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## The Future of Co-Creation

Marko Seppä, Stoyan Tanev

March 2011

*"Go for it now. The future is promised to no one."*

Wayne Dyer

### Abstract

The objective of this article is to provide a brief summary of the key directions in value co-creation research that have emerged in the last 10 years. It points to several emerging streams in value co-creation research including: i) general management perspective; ii) new product development and innovation; iii) virtual customer environments; iv) service science and service-dominant logic (SDL) of marketing; and v) international markets and entrepreneurship, with a focus on the general management and innovation perspectives. In addition, the article points to another emerging new direction focusing on business co-creation. The development of business co-creation frameworks integrating the participatory role of both universities and vibrantly emerging business ecosystems represents a valuable alternative to traditional technology transfer and business administration approaches.

### Introduction

Value co-creation has emerged as a business paradigm describing how customers and end users could be involved as active participants in the design and development of personalized products, services, and experiences (Pralhad & Ramaswamy, 2004). It is based on the design and development of customer participation platforms, providing firms with the technological and human resources, tools, and mechanisms to benefit from the engagement experiences of individuals and communities as a new basis of value creation. The active participation of customers and end users is enabled through multiple interaction channels, very often by means of specifically designed technological platforms through the Internet. Indeed, it is the advances in information and communications technologies that have enabled customers to be much more active, knowledgeable, globally aware, and willing to use interactive virtual environments to personalize the existing and shape new products and services. The ability of value co-creation platforms to enable the personalization of new products and services challenges the operational presuppositions of traditional marketing segmentation techniques by promoting a new service-dominant logic (Vargo & Lusch, 2004). The new dominant marketing logic enables firms to address broader heterogeneous markets aiming at a better fit between what a customer needs and what the firm does and offers. It entails a new vision of the topology and the dynamics of the entire value creation system including: i) a shift from thinking about consumers to thinking about co-creators of value; ii) a shift from thinking about value chains to thinking about value networks; iii) a shift from thinking about product value to thinking about network value; iv) a shift from thinking about simple co-operation or competition to thinking about complex co-opetition; and v) a shift from thinking about individual firm strategy to thinking about strategy in relation to the entire value ecosystem (Hearn & Pace, 2006). Such vision promotes a new understanding of the customer centricity of the traditional value network concept, which is now considered dynamically as a people-driven web of potential value configurations that could be actualized on the basis of specific customer demands (Pralhad & Ramaswamy, 2004).

The adoption of value-creation practices leads to the need for "changing the very nature of engagement and relationship between the institution of management and its employees, and between them and co-creators of value – customers, stakeholders, partners or other employees" (Ramaswamy, 2009). This ongoing change challenges the management of innovations by promoting a new vision of the nature of innovation itself. The new co-creative vision of innovation builds on two key distinctive features. The first one is the truly user-driven aspect of the value co-creation activities between firms and customers. In this sense, value co-creation platforms represent a natural extension of some of the key aspects of the user-driven innovation paradigm (von Hippel, 2005) by focusing on the development of participation platforms to, literally, multiply the effect of user-driven innovation methods such as the design of innovation toolkits and searching for lead users (von Hippel, 2005). Another distinctive feature is the focus on the co-opetitive (from co-opetition) nature of the interactions between the different stakeholders, including the customers and end users, participating in the value co-creation process. Before competing and negotiating to capture value, the different players in a value co-creation network need to compete and negotiate in order to be able to participate and to contribute value (Tanev et al., 2009). The co-opetitive dimension of value co-creation platforms leads to a more dynamic type of economic mechanisms as the underlying driver of the innovation processes. These mechanisms

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Marko Seppä is a "serial co-creator". In 1981, at age 16, he co-created an American football club in Finland, and in 1991, he co-created a pioneering VC firm focused on the emerging markets of Russia and the Baltic countries. In 2001, he co-created an ambitious e-business research centre for a pilot of the eEurope programme. He currently serves the University of Jyväskylä as Professor of Growth Venture Creation and works to co-create a global faculty partnership for problems worth solving. He is founding chair of Global Venture Lab Finland, a university consortium that is developing a "distributed business co-creation environment". He is also a co-founder of the Global Venture Lab Network, which is coordinated at UC Berkeley.

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operate on the basis of multiple transactions between customers, partners, and suppliers at multiple access points across the value network. They enable customers and end users to control the relationship between price and user experience (Pralhalad & Ramaswamy, 2004) by providing them with the opportunity to actualize (i.e., create) specific value-chain configurations that would fit their proper need, context, and preferences. It is in this context that we could talk about customer value co-creation. Although focusing on the proactive role of the customer, such understanding is generically holistic in nature; it embraces all the actors involved in the value-creation process, providing an opportunity for firms to broaden the boundaries of their open innovation processes.

#### Key Directions in Value Co-Creation Research

A systematic search of existing research literature presented by Thomsen, Tanev, and Pedrosa at the EBRF 2010 Conference, Nokia, Finland identified several emerging streams in value co-creation research: i) general management perspective; ii) new product development and innovation; iii) virtual customer environments; iv) service science and service-dominant logic (SDL) of marketing; and v) international markets and entrepreneurship. A detailed analysis of these research streams is out of the scope of this article, however the number of publications per year shows a growing body of the literature on value co-creation (Table 1.). For the purpose of this article, we will briefly discuss some of the key insights of the first two research streams: "general management perspective" and "new product development and innovation".

