



FROM
THE LAB

Co-Creation

WHEN 1 AND 1 MAKE 11

G. BRUCE FRIESEN

So your clients have asked you for the latest idea to create value online. Congratulations! You have won the assignment. But now what are you going to tell them?

The first wave of Internet experimentation has crested. Most clients have personalized the online shopping experience. They know how to utilize cookie files to track and recall shopping lists, addresses, and other preference data as customers revisit their websites. Most clients have also customized their product and service offerings using e-catalogs or pull-down menus to list every optional add-on they make. And many clients are now engaging in B2B marketplaces to reduce their administrative costs. So what can you tell them that's *new*?

Fortunately, a second wave of Internet experimentation is gathering force. Its pioneers are learning to use the Internet to create meaningful two-way *dialogue* with their customers. As dialogue displaces the one-way *monologue*—which dominates offline markets and shaped early online markets, too—companies and customers are also discovering that they can cooperate to reshape existing business processes, products, or services and even create new ones.

“Co-creation” can generate signifi-

cant new value from existing assets and established customer relationships. It enables 1 and 1 to associate as 11! Co-creation can even help latecomers to the Internet leapfrog their competitors. But as with all new ideas, there are issues requiring explanation and support in implementing co-creation. In this column, I explore how this phenomenon works and examine some of these implementation issues.

Co-Creation Observed

Perhaps the best way to understand co-creation is to see it in action. Online auction house eBay provides several excellent examples for quick study.

eBay

First, eBay *doesn't* provide a buyer catalog. How does an auction house avoid the cost of publishing and republishing a catalog? It enlists prospective sellers wishing to use its service to help it *co-create* that catalog! All sellers on eBay must provide descriptions of the items they post for auction. Some provide scanned-in pictures. eBay uses special site-hosted software to scan these submissions, date them, pull out key-word descriptors, and update its live-auction list. eBay con-

tributes software and process; sellers contribute specific content.

Second, eBay *doesn't* police behavior in its online auctions. How does an auction house avoid the cost of enforcing house rules? It enlists buyers and sellers to help it *co-create* security by policing each other. eBay members are asked to evaluate each others' actions by completing post-auction forms online. Example questions: Did the seller's item match its description? Did the buyer's check clear? Did the shipping arrangements work out? eBay uses the answers to create participant-specific trust ratings, which it continually updates for the entire community. Newcomers quickly learn to check these ratings and to ensure that their own stay high. Again, eBay contributes software and process; buyers *and* sellers provide specific content.

Let's dig more deeply into the eBay example: The co-created value is quite explicitly shared. eBay users help the company for “free” because their gains

G. BRUCE FRIESEN is an independent development consultant on assignment at the Andersen Consulting Institute for Strategic Change in Cambridge, Massachusetts (g.bruce.friesen@ac.com). He resides in Vancouver, British Columbia.

from participating in a more liquid auction process exceed their cost of participation. And how else could so many garage sale junkies simultaneously cruise so many neighborhoods? eBay's payoff comes from low operating costs; it is that rare, profitable dot-com—without co-creation, it might not exist.

Palm-Pilot

Co-creation is not restricted to Internet-based services. Consider a product example: the Palm-Pilot™ organizer. This device powers a huge community of third-party software developers. Each new application that this community releases to the marketplace raises the device's value to *all* users, attracting more customers and encouraging further community growth.

How did Palm Inc. launch this virtuous spiral? It inadvertently released, and then actively harnessed, the principles of co-creation. The inadvertent bit occurred at the beginning, when Palm chose an “open” operating system for the Palm-Pilot and then did not follow up with a vigorous campaign to license software applications. As cognoscenti spread the word, an informal user community appeared; if Palm didn't want to play with its device, they would!

The kernel of this online community consisted of people whose payoff from participation was psychological. They wanted bragging rights for things they could get their devices to do and backed their claims to software prowess by posting applications for free download. As the buzz around the Palm-Pilot grew, community composition changed. Developers seeking inspiration came in to exchange ideas with others and then went online to sell the resulting applications.

