

CO-CREATION'S 5 GUIDING PRINCIPLES

or... what is successful co-creation made of?

- White Paper -

In challenging times, new rules apply.

Companies and organisations are searching for tools to help them win their day-to-day battles. They are faced with increasingly challenging questions: where to find future growth? How to deal with the risk of commoditisation? How to innovate from the core? How to get - or stay - connected with customers?

Our clients ask us: can co-creation provide the answer? Our answer: Yes it can, but as with many other solutions, co-creation will only truly deliver if it's done properly.

Co-creation is more than just a tool; it is a program of change. With 8 years of lead-user co-creation experience, Fronteer Strategy has identified a few strong recommendations to anyone wanting to venture out into this area.

In this white paper, we identify different types of co-creation (suitable for different types of challenges), present 5 guiding principles for success, discuss the value of co-creation and present a number of inspiring cases from around the world.

Fronteer Strategy works for global leaders in Communications, FMCG, Financial Services, Consumer Electronics, Internet Services and Consumer Durables.

This White Paper discusses the following topics:

- 4 Types of Co-creation
- 5 Guiding Principles in Co-creation
- 4 Areas of Value in Co-creation

We hope that this white paper offers you inspiration as well as guidance towards initiating your own process of co-creation. We will be publishing more white papers in the future.

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Co-creation, sure. But what is it?

Co-creation is a 'hot' topic right now - but what is it? We define co-creation as the practice of collaborative product or service development: developers and stake-holders working together.

Co-creation is a form of Open Innovation: ideas are shared, rather than kept to oneself. It is closely connected to - and mentioned alongside - two other buzz-words: 'user-generated content' and 'mass-customisation'.

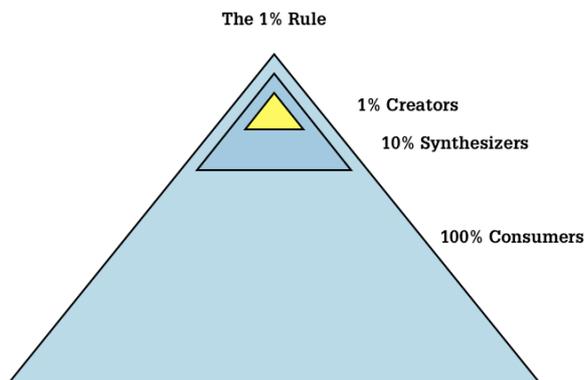
Some background: over the past decade or so an enormous amount of knowledge has become accessible, changing traditional business processes and the way companies innovate. Also, educated consumers want more involvement with the products they buy. On top of that, the '1% Rule' is now emerging: it is found that 1% of people in any community generate the majority of the creative output in that group.

Many co-creation initiatives have been launched to deal with this changing world and some have been successful for some time, but for most companies, co-creation is pretty new.

Opening-up can be scary: most companies hesitate to share ideas and strategies with people that are not on their pay-roll. Quite a natural reaction, but in the end it's the results that count: new products, new profit pools, new ways of thinking, new energy.

Unfortunately though, co-creation is not a silver bullet. There is simply no such thing as an air-tight innovation process: there's no guarantee that ideas will succeed. Chances are very small you'll get a 1 Billion Dollar Idea in one day (a start perhaps...). What you will always get out of it though, are great meetings of minds, fresh perspectives on business and inspiring ideas that will guide you in the right direction. So why not:

- Tackle your toughest strategic challenges
- Get a fresh perspective on your business
- Get in touch with key trends and business drivers
- Unlock the world outside and bring it inside
- Cross-pollinate with other industries
- Connect and bond with partners, customers, consumers
- Identify good stuff out there
- Develop breakthrough new ideas
- Reduce risks; test products while developing them
- Bring excitement to the floor
- Work with the 1% most creative people



I. The 4 Types of Co-creation.

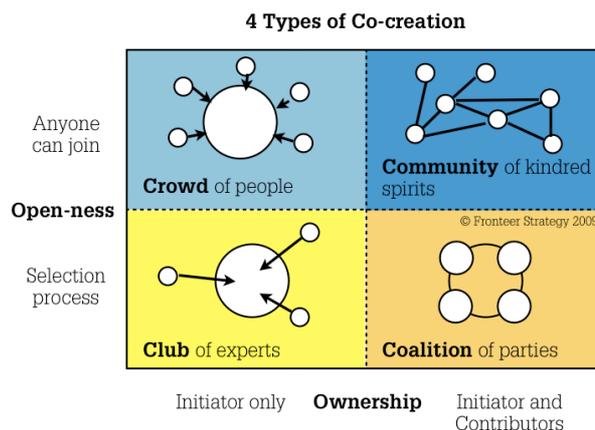
There are many ways to go about Co-creation, and which to choose depends on the challenge and objectives at hand. There is always 1 initiator, i.e. the party that decides to start the initiative.