**Table 1. Number of Publications Per Year Dealing with Aspects of the Value Co-Creation Paradigm**

Publication Year	Number of Publications as of November 22, 2010	Percentage of Total Number of Publications Found in the Web of Knowledge
2010	22	29.7%
2009	20	27.0%
2008	12	16.2%
2007	4	5.4%
2006	2	2.7%
2005	4	5.4%
2004	2	2.7%
2003	4	5.4%
2000	2	2.7%
1998	2	2.7%

#### General Management Perspective

The general management perspective provides several frameworks describing the principles, the organizational, management, and marketing aspects of value co-creation practices. From a managerial perspective, the work of Prahalad and colleagues (2004) is of particular interest because their research suggests a more holistic generative framework describing the fundamental building blocks of value co-creation practices, including Dialog, Access, Risk management, and Transparency (thus, DART framework). The open Dialog between the multiple actors within the value network encourages knowledge sharing and mutual understanding. It provides an opportunity for customers to interject their view of value into the value creation process and helps companies understand the emotional, social, and cultural contexts of end-user experiences. The initiation of dialogue during co-creation requires a forum with clear rules of engagement leading to an orderly, productive interaction within emerging thematic communities. The focus on Access challenges the notions of openness and ownership. Providing customer access to resources, information, tools, assets, and processes at multiple points across the value network provides companies with innovative ideas about new products and services, new business opportunities, and new potential markets. As customers become co-creators of value, they become more vulnerable to Risk and demand more information about the potential risks associated with the design, manufacturing, delivery, and consumption of particular products and services. Proactive risk communication and management offers companies with new opportunities for competitive differentiation. Transparency builds trust between both institutions and individuals. It enables a creative dialogue in which trust emerges. When companies make vital business process information available to consumers, they hand over part of the control of the value creation

#### Value Co-creation as Part of an Integrative Vision of Innovation Management

S. Tanev; M. Knudsen; W. Gerstlberger

Value co-creation is an emerging concept in business, marketing and innovation management. Its growing interest points to the emergence of a new semantic wave in innovation research that requires the adoption of new terminology, frameworks and fields of research exploration. There is a number of existing research streams that provide a solid starting point in the discussion of different...

#### From Business Administration to Business Creation: The Case of the Kalevala Global Business Creation School

M. Seppä

Are there any businesses left to administer? The question is of course rhetorical and aimed at underscoring how several societies are more severely in need of creators of new businesses than managers of established ones. And yet, nearly all universities only produce masters of business administration, at best. Apart from theoretical research about business creation, and the education of...

#### A Network-Centric Snapshot of Value Co-Creation in Finnish Innovation Financing

J. Huhtamäki; M.G. Russell; K. Still; N. Rubens

In this article, we apply the concept of value co-creation to the analysis of linkages between organizations and their human and financial resources to observe the emergence of cooperative activities in a specific innovation system. Through visual network analysis of a federated and socially constructed dataset of organizations and their related actors, we show how co-creation occurs through...

#### A Customer Value Creation Framework for Businesses That Generate Revenue with Open Source Software

A. Shanker

Technology entrepreneurs must create value for customers in order to generate revenue. This article examines the dimensions of customer value creation and provides a framework to help entrepreneurs, managers, and leaders of open source projects create value, with an emphasis on businesses that generate revenue from open source assets. The proposed framework focuses on a firm's pre-emptive...

process. Empowering customers with such control becomes a key component of companies' customer relationship management and differentiation strategies.

In addition to the DART framework, Prahalad and Ramaswamy (2004) identified four dimensions of choice that could enable personalized co-creation experiences: i) co-creation across multiple channels that enabling new co-creation horizons; ii) co-creation through multiple options where customers could go beyond the options designed by a company in order to fit its value chain in terms of profitability alone (enabling the possibility for customers to create their own options opens the door for user-driven innovation); iii) co-creation through multiple transactions at multiple points of access across the value network enables customers and end users to affect the way a product or service is designed, to reject unnecessary features, to negotiate a particular price component, or decide to become engaged in the value-creation process; and iv) co-creation through the ability to influence the relationship between price and experience where customers could associate their specific choice with the type of experiences they are willing to pay for. While the literature within this stream provides multiple examples of firms that have adopted co-creation principles and useful insights about the specific business and marketing issues that need to be addressed, there is relatively little research on the specific groups of activities that should be undertaken in order to enable the value co-creation processes. There is a need of more research studies that would contribute to the development of value co-creation platform design rules, transition pathways, and maturity implementation models.

