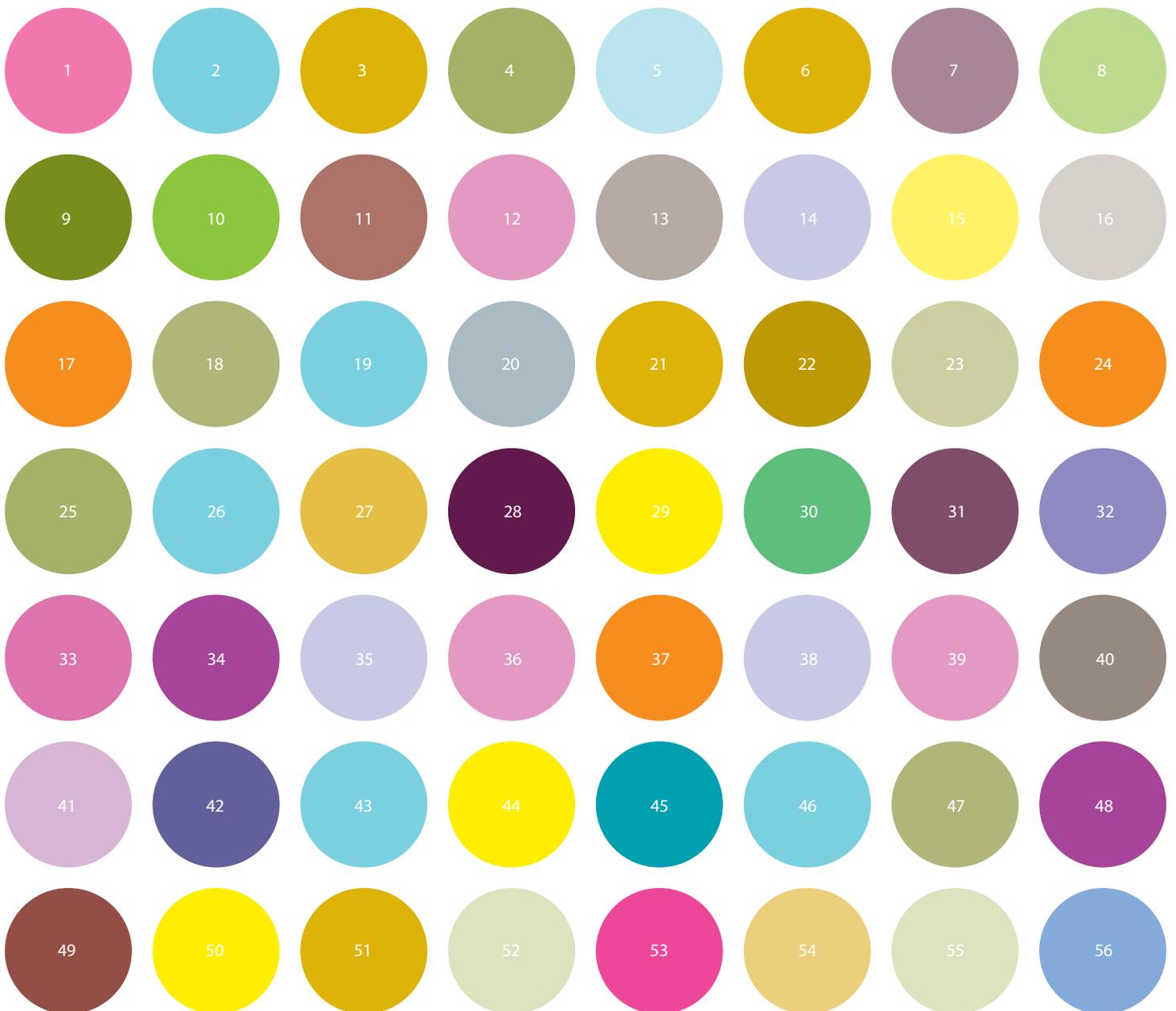




**02 Introduction / 03 Summary: new pathways to value**  
**04 Contexts: the drivers of co-creation / 07 Definitions: the co-creation space**  
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## What if we truly believed that...

- 1 we are all creative
- 2 breakthroughs come from unreasonable requests
- 3 the real source of results is relationships

At Promise we do. We also think that these axioms support the emergence of co-creation as a new approach to innovation and customer involvement.

But we've noticed that co-creation as a term is used fairly indiscriminately and that, if anything, there's a strong whiff of scepticism in the air. That's why we asked LSE Enterprise to take a look at what's been written on the subject and help trace the origins and future of co-creation.

We think that co-creation is hard to ignore because, under the right conditions, it helps companies build value and reduce risk, in areas including strategy, innovation and new product development.

We hope this report will add to the debate and go some way to making the case for a co-created future for businesses.

**Dr Nick Coates**  
Research Director, Promise.

The report you're reading is a summary building on research undertaken by the LSE Enterprise team. You can download the full report from our website at: [www.promisecorp.com/newpathways](http://www.promisecorp.com/newpathways)

**Co-creation is a new discipline. In the sources we've reviewed, we've found a wealth of applications, but a lack of conceptual clarity. This report aims to disentangle some of the knots.**

**We think this report is important because it stresses the value of co-creation as...**

**1 Creative:** co-creation is a form of collaborative creativity, that's initiated by firms to enable innovation *with*, rather than simply *for* their customers

**2 A rich mix:** co-creation draws on a combination of management and marketing approaches, the psychoanalytic tradition, and processes related to innovation, knowledge and group decision-making

**3 A facilitated process:** co-creation thrives on fantasy, play and creativity, but the role of the facilitator or facilitating organisation is often overlooked

**4 All about relationships:** we stress the importance of focusing on the quality of the interactions between people rather than on technologies *per se*

**5 A learning process:** we need to intertwine knowledge and processes in an overall co-creation framework, rather than just enabling co-creativity, if we want to achieve wider organisational impact

**A brief note on the report:** the document you're reading is a summary of the full research report published separately. The content has been produced by a team from

LSE Enterprise, based on a review of articles published in the top business, management and social sciences journals. The research was undertaken from September

2008 to February 2009 by a team consisting of Patrick Humphreys, Alain Samson, Thorsten Roser and Eidi Cruz-Valdivieso.

**Businesses in today's economy have to continuously reinvent themselves in order to adapt to increasingly complex and dynamic market realities. Standardisation makes it difficult for companies to differentiate themselves from competitors. Markets are more fragmented than they used to be; and consumers have unprecedented access to information and networks. At the same time technologies have created new modes of production and innovation that enable and encourage greater degrees of participation and collaboration.**

#### **The challenge for brands**

Consumers are both demanding greater levels of personalisation in their consumption experience and placing businesses under increasing pressure to co-create value with them. This is reinforced by consumers

- > seeking and *accessing information online*, across geographic boundaries
- > providing *unsolicited feedback* to companies
- > engaging in *thematic consumer communities*, including those fostering consumer word-of-mouth
- > 'Experimenting' or co-creating *with other consumers* to find their own solutions to problems<sup>1</sup>

#### **The co-creation revolution**

The aim of co-creation is to enhance organisational knowledge processes by involving the customer in the creation of meaning and value. Co-creation blurs the boundaries of the firm by 'outsourcing' innovation and value creation to the customer. Co-creation transforms the consumer into an active partner for the creation of future value.

