

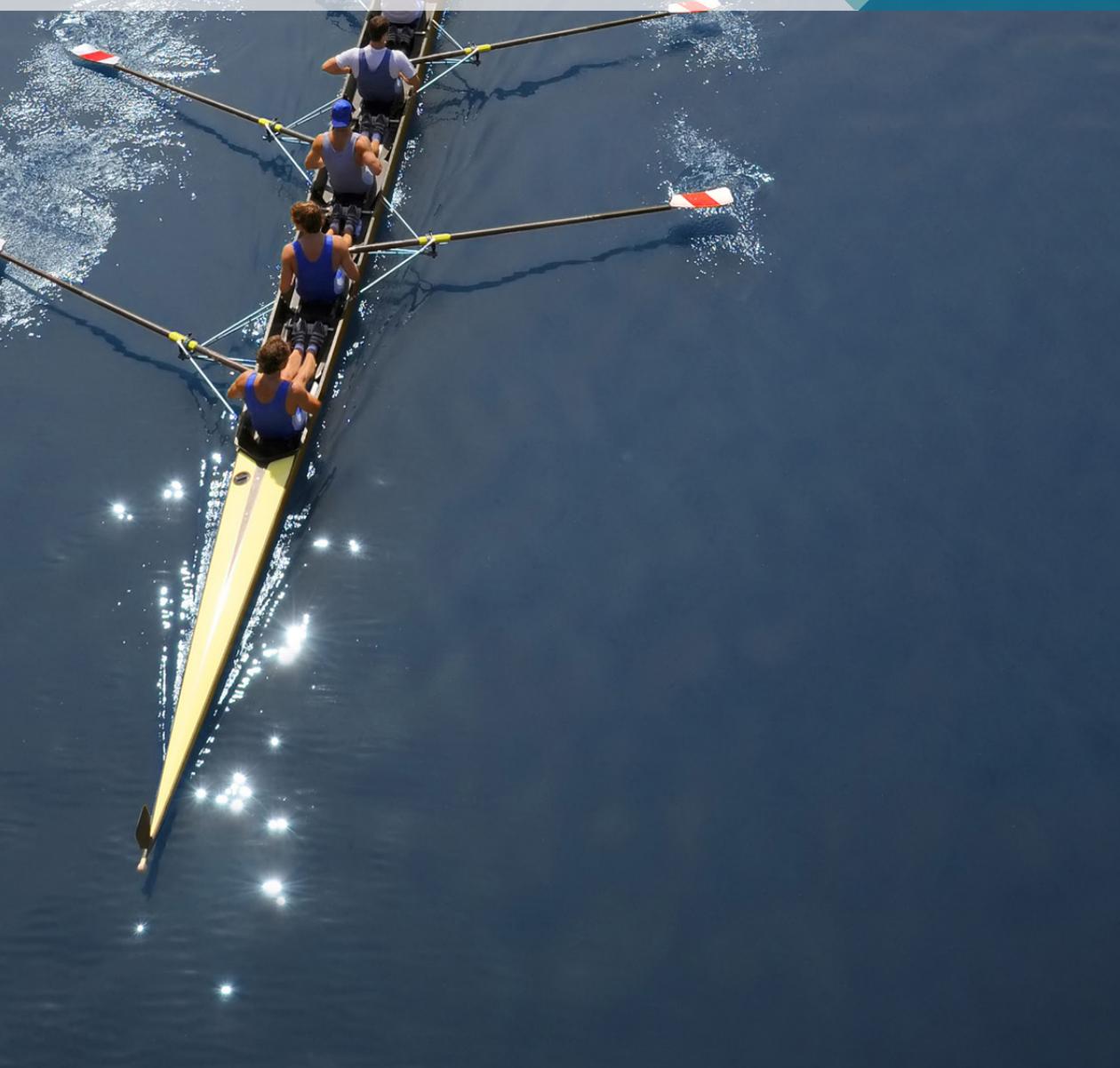


Executive Summary

A Guide to Co-Creating Value with Your Customers

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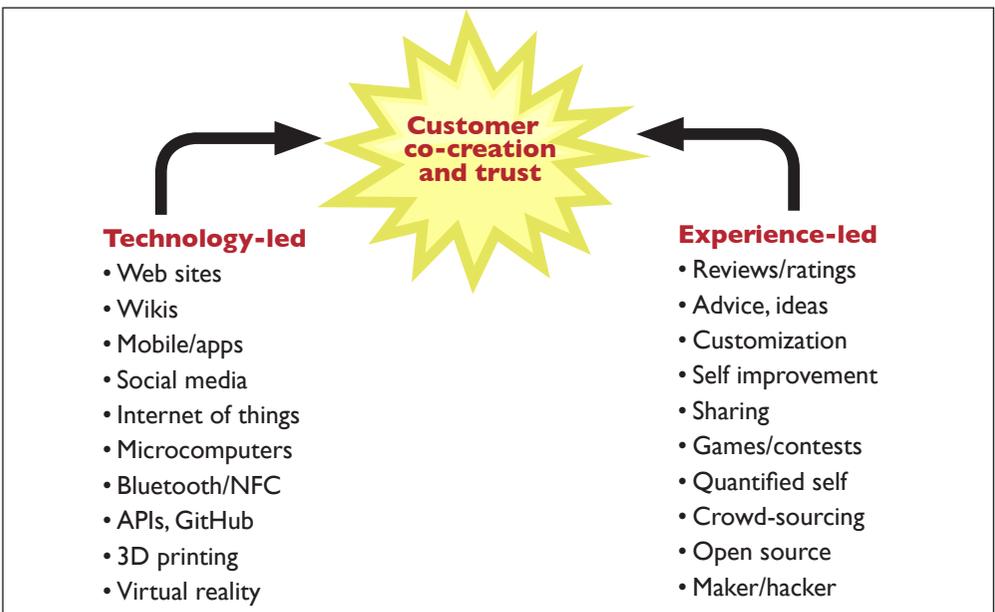
The concept of *co-creation* is not new. Companies have been working closely with their customers and suppliers to pursue joint opportunities and address common challenges for as long as firms have existed. MIT Professor Eric von Hippel was stressing the value of collaborating with ‘lead customers’ in 1986. This type of customer engagement is basically common sense.

But clients have probably noticed that we have been talking a lot about co-creation over the last few years, while working closely with University of Michigan Professor Venkat Ramaswamy, one of the most respected authors/thinkers in the co-creation field. We see co-creation as a priority because it is a key component of two of our most important research themes – the shift from *inside-out* to *outside-in* marketplace dynamics, and the transition from *enterprise* to *consumerized* IT. In both cases, co-creation has entered a new and more pervasive phase. To see why, let’s look at each theme in turn.

The primary idea behind the outside-in concept is that the business centre of gravity is shifting outside the walls of the firm. In a wide range of industries, capabilities such as social media, open communities, user-generated content, crowd-sourcing, ecosystems and the sharing economy are becoming more important sources of innovation and market influence than internal company activity. Back in 1986, co-creation was mostly about face-to-face, typically B2B, customer collaboration. But today the outside-in forces listed above serve as *co-creation platforms*. It’s a fundamental change.

Co-creation is also the next major phase of our consumerization research. The first wave mostly emphasized the use of consumer technologies as an alternative to traditional enterprise IT – BYOD, Gmail, Dropbox, Skype, etc. But looking ahead, consumerization will be much more about creating entirely new forms of value – wearable technologies, 3D immersion, quantified self, biofeedback, internet of things, makers/hackers and more. Large firms will need to work closely with their customers (and employees) to take advantage of these emerging consumer capabilities.

