CUSTOMER-DRIVEN INNOVATION

To be a marketplace leader, let your customers drive

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OVERVIEW: Involving customers in the innovation process entails a host of new concerns, concepts and managerial decisions. Transitioning from older models of no or low customer involvement requires attention to the different types of customer innovation, organizational mission and organizational structure. This article provides a typology for customer innovation, describes how to involve customers in the innovation process, and offers guidelines for shifting organizational structure and emphasis toward customer-driven innovation in order to enable continual, sustainable innovation.

KEY CONCEPTS: innovation, customers, knowledge management.

Organizations in today’s competitive marketplace are increasingly recognizing the need to innovate in partnership with their customers. They are changing their innovation strategies from “innovating for customers” to “innovating with customers” and involving those customers in a process of “knowledge co-creation” (1,2). As these customers become increasingly connected with a firm and with other customers, they are becoming partners in product/service innovation. Consider the following examples.

Smart organizations have begun to consciously tap into their “lead users,” who possess knowledge that can help an organization better plan for the development of new products and the improvement of existing products (3). Some companies, including the software producer SPSS, have begun to host customer workshops, bringing in the super-users of their products and learning from them. Other organizations have product research centers where they monitor subjects as they interact with products and services. Some software development firms purchase add-ons, scripts and other artifacts created by their customers while using their products, and then introduce those artifacts in future versions of the products and services.

Organizations gain in various ways by letting their customers connect with each other and by facilitating the process using innovative communication technologies. Consider, for example, the Wiki (a software that allows users to create, remove and edit content on Web pages) introduced recently by eBay. By encouraging customers to develop shared product reviews and recommendations on its Wiki, eBay: 1) attracts the attention of customers to its portal, 2) provides an experience of ownership and control among its customers, and 3) taps into their insights and ideas.

In such ways, customer innovation has become an essential strategy for organizational survival. Innovations can come from how organizations interact with customers: 1) by identifying, analyzing and communicating with them, 2) incorporating them into their existing innovation process through transformation of their business processes, and 3) encouraging customers to engage in improving existing products and services.

In this paper, we introduce various types of customer innovation and discuss ways of establishing an organizational innovation program that takes into account the strategic value of these different types. The second half of the paper shows how to manage customer innovation in a complete innovation program.

Identifying the Customer

Innovation in how customers are identified is an implementation of new customer segmentation (4). Segmentation calls for separation, categorization and classification of objects, and should be done before analyzing data and information about customers. By using segmentation, organizations can classify and categorize customers based on certain features that will allow them to identify target markets. These features, if managed appropriately, will improve service and products. For example, by segmenting customers based on demographic data (such as disposable income) and analyzing their tendencies (such as willingness to purchase products), organizations can position products better and improve marketing campaigns, among other aspects.
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perceived and likely intentions around technology.

Analyzing Customer Information

Dramatic advances in information and communication technologies (ICTs) have influenced the way organizations analyze customer information. Today, because information can be collected and analyzed in real time, organizations have an abundance of customer informa-
This information is constantly being collected from financial institutions, credit reporting agencies, local stores, and other sources, with and without the customer’s knowledge.

Physical devices complement and add to this increasingly large pool of electronic information. Collection and identification devices, such as store cards and radio-frequency identification (RFID) tags, enable organizations to collect accurate information on customer purchases. RFID devices can be attached to products in a store to track their movement within the store. In addition, organizations are able to record and store such information with ease because data storage media are so inexpensive.

In the health care industry, the abundance of patient claims data, including disease information, risk behaviors, information on medical visits, and prescription history, have encouraged managed-care companies and some employers to mine the data and develop predictive models to help manage health care costs.

Not only does more customer information exist, but interactions around customer information have become more frequent. For example, almost all organizations have begun to exploit the Internet and its variants to share information. The end result is that customer information is available in a larger volume and a finer granularity than ever before. Moreover, the tools used to analyze customer information continue to become increasingly sophisticated, feasible and economical. Today, relevant knowledge is extracted by processing these vast quantities of information through such techniques as statistical analysis and, more recently, data mining.

