Title: Co-opting Customer Competence.

Subject(s): CUSTOMER relations; MARKETING -- Management; CONSUMERS -- Attitudes; CONSUMER satisfaction

Source: Harvard Business Review, Jan/Feb2000, Vol. 78 Issue 1, p79, 9p, 2 charts

Author(s): Prahalad, C.K.; Ramaswamy, Venkatram

Abstract: The business world is shifting from formal, defined roles. Major business discontinuities such as deregulation, globalization, technological convergence, and the rapid evolution of the Internet have blurred the roles that companies play in their dealings with other businesses. The distinguishing feature of the new marketplace is that consumers become a new source of competence for the corporation. This competence can be seen in industries such as software, which have moved from testing products in usability laboratories, to testing them in customer environments. To effectively harness the competence of the consumer, managers must: engage their customers in an active, explicit, and ongoing dialogue; mobilize communities of customers; manage customer diversity; and cocreate personalized experiences with customers. The real challenge for senior managers will be to provide a stable center while embracing change. The only way to do this is to develop a strong set of organizational values. Readying the organization for customer competence in the new economy will require a major overhaul of the traditional governance systems and organizational structures of the company. The biggest challenge for companies will be to develop the infrastructures needed to support a multichannel distribution network.

AN: 2628909

ISSN: 0017-8012

Full Text Word Count: 6022

Database: Health Business FullTEXT

CO-OPTING CUSTOMER COMPETENCE

Contents

In the new economy, companies must incorporate customer experience into their business models-in ways hitherto untapped. Here are the challenges in doing that.

BUSINESS COMPETITION used to be a lot like traditional theater: On stage, the actors had r clearly defined roles, and the customers paid for their tickets, sat back, and watched passively. In business, companies, distributors, and suppliers understood and adhered to their well-defined roles in a corporate relationship. Now the scene has changed, and business competition seems more like the experimental theater of the 1960s and 1970s; everyone and anyone can be part of the action.

The shift away from formal, defined roles is already occurring in business-to-business relationships. Major business discontinuities such as deregulation, globalization, technological convergence, and the rapid evolution of the Internet have blurred the roles that companies play in their dealings with other businesses. Consider the relationship between Ford and its main suppliers. Far from being passive providers of materials and parts, Ford's suppliers have become close collaborators in the development of new vehicles. At the same time, however, they compete for value by negotiating the prices for the parts and the materials they supply. Some suppliers are starting to compete directly. For example, Markham, Ontario-based auto-parts giant Magna International has the ambition-and the potential- to assemble automobiles itself.

The story's the same for distributors. For example, Wal-Mart does more than just distribute Procter & Gamble's goods. It shares daily sales information and works with P&G in product warehousing and replenishment to ensure that consumers can always find the goods they want at low prices. In some product categories, however, Wal-Mart competes head-to-head with P&G. For instance, Wal-Mart last year rolled out its own brand of detergent, Sam's American Choice, which competes nationally with P&G's popular Tide brand.

The changing dynamics of business has been the focus of managerial debate the past few years. Practitioners and scholars talk about companies "competing as a family." They talk about alliances, networks, and collaboration among companies. But managers and researchers have largely ignored the consumer, the agent that is most dramatically transforming the industrial system as we know it. (See the exhibit "The Evolution and Transformation of Customers.")

Thanks largely to the Internet, consumers have been increasingly engaging themselves in an active and explicit dialogue with manufacturers of products and services. What's more, that dialogue is no longer being controlled by corporations. Individual consumers can address and learn about businesses either on their own or through the collective knowledge of other customers. Consumers can now initiate the dialogue; they have moved out of the audience and onto the stage.

Customers are fundamentally changing the dynamics of the marketplace. The market has become a forum in which consumers play an active role in creating and competing for value. The distinguishing feature of this new marketplace is that consumers become a new source of competence for the corporation. The competence that customers bring is a function of the knowledge and skills they possess, their willingness to learn and experiment, and their ability to engage in an active dialogue.

