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Christoph Kausch

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With 49 Figures and 29 Tables

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Foreword by Prof. Dr. Oliver Gassmann

Customers - a source of irritation and disturbing factor for R&D or a source for innovation? The involvement of customers into the innovation process has a long tradition; following the early work on lead users in the eighties, the importance of users as a source of innovation has been widely recognized today. Today the degree of user integration has increased from specification delivery to virtual users that develop products they desire by themselves. The recent success of open source development has increased the speed and acceptance of user innovation. Opening up the innovation process seems to be the imperative of today's R&D management. The expected benefits are better market orientation, reduced time-to-market, lower costs, better evaluation of required functions, access to new application and technology knowledge and relationship oriented advantages.

But is 'democratizing of innovation' (von Hippel 2005) always more profitable for a company? Practice in B2B industries shows that many customer integrations in the fuzzy front of innovation do not keep the promises. Risks of customer integration consists of a strong bias towards the individual customer and his interests and experiences. Additional time and costs because of the highly iterative process, and unintended knowledge diffusion are risks which have to be addressed. Christoph Kausch is challenging this widely spread attitude that more customer integration is always better. Instead he provides a balanced approach of risk-benefit analysis.

On the base of a case analysis of four Swiss companies Christoph Kausch develops a theoretical framework and a formal decision model on customer integration. He provides a framework for the question: Is customer integration advisable in a specific situation? What are the positive and negative effects of customer integration into the early innovation process? This is a convincing book for business practitioners and academics in the field of user innovation. I wish for this work a wide distribution and for the companies employing these concepts the best of success.

St. Gallen
March 2007

Prof. Dr. Oliver Gassmann
Institute of Technology Management
University of St. Gallen

Foreword by Prof. Dr. Tom Sommerlatte

As innovativeness is gaining decisive importance for profitable growth and competitive advantage, the search for new product and service ideas is being intensified and, in many cases, more systematically organized.

One of the sources of innovative ideas that an increasing number of companies go after is the customer. Integrating customers in the search of new problem solutions, of product and service improvements and of differentiation opportunities – customer integration in the early innovation phase – has been praised as a particularly effective way of strengthening the innovation power of companies.

Substantial research has been directed at the so-called lead user approach, i.e. the exploration and testing of ideas and concepts together with selected customers known to be open to and interested in innovation leadership in their own business area. However, recent on-hand experience gained by a number of companies shows that the virtues of early customer integration are sometimes questionable, negative side-effects even outweighing in certain cases the expected advantages.

This book shows that there are indeed risks in customer integration the balance of which with the benefits depends on which access a company can gain to its customers' needs and knowledge, what role these insights can play in the innovation process and how customer integration is being managed,.

Based on in-depth empirical research with 4 Swiss companies, all of them active in international markets, the author applies a comprehensive model of the innovation process, especially of the basic tasks in the early stage of the process, to examine the potential contributions of lead users and the benefits and risks emanating from their involvement. He then proposes measures that can be taken to enhance the benefits and to minimize the risks.

This work is an eye-opener: Involving lead users in the early innovation process can no longer be considered a reliable recipe as such but can be expected to produce valuable returns only if (a) the dependency on customer knowledge justifies the effort, (b) the benefits and success factors of integrating customers are skilfully managed, and (c) the risks involved are explicitly addressed and carefully contained.

What then are the success factors of customer integration?

The author arrives at 4 leading factors the application of which must be improved through a continuous learning process:

- Senior management must show strong commitment to innovation and customer integration,
- both technology and marketing departments must be involved in the process,
- responsibilities for cooperation must be clearly defined on the company's and the customers' part, and
- people involved must be selected based on their open-minded personality and their positive attitude to customer integration.

He also assesses the risks and the measures that can be taken to reduce their effect, e.g.

- the risk of biased results due to customers' functional fixedness, for example, can be reduced or avoided by careful customer selection, involving a sufficient number of lead users and using appropriate simulation methods (such as mock-ups, conjoint analyses etc.).

If the dependency on customer knowledge is considered low and the cost of risk reduction measures estimated to be high, then the author suggests that customer integration is simply not advisable.

For the decision whether or not to deploy customer integration as a channel of ideation and concept testing, the author puts forward a formal decision model showing the prospective outcome, i.e. the risk-benefit-ratio, as the quotient of the sum of the identified risks as modified by risk reducing measures over the sum of the expected benefits and success factors.

To objectively use this decision model in real-life situations, the author recommends that a team of company representatives involved in the innovation process individually and then jointly assesses the various risk and benefit factors, applying a rating scale, thus minimizing subjective bias.

The reader will take away a new understanding of when and how early customer integration can be made a meaningful, fruitful and reliable source of innovative product and service ideas – and when not. The academic controversy on the subject and the resulting hesitations of practitioners can thus be overcome. The way is open to successfully working with lead users whenever a lucid assessment of the benefits and risks justifies it.

It was a great pleasure to follow, together with Prof. Dr. Oliver Gassmann, the thorough, perspicacious and dedicated work of Dr. Kausch leading to obtaining his PhD at the University of St. Gallen and to this book.

Prof. Dr. Tom Sommerlatte
Engenhahn-Wildpark, April 16, 2007

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Zurich
May 2007

Christoph Kausch

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