In short, we are in a time of Copernican change. Innovation now happens at the edge more than the centre, and the edge is being empowered and brought to life as never before. To succeed in this increasingly outside-in and consumerized future, firms will need to harness the knowledge, skills, tools and enthusiasms of their customers (and other stakeholders). This will require a deeply embedded culture of co-creation. Our guide to co-creation has been designed to help clients in what will be a long and transformative journey.



There are a great many co-creation possibilities

Co-creation experiences and platforms

The figure above shows the vast array of co-creation opportunities available today. There is both a wide range of technology platforms and many different types of customer experiences. To bring together the skills and know-how needed for successful co-creation, it's essential that marketing, product design and enterprise IT are all focused on increasing customer engagement. In this sense co-creation provides a good test of the effectiveness of the firm's overall business/IT relationship management.

But having so many platform and customer experience possibilities is inherently problematic, and one of the main challenges our clients face is deciding which forms of co-creation to focus on and which to avoid, so that customers don't become confused and a critical mass of usage can be sustained. Every firm hopes to avoid the *empty pub* syndrome (no one wants to go to an empty pub, so empty pubs tend to stay empty and crowded ones tend to get more crowded). This often leads to 'me too' strategies.

But while the co-creation possibilities can be bewildering, the various customer experience and platform options can each be grouped into three main classes of co-creation activity. These groupings provide a much more manageable strategic framework, as explained in the following two sections.