This can be a company or just a single person. One (or many) contributors will be joining along in the process, but the initiator determines who can join and under what conditions. There are two central dimensions that define types of Co-creation:

Open-ness: Can anyone join in or is there a selection criterion somewhere in the process?

Ownership: Is the outcome and challenges owned by just the initiator or by the contributors as well?

These two dimensions lead to the 4 main types of Co-creation:



When to use which?

Club of experts.

The "Club of Experts" style of co-creation is best suitable for very specific, time-pressured challenges that demand expertise and breakthrough ideas. Contributors meet certain specific participation criteria and are generally found through an active selection process. Quality of input and chemistry between participants are key to success. 'No-box' thinkers are the ones you want to have in any project.

Example: Nokia organises 'lead user' and 'expert' co-creation sessions to develop visionary new products and services. We at Fronteer Strategy are a partner of Nokia in these projects, where bold new steps have been designed.

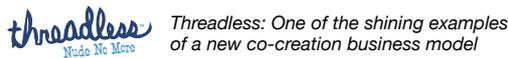
NOKIA *Nokia: Frontrunner when it comes to using lead users, experts and beta testers*

Crowd of People.

Also known as "Crowdsourcing", this form is all about the Rule of Big Numbers: anyone can join. For any given challenge, there might be a person 'out there' with a brilliant idea that deserves considering. Using online platforms, people can rate and respond to each other's suggestions. There is often a marketing and seeding component/objective attached to the process. Crowdsourcing 'unleashes the power of the masses', but often takes longer - and you're not sure that the best people will (want to) contribute.

Example: Threadless is a successful online t-shirt platform where contributors can send in and rate t-shirt designs. Profits on sold items are shared with the designer in question. Not bad: a full 30%

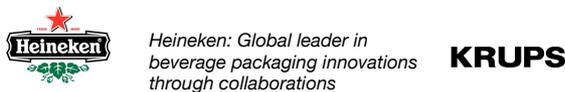
profit margin selling t-shirts with no R&D cost, low investments (no stock or debtors) and hardly any employees.



Coalition of Parties

In certain complex situations, a "Coalition" of parties team up to share ideas and investments (Co-branding is also an example of Coalition-style co-creation). Each of the parties brings a specific asset or skill to the party. Technical breakthroughs and the realisation of standards often happen only when multiple parties collaborate - especially important when capital expenditures are high. Key success factors include sharing knowledge and creating a common competitive advantage.

Example: Heineken has successfully launched a home draft system called the 'Beertender' in co-operation with Krups. A development period of 10 years resulted in the first true packaging innovation in beer in a long time. Also, Heineken has worked with outsiders to develop for example its aluminium bottle range.



Community of kindred spirits.

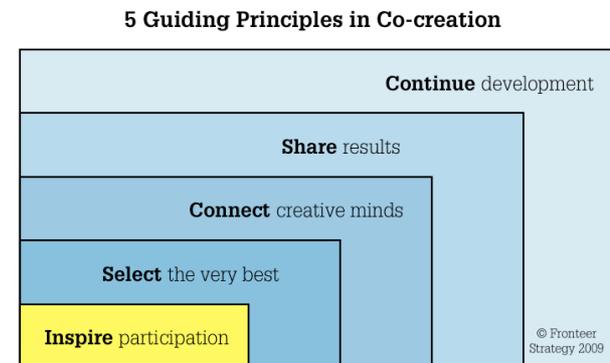
The "Community" form is most relevant when developing something for the greater good. Groups of people with similar interests and goals can come together and create. This model - so far - works mostly in software development and leverages the potential force of a large group of people with complementary areas of expertise.

Example: The Linux open source operating system software was developed by users and for users. The software code is free to use and owned by nobody. It started with one simple e-mail with a request for help.