The concept of competence as a source of competitive advantage originated in studies of the diversified firm.[1] Managers started to conceive of the company as a collection of competencies rather than as a portfolio of business units. In this way, managers were able to identify new business opportunities and find new ways to deploy the company's intellectual assets. Managers eventually came to realize that the corporation could also draw on the competencies of its supply-chain partners. During the last decade, managers have extended the search for competencies even further; they now draw on a broad network of suppliers and distributors. Over time, then, the unit of strategic analysis has moved from the single company, to a family of businesses, and finally to what people call the "extended enterprise," which consists of a central firm supported by a constellation of suppliers. But the recognition that consumers are a source of competence forces managers to cast an even wider net: competence now is a function of the collective knowledge available to the whole system- an enhanced network of traditional suppliers, manufacturers, partners, investors, and customers. (See the exhibit "The Shifting Locus of Core Competencies.")

Customers as a Source of Competence

Some industries have already gone further than others in drawing on the competencies of customers. Consider the software industry, in which companies have moved from testing products in usability laboratories to testing them in customer environments. For example, more than 650,000 customers tested a beta version of Microsoft's Windows 2000 and shared with the software giant their ideas for changing some of the product's features. Many of those customers were even prepared to pay Microsoft a fee to do this. Working with the beta software helped many of those customers understand how Windows 2000 could create value for their own businesses. The beta tests also helped clear the glitches from early versions of the software. The value of the collective R&D investment by Microsoft's customers in codeveloping Windows was estimated at more than $5oo million worth of time, effort, and fees.

In Microsoft's case, customers act as product testers in their native environments. Internetworking giant Cisco goes even further than that; it gives its customers open access to its information, resources, and systems through an on-line service that enables Cisco's customers to engage in a dialogue. In this way, Cisco's customers solve the problems encountered by other customers, and each customer has access to Cisco's knowledge base and user community. They are engaged in helping one another.

The notion of the customer as a source of competence is starting to appear in less obvious industries, too. Take medicine. Andy Grove, chairman of Intel, in 1995 was diagnosed with prostate cancer. He researched the causes of the disease and, with his doctors, developed a unique treatment plan. Now, you may expect someone like Grove to take his treatment into his own hands, but the point is that he is hardly alone. The availability of medical information on the Internet, in magazines such as Time, Newsweek, and Reader's Digest, on TV, and in local newspapers is helping more and more patients enter into a dialogue with their doctors. The more knowledgeable they become, the more likely these customers are to shape their health care regimen. Doctors may resent the consumer's exercise of his or her knowledge, but they would do well to learn how to co-opt it.

Harnessing the competencies of the consumer is not an easy task. It's complicated enough for a large company like Ford to understand its internal competence base, let alone the competencies of each of its top 100 suppliers. Just imagine how difficult it will be for Ford's managers to understand the competence base of the millions of heterogeneous individuals who are the automaker's customers. But that's the challenge. At a minimum, managers must come to grips with four fundamental realities in harnessing customer competence. They have to engage their customers in an active, explicit, and ongoing dialogue; they have to mobilize communities of customers; they have to manage customer diversity; and they have to cocreate personalized experiences with customers. Let's take a closer look at each task.

Encouraging Active Dialogue. In the new marketplace, companies have to recognize that their dialogue with their customers is a dialogue of equals. Companies no longer have a monopoly on-or even an advantage in-information access. For example, stock prices, market data, and trading information- long the preserve of brokers- are now widely available on the Internet; on-line brokers such as E*Trade and Charles Schwab now boast more than two million regular customers as a result.

But engaging in a dialogue with customers who know what they want requires richer and subtler forms of exchange than many companies are used to. Traditional stockbrokers could talk to customers and, during the exchange, could find out lots of information about them; the conversation had to take place because the customers needed the information that the brokers had. But now these same customers may only want the broker to supply an easy, safe, and reliable execution of their predetermined trades. It becomes critical, therefore, for companies to understand the purpose, meaning, and quality of the dialogue from the customer's perspective. What's more, a dialogue must evolve- or die. Companies are going to have to find ways to process what they learn from customers so they can bring the dialogue forward and keep the consumer's interest.

Progressive Internet companies have adapted best to the new dialogue. That's largely because the Internet has done the most to increase the customer's power as an interlocuter. A good example is Amazon.com. Each time an Amazon customer accesses the company's Web site, the on-line bookseller provides recommendations based not only on the customer's previous purchases but also on the purchases of other people who have bought similar books. As its customers' tastes and preferences evolve, Amazon's engagement with them reflects those changes. As the Internet takes hold in more fields, other companies will have to develop the interactive capabilities of an Amazon.com to keep customers engaged.