Key customer experience categories

From a customer experience perspective, co-creation can take many forms. Which of the three types of customer activity below are most, and least, important to your firm?

- **Community content.** This category is the most mature thus far and includes customer opinions, advice, ratings, reviews, ideas, videos and know-how. In many sectors, user-generated content is now the single most important buying criterion as well as the first stop in the customer support process. Companies must engage with and contribute to these powerful social dynamics.
- **Customer centricity.** This class of co-creation includes experiences that customers seek primarily for their own enrichment: learning, self-improvement, motivation, customization, games, contests, entertainment, privacy/security, personal benchmarking and quantified self applications. Many firms see important opportunities in these customer-centric areas.
- **Problem solving.** Here, the primary focus is on innovation and collective action – open source forums, crowd-sourcing, crowd-funding, grand challenges, makers/hackers, APIs, and so on. These efforts are likely to produce the most radical future inventions and business models, as firms seek to harness the increasing *democratization of innovation*.

Key technology platform applications

Just as the forms of customer experience co-creation can vary widely, so do the underlying technology platforms. Once again, the choices can be grouped into three main areas:

- **Platforms for communication and collaboration.** This is by far the most developed area to date, and includes web sites, social media, email, text, wikis, apps and telephony. While different customers prefer to communicate in different ways, there is arguably now a surplus of tools and options, sometimes making it difficult to reach critical mass.
- **Platforms for a richer personal experience.** This is a rapidly emerging area and includes touch interfaces, haptics, wearables, GPS location, proximity/iBeacon services, 3D immersion goggles and various other augmented realities such as Google Glass. We expect rapid technical progress in these areas as technology becomes ever smaller and more powerful.

- **Platforms that bridge the physical and digital worlds.** These innovations broadly fall under the category of the *internet of things* – 3D printers, blood pressure and ECG monitoring devices, Fitbits, Nest thermostats, Arduino microcomputers, car apps, drones, maker/hacker fairs, smart toys, and low-end robotics. As we often say, the internet is growing its arms, legs, eyes, ears, and even its wings.

Our research has uncovered many examples of how these new technology platforms and forms of customer experience are being used by companies such as GE, Nike, Apple, Facebook and others. The range of activity is impressive and shows how co-creation will expand and evolve.

Building a co-creation culture

As most companies have grown up with an inside-out culture, where information technology decision-making often came top-down from enterprise IT, building customer co-creation into the operating model of the firm can be difficult. In many ways it is akin to re-engineering, which also affected many stakeholders and required the support of key *gatekeepers* such as legal, HR, security and compliance. When successful, co-creation becomes a form of expected business etiquette where it is only natural to ask questions such as:

- Do you really know what your customers value?
- Do you understand how your customers can create value for you?
- How often have you asked your firm's customers for help?
- Is there consensus regarding which co-creation technologies to focus on?
- Do you know what your competitors are doing with co-creation?
- Are you co-creating with customers, suppliers, regulators and other gatekeepers?
- Do you have an *XLab* where co-creation and learning take place?

All of these issues are being explored in detail in our co-creation research. We recommend that clients undergo the co-creation readiness assessment included in the Guide, and consider an LEF-moderated co-creation workshop where various co-creation constituencies are brought together to discuss and address the issues raised above. Professor Ramaswamy is also available for such sessions.

To assure the required ongoing learning, we think clients should seriously consider setting up an *XLab*. Many of today's co-creation technologies are inexpensive and lend themselves to hands-on learning within a safe, sandbox-style environment. But because most of these technologies are not part of people's day jobs, many clients do not have sufficient exposure to emerging co-creation capabilities. An actual physical space open to a diverse range of stakeholders can help. We are currently developing this approach with a number of our clients.

Implications for enterprise IT

Establishing a culture of customer co-creation is particularly challenging for many traditional IT organizations. Not surprisingly, marketing often takes the lead in terms of improving and shaping the customer experience. Similarly, many product and engineering groups naturally assume that areas such as smart products, embedded technology and the internet of things are primarily their responsibility. This is all broadly true, but many co-creation environments also require robust architectures to make sound technology decisions, build prototypes, manage migrations, enable integration, and ensure sufficient security, privacy and compliance. These are all areas where enterprise IT can help.

From a longer-term perspective, co-creation is emerging as one of the most important front-of-the-firm market disciplines, and unless IT participates in these initiatives it risks being relegated to a primarily back-office role. Information technology will continue to become more consumerized and outside-in. By embracing co-creation, forward-thinking enterprise IT organizations can keep abreast of the many exciting technology changes to come.

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