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## Introduction

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*The Editors*

### 1.1. Introduction

Services are one of the main bases for profitable businesses today. In the service-driven economy, companies try to increase their competitiveness by introducing new products and services that create value for existing customers and that attract new customers (e.g., Edvardsson *et al.*, 2000). Service Management theory implies that this value is defined by and co-created with the customer on the basis of value in use (Vargo and Lusch, 2004). The term value in use refers to the fact that customers often perceive or experience the richness of a service during and after its use or consumption. This also applies to many manufacturing companies that now include value creation through services and are faced with the challenge of developing service concepts. New service concepts are created, for example, by involving existing or potential customers in new and fruitful ways during different phases of the service development process.

Within the market-oriented approach, customer orientation has emerged as an important point of departure when developing new products and services. Involving customers is a relatively new area within customer orientation, which ensures that the services being developed attract customers and create value when they are used. Customer involvement in service development and business development is the theme of this book. The term service development refers to further development of existing services in a company, new services for the company, or services that are “new to the world.” We also include issues linked to business transformation where manufacturing companies become service companies, and products are viewed as platforms for services.

Customer involvement for us means “coming close to customers” in order to learn from and with them in new and fruitful ways using methods beyond traditional focus groups, questionnaires, and interviews. The perspective is thus value creation for, by, and with customers. The intensity of involvement may vary based on various aspects such as type of business, level of complexity, or simply the routine behavior of a company. For a thorough categorization of user involvement, we recommend Alam (2002).

The use of customers as co-developers, co-creators of new services, and as co-producers is a relatively new, important, and growing field in service and management research. The research propositions and results to date have had clear and rather far-reaching managerial implications. This can simply be stated as a recommendation to companies to get into the game or be left behind! Use your customers’ expertise in newer and better ways! If you choose to follow this trend, there are potentially large gains in terms of better services, more satisfied customers, and consequently larger profits! We recognize, however, that there is a need for more research, knowledge, and guidelines on how to develop new and attractive services by means of involving customers.

This book is the first comprehensive and thought-provoking answer to this need and it includes contributions from the leading scholars and consultants in the field. The book elaborates on how to involve customers in order to learn with them to co-opt customer competence when developing new services. The purpose is to give the reader the following: (1) an understanding of the business potential of learning with customers and other users, (2) an overview of the field’s new service development and customer involvement when it comes to concepts, theoretical frameworks, and models as well as strategies and techniques for involving users in fruitful

ways in the business development process, (3) results from empirical studies as well as illustrating cases, and (4) managerial implications and guidelines on how to organize and manage customer involvement in different phases of the new service and business development process.

## 1.2. An Emerging Theme in Management

The competitive situation today has emerged out of deregulations in many sectors (e.g., financial, telecom, transportation, and energy services), the globalization of enterprises, new technologies, and increasingly volatile customer demands. Today, services are infusing into our daily lives in many different forms. Through technology, customers are able to utilize services from all around the world. New service concepts, such as coffee shops, fast food, and small shops, are shifting from a local business to a global competitive business. Technology is also starting to shift the power from companies to consumers. One manifestation of this is when users join forces and develop products on their own. Operation system Linux, for example, is a project that was initiated by Linus Thorvaldsson but involved people from all around the globe and is under constant development by involving users. This shift has also brought turbulence and complexity to business, leading to uncertainty and increased competition. In its most extreme form, the situation is denoted as hyper-competition. Products quickly tend to become commodities. Services can be used to differentiate products, hence enhancing the delivered customer value and creating a competitive advantage. Companies need to develop the service activities and components of the overall customer offering, which implies realizing a service perspective as a strategic approach.

A service perspective is fundamentally a management perspective which offers an insight and assistance for any type of organization that needs to expand their competitive advantage beyond the core product solution to a customer problem. Furthermore, it emphasizes on a deep understanding of the internal value-generating processes of the customer, which will render services that match customer needs. A true understanding of the customer is the driver of competitive advantage in today's business environment. The service perspective consequently refers to a focus on business from a customer's point of view, focusing on how to create customer value when using or consuming the service. It is a challenge for many organizations to become truly customer-oriented. No

company would declare that they are not customer-oriented, but when they are studied in detail, the opposite may be true. Very few companies have access to their customers' true needs and wants, and even if they have this knowledge, this information is not disseminated throughout the organization and it does not lead to appropriate actions. This is thus a challenge for the management. Customer involvement could be viewed as a tool to help become more customer-oriented.

