Chapter XV

Value Creation Through Customer Derived Revenue

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ABSTRACT

This chapter presents a model that allows customer capital to be incorporated into a company’s human capital in a way that is not now practiced. The model outlines the essential steps necessary to tap into the vast reservoir of a firm’s customer tacit knowledge and this will increase the potential for greater revenues. Companies that take advantage of the advances in IT hardware and software can provide interested loyal customers with the opportunity to enter a company’s inner circle of knowledge and offer innovative ideas, pose questions and provide answers to other customers’ queries. This approach to knowledge acquisition in this chapter is called customer derived revenue (CDR). The essential company architecture necessary to successfully implement CDR is explained and case studies utilizing similar methods are presented to lend support for this new approach to customer capital to be adopted on a wider scale to extract more value for a firm.
Introduction

Innovation through knowledge transfer in most companies is treated as an internal matter and the customer is simply considered as an external revenue source. That approach has been redefined in this chapter to a new method that captures customers’ innovations. The old-school method that focuses on listening carefully to what customers want and then responding with new products that meet or exceed their needs is what Miller and Morris (1999) referred to as: ‘‘explicit’ needs, that constitute only the visible tip of the iceberg, the part of need that is above the surface of awareness. By far the larger mass of need, the submerged part, is ‘latent’ need, and this will probably not be discovered, nor satisfied, in a practice that fragments critical knowledge’’ (p. 16). This fragmentation fails to meet the modern needs of knowledge-driven enterprises, exempts customers from financial measurements that add value to a firm and clarity to stakeholders, and finally, excludes customers’ tacit knowledge that can be extracted at a minimal cost to a firm.

This chapter details how an organization can focus its vision, strategy and culture to open up channels to permit the CDR concept to maximize revenues. Robert Blattberg (2001) states that “the customer is a financial asset that companies and organizations should measure, manage, and maximize just like any other asset” (p. 3). Research shows that in some companies 80% of all innovations originate from customers rather than producers (Hippel, 1988). These data are more than a decade old, but they have not changed, which indicates a strong desire for knowledge sharing has existed and the need for a CDR model in organizations is long overdue in coming.

Background

One reason that it is important to treat customers as human capital assets within a firm is that it will provide a more accurate market value of that organization. The market value of a knowledge company as determined by the stock exchanges is calculated by multiplying the stock price by the number of shares of stock outstanding. This simple calculation provides the market’s value of the company. Where the market value is greater than the value of the firm’s total tangible assets, then the value in excess of this amount may be said to be the
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