The TGI Friday’s restaurant chain, for example, used information about its customers to redefine its food offerings (3). After observing that customers were seeking more healthy food options, the restaurants changed their menus, letting customers replace French fries with baked potatoes or green vegetables, for instance. Data mining analysis on its point-of-sale data uncovered further patterns and combinations in how their patrons customized the standard offerings, leading to the creation of die: menu items and low-calorie meals.

Customer involvement in information gathering is minimal, since most of the data needed to generate information are readily available. Thus, credit card companies do not need to involve their customers in order to analyze purchasing behavior because they receive such data and information regularly and can process both easily.

Communicating with Customers

Organizations may increase the type of channels (e.g., telephone, email, chat rooms, discussion forums) that customers can access in order to communicate more efficiently. Customer Relationship Management (CRM) systems track interactions with customers and improve the delivery of products and services.

Organizations have also embraced the Internet for transmitting product documentation, troubleshooting guides, repair manuals, and other forms of support information. While customers can resolve their queries and problems online by using chat rooms, email and structured reasoning systems, most computer manufacturers have gone a step further and added interactive Web-based programs to handle customer support queries and to debug their purchases.

Companies like Barnes & Noble allow customers to purchase a product on-line and return it at a local store if they are not satisfied. Some electronics stores, like Circuit City, allow customers to order on-line and pick up from their local store. Best Buy, another electronics store, allows customers to use in-store kiosks to customize products and answer questions, thereby providing the same flexibility as if purchasing on the Internet.

Banking firm Washington Mutual has developed innovative communication strategies with customers by defining customer “touchpoints,” that is, every interaction with customers has been named and defined so that both management and employees can analyze ways to innovate those interactions. Sample touchpoints include an ATM, during a phone call to a call center, and in-person inquiries at a bank.

One innovation that resulted from this model was the development of a new IT interface that gives bank representatives access to histories of interactions with a particular customer, including priority information like the customer's risk profile. These new interfaces aggregate useful information and have dramatically improved the quality of customer interaction as well as increasing the amount of practical information at bank representatives’ fingertips.
Business Process—Customer Interactions

Customers used to not be involved with business processes, their role limited to consumption of the final products and services and possibly giving their feedback to a company. This has changed, however. For example, most airline companies now allow passengers to book their tickets, choose their seats, print a receipt, and check in on-line.

One of the outcomes of increased integration of customers into a company’s supply chain process is the “disintermediation” of certain players in the industry. Thus, on-line booking for air travel resulted in disintermediation of travel agents, and hence increased the efficiency and effectiveness of the ticketing process. A similar change in business processes in the automobile and securities industries, among others, enabled by the Internet, has led to customers dealing directly with, and hence communicating more, with the companies themselves.

One example of both customer segmentation and integration into the value chain is the auto insurance company, Progressive, which targeted the under-served segment of high-risk customers (6). To serve these customers efficiently and effectively, it developed “Claims Workbench,” a software platform installed in laptops with wireless modems, that allows claims representatives to perform up to 20 separate transactions in the field. When an accident is reported, Progressive dispatches its representative to the incident location where they complete all paperwork on the spot, thus minimizing the incidence of fraud. The representatives can conduct damage assessments by checking parts lists installed in the software application. Using the Immediate Responsible Vehicles (IRVs), the reps can send the claim to the claims centers and settle it quickly, thereby saving money and improving customer service.

Dell Computer Corporation’s “direct mode” model was invented by Michael Dell, who recognized two trends in the marketplace: 1) that standardization of PC components allowed Dell to outsource the manufacturing process (except assembly), and 2) the sophistication of customer knowledge about, and comfort with, PC technology. Because of these factors, Dell decided to design a value chain that allows direct interaction and gives customers more choices and the ability to customize their orders. The direct model provides not only technical and cost advantages resulting from lower inventory costs, but also a significant advantage in terms of customer knowledge management. Because Dell can directly interact with customers, it has a better chance of discovering customer needs.

Strategic innovations by ICTs can scale-up existing business models that do not allow competitors to catch up quickly. For example, Enterprise-Rent-A-Car focused on the car replacement market—an underserved and ignored service the firm could offer. Enterprise developed Automated Rental Management Systems (ARMS), an Internet-based software application that connects Enterprise, insurance companies and auto-repair shops, to manage the entire rental car cycle and process. When an Enterprise customer has an accident and calls an insurance company with a claim, the insurance claims agent logs on to ARMS and automatically replaces the customer’s rental reservation. Traditionally, this process took a tedious paper-based, manual, and human process that involved half a dozen phone calls to different rental office locations. The system is also connected to auto-repair shops, which can send repair updates to both insurance companies and customers.