### **1.3. Getting Closer to the Customer**

Research studies have also shown that market fit, that is, the correct understanding and translation of customer needs, is one of the key ingredients in new service development. Hence, as the service-profit chain stresses a customer-oriented point of departure, researchers have repeatedly argued in favor of a customer orientation approach in product and service development. A market-oriented company thus seeks to understand not only the expressed needs, but also the latent needs of their customers, and collectively share information among departments. To comprehend unarticulated customer needs, it is suggested that companies need to create processes that facilitate learning early in the innovation process. Learning goes beyond merely asking customers what they want. As some companies have discovered, customers find it difficult to imagine what it would be like to use something that does not exist at the moment — an innovation. Consequently, they will give you their best guess about usage, likelihood to buy, etc. Some companies claim that their customers are not truthful. Our experience is that customers do not normally lie; they provide you with their best guess, and maybe, it is the company's inquiry approach that is wrong.

New service development thus relies on the difficult task of understanding current customer needs and anticipating future needs, which cannot be achieved by means of traditional market research. Hence, merely listening to the voice of the customer is seldom sufficient; interacting with potential customers in the development process becomes critical to understanding the customers' true needs. By getting close to their customers, it is hypothesized that firms will reach a deeper understanding of current as well as latent customer needs. Closeness is rarely achieved by interviews; we need to have a deeper knowledge of aspects such as our customers' values, networks, and habits. A customer involvement approach has therefore been suggested.

## 1.4. What is Involvement?

This book covers essentially two types of customer involvement: First, there is user involvement to learn more about the customers, that is, their stated and latent needs, preferences, wishes, and values and thus to understand more deeply what creates value for them. Companies do this in order to design new services and customer solutions that will create an attractive customer value and thus a demand. This is related to traditional marketing research activities. We do, however, want to emphasize that these research activities cover a larger span of methods and techniques than just in-depth interviews and focus groups. Advanced customer involvement is trying to capture more than just attitudes toward an existing service.

Second, there are new and pro-active techniques of customer involvement that advance the frontiers of not only exploring customer needs, but also using customers and consumers as innovators. This means creating ideas, assessing ideas, and maybe even developing or designing new solutions to existing needs, as well as re-designing service processes to make them more customer friendly. Customers might thus be seen as service and business developers, with the companies utilizing their customers' expertise. This second type of involvement is characterized by customers actually participating in the development of services, customer solutions, or their own experiences by for instance being a member of a project team. There is a wide variety for this type of involvement. New technology, as with Linux, also helps companies to get in touch with their customers that form user groups helping one another to solve problems. Other examples are companies that offer the customers different kinds of toolkits for creating their own innovations (von Hippel, 2001), or just adapting their half fabricated products (mass customization).

This book discusses customer involvement for different purposes. The purpose may also be linked to a specific stage in the service development process as illustrated in Table 1.

In the beginning of the development process, the purpose of involving customers is to generate ideas or to help a company decide where to focus their business development. It is a creative phase and a company wants help to create solutions for future needs. Later in the product development process, customers may be involved in testing and debugging a new product. A customer experiences the value of a service first when it is consumed, making it difficult, or even impossible, to test it before purchase.

Table 1: Different purposes and stages for customer involvement (examples).

Purpose of customer involvement	Stage of customer involvement
Acquire information about users/customers	Business planning
Get new ideas	Innovation, idea generation
Adapting products/services	Prototyping
Debugging	Testing
Control the customers' experiences	Usage
Teaching customers and learning from them	All stages

Customers are thus co-producers in their own service process of fulfilling their needs. In every interaction between supplier and customer, there is a potential knowledge exchange where the customer can be taught more about possibilities, and the supplier learns more about customer needs.

### 1.5. Who Should Read This Book?

The purpose of this book is to provide an understanding of state of the art in the field by presenting results from service management research and business development emphasizing customer involvement in action.

The book is suitable for executive and management development programs at business schools and institutes as well as for MBA and masters programs at business schools and technical universities.

