RESEARCH OF CUSTOMER-CENTRIC APPROACH AND INVOLVEMENT OF CUSTOMERS INTO INNOVATION PROCESS ACROSS CZECH SMES

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Abstract

This paper and further research describe the role of customer-centric approach and involvement of customers into innovation process across Czech small and medium sized companies. Authors use quantitative research at Czech SMEs in the service industry. This particular industry has been selected because of its intangibility. This makes the environment more competitive and therefore a need for corporate diversity is produced. This diversity may be fulfilled by a customer-centric approach and customer co-creation in service innovation.

At first, the research is focused on customer-centric approach as whole. As a customer-centric approach are evaluated customer segmentation, feedback detection, solution of dissatisfaction, existence of loyalty system and evidence time between transactions. The second part of the research concerns the usage of customers as the source for the innovation process. As the proactive approach is considered direct participation of customers on innovation process, direct approaching of customer base, collaboration with lead-users in terms of service testing etc. As the reactive approach is considered service innovation based on complaints or compliments, warranty claims or social media monitoring.

As a result, the research compares customer-centric approach between SMEs. Subsequently the form of the customer engagement into innovation process is evaluated.

Key words: customer-centric approach, innovation process, customer engagement, services, Czech SMEs

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Introduction

Terms CRM, customer-centric approach and service innovation are very often used nowadays. Further literature review shows the terms are very popular for academics and researchers, but also for professionals. The main aim of this study is to describe usage of

customer-centric approach and involvement of customers into service innovation in Czech small and medium enterprises (SMEs) from B2C. SMEs were selected because they represent majority of the Czech enterprises (99,9%).

1 Literature review

Literature review was made in two main areas – customer-centric approach and involvement of customers in the innovation process.

1.1 CRM & Customer-centric approach

Customer relationship management (CRM) and therefore a customer-centric approach are trends emerging in the last fifteen years. Companies moved from the previous stage: product-centric or brand-centric approach (Reinartz, Krafft, & Hoyer, 2004). The customer is considered as the most important stakeholder; therefore the main company effort should be focused on them. Mousavy et al. defines CRM as a *"wealthy popular strategy having hypotheses on the belief that collecting data and expanding the relationship with customers can be the best way to serve customer's loyalty and subsequent profits"* (Mousavy, Rad, Bujarpor, & Mashali, 2012).

According to Reinartz et al. (2004), major CRM activities are customer interaction management (customer identification, acquisition, retention), customer relationship upgrading (cross-selling and up-selling) and customer relationship win-back. Based on this approach, Wang and Feng (2012) define three components of CRM capabilities. In their study, these authors show that CRM capabilities are a critical success factor for business performance, and that CRM capabilities are positively influenced by CRM technology, cultural and organizational factors (such as customer orientation and customer-centric organizational system).

Similarly, many other studies confirmed positive relationship between CRM and company performance (Johnson, Clark, & Barczak, 2012), competitive advantage (Mousavy et al., 2012) and innovation (Battor & Battor, 2010).

CRM and a customer-centric approach is important in all types of relationships – Business to business (B2B), Business to consumer (B2C) and Business to government (B2G). Concerning most common types of relationships for small and medium companies – B2B and B2C, there are many differences. Saini, Grewal & Johnson (2010) describe main differences in their article: First, B2C buyers are more likely to switch, therefore the loyalty of B2C is lower than B2B. Second, the B2C purchasing process is less complex and relationally oriented than the B2B purchasing process and presales or after-sales support has more impact in B2B

relationships. Third, B2B market has fewer customers, which means every relationship has a bigger relative value (possibly absolute) and B2B customers are more expensive to replace than B2C customers.

1.2   Involvement of customers in the innovation process

The current period is characterized by the transition from commodity and products towards services and experiences (Pine & Gilmore, 1998). In addition, there is a shift in thinking about the role of services – from value added services which is some type of benefit for the customer to a service dominant logic where all sectors actually provide services because of a comprehensive look at customer needs and their satisfaction (Vargo & Lusch, 2008). At the same time, innovations and innovation management are at the center of interest because of a competitiveness of companies and the whole economies (Tidd, 2009). Therefore, a focus on service innovation is very present.

