Chapter 17
Customer Knowledge Management

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Category: Application-Specific Knowledge Management

INTRODUCTION

As companies begin to develop competence in managing internal knowledge and applying it towards achieving organizational goals, they are setting their sights on new sources of knowledge that are not necessarily found within the boundaries of the firm. Customer knowledge management comprises the processes that are concerned with the identification, acquisition, and utilization of knowledge from beyond a firm's external boundary in order to create value for an organization. Companies can utilize this knowledge in many different forms of organizational improvement and change, but it is especially valuable for innovation and the new product development function.

The notion of working with partners to share information was first discussed in 1966 where the possibility of transferring information between a company and its suppliers and customers was identified. Kaufman (1966) describes the advantages

to a business that include reduced order costs, reduced delivery time, and increased customer "confidence and goodwill" (p. 148).

Organizations have since been viewed as interpretation systems that must find ways of knowing their environment (Daft & Weick, 1984). Through this environmental learning, a firm's ability to innovate can improve by going beyond a firm's boundaries to expand the knowledge available for creating new and successful products. Some organizations conduct ongoing, active searches of the environment to seek new and vital information. Such organizations become the key innovators within an industry. Other, more passive organizations accept whatever information the environment presents and avoid the processes of testing new ideas and innovation. Marketing literature refers to this concept as *market orientation* (Kohli & Jaworski, 1990; Slater & Narver, 1995).

More recently, many organizations have realized the value of information about their customers through customer relationship management and data mining strategies, and have used this information to tailor their marketing efforts (Berson, Smith, & Thearling, 2003; Blattberg, Getz, &

Thomas, 2001; Davenport, Harris, & Kohli, 2001). The idea of using information from suppliers to accurately manage inventory levels within the supply chain (Lin, Huang, & Lin, 2002) also reflects this notion. However, what is missing from these theories and strategies is the realization of the value of knowledge residing *within* customers, and not information *about* customers.

Iansiti and Levien (2004) describe an organization's environment as an ecosystem, where networked organizations rely on the strength of others for survival. Within this ecology, they identify certain "keystone organizations" that "simplify the complex task of connecting network participants to one another or by making the creation of new products by third parties more efficient" (p. 73). This increase in overall ecosystem productivity is accomplished though the incorporation of technological innovations and niche creation through innovative technologies. Through recognizing customer knowledge as a key component to a firm's ability to innovate, and actively searching for sources of knowledge within the business environment, a firm is able to augment its innovation capabilities and position themselves as a keystone organization.

BACKGROUND

In examining the role of external knowledge in an organization's internal processes, *customer* is broadly defined as an organization's stakeholders such as consumers, suppliers, partners, joint ventures and alliances, and competitors. In some cases, a customer may not have a current relationship with the organization, but one is likely to develop in the future. *Knowledge* in this context refers to the model presented by Cook and Brown (1999), where it can be explicit or tacit, and individual or group knowledge. Explicit knowledge is easily codified, transferred, and understood by multiple individuals, where tacit knowledge

requires experience and practice in order to flow from one individual to another. Both of these forms of knowledge can reside at the individual level, or be created and transferred between different groups.

Knowledge derived from these relationships through an interactive and mutually beneficial process is referred to as *customer knowledge*. Customer knowledge can be composed of a combination of consumer knowledge, supply chain knowledge, joint venture specific knowledge, and so forth. This knowledge is created within a two-way flow of knowledge which creates value for both parties. It goes beyond information identifying and classifying customers, to knowledge that is resident within the external organization that has been developed through industry and market experience. Examples can be consumer preferences of new product features, newly recognized uses for current products, knowledge derived from joint research and development, design improvements from suppliers intended to reduce the cost of manufacturing, and knowledge regarding trends within the business environment.

An important aspect of customer knowledge is that it is knowledge not owned by the firm, but by others who may or may not be willing to share such knowledge. The processes that a firm employs to manage the identification, acquisition, and internal utilization of customer knowledge are collectively referred to as *customer knowledge management*. It is within these processes that an organization and its customers collectively work together to combine their existing knowledge to create new knowledge. This new knowledge is a key input into a company's ability to innovate, which is reflected in their research and development function. Furthermore, the ability to design and improve new products is also impacted by the level of customer knowledge flows. A depiction of customer knowledge flows is shown in Figure 1.

Many studies have used customer knowledge and customer information interchangeably, caus-

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