ARMS also tracks the collection of the repaired car and the return of the rental car, and automatically generates an electronic invoice for the insurance company. The great thing here is that it reduces human involvement; Enterprise eliminated, on average, 8.5 phone calls per rental transaction. This is about 85 million phone calls, and, since 1993, about seven million hours of employee time (5 minutes per call). By late 2002, ARMS was being used by 22 of the 25 largest insurance companies in the United States.

Customer Interactions with Products and Services

As products become more sophisticated, only rarely will every customer use the technology in the same way. This is because most products now have options for modification, personalization or customization. Understanding how users engage in these customizations can yield insights on possible enhancements and innovations, as occurs with software organizations that regularly tap into their lead users to discover new routines, methods and enhancements (7).

One aspect of managing knowledge to support the customer requires personalizing the shopping experience. Organizations can use transaction data and customer information, especially for those purchases conducted on the Internet or through other electronic media like personal digital assistants (PDAs) or mobile phones. For frequent travelers, entering their preferences into a ticketing system for every trip is time-consuming and annoying. In the past, they would have gone to a travel agent who knew their preferences and made the arrangements accordingly. These travel agents were knowledgeable, not only about the various destinations, but also about preferences: window seat, nonsmoking, make and model of rental car, and so on. Today, electronic customer reservation systems can handle many of these details.

ICTs have also made experimenting with product and service offerings popular. Customers often try a product or service before committing to a purchase; on-line
vendos provide trial software, music samples, no-risk trial periods for services, and the like. In light of this culture of sampling, it has become more difficult to lock customers into a purchase without providing a taste of what they can expect. This requires the organization to make such knowledge available in easily digestible formats, to devise mechanisms that allow the customer a sense of the expected product benefits without releasing the entire product for free, and to ensure that information is openly shared with and received from the customer.

When purchasing a book, for example, readers want a synopsis, the author’s credentials, the reviews, price, and other information to inform their decision. One of the reasons why companies like Amazon continue to be successful is the highly sophisticated ways such information is presented to a potential buyer via the Internet. Thus, publishers allow readers to read a few pages of a book, and on-line music vendors provide song samples for their customers.

As another example, Google has “Google labs” on its Web site, which lets users try Google’s beta products and services. Users can download them free and play with them, after which they can give their feedback directly to developers by sending email or by joining community discussions. Once the products “graduate” from labs, they become available for all Google users. Experimentation is the requirement of this constant knowledge exchange; knowledge must flow freely from the customer to the organization and vice versa.

**Innovation in Products and Services**

Innovation in the form of final products and services is an implementation of *knowledge from the customer*, defined as the insights, ideas, thoughts, and information the organization receives from its customers. These insights can be about current products and services, customer trends and future needs, and ideas for product innovations. Ideas for successful product innovations are most likely to come from end users and customers of the products and not from within the organization. An organization must therefore actively seek out such knowledge in order to be better prepared to implement product enhancements and innovations.

Sometimes, through this form of innovation, customers can change their business models or processes and offer different services. For instance, NPower Seattle was aware of an Earned Income Tax Credit that was under-utilized, and worked with early technology adopters (who had shown eagerness to use new forms of technology to change their services) to allow them to offer a new service, making it easier to collect that money. As its director, Jamie Green, stated, “Seventy-five million is left unclaimed by low-income Washington families. In one of our grants, we articulated that we wanted to work with early adopters and pragmatists and see $2 million additional dollars coming back to the community.”

As this quote demonstrates, the measure of success in such cases will usually depend on the success of the *customer’s* new offerings. In these instances, changing customer business practices is a service provided by an outside organization.

It is also important to design, manufacture and sell a product that customers want, rather than trying to convince them to buy something created elsewhere. That’s why listening to customers is so important for successful innovations. For example, Hewlett-Packard modified its Laser Jet V printer design by adding handles, after observing that more than 30 percent of its customers, most often women, routinely moved printers and did not want to break their fingernails (8).

