. But rather, the customer is always co-creating value. The customer is not a passive recipient of value."

### Bottom Line:

- A new paper from W.P. Carey's Stephen Brown and Andrew Gallan and Thunderbird's Stefan Michel, to be published in the *Journal of the Academy of Marketing Science*, proposes a new theoretical model for looking at innovation -- a model that takes into account the contributions of customers in the development of innovative products and services.
- This new approach also eliminates the distinction between innovative products and innovative services. That distinction, the researchers say, is artificial and outdated.
- Among the products that have benefited from customer contributions are YouTube, Wikipedia and the Swiss newspaper *20 Minuten*.
- The researchers say forward looking companies would be smart to stop thinking about innovation as something that happens only in their R&D labs. Customers, they say, can add value to a product long after they've purchased it.
- Companies should not just focus on innovating products; they need to focus on innovating customers.

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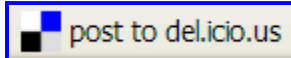


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