By Mark L. Frigo

How Enterprises Can Drive New Value Creation

Co-creation is a new way companies can collaborate and is a key approach to managing risk and driving returns.

In today's business landscape, companies are challenged to find new pathways to create shareholder value and to boost growth, productivity, and profits. CFOs can play a vital role in this area. This month's column features an interview with Venkat Ramaswamy, a professor at the University of Michigan Ross School of Business and author of *The Power of Co-Creation* (with Francis Gouillart, Free Press, October 2010). Venkat is known for introducing the revolutionary concept of co-creation together with coauthor C. K. Prahalad in their award-winning book, *The Future of Competition* (Harvard Business School Press, 2004). In this interview, he explains how co-creation thinking can unlock new ways of creating value and offers CFOs some advice on how they can build capabilities for co-creation.

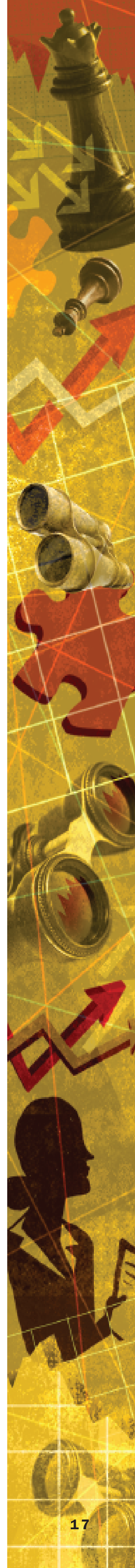
MLF: How would you describe co-creation, and how can it help companies create new value?

VR: Co-creation is about moving away from a "firm-centric" process of creating value to engaging all stakeholders (internal and external) in creating mutual value together through their experiences. By doing so, companies can generate new insights that can help enterprises to reduce risks, increase productivity, generate growth, and increase returns.

Take the example of Starbucks. In a bid to revitalize Starbucks, Howard Schultz, founder of Starbucks Coffee, launched MyStarbucksIdea.com in March 2008 to engage customers in generating new ideas of value to them and drive business value for the company. By the end of 2008, more than 65,000 ideas had been generated, and 658,000 votes had been cast by customers. There were clearly a lot of "pent-up ideas" out there. By the end of 2009, more than 88,000 ideas had been suggested, voted on, and discussed, and Starbucks had implemented about 58 of them. Its financial performance improved as a result. Starbucks has been successful because it has dedicated employees called "Idea Partners" who carry and champion the reviewed and chosen ideas inside the organization, replying to and discussing suggestions, and having a continuous conversation with customers. Howard Schultz has referred to this as a "seeing" culture—i.e., getting people inside the organization to relate to external customer experiences. And as Chris Bruzzo, Starbucks CTO, has commented, they actually get to iterate on solutions while they are building them.

MLF: What capabilities do companies need to implement co-creation successfully?

VR: For starters, companies need to build "*engagement platforms*." MyStarbucksIdea is one such example. There are many others we discuss in the new book, *The Power of Co-Creation*. What's key is to focus on the *experiences* of individuals—be they customers, suppliers, partners, employees, investors, or other stakeholders—and the context of their *interactions* that generate those experiences. Building *new relationships through dialogue, transparency, and access* across the business network—and increasingly in the broader ecosystem with new external stakeholders (e.g., civic groups)—is key. Co-creation requires managers to be open to experimentation, discovery, and the ability to see "win more-win more" opportunities that expand mutual value. This requires building engagement platforms inside the organization to open up management processes



to creative input from employees.

MLF: In your new book and in your latest *Harvard Business Review* article, "Building the Co-Creative Enterprise" (October 2010), you introduce the concept of the "co-creative enterprise" as a model of the enterprise of the future. Can you explain this?

VR: Yes. The co-creative enterprise is an enterprise that engages all stakeholders in managing risk and returns through co-creation. In fact, I believe that building such a co-creative enterprise is the key to managing risks and enhancing returns in the future. Let's start with risk management. There are many types of risks, from customer to market risks, supply chain and partnering risks, and internal organizational risks. Your work on the strategic risk management framework actually captures these different types of risks well. What I am saying in my new work is that co-creation offers a way to help an enterprise manage these risks effectively and to reduce uncertainty by building value creation processes of the enterprise together with stakeholders. This does not mean "saying yes" to everything but engaging in a thoughtful dialogue about why something may not make sense to the enterprise as well. In the end, executives have to make informed strategic decisions, but stakeholders today want to know and discuss the underlying logic.