Mobilizing Customer Communities. A second reality that companies must face is that thanks to the Internet, customers in the new economy are finding it easier to form, on their own, self-selecting virtual communities. On-line customer communities can be quite tightly knit. Internet chat rooms, for example, are easy to start up, join, and participate in. Chat rooms accommodate a wide range of personalities- many of them assumed ones. Yet chat rooms aren't entirely unstructured. They often impose strict rules of dialogue and will expel individuals who break those rules.

Customer communities can exercise a powerful influence on the market. Take the Hollywood Stock Exchange, a simulated entertainment stock market in which "MovieStocks" and "StarBonds" are actively traded through a film's concept, development, production, wrap, and release. There are put and call options on opening-weekend losers and winners, and traders predict the four-week box office take for each film. The traders create news with their investment decisions, so major studios and actors cannot afford to ignore this customer community when shaping their development and marketing efforts.

The power of such communities derives in large measure from the speed with which they can be mobilized. Word spreads so fast on the Internet that people now refer to word of mouth as "viral marketing." That's already transforming the management of brands. In the past, companies pushed an image concept that was positioned through advertising, packaging, and so on, to individual consumers. But in the new market, positioning evolves with consumers' collective personalized experiences. Consider Netscape, Yahoo!, Amazon, eBay, E*Trade, and Excite. In each case, it was the customers who forged and legitimized the evolving identities of those companies and gave them meaning as brands in the new economy.

Smart companies are finding ways to mobilize customer communities. The Dutch giant Philips Electronics is a case in point. One of the company's customers recently set up a Web site for hackers who are interested in exploring embedded software for the Pronto, Philips's intelligent universal remote control. The site makes it easy to exchange program files, codes, and other information, and manufacturers of audio-video products post their software code to help people save programming time. The hackers, in exploring ways to make the product more user-friendly, benefit both the consumers and the company. Philips tapped into and mobilized a self-selected community created independently by consumers.

Managing Customer Diversity. As companies embrace the market as a forum, they become more vulnerable to customer diversity. That is particularly true of companies that sell technology-intensive products, which are sensitive to variations in customers' sophistication.

Consumers' experiences of a technology product or service and therefore their judgment of that product or service-will vary according to their skills as users. For instance, it can take anywhere from five minutes to several hours for people to learn to use a new software application. This sophistication gap isn't new; younger users have always been quicker than older ones to adopt new products and services. But information technology has served to widen the gap considerably.

A user's sophistication also determines his tolerance of problems. A gifted software engineer may happily pay for the privilege of getting a beta version of some software. The experience- the fun and the pleasure-for this person is in finding the bugs. But others see software as a grim necessity-the last thing they want to experience is a system error.

Consumer concerns about privacy and security can also accentuate the diversity among users. Consider Microsoft's e-mail service, Hotmail, which reportedly has more than 30 million subscribers. Microsoft does not charge its subscribers for the Hotmail service, but it does require that subscribers provide information about themselves, which the company can use to solicit advertisers. Nearly all the "free" services available on the Internet are based on this model. But many consumers don't like to provide such information and would rather go without the service or pay a fee instead. Security on the Internet is also a hot issue with consumers. While some people will happily buy a car on-line, others are uncomfortable about e-mailing credit card information. Companies that ignore such differences among consumers do so at their own peril.

Apart from technology, globalization in the marketplace also heightens variation in customer sophistication. Consider the telecommunications industry. For instance, Lucent Technologies has to contend with battalions of new and unknown customers, many of whom have limited or no knowledge of the telecom business. The only common denominator among them is a desire to participate in the telecommunications revolution. For managers at Lucent, who are used to working with a handful of large, highly skilled, established customers like AT&T and the regional Bell operating companies, this proliferation of unsophisticated customers poses unsettling questions. How does one respond to a Thai investor who wants a wireless system set up in six months? More and more companies are facing this kind of dilemma.

Cocreating Personalized Experiences. Harnessing the competencies of the consumer involves more than just setting up a dialogue. Managers also have to realize that the customer is no longer interested in buying a product. The product, in fact, is no more than an artifact around which customers have experiences. What's more, customers are not prepared to accept experiences fabricated by companies. Increasingly, they want to shape those experiences themselves, both individually and with experts or other customers.

It is important to distinguish personalization from customization. Customization assumes that the manufacturer will design a product to suit a customer's needs. It is particularly pronounced over the Web, where consumers can customize a host of products and services such as business cards, computers, greeting cards, mortgages, and flowers simply by choosing from a menu of features. Personalization, on the other hand, is about the customer becoming a cocreator of the content of their experiences. An on-line florist, for example, would let customers specify and design the type, quantity, and arrangement of flowers, vases, and colors they desired, rather than forcing the customer to pick from a menu of services. The florist would also make it possible for the customer to discuss his or her ideas with in-house experts and other customers.