The book is also of distinct interest for reflective managers and executives working with marketing, business development, strategy, as well as service and product development. The broad span of the practitioner target group reflects that customer involvement efforts are multidisciplinary and cross-traditional functional borders in companies and other organizations. As a consequence, we have outlined the articles in four sections, which can be read in order or as the reader's interest follows.

### 1.6. Outline of the Book

The first section begins with a discussion on customer involvement in service innovation by introducing the field, and presenting overall pictures, examples, and data. The next section focuses on customer involvement

project in the early phase of innovation. The third section illustrates a number of cases of customer involvement from a method point of view. Lastly, three cases from different businesses are presented.

### **1.6.1. *Perspectives on customer involvement***

Ian Alam provides an introduction to the interaction with customers by looking at the reasons behind this interplay in service innovation. Although he makes a clear case of the importance and potential benefits of interacting with customers, he moves on to present a framework. The framework touches upon several issues such as how interaction occurs, which customers should be involved, and also problems related to interaction. He concludes that organizations need to adopt a customer interaction strategy as a key element in their innovation activities.

Next, Bodil Sanden, Anders Gustafsson, and Lars Witell present interesting data on how companies interact with their customers. They argue that even though customer involvement for the purpose of customer input in the service innovation process had many advocates, little is actually known about what companies do. Their survey of 366 Swedish firms aims at providing a basic knowledge about the customer's role in new service development. Most companies involve their customers, but there are large differences between various companies and industries. It is also a question of how they involve the customers, and the survey shows that this involvement varies. The chapter finally reveals motives and issues on the difficulties with customer involvement practices, as well as some interesting performance measures.

Ulf Mannervik and Rafael Ramirez offer a strategic perspective on customers as co-innovators. Their chapter presents a typology of different approaches to customer co-innovation, and then suggests a strategic and systematic model for managing co-innovation. The typology forms four archetypes for customer involvement: form filler, interactive co-designer, real-time field source, and integrated co-designer. The archetypes are then described with illustrative examples. Even though their typology is tentative, it shows that customer co-innovation needs to be treated strategically, for which they then offer a framework.

Evert Gummesson departs from a network approach to marketing in his chapter. This places an emphasis on all relationships that are entered into a marketing process. As a result, there are many customer-to-customer interactions that need to be further explored. The chapter offers

several thought-provoking examples of these types of relationships from a customer involvement perspective. Evert Gummesson shows a special ability in pointing out to interesting phenomena and delivering interesting reflections. He concludes that companies can use the customer-to-customer interaction as a potential arena for service design.

### **1.6.2. *The CuDIT studies***

The next section is devoted to a project called the CuDIT (Customer Driven IT) studies. This was a joint project between CTF in Karlstad and major telecom companies in Sweden for several years in the early millennium. The CuDIT project has thereafter continued with new studies to focus customer involvement in service innovation.

The first chapter by Jonas Matthing, Bodil Sandén, and Bo Edvardsson is an enhanced version of a paper published in the *International Journal of Service Industry Management*. The chapter draws upon theory from market and learning orientation in conjunction with a service-centered model and reviews the literature on involvement of the customer in innovation. To facilitate proactive learning about the customer, recent findings stress on the involvement of customers in the development process and observations of customers in real action. Thus, a field experiment was conducted in Sweden with end-user mobile phone services. The design departs from the nature of service that precepts value in use and borrows from relevant techniques within product innovation that supports learning in customer co-creation. The experiment reveals that the consumers' service ideas are found to be more innovative, in terms of originality and user value than those of professional service developers.

In the next CuDIT chapter, Per Kristensson presents some of the theoretical issues on which the CuDIT project was based. He argues that traditional methods often do not perform well in their search for innovative ideas. To find innovative ideas in customer interaction is a matter of how and where you ask. The chapter offers some basic principles for customer cooperation in market research. These principles are founded on psychological theories that underlie many market research methods. The chapter also demonstrates how and why customers in the CuDIT study generated creative ideas that stretched beyond what in-house developers were able to achieve.