For example, in the supply chain, a shortage of a critical part of a company's successful product could threaten the delivery of a product, generating a market risk. The raw data that can alert people to the looming problem is frequently in the ERP [enterprise resource planning] system. But often there is no mechanism to ensure that all the people potentially affected (the operator in the components plant, the manager of the factory that manufactures the finished product, the salespeople responsible for the end customers, and those customers) are conducting a dialogue. All of them need to be aware of the shortage and the risks and need to understand and debate the other stakeholders' concerns. If they do, they can work together to devise the best solution, which might be paying a steep premium to obtain the part from an alternative source or delaying shipment of the product to clients that can afford to wait.

Further, co-creation can also drive returns by bringing a different perspective to how companies innovate and deliver offerings. Nike and Apple are good examples. Nike launched the Nike+ platform for enabling runners to connect better with their running experiences. The system gathers data about a runner's performance from a sensor in the shoe and makes it easy for runners to then analyze and, most important, converse with other runners, trainers, and coaches around the data, map running courses, and integrate music with their running (partnership with Apple iTunes). There are more than 1.5 million runners now using the system, which has been in place about four years, and more than 280 million miles uploaded. Apple's App Store and open software development platform is another example, as are Apple Retail Stores that invite people to engage with their products and employees (e.g., Genius Bar). By bringing together an ecosystem of developers, partners, enthusiasts, and consumer communities, Apple is on a path of increasing growth and returns. These companies have harnessed the power of becoming a co-creative enterprise.

MLF: Where should companies start? What advice do you have for them?

VR: I would say start with internal stakeholders by building a platform for engaging them in a dialogue about their experiences, and focus on how their interactions can be improved. Then expand the platform to engage them in generating ideas, try to gain consensus with all stakeholders, share actions being taken, and learn about stakeholder experiences after implementation to redesign offerings and business processes accordingly. This transformation process of the organization is "inside out" and can be managed more easily. In other words, for most large, established enterprises, it is better to start with co-creation inside the organization before opening it up to external stakeholders. I always say that external stakeholders are ready to engage and co-create. But is the enterprise ready? Also, starting with small pilot areas and experiments, especially around events that impact risk and returns (e.g., the shortage of a critical part that I discussed earlier), are ways in which people can coalesce around a real problem and experience the power of co-creation firsthand. This often creates evangelists in the

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ecosystem, who are the best catalysts of transformation, if you will. The future, I believe, belongs to the co-creative enterprise. It is all about engaging stakeholders in managing risk returns to co-create value. This structural shift is being driven by the combined forces of digitization, ubiquitous connectivity, networking, globalization, sustainability, inclusive growth, and the recognition from the recent financial and economic crisis that more transparency, communication, interaction, and engagement are necessary in the system.

Editor's Note

The idea and examples of co-creation described by Venkat provide valuable insight for enterprises seeking new pathways to drive growth and profitability. CFOs are challenged to "do more with less" while facing increased uncertainty (risk) and a need for new strategic skills to navigate today's business landscape. Readers of *Strategic Finance* will recognize the logic of co-creation examples when viewed through the lens of Return Driven Strategy and risk management.

MyStarbucksIdea.com is a great example of engaging employees and others (customers) to innovate and deliver offerings in ways that will fulfill otherwise unmet customer needs. This reduces uncertainty (risk) in understanding customer needs and the enterprise's capabilities necessary to fulfill them. The critical-part example Venkat described is analogous to the Nokia-Ericsson supply chain case (see "Strategic Risk Management: Creating and Protecting Value," *Strategic Finance*, May 2007) where Nokia had the right platforms and information sharing that allowed it to identify supply disruption problems quickly and take corrective action. Nike+ is a good example of Apple and Nike partnering deliberately to innovate and deliver offerings that will fulfill otherwise unmet customer needs. Nike and Apple partnering allows the companies to leverage their unique capabilities (Genuine Assets) and co-create the offering. Co-creation is the type of strategic thinking that's needed to drive growth and profitability while managing risk in today's highly uncertain environment, and it represents a valuable strategic leadership skill for business leaders (see "Co-Creating Strategic Risk-Return Management," *Strategic Finance*, May 2009, which presents some examples of how co-creation can simultaneously drive returns and reduce risk). **SF**

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