Companies in the entertainment and education businesses have gone perhaps the furthest in engaging the customer in the personalization of his experiences. Consider a visitor to the Whitney Museum in New York. Visitors previously had the option of taking a guided or an unguided tour. Today, they can tour the museum themselves with the help of a multimedia pad PC that blends audio, text, and video; they can tour the museum with human guides who have varying levels of expertise; or they can tour the museum with both multimedia and human guides. People can design their visit according to what they know and what they want to know.

Managing the Personalized Experience

To provide personalized experiences, companies must create opportunities for customers to experiment with and then decide the level of involvement they want in creating a given experience with a company. Since the level of customer engagement cannot be predetermined, companies will have to give consumers as much choice and flexibility as possible- in the channels of distribution and communication and in the design of products. But companies can also help direct their customers' expectations by guiding public debate about the future of technology and the economy.

Managing Multiple Channels of Experiences. As the case of Amazon.com illustrates, the Web is an incredibly rich channel for direct dialogue. It has also spawned more efficient business models. Indeed, some people have argued that the virtual distribution channels provided by the Internet will completely displace traditional channels in some industries because of their cost advantages. A bank, for example, saves 80% of its costs when customers transact business using a PC; the customer also saves time and travel costs. But research shows that a consumer's experience with a company is highly influenced by the environment in which it occurs. Wells Fargo, for instance, tried to force its customers to use PC-based banking services, without much success. Customers became dissatisfied, and profits eroded. Thus, the method by which customers and companies communicate is an integral part of creating an experience. The more environments a company can provide, the richer its customers' experiences are likely to be.

For example, the Borders Books Web site and the layout of its bricks-and-mortar stores and cafes reinforce each other. Borders' customers like to browse among real books as well as virtual books, and they enjoy a good cafe latte while doing either. That's why Borders has computer terminals as well as books in its stores and cafes. And it's surely significant that about two-thirds of Charles Schwab's customers are still recruited through its bricks-and-mortar branches, where they can engage in personalized, educational discussions. In fact, the traditional distribution channels are likely to evolve. Take banks again. Although most customers are likely to migrate to ATMs, PCs, and cellular phones to transact their banking, there could still be a role for branch networks as private clubs for rich pensioners, especially in places like Florida, or simply as havens for the elderly.

It's likely, therefore, that most companies will find that they have to manage- and integrate- several distribution channels. A key challenge will be to ensure that the nature and quality of the fulfillment, the personalized experience for the individual, is not very different across the channels. One problem companies face is that their established channel partners are likely to resist this type of move: Why should car dealers want to let Ford or General Motors sell directly through the Internet? Other companies will find resistance from within. Pressure from their own brokers and agents delayed financial service companies such as Merrill Lynch and Aetna from offering on-line services. As a result, much of the progress in virtual distribution channels so far has been made by newcomers such as E*Trade and Priceline.com.

The biggest challenge for companies, however, will be to develop the infrastructures needed to support a multichannel distribution network. For some businesses, especially those in traditional industries, the most pressing questions relate to their information technologies, which must evolve to cope with newer channels of communication and logistics. One of the most critical elements in the information infrastructure is a company's billing system, which is an invaluable repository of customer information. The problem is that many companies that now have to deal directly with consumers lack any competence in billing because they relied in the past on their channel partners to handle that task.

The challenges of building and integrating a virtual channel pale beside the challenges faced by the Internet companies themselves. It's no longer about e-commerce, but f-commerce-the fulfillment of goods and services that can't be downloaded. As one manager remarked: "Anyone can sell a book on the Internet; delivering it to the individual expeditiously and at a very low cost is the problem." The archetypal Internet company, Amazon.com soon is expected to have 3.5 million square feet of distribution space at seven centers nationwide- more than ten times the company's fulfillment capacity last year. And Webvan Group, a fast-growing on-line grocery merchant, placed a $1 billion order for the Bechtel group to build highly automated warehouses in 26 markets across the United States.