These types of customer innovation raise a range of critical issues (see Table 1) 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. Our next section presents such a framework.

**Managing a Customer Innovation Program**

Organizations take ideas from customers, process them, incorporate them into finished products, and then deliver them to customers. The organization’s value is normally tied to the internal and external value generated. The ideal organization will recognize and appreciate the customer dimension in every interaction and build it into its internal innovation process.

Successful customer innovation programs are based on systematic interactions among three key entities: the organization, products and services, and customers. These three entities interact with each other in a series of innovation stages: the idea generation and development stage; the design, testing and refinement stage; and the commercialization stage (see illustration, page 41). Organizations must integrate their customer innovation program with the various types of innovation (see Table 2). The typology of customer innovation given previously may have seemed daunting in aspects and possibilities for innovation management. Each type of customer innovation fits within the management model outlined below, which will provide a complete innovation program with an emphasis on customer-generated and customer-focused innovation. First, we give an overview of the innovation process, and then we provide three areas of focus for projects or organizations to consider with respect to customer innovation and organizational strategy. The three areas can be considered indicators of customer involvement and metrics for organizational efforts around customer innovation.
### Table 1.—Critical Issues, Concerns and Checkpoints

<table>
<thead>
<tr>
<th>Type of Customer Innovation</th>
<th>Critical Issue</th>
<th>Checkpoints</th>
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<tbody>
<tr>
<td>Customer segmentation</td>
<td>Customers and categories are dynamic. Staff must be trained and understand purpose. Right types of information must guide segmentation to avoid discrimination.</td>
<td>Are types of customer information prioritized? Are there customer protection guidelines?</td>
</tr>
<tr>
<td>Customer analysis</td>
<td>Information overload, particularly from automated systems. Systems must be integrated (i.e., from all types of customer interactions). Privacy and security of customer data must be protected.</td>
<td>Can analyses be traced back to specific customers? Are all systems connected?</td>
</tr>
<tr>
<td>Customer communication</td>
<td>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.</td>
<td>If outsourced, does customer service still understand customers?</td>
</tr>
<tr>
<td>Customer interaction with organization</td>
<td>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.</td>
<td>Can the organization’s structure morph? Has groundwork for change been laid with established suppliers, vendors, customers, etc?</td>
</tr>
<tr>
<td>Customer interaction with products and services</td>
<td>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.</td>
<td>Are customers segmented by need and expertise? Do technicians interact regularly with customers?</td>
</tr>
<tr>
<td>Products and services outputs</td>
<td>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.</td>
<td>Are there protocols for eliciting knowledge from customers? Are there metrics to evaluate the marketability of ideas?</td>
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### Idea generation and development

The first stage of the innovation process is idea generation and development. Consider this quote from an innovation officer at a builder of computer games:

> We are a very fast-paced and dynamic industry. In the gaming industry we are known to work 24/7. One of the challenges we have is getting at the right sources of ideas, information and innovations. We are now hiring 17- and 18-year-old kids and giving them salaries to play games and to tell us how to come up with new ideas. Some day when you have kids, you will know that they are not the easiest sources to manage . . . sources management is the most challenging and complex activity.

Understanding the sources of ideas is critical for innovation. Today, companies are finding novel ways to engage in idea generation with their customers. Creating arenas where customers feel comfortable and encouraged to provide feedback is a key component of collecting customer-generated ideas. In the gaming industry, customer ideas are solicited via constant feedback through Web sites, discussion groups, blogs, and so forth. In addition, customers innovate by building add-ins, scripts and the like, to accompany the games. As our interviewee noted:

> For the most part our sources are our customers—the gamers. They have become so tech savvy that all we do is provide the architecture for a game, and then they can customize it as needed to play various versions of the game. So, what we are trying to do is bring the sources that we are interested in into the organizations. We do hire high school students, in particular those that post to gaming listservs. Rather than trying to get information from these sources via your traditional techniques such as surveys, etc., we bring them into the manifold of the organization and then get information from them. By far, we pay most attention to our customer sources.

An organization needs to collect as many ideas as possible from appropriate customers, which means that customer segmentation can play an important role. Ideas from novices are different from the ideas from superusers, as Table 1 illustrates. Ideas provided by those average users are normally more creative than the ideas...
The customer innovation program is based on systematic interactions among the organization, products and services, and customers.