The third chapter in this section of the CuDIT study is written by Peter Magnusson. His article studies the benefits of user involvement in

the ideation phase. The chapter discusses the effects of involving users in creating new service ideas for mobile telephony in three themes: The first concerns whether or not services developed with user involvement are better than those developed by professionals alone, and if so, in what way. The second theme investigates whether or not user involvement can be optimized, that is, what is the best way of involving users? Finally, the chapter discusses how the product development process needs to be adapted when users are involved. The results indicated that the benefit of user ideation is heavily dependent on how it is executed rather than on who is involved.

### **1.6.3. *Empirical illustrations focusing new methods***

Per Echeverri poses the question of when to collect data — before, during, or after the customer's experience, and furthermore, what to collect involves an assessment of the relevant factors and social mechanisms to explore. He also questions as to how to collect empirical data as it involves assessments of methods that provide a realistic representation of what really happens "out there." The chapter illustrates some of these problems through a study of passengers using a public-transport service. In particular, the interactive process aspects of the service are examined. The chapter also uses a case study to comment on some theoretical problems in understanding customer satisfaction and perceived service quality. Finally, it discusses some methodological problems such as the need for more accurate methods of data collection in service research and in the service industry.

The contribution of Fredrik Dahlsten analyzes customer involvement from within the new product development process at Volvo Cars. The study shows that customer involvement success is highly contextual and needs well-adapted management attention. The author argues that there needs to be a willingness to experiment in the development work, allowing for customer involvement to complement conventional market research. Innovation is facilitated by an understanding of what constitutes customer meaning. With as much emphasis on customer creation as product creation, the resulting customer-value will improve. For customer involvement methodology to develop, knowledge needs to be transferred among projects and then managed and adapted.

The chapter by Hans Björkman addresses the issue of managing user ideas. He suggests there is a need for prescriptive models and methods for enhancing the organizational utilization of knowledge attained from users. The initial emphasis lies in the problematization of the utilization

of knowledge acquired from users. It shows that the toolbox for listening to users is more developed than the toolbox for using what is learnt. The chapter then describes the utilization of information acquired from users as a managerial challenge involving a set of specific capabilities. It is based upon evaluations of the role played by task forces/project groups in the Sif (a white collar union) setting, where they have been responsible for organizing Design Dialog Groups with members/users.

#### **1.6.4. *Special topics on customer involvement and service engineering, IPR, and supplier involvement***

Rainer Nägele provides a case study on customer-oriented service engineering procedures and methods. It is often stated that this will offer promising potential and competitive advantages, but it is not clear in which phase of the service development and performance process. This uncertainty is analyzed in a case study. Based on the findings, the paper describes the first draft of a maturity model of customer orientation during the service development process. This draft will later be evaluated and specified in a broader empirical survey among 5.050 German companies.

Because of the interactive nature of services, it has become more and more common that services are co-developed by the producer and the intended user or customer. Christiane Hipp and Cornelius Herstatt state that co-development raises important issues concerning intellectual property rights (IPR). User involvement within service innovation induces the risk of unintentional knowledge spillovers. The protection of innovation and knowledge in service-intensive industries is important to guarantee monopolistic structures for a certain time period and to achieve an adequate return on investment for innovation expenditures. Traditional patent protection is not easy to apply for most services. The authors derive five different protection strategies within service innovation. The chapter is based on a German empirical study on service-intensive companies.

Frank Hull, Bo Edvardsson, and Chris Story's chapter elaborates upon a model of internal product development by adding measures of co-involvement by external companies. The test of this proposition was positive. Adding co-involvement to internal elements of product development explains additional amounts of variance in multiple regression analysis. However, internal elements of the model provide the capability for effective integration of external companies in NSD decision making. These two elements are organic team structure and in-process design

controls. In conclusion, the chapter tests how contingencies, such as a strategic focus on novel service development and exploitation of tacit knowledge, moderate the predictors of product development performance. Such environmental uncertainty proves to be a consistent moderator of an internal element of product system design and organic team structure.