Achieving low-cost delivery in the new economy requires that companies combine their telecommunications and Internet infrastructure with a physical logistics and service infrastructure. Few Internet companies can manage physical delivery at all, let alone combine it with anything. Significantly, the companies that have developed the most effective integrated logistics systems are manufacturers. Toyota, for example, has announced that it can take an order on the Internet and deliver a customized car within a week. In the computer industry, the outstanding example is Dell, which offers built-toorder PCs directly over the Internet.

Managing Variety and Evolution. The realization that the product is subordinate to the experience will force managers to throw their old assumptions about product development out the window. Managers previously focused on understanding how to use technology to generate variety in products and on managing the way technology evolves. Technology road maps are a staple in most research and development groups. Concepts such as platforms, generations, models, versions, releases, upgrades, options, and bundles pervade the R&D departments of most high-technology companies. Indeed, all that mapping has enabled companies to create the customized products we now take for granted.

Unfortunately, customers find complicated menus very annoying and judge a company's products not by their features but by the degree to which a product or a service gives them the experiences they want. Consider a product that may incorporate, say, 20 functions. A user may need only five of those functions, and she does not want to go through the trouble of searching for her preferred features every time she uses the product. The driver of a luxury car equipped with a navigation system might want to use the system only to get a map and check the number of miles to his destination. However many capabilities the navigation system has, that driver will judge the system's performance according to the ease with which he can do those things. Why can't features used most often float to the top in interfaces? Why can't products reveal more sophisticated features and functionality as the user evolves?

The point is, managing the variety of customer experiences is not the same as managing variety in products. It is about managing the interface between a company and its customers; the range of experience transcends the company's products. Managers must develop a product that shapes itself to users' needs, not the other way around. But as noted, customers evolve over time through their experience with a product. The product has to evolve in a way that enables future modifications and extensions based both on customers' changing needs and on the company's changing capabilities.

But creating evolvable products and services isn't easy. The same customers who demand adaptability also expect 100% reliability.

Computer manufacturers learned that the hard way when they tried to incorporate TV features into their PC-processorpowered products. The lesson? Consumers simply will not put up with a systems crash in the middle of their favorite sitcom. Companies in high-volume electronics still rely heavily on embedded processors, or microchips that contain built-in software programs designed to accomplish dedicated tasks. With embedded processors, companies can give products such as microwaves, automobiles, and VCRs the capacity to respond to an enormous variety of commands without breaking down. Indeed, the sales of embedded processors- even excluding those used in control applications for automobiles, microwave ovens, and can openers-are expected to be triple the number of PC-processor sales in the next five years.

But an embedded processor isn't the same as embedded intelligence. The products that have gone the furthest toward genuine embedded intelligence are in education and games. For example, children's educational software from the Learning Company adapts the level of difficulty and tasks based on the skills of the child using it. It recognizes the individual's accomplishment before presenting a new and more demanding task. In consumer electronics, the product that has gone the furthest in this direction is TiVo, a home entertainment product from Philips. A little like Amazon.com, TiVo stores its user's viewing history and checks it against the programming of the channels it can access. The machine then recommends programs for the user and records them digitally as they are being broadcast. There's no need to preprogram a cantankerous VCR. The technology even lets viewers pause and replay during live broadcasts, which will be much appreciated by sports viewers the world over.

Shaping Customers' Expectations. Harnessing customer competence and managing personalized experiences requires cooperation from consumers. They must be sensitive to "what is next"-and that means companies must shape their expectations. Many chief executives have tried to shape consumer expectations. Bill Gates, for example, has used his two books-The Road Ahead and Business @ the Speed of Thought-to lead consumers' expectations of technology in the future. But there are some dangers for the unwary CEO. In the classroom, for example, teachers who go too fast can lose the attention of their students. So it was with John Sculley, former CEO of Apple Computer, who championed the concept of personal digital assistants in general and the Apple Newton in particular. He positioned the Newton as a mass-market product when, in fact, it was too early in its development for the Newton to be made generally available. Sculley lost his audience. Consumers had a low tolerance for glitches in a product that was meant to be used by "Joe, the common man," and not "Jane, the computer whiz," on an all-day, everyday basis. For Newton, a first-generation product, that was devastating.