Table 2.—Three Stages of Customer Innovation

<table>
<thead>
<tr>
<th>Interacting entities</th>
<th>Idea Generation and Development</th>
<th>Design, Testing and Refinement</th>
<th>Commercialization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of customer innovation</td>
<td>Organization and customer</td>
<td>Organization and products and</td>
<td>Products and services, customers</td>
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<tr>
<td></td>
<td></td>
<td>services</td>
<td></td>
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<tr>
<td>Challenges</td>
<td>Customer definition, customer</td>
<td>Business process</td>
<td>Products and services, customer</td>
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<tr>
<td></td>
<td>information analysis, customer</td>
<td></td>
<td>interaction</td>
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<tr>
<td></td>
<td>communication</td>
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</tr>
<tr>
<td>Checkpoints</td>
<td>Segmentation, information overload,</td>
<td>System and process transformation</td>
<td>Segmentation, knowledge transfer,</td>
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<tr>
<td></td>
<td>privacy and security issues</td>
<td></td>
<td>communication tools</td>
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<tr>
<td></td>
<td>Are you sub-segmenting?</td>
<td>Do you know your existing system</td>
<td>Do you know for whom you develop</td>
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<tr>
<td></td>
<td></td>
<td>and capabilities?</td>
<td>customizable products?</td>
</tr>
<tr>
<td></td>
<td>Do you understand the risk of privacy and security associated with customer information analysis?</td>
<td>Do you have engineers who can understand users’ feedback?</td>
<td></td>
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</tbody>
</table>
and communicate with them in their local languages and in real time.

**Design, testing and refinement**

This is the stage in which organizations need to incorporate what they learn from customers into the design of new products and services. First, ideas need to be filtered, screened and tested before actual implementation; the organization needs to create an environment where those ideas can be discussed by others. For example, ideas from novice users may need to be filtered by engineers who know how to implement them. Assembling cross-functional teams can be important for creating an environment where the ideas can be translated into new products and services. It would therefore be beneficial to include the various types of people who normally engage in customer interactions. For example, the sales force is the group closest to customers and thus possesses a great deal of customer information. It is also important for organizations to include that knowledge in the R & D process (10). In addition, ICTs can connect distributed team members and provide them with a platform to interact with other members and exchange opinions.

Organizations need to transform existing business processes and systems to make them suitable for the customer-driven innovation program. For example, if an organization has a highly rigid organizational structure, it needs to embrace an open structure where employees can contribute their opinions of the new ideas. However, this comes with pain and costs because people are usually afraid of new systems and processes. Without an explanation of why the transformation is necessary and how it will make the environment better, there will be resistance.

This is the case not only for internal employees but for external partners as well. For example, IBM and HP could not imitate Dell’s “direct model,” because it was perceived as too radical and they did not want to jeopardize their current operations, which were based on existing relationships with vendors and suppliers. It is essential that organizations understand which system and process transformation will enable them to bring customers and employees together into the design, testing and refinement stage. Precise knowledge of what a specific transformation can do and how it can be accomplished will help managers bring about the required change.

**Commercialization**

In the commercialization stage, organizations need to be innovative in how they incorporate customer ideas into products and services that will be acceptable to customers. For example, organizations may want to present a pilot case or offer an experimental product to find out how customers feel about them and then incorporate the ideas into the modified and revised version. This strategy is common among software companies, which usually distribute new software products as beta versions so that customers can identify bugs and give other feedback.

Organizations should also provide opportunities for customers to customize or personalize their products and services. Wireless companies are leaders in this area, allowing their customers to personalize ring tones or change the outward appearance of their phones with different covers.

In this regard, it is important to recognize that knowledge can be explicit or tacit, and organizations should have mechanisms, such as email, phones, chat rooms, Wikis, and so on, in place to capture customers’ comments. For example, if customers want to give feedback on the phone, it is counterproductive to keep insisting that they fill out long forms. It is also critical here that employees appreciate the importance of capturing customer feedback and be flexible enough to encourage customer participation.