Moreover, according to the Genesys company research bad customer services in the Czech Republic cost the Czech economy $1,08 billion (Genesys, 2009). But customer service is just one part of the customer-centric approach. Average annual value of relationship lost according to the same research was $158. Philip Kotler states that acquiring a new customer costs five times more than retaining a current one (Kotler, 2009) . This brings another reason why pay attention to innovation in services. In terms of connection issues, customer relationship management and innovation management it is also interesting to note that a firm's focus on customer acquisition enhances its radical innovation performance, but hinders its incremental innovation; however a firm's strategic orientation toward customer retention has the opposite effects (Arnold, er Fang, & Palmatier, 2011).

One of the generally accepted characteristics of services is their impalpability. This feature unfortunately complicates service innovation because of easy imitation by competitors. One study finds that a high degree of direct face-to-face interaction with the customer leads to an increase in customer switching costs, so this is one of the ways for service firms to erect barriers and protect their innovation investments. In addition, they found that certain combinations of customer-firm interaction and innovation activity led to superior performance (Huffman & Skaggs, 2010). Other research shows that an emphasis on vendor-customer interaction positively influences the service innovation development process (Gordon, Kaminski, Calantone, & di Benedetto, 1993), but this research is primarily focused on B2B companies, where relationships between companies and customers are stronger than in B2C. Another paper investigates the effects of various dimensions of customer relationship management on innovation capabilities and says that firms are able to increase their

innovation capability by customer relationship management activities (Lin, Chen, & Chiu, 2010). This research provides further details on the impact of customer relationship management on performance in innovation; however, they are related to computer manufacturing companies, not services. On the other hand, the role of customers in service innovation is described in an article (Alam, 2011). This article presents a number of sources that show that customer input and involvement is a critical success factor for new services. The role of customers in new service development is presented as a very important and subsequent research deals with the proper selection of customers for participation in the innovation process of the company.

2   Methods

The following section describes the approaches for data collection and evaluation. Customer centricity score and customer involvement score were designed for data evaluation to meet the objectives of this study.

2.1   Data collection

We used an online questionnaire which was sent to random small and medium companies with NACE category 45 and higher. Companies sample was selected from Albertina database, and additional information (e.g. company data) was used from the database MagnusWeb.

The questionnaire with 20 questions was divided into two main sections – customer orientation and customer innovation. To build scores we used 8 from 20 questions, they are labeled Q1-Q8 in the following text. Questions from both customer orientation (Q1-Q5) and customer innovation (Q6-Q8) part were based on previous researches mentioned in the literature review, concerning major CRM and innovation research questions (customer loyalty, customer satisfaction, customer prioritization, customer dissatisfaction, innovations and involvement of customers in innovation process). In most of the questions there was possibility to choose more than one answer, usually provided with the choice "other".

2.2   Customer centricity score (CC score)

Questions Q1 to Q5 were used for establishment of the metric evaluating customer-centricity – customer centricity score was designed.

In Q1, we asked companies how they evaluate customer satisfaction. Companies who actively seek customer opinion concerning satisfaction by e.g. phone and e-mail surveys or direct questioning of customers received 2 points, companies who react on the customer mentions

received 1 point and companies, who do not measure customer satisfaction, received no points.

In Q2 we ranked companies by their approach to key customers. If company differentiate customer based on financial metrics, it received 1 point. For using non financial metrics received company another point. According to the literature, if company doesn't use any metrics to differentiate customers (therefore does not differentiate them), it received no points.

In Q3, we ranked companies based on their reaction to dissatisfaction. We used this scheme: At first, problem which caused the dissatisfaction has to be solved (1 point). If solved, then company could reach another 1 point for the apology to customer and another 1 point for future benefit (future sale or present).

Question Q4 tried to rank companies based on the benefit system they use. Several types of benefit program system were presented (1 point) or when company didn't encourage future deals, received 0 points.

Question Q5 surveyed whether companies measure and use average time between customer transactions. It was mentioned several options of average time and the "do not register" opinion. Company received 1 point if measures this metrics.