This mutual relationship affects both consumer and company. It re-shapes the way in which we think, interact and innovate. Customers are increasingly becoming change agents of the firm, as well as the actual owners of organisations' main means of production: knowledge. For the firm, involving consumers in the value-chain leads to a blurring of boundaries between research and development, marketing and consumer research.

#### **A trend that's hard to ignore**

While the strategic benefits of co-creation may be evident, we need an understanding of how co-creation practices differ from other forms of customer involvement. What we can say is that co-creation offers a highly promising and more holistic, approach to value creation. Despite the fact that some of the theoretical and empirical foundations of co-creation still have to be developed, co-creation cannot be safely ignored by companies who want to succeed in today's marketplace.

**Co-creation cannot be safely ignored by companies who want to succeed in today's marketplace.**

## Invention for the Blink generation

**Innovation is starting to recognise the value of intuition and implicit knowledge, opening up products to reshaping processes, and creating active dialogues with consumers.**

### 1 Forethought and intuition

The way we understand invention is changing. For social scientist Nigel Thrift<sup>ii</sup>, the shift can be epitomised by 3 trends: (1) **the mobilisation of forethought** (2) **the co-creation of commodities** with consumers by activating their ingenuity, and (3) **the construction of a space that fosters innovation**. Forethought, according to Thrift, can be viewed as a form of tacit knowledge rather than explicit, formal knowledge derived from cognitive processes. Increasingly, businesses have come to value intuition or implicit thought (see for example Malcolm Gladwell's bestselling book *Blink*) as a source of expertise. This is especially true for large companies.

### 2 The collective intelligence of consumers

At the same time, consumer knowledge, derived from experience, is increasingly being viewed as a key asset. Companies are designing and marketing products in ways that appeal more to the emotional side of consumers.

According to this view, co-creation between firms and customers, as well as production and consumption, is about tapping successfully into the collective intelligence of consumers. Aided by information technology, which makes interaction spaces like online user communities possible, co-creation allows for a continuous process in which products are tuned or recast.

### 3 The dominance of 'value co-creation'

Invention or innovation, however, is just one aspect of co-creation. In fact, co-creation has been associated with a rather mixed bag of thinking in the business and marketing literature, ranging from innovation with customers to the 'experience economy'. The concept of 'co-creation of value' has become a dominant idea. It occurs whenever consumers interact with companies or products and thereby have an active role in the shaping of their experience and ultimately value perception.

This understanding builds on forms of dialogue that are on the rise and evident in a range of situations. For example, increasing numbers of patients bring in their own knowledge when discussing diagnoses and treatment options with healthcare providers. In software development, beta testing with users has been practised for a number of years, and has become easier with the internet. If infrastructures for an ongoing dialogue with customers are in place, managers can add value by harnessing consumer competence, managing personalised experiences and shaping expectations.<sup>iii</sup>

## Full spectrum customer involvement: the Nike approach<sup>iv</sup>

- > Involving customers in dialogue, both individually or as part of thematic communities
- > Generating ideas from consumers about product improvements, including options for the customisation of Nike products
- > A competition for a select group of customers to design a new Nike shoe
- > Co-design and customisation of shoes on 'Nike ID' web site
- > Creating a social networking site, Joga.com, which included user generated content that allowed the upload of videos showing off individuals' soccer skills
- > Sponsoring experiences like soccer competitions
- > iPod sport kit and sensor that can be placed in Nike shoes and connected to an iPod, which then provides workout-based voice feedback or particular songs to keep the runner going
- > Helping customers develop good training methods that reduce the risk of injury

Identifying the co-creative elements in this wide range of customer involvement activities is one aim of this report.



## The way this new age of invention engages consumers recognises a shift in marketing thinking towards service-dominant logic and the experience economy.

### The Experience Economy

Both dialogue and experience are key ingredients of consumer-brand relationships. Some have argued that the product is now 'no more than an artefact around which customers have experiences',<sup>vi</sup> a view which took centre-stage in Pine & Gilmore's *The Experience Economy* (1999).<sup>vii</sup> However, Prahalad and Ramaswamy argue that we need a deeper, more integrated approach that goes beyond 'staging experiences', outsourcing activities or marginal customisation. Throughout the supplier-customer relationship, consumer-company interactions must provide compelling experiences with different dimensions of choice. From the perspective of innovation, this means that companies have to abandon the traditional mindset of 'company think' (e.g. R&D, manufacturing, marketing and sales, etc.) leading to the development of 'feature rich' and 'experience poor' products, in favour of 'customer think' (e.g. lifestyle, expectations, needs & desires, etc.).<sup>viii</sup>

### Service-Dominant Logic

Instead of value or utility embedded in goods, the new Service-Dominant (S-D) logic focuses on the co-creation of values and relationships. People are no longer seen as buying either goods or services, but products that provide a service and value that depends on customer experience. This means far-reaching implications for companies' understanding of customers:

#### From

Passive buyers  
Listening  
Consumers as buyers

Researching need

Reliance on experts

#### To

> Active agents  
> Dialogue  
> Consumers as resources  
> Understanding experiences  
> Consumer knowledge

# 'The customer is always a co-creator of value'



### Online communities: co-creating LEGO

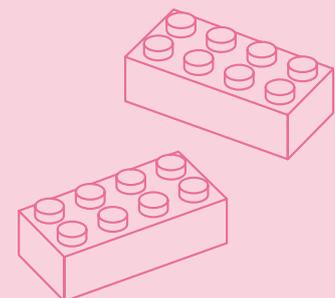
The creation of (online) communities by consumers centred around a particular product category or brand can provide both a problem and opportunity to companies. The key for some companies is to become participants themselves or facilitators of otherwise naturally-occurring customer communities. The sportkiting community is one example where this has happened, while LEGO is one of the most frequently mentioned cases of a company that successfully harnessed consumers' independent creativity by

turning it into managed or facilitated co-creativity and mass customisation.

In the late 1990s, the LEGO company started listening to the adult LEGO communities of practice LUGNET (the LEGO Users Group Network) and the newsgroup rec.toys.lego. LUGNET then created a forum specifically for direct communication between its members and LEGO Direct employees. Within the LUGNET community, users create virtual and real worlds out of LEGO blocks, by use of a CAD-based configuration system.

Not surprisingly, the LEGO company began to look into possibilities of harnessing the potential of this community and its processes to support LEGO product usability among younger audiences, as well as marketing and

sales. Today, the LEGO company offers both personalisation and co-creation opportunities to its target customers of 4-12 year-olds. Customers can engage in virtual design and building with the option of buying a manufactured version. Virtual models can be shared with other LEGO community members. In some cases, designs are appropriated by LEGO for mass production, with design recognition given to the creator.<sup>xii</sup>



## Towards a definition of co-creation

Currently views and definitions of co-creation differ from context to context and according to disciplinary outlook. For example...

**1 Marketing theory** has used co-creation quite broadly as any form customer involvement in the construction of product or brand experience and consequently perceived value.

**2 Innovation management** has highlighted the type of co-creation between companies and consumers that may occur in the beginning of the value chain, namely early product development stages.

**3 The internet community** appears to have been more interested in not only consumer empowerment through co-innovation, but also the democratic potential of mass collaboration tools like Wikipedia.