Shaping expectations is not just about traditional one-way communication by managers or advertising. It is about engaging current and potential consumers in public debate. It is about educating customers and being educated. Companies that are trying to introduce radical new technologies have a particular interest in educating their consumers. Monsanto discovered this the hard way. Its failure to shape expectations of consumer groups especially skeptical groups in Europe and in Asia -about the benefits and limitations of genetically modified seeds has left the company facing massive resistance not only to its products but even to the very concept of genetic modification on which the company has staked its future. Educated customers can be advocates and activists for the company. For instance, Amway, Avon, or Mary Kay customers don't just sell and buy products; they advocate a particular Avon or Amway lifestyle. Likewise, Macintosh and PalmPilot users are fervent customers and activists. The battle for shaping expectations of "what is next" will require active and evangelical support from customers.

Customers as Competitors

Although managers can regard the customer as a source of competence, they also have to face the reality that their customers are becoming their competitors. Customers can extract value in ways that were unimaginable even three years ago.

In the traditional marketplace, companies had far better access to information than individual consumers did. That allowed companies to set prices based on their costs or their perceptions of the value of their products and services to their customers. But thanks to the Internet, customers and companies now have much the same information available to them, and there has been a consequent shift in power.

Armed with knowledge, customers are much more willing to negotiate terms and prices with companies. It's perfectly feasible for a customer to approach a bank and say, "I will always leave a $5,000 balance in the bank. These are the services I want free in return for this commitment." In some cases, customers even assess their own lifetime value to a company and use the knowledge to bargain for better terms. A customer at one telecom provider, a heavy user of long-distance services, even obtained preferential long-distance rates in exchange for a commitment to that provider.

It's not just the way that consumers judge and negotiate the price for a product that's changing; it's the price-setting mechanism itself. The popularity of businesses such as eBay and Priceline.com suggests that the auction is increasingly serving as the basis for pricing goods and services on-line. From the customer's perspective, the advantage of the auction process is that prices truly reflect the utility to that customer, at a point in time, of the goods and services being purchased. That doesn't mean prices are lower, only that the customer pays according to her need rather than according to the company's need. Managers everywhere will have to get used to the idea that they are price takers as well as price makers.

Traditional pricing won't disappear entirely. But as customers become more knowledgeable and recognize that they have choices and the power to negotiate, more businesses- from automakers to cosmetic-surgery clinics -will feel pressure to adopt an implicit (if not an explicit) auction process.

Preparing the Organization

Readying the organization for customer competence in the new economy will require a major overhaul of the traditional governance systems and organizational structures of the company. For a start, accounting standards in the new economy need to factor in intellectual and human capital. The GAAP-based accounting systems that all companies use today were designed for stable business environments in which the most important assets were physical, such as inventory, land, and buildings. Investment in these assets is treated as a capital investment, while investment in intangible assets, such as training, is treated as an expense. But the competence of customers is an intangible asset, often a matter of knowledge and skill. It should be considered capital.

Traditional market systems were designed to focus on allocating costs, which used to be the main determinant of price. But as auctions become a bigger factor in pricing, the importance of cost allocation declines. The systems are also ill equipped to cater to the constant reconfiguration of the supply chain that will result from the existence of multiple distribution channels. Increasingly, companies will have to adopt a project-management approach to evaluating the performance of people and businesses rather than rely on quarterly and annual budget reviews. In this way, managers will be able to judge the performance of individuals and teams over time while retaining the power to change the composition and tasks of the teams they lead.

The organizational consequences of competing in the market as a forum will, if anything, be even more drastic. Engaging in a dialogue with a diverse and evolving customer base in multiple channels will place a high premium on organizational flexibility. In fact, no part of the company-a single salesperson or an entire business unit- will be able to assume that its role in the organization is stable. As business models are revised and new challenges and opportunities emerge, the organization will constantly have to reconfigure its resources- its people, machines, infrastructure, and capital. Managers have to create Velcro organizations, in which resources can be reconfigured seamlessly and with as little effort as possible- as in Velcro hooking and unhooking.

But the creation of a flexible organization will impose psychological and emotional traumas on the organization's employees. There is a limit to an individual's elasticity. There is a reason why startups have fewer problems in pushing the frontier of established business practices than established firms do- it's easier to start something new than it is to change something old. Managers must be prepared to deal with these traumas even as they identify the business challenges they face. The new marketplace will place a premium on managers who have collaboration and negotiation training. Learning, teaching, and transferring knowledge across boundaries will become essential skills. So, too, will the ability to attract- and retain- the right employees. In an era when the pace of change keeps accelerating, the only way to stay ahead is to hire people who are self-motivated to change.