Finally, the point range for each question was normalized to the range 0-1. Customer centricity score was obtained as a weighted sum.

2.3 Customer involvement score (CI score)

Questions Q6 – Q8 were used for establishment of the metric evaluating involvement of customers into the innovation process. In this case – three metrics were established: RA score measuring reactive approach of the companies, PA score measuring proactive approach of the companies and CI score concerning total value of customer involvement.

In Q6, we considered usage of methods suggesting new innovations. We divided replies into reactive (reacting to customer opinions), proactive (active methods for gathering information from customers) and others (unrelated to customers). For each reactive approach 1 point was attributed to RA score, for each proactive approach 1 point was attributed to PA score for this question.

In Q7 we asked who is included in creation of a new service and in Q8 who is included in service prototyping. There was shown a number of options (same for Q7 and Q8). If customer was mentioned 1 point was attributed to PA score, if front line staff was mentioned 1 point was attributed to RA score for each question.

RA score and PA score were obtained by the same way as CC score. CI score was obtained as a weighted sum of RA score and PA score with significantly greater weight for PA.

2.4 The study

Considering previously declared main aim of this study, we wanted to evaluate companies' behavior in field of customer orientation and innovation. Therefore we constructed two metrics (Customer-centricity score and customer involvement score). Our main focus was on description of current B2C market, but usage of these two metrics proposed also the possible link between them. That is why we also tested the correlation between CC, CI, RA and PA score.

Descriptive statistics is used with CC and IC score and NACE categories, place of the business, size of the company (number of employees), number of innovations in last year and company self-ranking of the quality of their services.

3 Data

From 30 674 sent requests, we received 2 462 questionnaires, which provides 8% response rate. From this dataset, about 63% of companies trade mostly on the B2B market, 33% trade on the B2C market, and 4% of companies have trade relationships with government (B2G). Our research focuses mostly on B2C market, which is represented by 805 companies in dataset. The information about main market focus was discovered from the responses of the companies. Therefore we could not verify whether the data sample corresponds with the structure of main data sample and for the purpose of this study we made an assumption that the structure corresponds.

4 Results

On the Figure 1 we can see distribution of the CC score which is close to the normal distribution. This state means that companies in our dataset are more likely average in term of customer-centricity and there is few customer-centric and few with CC score very low.

Based on results of the innovation score, we can see more companies to be reactive than proactive. Figure 2 shows three groups of companies. One, located in the left part of the chart represents companies which do not participate with customers in innovation process. Second group with average RA score represents companies which mildly use "voice of customer" in the innovation process. Last group located on the right of the chart represents companies

which take involvement of customers in the innovation process seriously. Chart 3 shows there are few companies with high proactive efforts. Part of the companies (about ¼) has PA score between 0,4 and 0,5. The majority of the companies have very low PA score, which means they do not use actively customers in their innovation process. Therefore CI score which shows total involvement of customers in the innovation process, has maximum value around 0,5. The distribution of CI score is thus very skew.
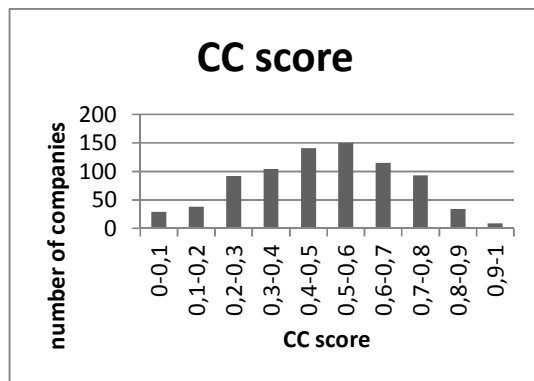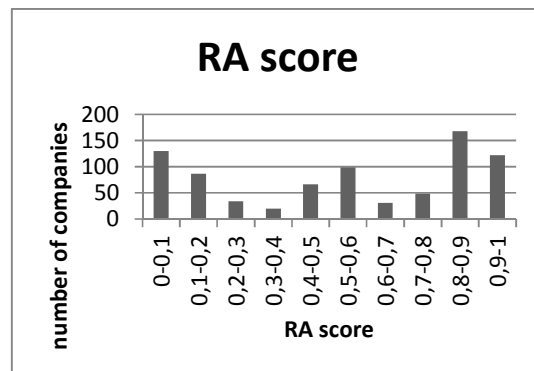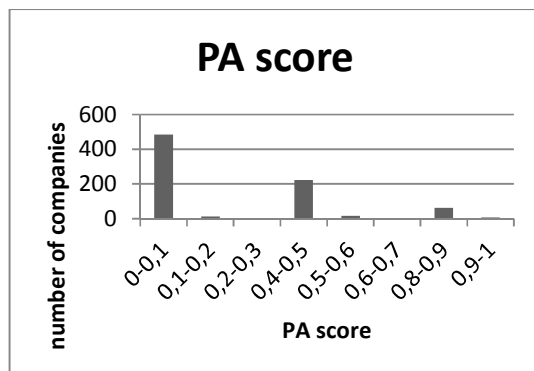