The table below illustrates some of the ranges of applications discussed under the co-creation banner

Selected co-creation examples mentioned by commentators <sup>xiii</sup>		
Company Name	Co-creation example	Source
BMW	'M division' for customisation of cars, also leading to general product improvements; engineering challenges: collaboration between customers and BMW engineers	Gloor and Cooper, 2007
Ducati	Tech Café Virtual Customer Environment for product conceptualisation	Nambisan and Nambisan, 2008 / Sawhney et al, 2005
Eli Lilly	Internet-based platform to support collaborative innovation involving pharma customers (patients doctors, clinicians, researchers, health care providers)	Sawhney et al, 2005
IBM	Worldwide partner innovation centres to facilitate collaborative innovation	Blazevic & Lievens, 2008
IKEA	Customers can design their own kitchens in interaction with a trained sales representative	Wikström, 1996
LEGO	LEGO Factory for personalised LEGO models and sharing/ co-creation of virtual LEGO models with other consumers	Zwick et al., 2008
P&G	P&G Advisor programme where consumers contribute to product development (try new items and provide qualitative feedback)	Blazevic & Lievens, 2008 / Sawhney, 2002
Philips Electronics	Collaborated with software 'hackers' for re-programming of 'Pronto' universal remote control by providing access to programme files, codes and other information	Prahalad & Ramaswamy, 2004
PSK ('Centre for Creative Art')	Co-creation as a strategic tool for organisation learning and innovation	Chung, 2009
Samsung	Virtual Product Launch Center' to enlist customers' help in diffusion of new product information; shaping peer customers' purchase behaviour	Nambisan and Nambisan, 2008
Starbucks	Business model where value is in experience (determined by the customer)	Lusch et al, 2006
Threadless.com	Customers that submit, inspect, and approve t-shirt graphic designs	Elofson & Robinson, 2007
Unilever	Involving consumers in co-creation of concepts, packaging, advertising and activation	Medeiros and Needham, 2008

## The co-creation family of concepts

Associated concepts and approaches, such as *open innovation* (e.g. Linux operating system), *mass customisation* (e.g. Nike ID), *user-generated content* (e.g. youtube.com), *co-production* (e.g. Ikea), *mass-collaboration* (e.g. Wikipedia) and *collaborative innovation* (e.g. Airbus) all contain an element of either (1) purpose-driven innovation (2) consumer involvement or (3) cross-boundary collaboration.

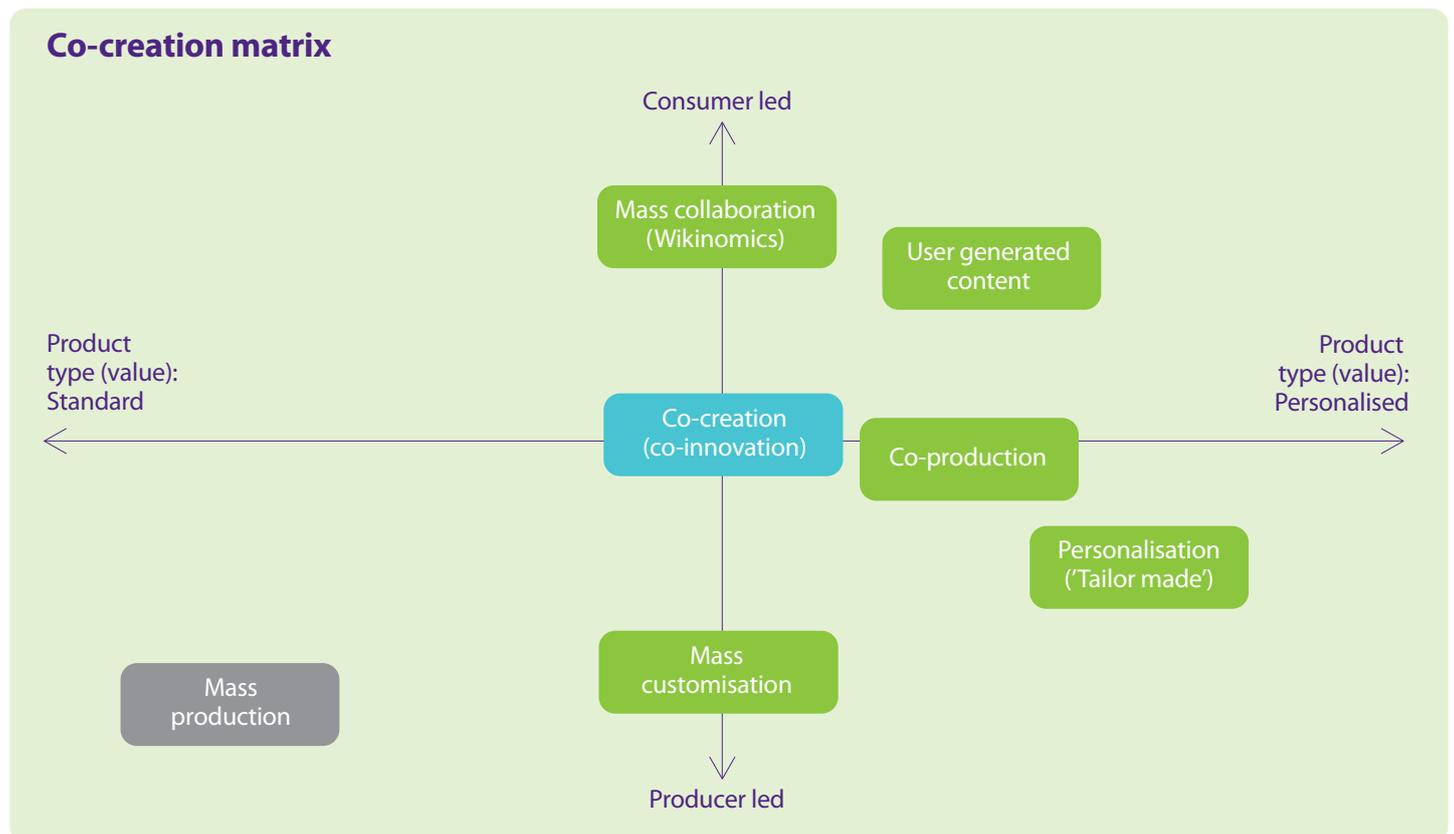
### So what do we think co-creation really means?

One way of answering this question is by introducing two dimensions:

1 *The role of the firm:* is the process more consumer-led or producer-led? While mass collaboration may be mainly user-driven, other approaches tend to be initiated and orchestrated by the firm.

2 *The type of value created:* is it standardised value (benefiting all customers), customised value (e.g. mass customisation of goods or services) or personalised value (e.g. as in co-produced services)?

By applying these two filters we can start to see how co-creation can be distinguished from related concepts. The map below illustrates where co-creation sits and how all concepts depart from mass production:



## Carving out a space for co-creation

All co-creation approaches share two main features: a) the expansion of product or organisational boundaries and b) the involvement of the consumer. Co-creation as *collaborative innovation with customers* adds a third dimension c) a focus on co-creating new values with customers that is initiated by the firm.