To its considerable credit, Palm Inc. did not react to this uncontrolled commercialization by accelerating licensing. Instead, seeing that these applications could reinforce its strength as a *device maker* (by accelerating sales), Palm began actively promoting the company-

developer dialogue that powers co-creation. It offered developers formal training, company-hosted meetings, and even hired staff to answer their questions. With encouragement, community membership took off. There are now 70,000 registered developers—versus 3,000 at year-end 1998—swapping ideas for Palm-Pilot applications among themselves and with Palm Inc.

Nike

Co-creation can be applied to traditional products too. How does a traditional product company such as Nike tap this latest Internet concept? It uses controlled online dialogue to address the innate, and often unmet, need of its buyers to express their individuality in their chosen form of dress.

Suddenly it is possible for companies to engage in meaningful and targeted dialogue with their customers.

When ordering at Nike.com, shoppers are given the option to type in up to eight characters—initials or names—to be factory-stitched onto their new shoes. For an extra \$10 per pair, plus shipping and handling—and a willingness to wait three weeks for delivery from an offshore factory—Nike customers can get uniquely styled runners delivered directly to their door. This may not seem to be a major innovation, but in one important way it is: No one else can buy your co-created shoes.

For its part, Nike gets to avoid paying retailer margins and locks out its competitors who cannot offer similarly “labeled” shoes. That extra \$10 per unit sold also represents considerable extra margin flowing straight to the bottom line.

The Power of Dialogue in the Marketplace

Your client will want to know *why* co-creation works. It is not black magic!

Adam Smith and Henry Ford taught us that any consumer good can be both cheap and profitable—if it has a fixed design and attracts enough buyers. However, mass production and consumption demand compromises. Sellers compromise on product features and prices to ensure lengthy production runs; buyers compromise by purchasing products that may only roughly meet their needs.

Compromise on standard products and market-clearing prices can blind companies to nonstandard possibilities. For example, Ford's Model T came in one color: black. Decades passed before GM finally offered a palette of exterior paint colors. Why didn't GM act more quickly? The culprit is inefficient information exchange between companies and customers. It took GM considerable time to realize that enough buyers would pay extra for nonblack paint; more than enough to offset the cost of retooling the production line to incorporate this marketing innovation.

Mass markets suffer from inefficient information exchange because they are dominated by one-way monologues. Competing sellers “talk at” prospective buyers through mass media advertising aimed at large demographic groups. Buyers “talk back” almost silently through their purchases. A few might participate in focus groups; others may offer specifics on product or service failure. Those with special needs tend to get lost.

Companies trapped in a one-way monologue with their customers have the option of mass customization. By applying sophisticated manufacturing concepts, they can wring profits out of short production runs and thus accommodate slightly more customization in

their products than the traditional mass producers can.

Enter the Internet. Suddenly it is possible for companies to engage in meaningful and targeted *dialogue* with their customers. This dialogue enables co-creation.

Realizing the Potential of Co-Creation

So what does a consultant have to do to help clients engage in co-creation with customers and others? One issue that must be addressed up front is that *neither* company nor customers are in complete control of the co-creation process. They must cooperate to dialogue successfully.

Cooperation is all too often a non-traditional marketplace behavior because of the divergent goals of customers and companies. Customers typically seek to minimize price paid; companies to maximize profit realized. This divergence effectively imparts a win-lose dynamic to the relationship. What one wins, the other must usually lose.

Co-creation requires a win-win dynamic. It only emerges as both sides build trust and consciously divvy up the benefits between them. Clients accustomed to *maximizing* their gains in interaction with customers must be counseled that this behavior is inconsistent with co-creation.

Loss of Privacy

Companies must address certain issues affecting customers in co-creation. For example, firms have not always been able to “see” individual customers. Now, with online technologies, they can. And customers are discovering that this new visibility is a mixed blessing. Immediate recognition of personal preferences when logging onto a website saves time and is an ego boost; but anonymity has virtues too, as any victim of spam e-mail can attest!