## 1.7. The Future of Customer Involvement

There is a general trend of companies wanting to become more customer-oriented. Involving their customers may be one approach to accomplish this goal. Research shows that there are several benefits to customer involvement, including better products, more satisfied customers, increased loyalty, and higher profits. It is, however, a relatively new research area, and many questions still remain to be answered. For example, as is the case with any other approach, there are limitations to the extent which customers should and can be involved. This is related to the classic dispute between market pull and technology push. For certain products in certain phases of the development process, it may be difficult for companies to involve customers. For example, the development of IP-TV, which is the ability to transmit TV through a phone line, was initiated 10-years prior to its release. It may have been possible for end users to be involved in the early phases of a project like this, but when technical solutions are developed and discussed, they may be of limited use. Instead, it may make sense to involve the end user later on again when this new service is further developed in order to get their opinions on, for example, usability issues. In other words, market pull, illustrated by customer involvement, is applicable and useful in this case during certain phases of the development, whereas in other phases, technology push maybe seen as more useful.

Another issue is which customers should be involved in the process? There are many opinions on this: Should it be the leading customers based on some aspect, that is, customers that are likely to be the first ones to adopt the new service, or are ordinary users better? Many companies, especially in a B-2-B context, are using financially strong customers in their customer involvement efforts. Just as in the case with market pull versus technology push, it is not a matter of choosing one alternative but of making a deliberate choice. For some applications, lead users may have already developed a new innovation, and the company has only to find it. The discovery that lead users often are the actual innovators was made by Eric von Hippel in his seminal research in the 1970s (von Hippel, 1978). When trying to

generate ideas for new innovations, ordinary users may be useful as well, since they do not limit their thoughts to what is possible to implement with today's technology. Research studies indicate that these users are more useful when a company wants to think outside the box. This is one of the findings of the CuDIT studies accounted for in this book. Finally, a new innovation may be expensive to implement, and the number of customers that can carry that investment may be limited making it logical to involve financially strong customers.

A further question is what happens once companies start to involve customers. Research shows that there are significant difficulties in adopting ideas from the outside; we are stuck with the "not invented here" problem (Katz and Allen, 1997). If an idea originates at a company, there are people there to defend and explain it. This may not be the case if a customer is the origin. Another difficulty is who actually owns the rights to the idea: Is it the inventor, that is, the customer or the initiator, that is, the company? This implies that IPR is an important issue for service development. Many companies also complain that it is generally not a problem to generate ideas for new services; the problem is selecting the best ideas. One of the questions then is, "In what way should an idea be evaluated, and maybe even more importantly, who should evaluate the idea?" Is it possible to develop a process for this purpose?

Another issue involves the need to know more about different approaches, methods, and tools to involve customers such as the lead user approach, emphatic design, and user developer. There is some research that has been carried out to understand to what extent some of these approaches lead to innovation in the form of novelty of the service. The effectiveness of different methods is difficult to investigate, but there is a need for such research.

Finally, we will emphasize that customer involvement is not the ultimate solution to all challenges that companies face when developing services. We need to know more about the downside of customer involvement and when not to involve customers. A risk might be that focusing on customers will result in "customer nearsightedness." Finding a fruitful balance between technology push and market pull when it comes to customer involvement needs to be researched on more in the future.

As previously stated, our aim is to provide the reader with an understanding of state of the art of the field. As the space is limited in a book like this, there are of course areas that we have not been able to cover. We have, for example, not been able to give much attention to the research claiming

the downside of user involvement. These critics mainly state that involving customers for innovation can lead to a stalemate, since innovative ideas rarely arise from customers. “Stay close to your customers” might mislead suppliers into *avoiding exploration* of the opportunities provided by new disruptive technologies (Christensen and Bower, 1996). We think that the warnings are justified, but we further mean that *if* customer involvement is to be successful, it has to be conducted in a proper way. If a company involves ordinary users to develop or evaluate new advanced technology, it will certainly fail. But involving the same users to come up with good creative *use* of new technology can certainly be a good strategy, as can be seen from examples in this book.

While working on this book, we have realized that much is yet to be researched on. We have pinpointed some areas that we think will be especially important. To our delight, we have also discovered that there is a growing research community that is eager to learn more about this thrilling field.

We hope that you will find this book as interesting to read as we found editing it. This book is a tool for learning more about this dynamic evolving field. We hope we will have many more years of continued research in the field of user involvement for service development. Borrowing a quotation from Sir Winston Churchill, we hope that this book “. . . is not the end. This is not the beginning of the end. But it is, perhaps, the end of the beginning.”

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