**Toward Customer-Driven Innovation**

Customer-driven innovation is very different from the old customer innovation programs, which we call “customer-focused innovation” and “customer-centered innovation” (see Table 3). In customer-centered 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—invention is done by customers, with minimum involvement by the organization. Customers are the primary source of ideas and the consumers 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 customers to competitors.

Regardless of the dangers of knowledge leaks and intellectual property issues, organizations need to pursue *customer-driven* innovation programs that incorporate all types of customer innovation. Focusing on each type of customer innovation and assessing an organization’s current status as customer-centered, -focused, or -driven will enable organizations to innovate more successfully, quickly and with lower overall investment. We examine these differences below.

**The organization’s role**

In a *customer-driven* innovation program, the role of the organization shifts from that of communicator and principal innovator toward coordination, facilitation and transparency. The organization coordinates the innovation activities of customers during the entire innovation process, including, for example, the activities by which customers contribute their ideas and give their feedback on current products and services. The organization also needs to coordinate customer activities with its existing business processes and systems.

**Type of innovation**

The type of innovation represents the nature of customers’ engagement. In *customer-centered* innovation programs, the engagement can be described as “open innovation”; 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.

**Degree of control**

The degree of control represents the difficulty that organizations face in controlling the overall innovation process. In *customer-driven* innovation programs, it is probably impossible for organizations to control the

<table>
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<tr>
<th>Table 3.—Customer-Driven Innovation vs. Older Paradigms of Customer-Centered and Customer-Focused Innovation</th>
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<tbody>
<tr>
<td><strong>Central entity</strong></td>
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<tr>
<td><strong>Degree of customer involvement</strong></td>
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<td><strong>Role of organization</strong></td>
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<td><strong>Type of innovation</strong></td>
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<td><strong>Degree of control</strong></td>
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<td><strong>Degree of coordination</strong></td>
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<tr>
<td><strong>Critical innovation stage</strong></td>
</tr>
<tr>
<td><strong>Types of innovation to focus on</strong></td>
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<td><strong>Critical issues with innovation types</strong></td>
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process, because they do not know how many customers are involved and they cannot control when and where customers contribute. In customer-centered innovation, however, organizations can control the innovation process, but it is difficult to do when compared to customer-focused innovation. In the customer-focused innovation process, control is the major strength and most visible benefit, since the innovation process is limited to internal processes or to third parties who are tied by contract.

**Degree of coordination**

The degree of coordination represents the difficulty that organizations have in coordinating innovation activities among stakeholders. In customer-driven innovation programs, the degree of coordination is emergent; for example, various customer communities are coordinated at local group levels. In customer-centered innovation programs, coordination is done by organization and is quite complex, with multiple stakeholders involved. Coordination is easier in customer-focused innovation programs, where the innovation process is structured by, and internal to, the organization.

**Commercial innovation stage**

This is the most important stage of the innovation process because it is here that the organization develops the products and services that can dominate the market. In customer-driven innovation, where ideas come anytime and from anywhere, there may be a surfeit of ideas, and selection and implementation become the main challenges. In customer-centered innovation programs, idea development, screening and refinement are central. In customer-focused innovation programs, fresh ideas are scarce and the idea-generation stage becomes the most critical element.

**Let the Customer Drive**

Organizations must both collect and develop ideas from customers quickly. They also have to commercialize the ideas rapidly. For example, Washington Mutual has a history of product and services innovation beginning with being the first bank to offer free checking accounts. Deb Horvath, CIO of Washington Mutual, highlighted this issue in an interview:

In our history, years ago, we were the first bank in our industry to have free checking, and after we did, all the other banks kind of had to do the same thing. We were the first to do no fees for our ATMs. We were the first to some up with the retail experience in our branches (Occasio). Other banks are doing the same now.

Washington Mutual’s continued banking success depends on consistent innovation and rapid implementation, which the organization has successfully streamlined and encouraged in all sectors of the business.

Thus, it is not the ability of organizations to innovate, but their ability to innovate continuously and consistently that is vital. Building models for customer-driven innovation is essential to the vitality of organizational innovation programs. Organizations can no longer assume that they possess all the knowledge and capabilities for innovating for customers. Neither is it sufficient to innovate with customers. Customers need to drive innovation. Successful organizations will be those that take advantage of customer-driven innovation to further their growth, enter new markets and be leaders in their marketplace.

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**References**


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