

## Collaborating with Customers to Innovate: Conceiving and Marketing Products in the Age of Networking

Increasingly, corporate innovation is dependent on the activities of customers. For instance, Dell has recently launched IdeaStorm, an online forum to gather customers' ideas on its products, and has started installing Linux, the open-source operating systems which has become emblematic of user-led software development, on several of its PCs. Japanese company Muji makes consumers evaluate the attractiveness of new product concepts, and manufactures only those that reach a sufficient number of pre-orders. This summer on DEWmocracy.com users got to vote on the new flavors of Mountain Dew soft drink that the company plans to put on the shelves. P&G has repeatedly involved consumers in the planning of communication campaigns for many of its brands, while FIAT tried to go a notch higher, by involving customers in the design of certain product components, during the launch of the new 500 model.

All these cases show that in a global context where industries tend to converge, it becomes increasingly difficult for the single firm to stay self-sufficient in managing its innovation processes. At the same time, developments in digital networking technologies make the necessity of heterogenous skills ever more apparent, but also contribute to the solution of the problem, by fostering the sharing of skills and knowledge among various actors, starting with consumers.

In this new scenario, one of the emerging key developments is collaborative innovation, which is the subject of a recent book co-written by Emanuela Prandelli, Mohanbir Sawhney and Gianmario Verona, titled "Collaborating with Customers to Innovate: Conceiving and Marketing Products in the Networking Age" and published by Edward Elgar.

Thanks to the profound transformations that have occurred over the last few years in the realm of communication technologies, the customer himself can become an integral part of the business innovation process. Already in the past, the customer was deemed to be a significant source of knowledge for the firm, since he/she enabled the testing and adjustment of new products before they were marketed, but today the customer has the knowledge and the technological tools to become a valuable source for the design of innovation. If on the one hand, firms can employ market research companies for their sophisticated array of tools and in this way tap into customer knowledge, on the other hand they can also internalize the process so as to have direct access to the knowledge of their customers. Another way of saying this is that companies can now make the shift from outsourcing to insourcing of market intelligence, a fundamental corporate function.

In particular, the customer is offered the option of playing a crucial role in orienting the very process of defining the supply range, thus taking a significant role in the process of value creation. Increasingly, the objective of those who within the company do marketing research for the design of new products is not only to push the analysis toward levels of greater detail in order to have more complete customer databases, but to develop veritable forms of collaboration with customers. This way, it becomes possible to make the transition from processes geared to augment knowledge *on* the customer (socio-demographics, preferences, benefits sought) to processes geared to make the knowledge *of* the customer exploitable by firms, tapping into the wealth of ideas and experience that have been accumulated by the customer in his/her interaction with specific product and service environments. Generating value *for* customers thus tends to be replaced by generating value *with* customers. In the past, this phenomenon had been confined to producer markets. Today, this aspect is frequently applicable also to consumer markets.

As a consequence, new organizational models are required to effectively implement the mechanisms of value co-generation afforded by digital technology.

In particular, the community-centric model places the locus of innovation outside the boundaries of the firm, toward a community of individuals and enterprises which collaborate in creating shared intellectual property. More specifically, virtual communities created and managed by a single firm can play a relevant role in facilitating the collaboration among

groups of users that share similar passions and interests: in the case of brand communities, this is typically done by users identifying themselves with the same brand.

However, if the objective is to enlarge the scope for co-creation beyond their customer base, the individual community might no longer suffice, and inputs of particular interest could be gathered from independent third parties, usually considered more reliable by users when they seek product information at the early stages of their purchasing process. These *super partes* agents are called Virtual Knowledge Brokers (VKBs), who are third parties connecting, recombining and transferring knowledge to firms to facilitate innovation. Although companies can foster innovation by contacting consumers directly in virtual environments, they also have the need to add mediated channels that can act as innovation boosters. VKBs gather dispersed individual and collective knowledge and distribute it to firms, after having organized and processed it to support innovation. Companies are interested in this kind of knowledge for two reasons: firstly, they are constrained by cognitive limits and core competences, so that their peripheral vision often doesn't go beyond the market they serve; secondly, their reach is physically limited by geographic and sectoral boundaries. Working from a global and cross-industry perspective, VKBs can significantly improve on the reach and richness of the connections between companies and actors who can supply knowledge which is supportive of innovation.

Lastly, the most heterarchical organizational model that supports distributed innovation processes is certainly represented by Open Source Systems. These are a peculiar evolution of virtual communities, and are completely run for and by the users themselves, with the aim of providing mutual technical support for the creation of new products and services. Such systems are based on the joint development of knowledge and innovation acted upon by varied independent individual actors. In open source programs, individual users do not have to develop everything they need on their own, but can rely on contributions freely shared by others. The open Source model represents a fundamental step forward for the management of distributed innovation, because it is an open model, in marked contrast with the traditional proprietary or closed model for managing innovation. For open source projects to function effectively, certain fundamental conditions need to be respected: firstly, at least some users must have the motivation to participate, i.e. the benefits of producing innovation must outweigh the costs of participating in the project, secondly, at least some users must have the incentive to reveal voluntarily and freely their innovations and the tools for making them; lastly, the diffusion of innovation by the users must be able to compete with commercial production and distribution, often by means of for-profit companies that deal with the installation and maintenance of open source products, as well as the provision of complementary services.

Summing up, the shift from hierarchical to heterarchical models implies the adoption of distributed forms of innovation. According to this perspective, mechanisms for co-creating value with individual customers, virtual communities, virtual knowledge brokers and open source systems become complementary approaches to creating continuous innovation with the help of customers. Prandelli, Sawhney and Verona explore each of these in detail.