### A new definition for co-creation

Co-creation of value in the business and marketing literature has been discussed as an interaction between either consumers only, consumers and products, or customers and businesses, stressing different levels of creativity or impact at different points in the value chain. We agree with Prahalad and Ramaswamy's more stringent definition of co-creation, but also more popular conceptions that stress collaboration, indicating a need for not only compelling experiences, but a truly creative involvement of customers. We also stress the need for social structures to support the quality of interactions necessary for co-creation to succeed.

According to our stricter definition, co-creation as an active, creative and social process entails:

- 1 **Connections: interactions between people**, such as companies and customers, not interactions between consumers and products only
- 2 **Collaboration**, rather than just involvement
- 3 **Co-creativity**, not simply co-construction or co-production

**Co-creation is an active, creative and social process, based on collaboration between producers and users, that is initiated by the firm to generate value for customers.**

## Co-creation can be seen as a coming-together of aspects of marketing and management theory, psychology and techniques derived from group decision-making, innovation and knowledge processes.

### 1 Co-creation and the psychoanalytic tradition

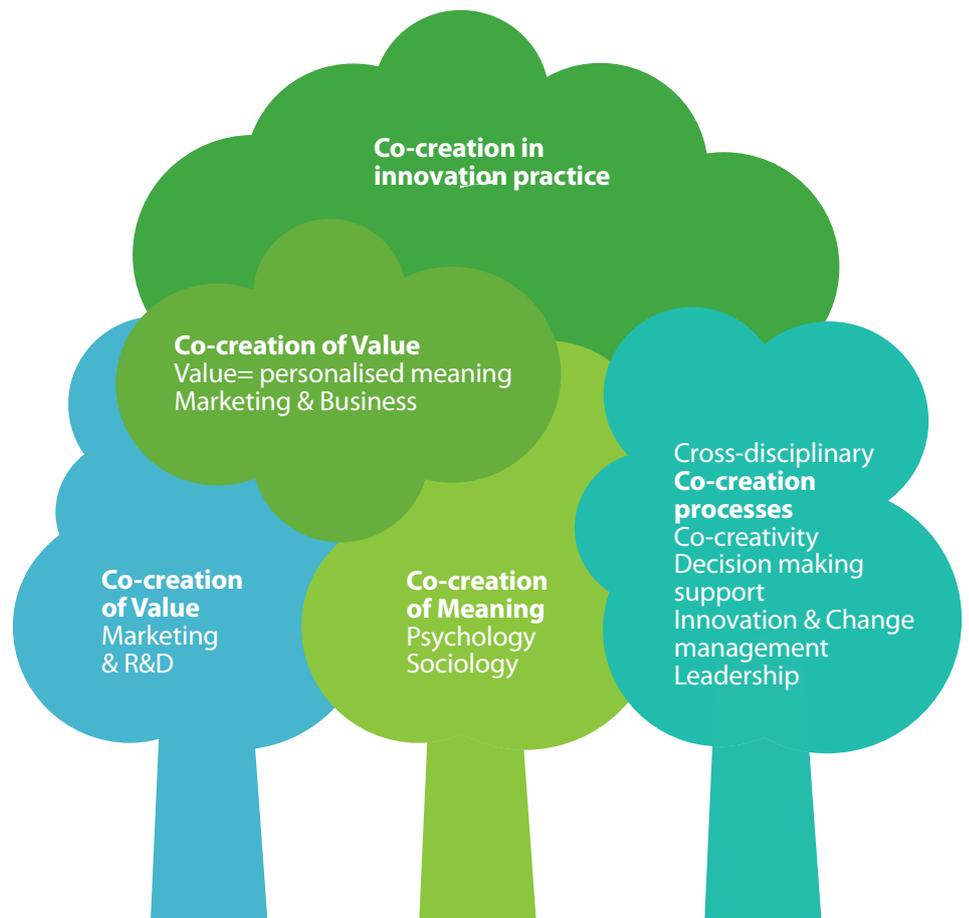
At the heart of co-creation are techniques for creative play which resemble both group-decision making and psychotherapy. Co-creation in business environments eliminates the boundary between the firm and its customers; just as in psychotherapy analyst and analysand are able to be both subject and object as they reflect on their desires, identities and wishes. Co-creation also acknowledges consumers' subjectivity, which is inherently idiosyncratic, contextual and experience-based.

Co-creation facilitates the relationship between customer and company, while creating shared meaning and a common sense of purpose. Since the free, 'safe' and unhindered space is not normally available in social environments, such as formal organisations, co-creation is driven by facilitation. By staging encounters (both off- and online), facilitators foster the transitional space necessary for co-creativity to unfold and succeed.

### 2 Co-creation as decision-making processes

Co-creation can also be understood as a decision-making support system in which the customer becomes involved in decision-making geared towards the co-creation of (future) value. The customer has to be provided with a space in which he can make his/her own decisions. At the same time, the firm has to learn from naturally occurring group decision-making processes, as well as from the contexts in which these occur.

Ultimately, decision-making is a key process relating to how perceptions are formed and how experience is rendered by and among customers. These decisions result not just in experiences, but representations of information and knowledge re-produced and 'owned' by the consumer. How co-creation can create decision markets involving vast numbers of networked consumers needs further exploration.



**Intellectual Lineage of Co-creation as Collaborative Innovation between Firm and Customers**

**Co-creation as knowledge process**

Co-creation also represents a new trend in innovation practice, marketing innovation and customer relationship management. In a technology-enabled world of connected consumers, the consumer holds increasing know-how.<sup>xiv</sup> Consumers are no longer passive recipients of brand offers, but able to accept or reject company claims based on their own experience and knowledge.<sup>xv</sup> This is especially evident in the context of product reviews, brand identification and loyalty, as well as corporate reputation and social responsibility.

Making the customer a co-producer or co-creator aims to generate more value than through traditional transactions. This implies a longer process of relationship-building and it is generally assumed that a breakthrough is more likely to occur with more frequent and intense conversations between collaborators from diverse backgrounds.<sup>xvi</sup> Co-creation also allows for the formation of a more intimate relationship between the technology originator and the customer, as a joint development project where both contribute their expertise.<sup>xvii</sup>

Consequently, it is not just the frequency of interaction, but the quality of the relationship that companies form with and facilitate among their customers, which will determine how knowledge is created, shared and transferred.

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**Co-creativity: more than just crowdsourcing**

Our definition sees co-creation as more than the kind of tightly-staged processes of which firm-initiated 'crowdsourcing' competitions are a good example.

For example, the world's first DVD-by-mail service, Netflix, has staged a competition ([www.netflixprize.com](http://www.netflixprize.com)) 'to substantially improve the accuracy of predictions about how much someone is going to love a movie based on their movie preferences.' To win the grand prize, contestants have to improve Netflix's existing algorithm's predictive power by at least 10%.

Although the competition includes an online forum and possible interaction between the company and consumers, while there are many teams made up of collaborating individuals, the Netflix Prize is less about creating a product based on firm-customer collaboration than it is about the competitive 'sourcing' of a solution to a specific problem.

Though it may be an effective form of purpose-driven innovation, crowdsourcing of this kind is often a heavily controlled process involving a relatively one-sided flow of information from customers to companies. Co-creativity, on the other hand, is more fully engaged, departing from the idea that people are vessels of knowledge that can simply be tapped into by a company in the form of downloadable information.