Companies can easily misunderstand customer privacy concerns. They are routinely scrutinized in ways that customers would find incredibly invasive—and think little of it. Consultants must advise clients trying to foster co-creation to think twice about asking site visitors to answer personal questions or record traffic patterns without asking permission. It is possible to establish co-creation without excessive violations of privacy.

Data Overload

Long accustomed to making purchases with little data and few alternatives, customers can now obtain more data on more alternatives for almost anything they buy online. But they have not received more time to process this data. The result: data overload.

Data overload can preclude co-creation—it prompts customers to buy or move on, not linger to engage in dialogue with a company. Consultants must help their clients learn to build “sticky” websites to encourage co-creation. Companies like Dell have even learned how to integrate co-creation into the very act of purchasing itself. Visitors to Dell’s website will find menus for ordering standard PC packages *or* for “mixing and matching” individual components to create a nearly unique PC—depending on specific needs or tastes.

Selecting Opportunities

Companies must also address certain issues about themselves. A company could trigger dialogue about any business process or any product and service feature as a prelude to co-creation. It controls the size and shape of the playing field, but it must take great care when choosing which processes to expose to co-creation and how this exposure takes place—or costs incurred may exceed benefits obtained. Why? Co-creation requires companies, not just customers, to open their kimonos. Imagine what happens to the company’s reputation if

it fails to deliver on its side of the co-creation bargain!

Consultants must counsel their clients that exposing processes such as product assembly to co-creation can generate considerable value. Just ask Nike or Dell about the margins on individualized versus standardized products! But, at the same time, these companies are careful to only *selectively* expose assembly to avoid excessive costs. Nike’s eight-character label is just a label; the shoe functions as well without it. On the other hand, the large hard drive or special graphics card available for insertion into a custom Dell PC has been tested

Co-creation is a leap forward from personalization or customization.

to ensure that it is compatible with other system components; you can’t just plug any component into a Dell machine.

A more generic service example reinforces this point. Federal Express has opened its internal package-tracking system to customers. Customers wishing to follow a package can now type a unique tracking number into the FedEx website menu and access the stream of internal messages generated as the package moves along. They no longer must call Federal Express to obtain this information. This co-created service (the company provides software and generates messages; the customer types in numbers and reads messages) clearly reduces FedEx call center volume while saving anxious customers’ time. But such transparency—with its attendant service implications—is not extended to FedEx airplane schedules, for example; customers are not permitted to see

what they cannot be allowed to influence. What happens to the Federal Express service reputation if a customer spots a schedule change that will make his or her package late, tries to call in, and fails to get satisfaction? It is better not to share some things with customers!

Encouraging Action

Co-creation requires companies to invest in dialogue with customers. But not all customers will be willing to reciprocate. Some will surf in, take the measure of what the company wants to do, and go elsewhere to do business. Fortunately, it takes only a few willing co-creators to start the process rolling. Companies must be ready to encourage these prospective

players to get engaged in the game.

Consultants can help with plans to turn website surfers into co-creators, just as they helped traditional retailers turn window-shoppers into buyers. Recommending grabbers such as purchase discounts for customer referrals, as at Amazon.com, or the “free ticket” lottery open only to customers filling out surveys at Las Vegas-based Nationalair.com, is a good start.

In Conclusion

Co-creation is a leap forward from such first-generation Internet tactics as personalization or customization. It requires companies and customers to exert more

effort than traditional transactions because it is about building *relationships*, not completing *purchases*. However, the gains from co-creation can be much greater than those of traditional transactions, too. Good luck in broaching this subject with your clients! ■

Note

Those seeking more on co-creation are directed to Ajit Kambil, G. Bruce Friesen, & Arul Sundaram. 1999. Co-creation: A New Source of Value. Andersen Consulting. *Outlook*, 11:2 (available at www.AC.com under the Outlook tab).

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