II. The 5 Guiding Principles in co-creation.

In co-creation, there's a fine line between 'doing it right' and 'just not cracking it at all'. We've noticed that successful co-creation initiatives tend to have a number of characteristics in common. We've analysed and clustered them into the following "5 Guiding Principles in Co-creation":



1. Inspire participation.

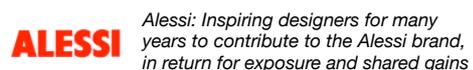
Trigger people to join your challenge: open up and show what's in it for them.

People tend to be more involved than you might think, and most want to contribute! People care about the products, brands and companies around them, but there needs to be a 'trigger' for them to actually participate in collaborative development with you.

To start with, the nature of the challenge should be interesting or challenging in some way. There could be direct personal benefits as well (e.g. when a product is being improved, or a monetary incentive involved). But most importantly, inspire people by (a) showing who you are, (b) explaining why you need their help and (c) what will be done with the results. Then give access to anyone who might be beneficial to the process and create a level playing field where all opinions are treated equally - professionals, consumers and other stake-holders. Initiators and contributors to a project should have a common goal and should all stand to benefit from it: we call this the principle of Mutuality.

Understanding why people participate is only one thing though, creating the right atmosphere to achieve results is another. It is essential to offer an open and transparent environment where people feel welcome to contribute to your challenges - almost a place where they feel they belong.

Example: Alessi has a long-standing history of working with designers. Next to working with acclaimed ones (e.g. Philippe Starck) it also invites groups (200+) of pre-selected designers to be working with them on the next generation products



2. Select the very best.

You need the best ideas and the best people to deal with today's complex issues.

As in evolution, the selection process is crucial. In crowd-sourcing you want the best ideas to surface & survive: screening is key - especially when large numbers of ideas are generated. For any online idea generation initiative, the big challenge is filtering and finding breakthrough ideas that bring new value to the company. Both the online community (rating, commenting) and the moderators play a crucial role there. In the end it is a competition for the best ideas.

In lead user or expert co-creation the best people possible should participate - the whole point is to involve individuals whose backgrounds and experience somehow connect to the challenge at hand. How do you tap into the knowledge that already exists out there? How do you find lead users that pre-empt mainstream demand? How do you decide who belongs to the 1% you want as participants? Who has the merit, adds the value? Finding those great individuals can either be done by posting challenges online or through good-old detective work. What makes them special? Thought leadership, proven track record and expertise, creative and constructive thinking, peer recognition, communicative and connecting qualities - it all adds up to being someone who is really good in what he or she does.

And to conclude: team chemistry is essential and diversity is key, so a well-balanced mix of gender, nationalities, professions and interests produces the best results when bringing those great minds together.

Example: Innocentive is a platform where scientists and other experts are gathered to solve tough scientific challenges. It was originally set up by Eli Lilly but now serves as a meeting space for almost 20 other companies as well. The track record is impressive: 30% Of all problems posed are solve by the 100.000 or so scientists who signed up to be part of it. The platform is an open invitation to anyone who believes he can tackle problems others can't.



Innocentive: The leader in setting up expert communities to solve tough R&D issues of companies

3. Connect creative minds.

Enable bright people to work together and find that 'spark'.

Co-creation only works when the 'Co' is very well executed and you capitalise on the talent that is gathered. Bringing people together is one thing, making sure people make the most of it is something completely different. Synchronicity (all participants resonating at the same wave-length) within a structured, constructive dialogue is what you need. As an initiator, you should listen, be receptive and be interested. Your task is to unlock the potential in a group of contributors and look for moments of revelation. You have to take people seriously and allow for criticism.

Bridging the gap between the initiator and contributors is a fickle process: how does the interaction take place? In online environments excellent moderation and communication are key. When people meet face to face, the holy grail is to establish common ground and build a sense of equal participation. Be sure to drop the 'Us vs. Them' approach we know from traditional

research - holding back information, covert research attempts and hidden agendas are forbidden.

One of our mantras - true for any creative process- is 'stand on each others shoulders -not on each other toes'. In co-creation it means sharing information, ideas, experiences, dreams, strategies, successes and failures in order to learn from each other. A physical meeting is very well suited to create such an atmosphere and conducive energy level.

Co-creation needs the best environment to create, share, respond to and improve on ideas. This ranges from online toolboxes to off-line visualisers and great moderation in a brainstorming session. Clear rules and guidelines are needed in this process.