## An iterative process

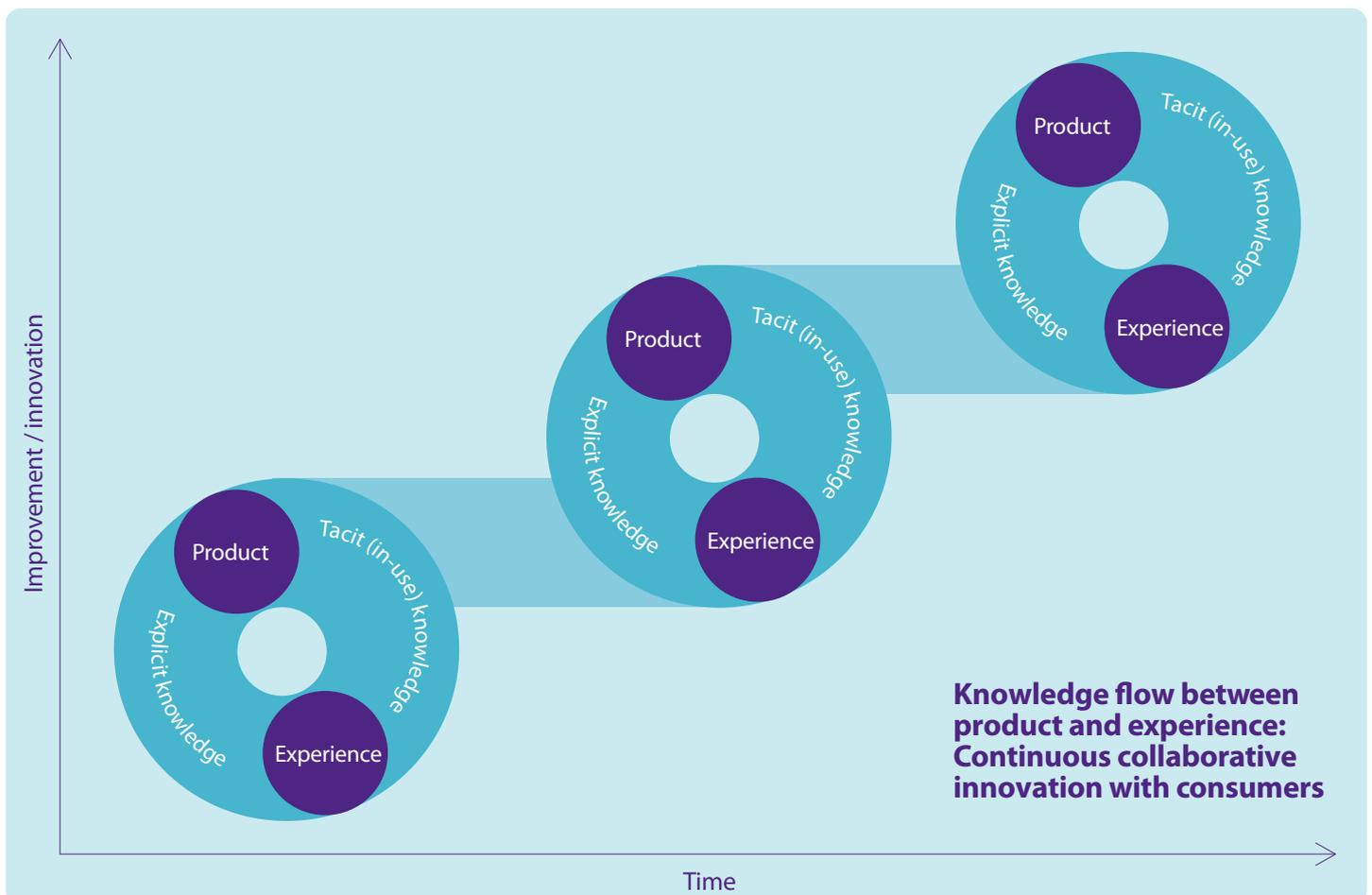
In the context of co-creation, knowledge creation and transfer have to be understood as an iterative process involving the construction and de-construction of experience. As such, co-creation processes go through various cycles of value development.

### An adaptive framework

Co-creation can lead to future pathways of value from which both customer and firm can benefit. Rather than viewing it as a tool for the creation of ideas, co-creation should thus be seen as an adaptive framework that facilitates innovation in a 'boundary-spanning' way by connecting customers and other members of the organisation.

### A developmental tool

Co-creation can also help organisations re-develop themselves by fostering inventive communities internally and externally. As such, co-creation is a process that can facilitate change by intertwining organisational knowledge and learning processes with relationship building and the creation of new value and meaning.



## The benefits of co-creation cut both ways. While consumers benefit from greater personalisation and value as a result of co-creation processes, the motivation for companies is about building competitive advantage by turning just-in-time knowledge from customers into just-in-time learning for their organisation.

### Access to wider, richer experiences

While the literature on co-creation often fails to raise critical issues, discussions of benefits are abundant. In new concept development, collaboration *increases the number of sources of new ideas* in innovation. It *enables cross-fertilisation* and idea generation through shared knowledge and experiences. By giving R&D personnel greater *access to a richer stock of experiences* and stories, collaboration creates a greater potential for recognising possible technology applications.

Collaborative teams bring a greater body of knowledge to bear, enabling *more rapid and numerous design iterations*.

### Better, quicker, less risky innovations

Specific innovation benefits for companies that are credited to customer involvement in the literature (particularly when assisted by technologies such as the internet) have included:

- > Increased speed to market
- > Lower cost; higher profitability
- > Better product quality and greater satisfaction
- > Reduced risk

### From experience to advocacy

In addition to more direct innovation outcomes, there are also numerous intangible benefits that can spring from customers' involvement in co-creation processes. Studies have cited, among other things:

- > *Increased attitudinal loyalty* in processes of customer-supplier co-production ('constructive customer participation in the service creation and delivery process')<sup>xxviii</sup>
- > *Higher perceived value of future co-creation, satisfaction with service recovery, and intention to co-create value in the future* as a result of customer participation in a self-service service recovery process.<sup>xxix</sup>
- > *Greater satisfaction and commitment* due to participation or co-operation with a service provider.<sup>xxx</sup>
- > *Increased likelihood of positive word-of-mouth* with higher levels of customer participation in service delivery.<sup>xxxi</sup>

### Online collaboration: more than just innovation outcomes

Research on the effect of customer involvement in innovation is a not common. In addition, companies often take the beneficial effect of collaborative innovation with consumers for granted, thereby overlooking the broader impact that this process has on customer experience.

Given that much co-creation with consumers occurs online, the impact of Virtual Customer Environment (VCE) participation is a good starting point. One study based on a sample of consumers participating in IBM and Microsoft VCEs showed that positive customer interaction experiences and attitudes generated in such settings are associated with both future participation and attitudes towards the host firm (based on perceived reputation, quality consciousness, customer friendliness, etc.).