It may sound paradoxical, but rapid change requires that companies have a stable center. Although products, services, channels, and business models can change with impunity, human beings- especially those who are healthy enough to change- still require some emotional anchors. The real challenge for senior managers will be to provide that stability while embracing change. The only way to do that is to develop a strong set of organizational values. That's not an easy task. It is easier to pay lip service to values than it is to live by them. Consider diversity in the workplace. It is a value professed by nearly all consulting firms- whose employees remain depressingly similar in age, class, and educational background. Providing stability in the new economy demands leadership that is intellectually vigorous and, at the same time, administratively savvy. The ability to amplify weak signals, interpret their consequences, and reconfigure resources faster than competitors will be a source of advantage. It's not just "running faster" but "thinking faster and smarter" that matters.

The new frontier for managers is to create the future by harnessing competence in an enhanced network that includes customers. To be serious about the new economy, you're going to have to be the part you're playing. As Hamlet said, you "must have that within which passeth show."

The Evolution and Transformation of Customers

Customers are stepping out of their traditional roles to become cocreators as well as consumers ofvalue. This table maps their evolution through three stages and along several key dimensions.

```
 Legend:
a: Time frame
b: Nature of business exchange and role of customer
c: Managerial mind-set
d: Company's interaction with customers, and development of
   products and services
e: Purpose and flow of communication
```

Customers as a Passive Audience

```
*Persuading predetermined groups of buyers
*1970s, early 1980s
*Customers are seen as passive buyers with a predetermined role
 of consumption.
*The customer is an average statistic; groups of buyers are
 predetermined by the company.
*Traditional market research and inquiries; products and services
 are created without much feedback.
*Gain access to and target predetermined groups of buyers.
 One-way communication.

*Trasacting with individual buyers
*Late 1980s and early 1990s
```

*Customers are seen as passive buyers with a predetermined role
of consumption.
*The customer is an individual statistic in a transaction.
*Shift from selling to helping via help desks, call centers,
and customer service programs; identify problems from customers,
then redesign products and services based on that feedback.
*Database marketing;two-way communication.

*Lifetime bonds with individual customers.
*1990s
*Customers are seen as passive buyers with a predetermined role
of consumption.
*The customer is a person;cultivate trust and relationship.
*Providing for customers through observation of users; identify
solutions from lead users, and reconfigure products and services
based on deep understanding of customers.
*Relationship marketing;two-way communication and access.

Customers as Active Players

*Customers as cocreators of value
*Beyond 2000
*Customers are part of theenhanced netwrok; they cocreate and
extract business value. They are collaborators,codevelopers,
and competitors.
*The customer is not only an individual but also part of an
emergent social andcultural fabric.
*Customers are developers of personalized experiences. Companies
and lead customers have joint roles in education, shaping
expectations, and cocreating market acceptance for products
and services.
*Active dialogue with ustomers to shape expectations and create
buzz. Multilevel access and communication.

The Shifting Locus of Core Competencies

legend:
a:The company
b:Family/network of companies
c:Enhanced network

Unit of analysis
*The company
*The extended enterprise-the company, its suppliers, and
its partners
*The whole system-the company, the suppliers, its partners,
and its customers

Resources
*What is available within the company
*Access to other companies'competencies and investments
*Access to other companies' competencies and investments,
as well as customers' competencies and investments of time
and effort

Basis for access to competence
*Internal company-specific processes
*Priviledged access to companies within the network
*Infrastructure for active ongoing dialogue with diverse
customers

Value added of managers
*Nurture and build competencies
*Manage collaborative partnerships
*Harness customer competence, manage personalized experiences,
and shape customer expectations

Value creation
*Autonomous
*Collaborate with partner companies
*Collaborate with partner companies and with active customers

Source of managerial tension

```
*Business-unit autonomy versus leveraging core competencies
*Partner is both collaborator and competitor for value
*Customer is both collaborator and competitor for value
```

~~~~~~~~

by C.K. Prahalad and Venkatram Ramaswamy

C.K. Prahalad is the Harvey C. Fruehauf Professor of Business Administration at the University of Michigan Business school in Ann Arbor. He and Gary Hamel coauthored the McKinsey Award-winning HBR article "The Core Competence of the Coproration" (May-June 1990). Venkatram Ramaswamy is an associate professor of marketing at the University of Michigan Business School.

Source: Harvard Business Review, Jan/Feb2000, Vol. 78 Issue 1, p79, 9p
Item: 2628909

Top of Page

Back
~~~~~~~~