Example: In 2004, Lego decided to do things differently and developed a new generation Mindstorms products together with lead users, rather than doing it just by themselves. These lead users are in 2009 still part of the (exclusive) Mindstorms Developer Program. In all those years the lead users have had intensive interactions with Lego developers and gained status in the Lego community. They have helped Lego improving their product ranges far beyond Lego's wildest dreams



Lego: A company that has recognised the extraordinary creative value of lead users

4. Share results.

'Giving back' is crucial - as well as 'how' you do it.

Co-creation can create value to the initiator in many shapes and forms: products can be added to a roadmap, new ventures can be started, a technical problem can be solved, teams invigorated, insights fine-tuned and applied, etc. But there should always be something 'in it' for the contributors too.

This compensation can be monetary, but more often, something less tangible can be considered a greater reward - in any case, it should be clear and fair. For example being recognised as a key contributor (status) or being invited to join more initiatives (recognition) are other ways to share or reward valuable contribution. Many co-creation initiatives forget even the most basic step: keeping participants informed of progress and developments. Ignoring contributors' legitimate wishes in this way will eventually damage your ability to attract top participants or partners- as well as meaning you miss out on valuable input further down the process. Ultimately, sharing intellectual property would be a next step in co-creation: co-ownership.

Example: The Apple iPhone App store is a platform for the Apple iPhone on which 3rd parties can develop user applications and set their own price. The profits are shared, 70% is for the developer, 30% for Apple. 1 billion downloads so far, and counting.



Apple: Co-creation was part of all their latest successes (iTunes, iPod) and now also drives the iPhone App store success

5. Continue development.

Co-creation only delivers when it is a longer-term engagement, preferably part of a structured process that involves parties in- and outside your company.

This is the hard part. What comes out of co-creation can be anywhere between 20-80% in terms of completeness. The idea is usually a rough diamond and needs serious cutting and polishing work to complete. This can be a long process.

The co-creation output will become part of the company's innovation process with all its key measures. It will go through the standard funnel steps, but with one difference: the link is made with the outside world. This link should be leveraged in all steps of the process, e.g., use contributors and their specific knowledge to get constant feedback. Internally, sponsors and connectors should drive the implementation forward and tackle the 'not invented here' syndrome if it rears its ugly head. One should learn from co-creation in the meantime and continuously adapt the process for the next time, thus forming a learning cycle.

From a contributors point of view, when you have created something, you want to see what happens to it. Open innovation involves an implicit promise to keep people in the loop. It's a way of showing the respect you have for the time and effort they put into it: open communication and frequent status updates are very well received by anyone who has participated.

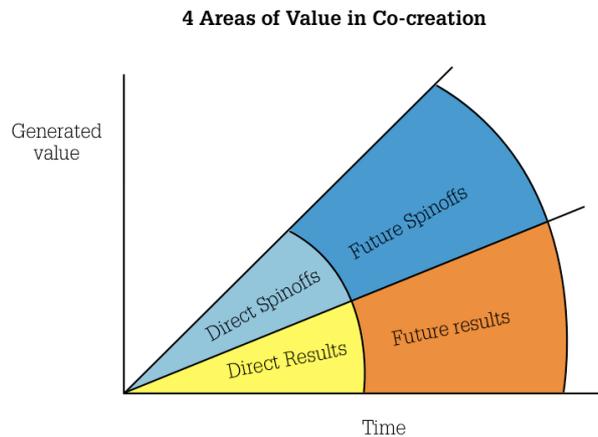
Example: P&G started a company-wide initiative in 2002 called Connect & Develop: it invites people and companies from outside P&G to innovate with them: P&G offering the scale and expertise, outsiders offering great ideas. "Proudly Developed Elsewhere" is one of their new claims. For Procter & Gamble for example it has become the way of working. People are encouraged to look beyond the traditional roles and responsibilities. For example, marketing agencies are involved in new product development early on, in other categories inspiration is found for pricing strategies and with suppliers new breakthrough developments are found. This lies far beyond the direct measurable results of one co-creation initiative but probably bring more value to a company and its customers in the end.



Procter & Gamble set themselves high co-creation standards by stating that 50% of new products should come from outside the company.

III. 4 Areas of Value in co-creation.

The process of Co-creation is a relatively new area of expertise, so we are often asked: "What are some concrete examples of return on investments in co-creation?". Value is created in four areas:



Direct results.

The starting point of any co-creation project is often the need to come up with new products and services. The direct result of a co-creation project, then, is the economic value generated by these new introductions.