## Proctor & Gamble's Connect + Develop programme

'Connect + Develop' is P&G's version of open innovation that encourages and enables partners and other stakeholders to contribute and assess new ideas. The programme was a response to what P&G saw as a defunct innovation model:

*"By 2000, it was clear to us that our invent-it-ourselves model was not capable of sustaining high levels of top-line growth. The explosion of new technologies was putting ever more pressure on our innovation"*<sup>xxii</sup>

In a 2004 interview with Business Week, P&G's Chief Technology Officer declared: 'we estimated when we started about three years ago, we had about 20% of our ideas, products, and technologies that came from totally outside P&G. Today, we've got about 35%, and our target is to get to 50%. It's also a tremendous productivity enhancer. This has actually occurred with a 20% reduction in the R&D investment we make.'<sup>xxiii</sup>

P&G claim that the initiative has led to over 1,000 active agreements.<sup>xxiv</sup>



**Evaluating the success of co-creation strategies calls for a multi-dimensional approach to impact assessment. Measures can focus either on macro, meso or micro levels of performance, e.g. number of service improvements vs the quality of the co-creation process vs the amount of ideas generated through co-creation.**

**Measuring impact:**

**from subjective to objective**

Many KPIs focus on the success or failure of generated products.<sup>xxv</sup> We have already referred to benefits related to improved speed, volume and quality of co-created products and services.

Earlier on in the innovation process, subjective measures include 'perceived usefulness' or 'innovativeness'.

*Example: In an experiment on mobile phone service innovation it was found that service innovations suggested by users were considered to be significantly more innovative than those generated by professional service developers.<sup>xxvi</sup>*

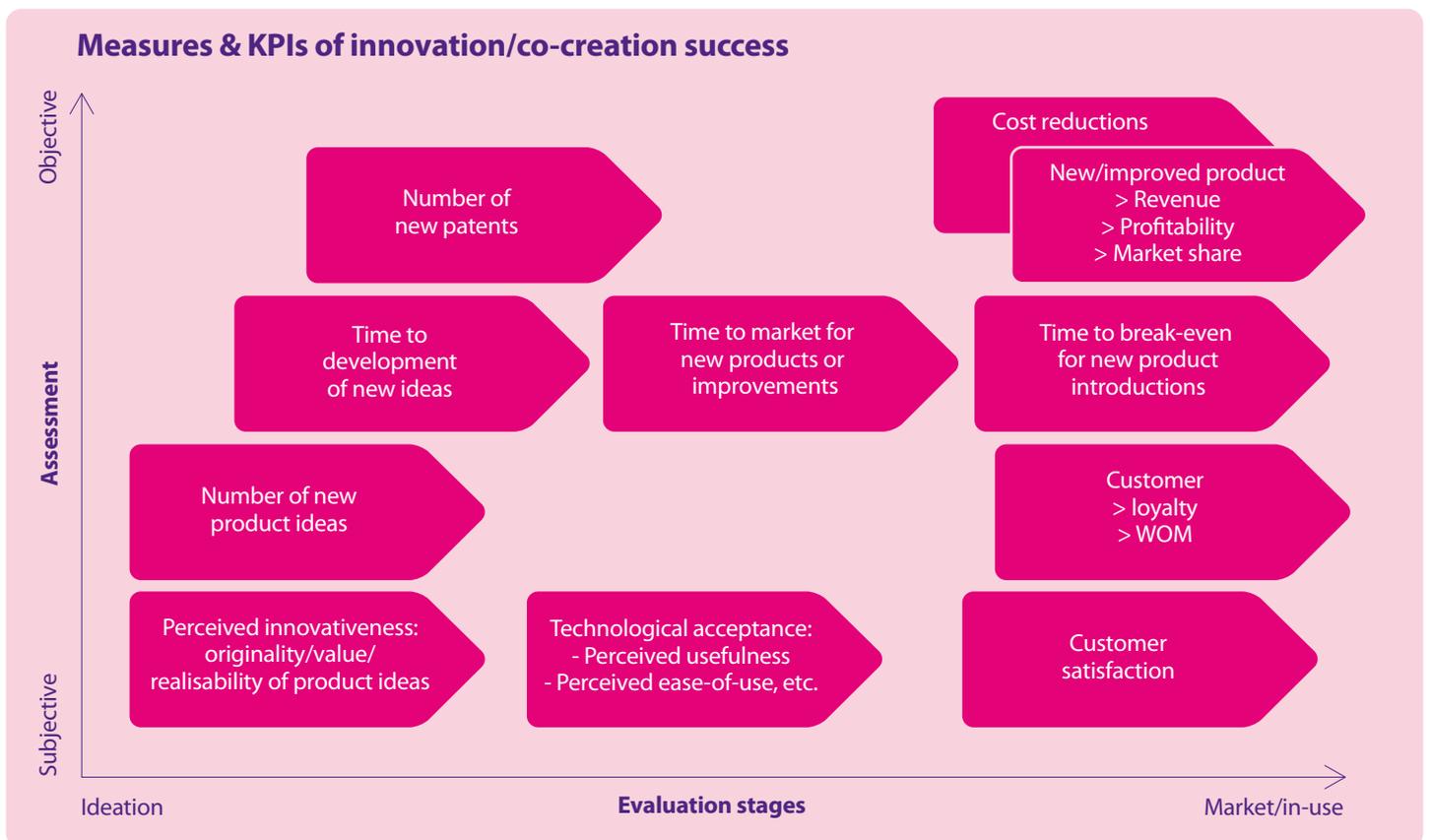
Further down the line a company's co-creation outcomes may be assessed by the number of successful products that have benefited from consumer input as opposed to purely in-house NPDP.

*Example: Two concept cars previously featured on Volvo's virtual customer environment (VCE) have gone into production. The 'Adventure' concept car became the XC90, and the 'Performance' concept cars later became the S60R and V70R models.<sup>xxvii</sup>*

Co-created innovation can lead to spill-over effects such as spin-off products or more general cross-pollination of product ideas. Once we reach the in-use stage, success can be measured through customer satisfaction and loyalty (including word of mouth) as well as through financial indicators such as increased market share.

**Measuring impact: co-creation KPIs**

*Product-focused Measures and KPIs of Innovation/Co-creation Success*



## Impacts on the organisation itself

**Co-creation success can also be evaluated from an organisational point of view. Prahalad and Ramaswamy claim that organisations in the co-creation age will have to become increasingly flexible, while managers trained in negotiation and collaboration, along with cross-boundary knowledge transfer skills, will become essential.**

There are general areas we can expect to be affected by co-creation:

- 1 Co-creation has a direct impact on traditional innovation practices and processes.
- 2 Co-creation can affect the quality and speed at which decisions are made in relation to the development and filtering of ideas.
- 3 Co-creation will enable creativity at individual and group level and potentially enable customer knowledge development and transfer across the organisation.
- 4 Co-creation will increasingly be used as a way of creating strategy collaboratively.

Since co-creation can be regarded as a new way of practising innovation within firms, especially when employees interact with external stakeholders, this will also have an effect on how innovation is practised and lived within a company.

As implied previously, co-creation may also increase customer identification with products and the brand through active involvement, while sensitising managers towards supporting new ideas and a more participatory leadership style to help foster innovation and creativity at team level.

At an organisational level, customer involvement may ultimately increase overall flexibility and adaptiveness. By speeding up innovation processes themselves, co-creation has thus the potential to systematise and enable change through innovation. Finally, co-creation may also make companies more attractive for employees, as participating in direct value creation (independent of their actual work position) may trigger identification and attract future talent.