Fig. 1: CC score results
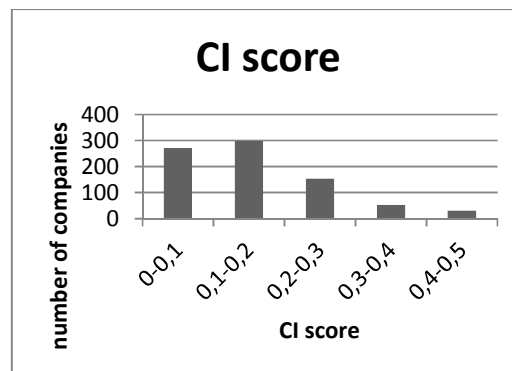

Fig. 2: RA score

Fig. 3: PA score

Fig. 4: CI score results

As we mentioned in methodology section, we tried to find any link between Customer centricity (represented by CC score) and involvement of customers into innovation process (represented by RA, PA and CI score).

	RA score	PA score	CI score
CC score	0,303	0,172	0,278

Tab. 1: Correlation matrix

We can see in the Table 1 a weak positive link, but not strong enough to support the premise about the connection of these variables.

We also tried to apply descriptive statistics with additional criteria (NACE category, place of the business, size of the company (number of employees), number of innovations in last year

and company self-ranking of the quality of their services). We discovered there is no big difference in score and these additional criteria except for company self-ranking.

Self rank of the quality of company's services	Count	Q6.C	Q6.D	Q6.E	Q6.H	Q6.I	Q6.J	Q6.K	Q6.L	Q7.D	Q7.G	Q8.D	Q8.G
A (Excellent)	302	73,5%	21,5%	15,6%	8,9%	15,9%	40,1%	6,0%	6,3%	61,6%	12,6%	48,7%	39,1%
B	406	71,9%	17,7%	13,8%	9,4%	15,3%	35,7%	5,2%	3,9%	62,1%	13,1%	51,5%	32,5%
C	90	57,8%	16,7%	7,8%	6,7%	10,0%	27,8%	5,6%	1,1%	47,8%	8,9%	45,6%	21,1%
D	5	---	---	---	---	---	---	---	---	---	---	---	---
F (Fail)	2	---	---	---	---	---	---	---	---	---	---	---	---

Tab. 2: Link between self-ranking and answers

We found big differences in answers of Q6.C, Q6.J, Q7.D and Q8.G. The companies with self-ranking A a) use more often customer feedback as a source of suggestions for innovation (Q6.C), b) more often monitor their customers when using their services (Q6.J), c) more often user employees as one of the sources to the innovation process (Q7.D) and d) more often use customers for testing new service (Q8.G).

Conclusion and future research directions

This study described the situation of customer centricity and customer involvement in the innovation process in Czech SMEs. Based on the theory background, several metrics were presented to reflect customer centricity and customer involvement in the innovation process.

No conclusive link between these metric were found. Several interesting facts were discovered in comparison with company self ranking and some answers. We believe no other study covering the same area of interest exists in Czech Republic.

Future research could be made in possible connection of customer centricity and business performance and innovational capability and business performance within the same dataset. Interesting differences could be brought by comparison of the result in future years.

5   Acknowledgement

6   References

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