Example: An example from our own practice. eBay in The Netherlands (Marktplaats) did a co-creation project involving 'Large volume sellers'. One of the products developed in the project was a new feature that allowed people to put an ad for their product into an 'other category'. This relatively simple product (turning something 'not allowed' into a 'valuable service') has so far generated revenues 10 times the investment that went into it.



eBay: 10 times Return on Investment through customer co-creation

Direct spinoffs.

Some results cannot be measured in terms of profit, but create enormous value. Next to the direct results - the ones that correspond with the project goals that have been set - unexpected effects will take place. E.g., contacts made during a lead user co-creation project can be of value long after the session is over, sometimes even can lead to new collaborations. Also, participants can become brand ambassadors and the starting point of word-of-mouth marketing. Co-creation can trigger a lot of other things that one would not have imagined - or dreamt of.

Example: Amazon started out aiming to be the largest bookstore on the internet. By being highly customer-centric 'from the start - more than anyone else - and letting readers create the content around the books, Amazon has become the largest book review site. On top of that, a small percentage of readers even have become semi-professional critics. the value of the reviews is hard to express in profit (you don't earn money through it) but they are seen by Amazon as a corner stone to its success.



Amazon: Readers have turned the largest bookstore into the largest review database in the world

Future results.

A successful new product introduction will be followed-up by new extensions or inspire others to introduce new products. It can generate a snowball effect within a category. It can create a new family of products. In co-creation the initiator can keep the contributors close in the entire process, all the way into the future, or choose to change partners. Nike for example has changed partners in their running and technology project, switching from Philips to Apple. The latter was seen as having a better fit with the brand and experience Nike wanted to deliver.

Example the Senseo coffee machine collaboration by Philips and Sara Lee has created a revolution in the coffee category: easy individual home use of coffee. Since its launch in 2001, 25 million Senseo coffee makers have been sold worldwide. It has also resulted in pads being the main coffee packaging on shelf in some countries and it has also smoothened the path for Nespresso as the more premium system. Philips is now venturing out into adding more features (fresh milk) and Sara Lee adds tea and other drinks to its pads portfolio.



Philips and Sara Lee Senseo: it has changed the way we drink and buy coffee



Future spinoffs.

Co-creation is a starting point of a process, which can have far-reaching effects. Most of these you can predict as they are direct and obvious. However, some future spin-off effects are not so cut and dried. Who can predict what the side-effects will be of certain actions? These are often hard to oversee, but what we can say is that action taken now will have an effect sometime in the future.

Example: The invention of the internet and its exponential growth has had direct results in terms of content sharing and consumption. A spinoff of this change was the way we experience music. The rituals around buying CDs and LPs, the design of cover art, music radio, etc. have changed dramatically. The fall of traditional business models in music was a logical result of all this. An future spinoff that was harder to predict was the rise of the live performance of musicians. Today it has become - once again - very important for pop-stars to have a show on stage that attracts crowds and generates enough revenues.

For further reading

For your convenience we have included 5 recommended links:

The 1% Rule:

["Charting Citizen Participation"](#)

Harvard Business Week article:

["Which kind of collaboration is good for you?"](#)

MIT Press article:

["The principles of distributed innovation"](#)

Wired article on Lego:

["Geeks in Toyland"](#)

Harvard Business Week article on P&G:

["Connect and Develop: Inside P&G's new model for innovation"](#)

About Fronteer Strategy

Fronteer Strategy is an Amsterdam-based strategy consulting firm. Our key areas of expertise are innovation, co-creation and brand development. We have diverse backgrounds. Our inquisitive nature is supported by entrepreneurial experience and solid business sense. www.fronteerstrategy.com

About Rooftop co-creation

"No matter who you are, most of the smartest people work for someone else" (Joy's law).

Rooftop is an expert co-creation tool. Unrestricted perspectives, a hand-picked group of people working together, no interference from day-to-day hassles. A pressure-cooker for insight, inspiration and innovation, it serves to create solid, spot-on concepts and strategies. We move from vision to opportunities, concepts and approach in one structured flow.

We believe that co-creation is a long-term engagement between clients and people from outside their company. It's success is expressed in inspiration, enthusiasm and action.

www.welcometorooftop.com



The 4 Areas of Value in Co-creation model is part of the impact mapping method (tm) of Butterfly Works, an inspiration-driven social solution and design agency: www.butterflyworks.org