**In order to trigger change by innovation co-creation needs to be implemented as disruptively as necessary and as non-disruptively as possible.**

## Questions to consider

**Co-creation, according to our definition, stands for creative collaboration processes between an organisation and its customers. Depending on the size and market positioning of the firm, the ways in which this collaboration takes place may vary. Any company considering a co-creation strategy needs to consider the following 6 questions:**

### 1 Who will be involved?

The 'locus of co-creation control' – i.e. who's in the driving seat - differs for different product development or innovation regimes. Companies may want to involve existing customers, customers of competitors (latent customers) and non-users (latent users). Some have suggested that particular types of customers (e.g. early adopters) may be more suitable for certain types of co-creation objectives, such as breakthrough innovation. However, specific co-creation contexts and purposes are the only reliable gauge of who to involve.

### 2 What's the purpose?

Co-creation raises important questions about innovation focus. It may be used to develop a specific solution to a problem or to develop a specific product – we would call this **purpose driven co-creation**. On the other hand, co-creation may not be driven by any purpose at all and practised simply in order to produce new ideas that allow for an opening of entirely new opportunities. In addition, the objective may be to either **continuously improve** existing products or **create radically new ones**. Finally, a question of purpose and customer value may be what form of customer value should be created,

e.g. **standardised value** (benefiting all customers), **customised value** (e.g. mass customisation of goods or services) or **personalised value** (e.g. as in co-produced services).

### 3 Where does it occur?

One of the core questions of consumer involvement is not only for what purpose the consumer will be involved, but where in the innovation process participation should take place. As outlined previously, potential customer involvement in the new product development (NPD) process have generally included the following stages: (1) Idea generation and selection; (2) Design (3) Testing/refinement (4) Support (5) Marketing/commercialization. However, it seems that there are currently very few forms of customer involvement that can cover the whole range of phases in the new product development (NPD) process.<sup>xxviii</sup> As Dahlsten<sup>xxix</sup> has pointed out, NPD projects are typically directed by stage-gate models<sup>xxx</sup> in which *different types of customer input are needed during different phases and stages of the innovation process*.

### Online customer involvement

A 2006 article by Prandelli and colleagues<sup>xxxi</sup> has given some indications of where in the NPD process companies tend to involve customers the most. The study looked at online tools to support collaboration with customers at each stage of the innovation process, as used by a sample of companies from automobile, motorcycle, consumer electronics, food and toiletries industries (hereafter, 'food'), and toiletries industries.

Results showed that the use of collaborative internet tools was particularly widespread at the idea generation stage in the form of traditional 'contact the firm' options (90%) or feedback sessions/surveys (37%), but they were rare for the idea selection stage. Only 4% of companies in the sample allowed individual users to review other customers' evaluations and none allowed for a direct interaction among those customers.

At the product design stage, mass customisation of functional attributes was not uncommon (30%), but lacking at more innovative levels (one of the better-known exceptions to this is P&G, which allows customers to send in their independently developed patented ideas and technologies).



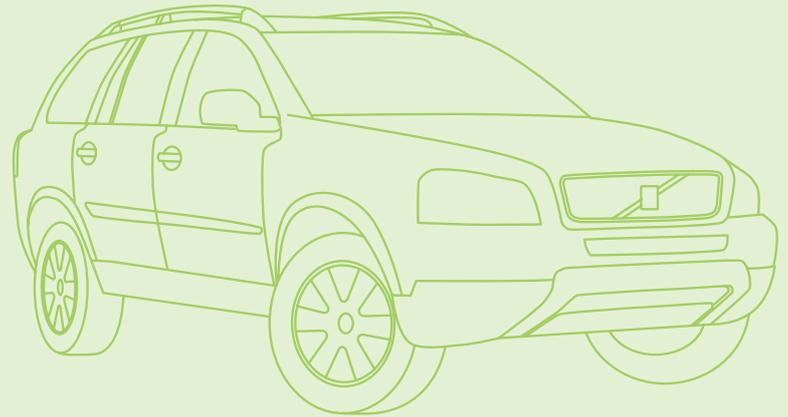
## Collaborating along the innovation process: Volvo XC90

A good example of ongoing co-creation with the same customer group along all stages of the innovation process was the Volvo XC90 NPД project, reported by Fredrik Dahlsten,<sup>xxxiv</sup> which started with a trial meeting with a group of female customers (affluent professionals) in California, complementing traditional market research that was going on at the same time.

The purpose of the first informal meeting was to extract expectations and opinions regarding SUVs in general to be used in the concept development phase. After a successful first meeting, a second meeting was set up half a year later, as a more formal focus group

eliciting views more particularly about the XC90. Meetings followed whenever the Volvo management team had something to discuss. A third focus group emphasized interior and exterior design, involving the display of a full-scale plastic model in a hotel ballroom. A final meeting was held two years into the project, giving participants the opportunity to drive the final version of the XC90.

The XC90 project involved 24 participants, the majority (16) of which were involved at all stages. According to Dahlsten, the \$50 compensation received for each meeting by the high-earning professional participants in the XC90 project were less of an incentive than the social value they derived from the sessions and the opportunity to be heard.



## 4 How much involvement?

At an organisational level, consumer involvement for the purpose of co-creation should be as non-disruptive as necessary, while creating maximum benefits and value for both the company and its customers. The extent to which innovation is open in turn flags issues about transparency, access, trust and risks occurring in collaborative innovation with customers. Strong involvement (including consumer access to information and corporate transparency) is necessary for meaningful open co-innovation. Disclosure has generally become an important corporate practice to build trust among consumers. On the other hand, access and transparency in the co-creation process has led to delicate issues about intellectual property: who owns the ideas generated when customers and organisations co-create?

## 5 For how long?

Organisations may engage customers in one-off co-creation workshops, on an ad hoc project-by-project basis, in regular intervals or even continuously. Merely keeping a channel open for customer feedback is not enough. As markets are constantly co-evolving, frequent (and constructive) interaction has been suggested as a sensible form of customer involvement.<sup>xxxii</sup> The length of consumer involvement can be both a strategic and project-based question. As noted by Lundkvist and Yakhlef,<sup>xxxiii</sup> significant motivation may be needed to get customers cognitively mobilized, but may not be able to secure their active/sustained participation over a longer period of time. However, the quality of the interaction may compensate for

fewer interactions and thus keep customers willing and happy to further engage in the co-creation process.

## 6 How do you incentivise?

Research suggests that intrinsically motivated participants are best suited for sustained interest and creativity, although stamina may also be affected by extrinsic incentives like monetary rewards. Future research should investigate aspects of participant selection, incentives and motivation further by focusing on dimensions like self-selection, co-creation objectives (e.g. product type), degrees of co-operativeness or competitiveness, customer perceptions and trust, as well as co-creation settings.

### Four dimensions of participant motives

	Self-orientation	Other orientation
Extrinsic	Material rewards, such as money, goods, etc.	Image, status, recognition 'showing ideas'
Intrinsic	Interest, learning, enjoyment, etc.	Helping others, belonging to a group

**Whenever products are developed in collaboration with players outside of an organisation, potential problems may also include:<sup>xxxv</sup>**

- > Increased dependency on outside collaborators (e.g. customers)**
- > Cost of co-ordinating the co-creation process**
- > The need for new management skills (most notably the 'boundary spanner')**
- > Different personnel management styles**
- > Customers gaining access to confidential information and proprietary skills**

**Co-created value also produces new challenges, because experience of co-creation changes consumer expectations. Personalised products may reduce customers' pain threshold for dissatisfaction, for example.**

**By giving consumers greater control, then, co-creation brings about new challenges that have to be dealt with throughout the organisation, including a re-orientation of Customer Relationship Management in association with R&D and marketing.**

**Either way, it's unlikely that most businesses will be able to ignore the co-creation trend in the future.**

Concept	Description	Examples
<b>Collaborative innovation</b> [see also Open Innovation]	Gaining competitive advantage by expanding the borders of an organization through widespread involvement and interdependence between actors at all levels, daily based information exchange, integration of business processes and joint work and activities. For radical or discontinuous innovation, joint development and co-design are the most typical forms of networking. In the case of continuous innovation and improvement processes, the most common form of inter-company interaction is mutually-beneficial customer-supplier collaboration over an extended period of time.	<b>Boeing 787:</b> The development of the Boeing 787, ranging from concept to production, was done by Boeing and its global partners.
<b>Consumer / customer involvement</b>	The concept of consumer/customer involvement has been used in two different ways: A) Psychological: a consumer's perceived importance, risk, symbolic value or emotional appeal of a product or product category. <sup>xxxvi</sup> B) Behavioural: When firms engage consumers/customers in some way, leading to a benefit for the firm, customer or both (e.g. as resource in product innovation or co-producer of products). <sup>xxxvii</sup>	
<b>Co-production</b>	In co-production, the customer is an active participant in the production and delivery of a service, giving the participant a potential to customize his or her world. A broader perspective of co-production is found in the interpretive marketing literature, suggesting that a fundamental characteristic of the postmodern era is the reversal of production and consumption, requiring marketers to increasingly open up their processes and systems. <sup>xxxviii</sup>	<b>'U-Scan'; Ikea</b> Self-service checkouts at supermarkets or self-assembly furniture
<b>Mass Collaboration ('Wikinomics'):</b>	A kind of collaboration model based on collective actions, which occur while large numbers of contributors or participants work independently but in collaboration on a single modular project. Projects typically take place on the internet by means of web-based collaboration tools. <sup>xxxix</sup>	<b>Wikipedia</b> Articles on the world's largest online encyclopedia, written entirely by internet users.
<b>Mass Customisation</b>	Mass customisation refers to firms applying technology and management methods to provide product variety and customisation through flexibility and quick responsiveness. While the goal of mass production is to produce an affordable standardized product, mass customisation produces enough variety in products and/or services so that nearly everyone finds exactly what he or she wants at a reasonable price. <sup>xxxx</sup>	<b>Dell; Nike ID</b> Dell computers allow customers to configure the specifications of the computers that they purchase
<b>Open Innovation</b> [See also Collaborative Innovation]	Open innovation occurs when a company commercializes its own ideas and innovations from other firms, and seeks ways to bring its in-house ideas to market by deploying pathways outside its businesses. External R&D can create significant value; internal R&D is needed to claim some portion of that value. <sup>xxxxi</sup>	<b>Linux; Procter &amp; Gamble</b> P&G's 'Connect + Develop' programme enables a two-way sharing of innovation between P&G and external individuals or organisations.
<b>User Generated Content (UGC)</b>	User generated content can be defined as content made publicly available through technologies like the internet, reflecting a certain amount of creative input or effort that is created outside of professional practices or routines. <sup>xxxxii</sup>	<b>Youtube</b> Youtube, the online video sharing service, allows users to upload their own and view content generated by other users.
<b>User Involvement</b>	User involvement occurs when representatives of a target user group participate in the system [software, etc.] development process. <sup>xxxxiii</sup>	

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## About the authors

**Thorsten Roser** (Dipl.-Psych.) is the founder and current director of the London Research and Consulting Group (LRCG) a network of knowledge entrepreneurs emanating from the LSE. Thorsten graduated in Psychology from the University of Heidelberg and is a qualified business psychologist specialising on knowledge, networks and innovation. As innovation consultant, he worked extensively with large and medium-sized enterprises, particularly in Germany. He is currently affiliated with various research groups at the Institute of Social Psychology at the LSE, including the Organisational Research Group (ORG), the Knowledge Organisations and Development Network (KODE), as well as the London Multimedia Lab for Audio Visual Composition (LML).

**Alain Samson** (PhD), is a psychologist and quantitative market research consultant with a history of both commercial and academic work. He is best known for his contributions to the areas of consumer word of mouth, influence and cynicism. Alain has been involved in strategic research for clients in various sectors, including media, finance, FMCG and the public sector. His approach to market research is frequently informed by theories and methodologies (mainly experiments and surveys) from social psychology and the emerging field of behavioural economics. He holds a PhD from the London School of Economics (Social Psychology), an MA from the University of Michigan and a BA from UC Berkeley. He has published articles related to both academic and commercial consumer research. Alain has lived and worked in Switzerland, the United States and the UK.

**Patrick Humphreys** (PhD), is the main scientific supervisor of the research undertaken by the LSE Enterprise team. He is the former director of the Institute of Social Psychology at the LSE. He is a Professor in Organisational Social Psychology and currently the Co-Director of the London Multimedia Lab for Audiovisual Composition and Communication (LML). Patrick has expertise in innovative and creative decision-making, decision support systems, and enhancement of resources for health, culture, development, and networking. He currently leads a RTD team for the European Union framework Project "InCaS: Intellectual Capital Statement, Europe", and is also responsible for the LML's joint initiative with ZenZone Media Lab, Beijing on "Spritivity Workshops".

He has been involved in initiatives involving organisational transformation and sector development in many countries. He is chair of IFIP WG8.3. In 2006 he was programme chair for the IFIP WG8.3 conference on Creativity and Innovation in Decision making and Decision Support and was a sponsor of the workshop "Live dialogues between different individuals and alternative urban models in the Pearl River Delta" coordinated by Vitamin Creative Space, Guangzhou. He is a founding partner of the Ludic Group, LLP and director of Spritivity Worldwide Ltd and Papertronic Ltd.

**Eidi Cruz-Valdivieso** (MSc), has a background in clinical and community psychology and holds an MSc in Organisational and Social Psychology from the LSE. Eidi has worked extensively in the areas of change, leadership, community development and creativity, primarily in Mexico and the US. She currently works at the LSE's Multimedia Lab for Audiovisual Composition and Communication (LML). Her current research interest focuses on aspects of flow in relation to creativity and innovation, as well as on Cross-Organisational Assessment and Development of Intellectual Capital (CADIC). Further, she is providing consultancy relating to the European Intellectual Capital Statement (InCaS) and is involved in extending consulting capabilities of the InCaS consortium to Latin America.

## Contact

Dr Nick Coates  
Research Director  
ncoates@promisecorp.com

### Promise

75 Wells Street  
London W1T 3QH  
United Kingdom  
Tel: +44 (0) 207 290 0290  
Fax: +44 (0) 207 290 0280

One Thomas Circle, NW  
10th Floor  
Washington, DC 20005  
Tel: +1 (202)772 5019/+1 (202)870 1234  
Fax: +1 (202)955 5328

www.promisecorp.com

### Author contacts

Thorsten Roser: t.ros@lse.ac.uk  
Alain Samson: a.samson@lse.ac.uk

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