### **New Product Development and Innovation**

The new product development and innovation research stream emerges by means of a terminology that oscillates between the semantics of two other paradigms: user-driven innovation (von Hippel, 2005) and open innovation (Chesbrough, 2003). On one hand, user-driven innovation distinguishes itself by promoting a single, firm-driven, product-centric, non-transactional, and participatory approach to user involvement in the design of new products and services. However, its focus on innovation toolkits and innovation communities brings it close to the value co-creation paradigm with its focus on customer participation platforms, personalization of market offers, multiple stakeholder interactions and access to global resources, customer-driven business models, and virtual customer experience environments. On the other hand, the open-innovation paradigm promotes a more generic and broader vision of the innovation landscape. It articulates the key mechanisms for inbound and outbound business and innovation processes, intellectual property, knowledge, and resource flows used by firms to engage into a more proactive pursuit of new markets and innovations (Chesbrough, 2003).

The participatory platform nature of value co-creation practices enables a broader and more systematic positioning of customers and end users across the entire innovation lifecycle, leading to a significant enhancement of the user-driven innovation potential. As a result, the development of value co-creation platforms is increasingly recognized as a promising innovation strategy associated with an ongoing change of the nature of innovation itself (Tanev et al. 2009). The co-creation paradigm positions the source of value within the co-creation experience, which is actualized through the company-customer interaction events. By co-creating with the network, the customer becomes an active stakeholder in defining both the interaction and the context of the event, including their specific personal meaning. The personal nature of the interactive experiences enables new dimensions of value which are based on the quality and the personal relevance of the interaction events, as well as on the opportunity for customers to co-create their own unique end products, services, and experiences. These dimensions are critical for the emergence of experience-innovation networks putting the individual at the heart of co-creation experience through the development, access, and dynamic reconfiguration of appropriately designed technological, business process, and human resource infrastructures. In this sense, the value co-creation paradigm represents a specific, market-driven approach to the adoption of an open innovation business philosophy. It provides a dynamic understanding of firms' innovation boundaries, which opens the possibility for a better competitive positioning through a better articulation of their innovativeness. Existing literature clearly emphasizes that customer participation in value co-creation activities should impact their innovation outcomes, such as innovation cost, time-to-market, new product/service quality, and development capacity. It also points out that firms tend to measure the performance of co-creation practices from an innovation perspective alone, neglecting the remarkable side effects, such as brand perception or customer-firm relationship quality, which may even exceed in value the actual innovation performance. Online co-creation platforms, or virtual customer environments serving the purpose of co-innovating with external stakeholders, can be considered as massive interactive marketing campaigns due to the sheer number of contact points with potential customers. In light of these additional benefits, collaborative innovation with consumers, if properly managed, may become a cost-efficient or even costless way of innovating. However, most of the existing studies are case-based and there is little quantitative research focusing on the relationship between the degree and the scope of firms' involvement in value co-creation activities and their innovation-related outcomes. This gap could be explained by the emerging nature of the value co-creation paradigm; however, its emergence has gained enough momentum to enable more systematic studies of the relationship between co-creation and innovation.

## A Business Co-Creation Perspective

It is important to point out another emerging research direction focusing on business (or enterprise) co-creation. The development of business co-creation frameworks integrating the participatory role of universities (scholars) in vibrantly emerging new business ecosystems represents a valuable addition to traditional technology transfer, entrepreneurship, and business administration approaches. This has not been articulated enough in research publications but it has become the subject of several action research projects at multiple locations across the world. Two representative examples are [Lead to Win](#) and the Global Venture Lab initiative (GVL). This section will focus on a brief summary of the philosophy behind the GVL.

The Global Venture Lab is a product of an American-Finnish-Indian co-creation initiative. The need for a global approach, community, and platform to educate those who can solve the Big Problems through entrepreneurship was jointly addressed by three professors from three continents at a conference at the University of California at Berkeley, in December 2007. This initial momentum was followed by additional kick-off meetings at the Indian Institute of Technology at Kharagpur and at the University Alliance Finland at University of Jyväskylä. The Global Venture Lab Network was formally launched in November 2009 at UC Berkeley as a community of 26 members worldwide.

GVL Finland, a consortium of seven Finnish universities, stands to enhance co-creation of enterprise for problems worth solving by aiming at a distributed, globally scalable, web-enabled, university-based production environment: a smartly co-owned factory in which faculty are "foremen" and students the "labour". It is a factory where enterprise is raw material, entrepreneurs are suppliers, and industry and investors subcontractors. In other words, GVL Finland envisions a new role for faculty and students in an emerging new domain of knowing which, as of November 2010, was coined as Art of Business Creation (see the University of Jyväskylä [press release dated 24 November 2010](#)).

In all of the business administration disciplines, enterprises are investigated from the outside, via interviews, surveys, and statistical analyses. In the Art of Business Creation approach enterprising is investigated from within by participating in the creation as part of the entrepreneurial team, for example, in the role of a knowledge investor (See [Seppä 2006](#)).

*"Whereas the Science of Business Administration aims at generalisation and repeatability, the Art of Business Creation aims at the opposite: uniqueness. In the former one interviews champions to understand their actions, in the latter you participates in the creation, because you are a champion yourself."*

Christian Aspegren

Serial entrepreneur and PhD candidate at University of Jyväskylä

The inspiration of the approach is the research that produces new materials, devices and medicines, even symphonies, and the fact that research on enterprise has classically produced less concrete outcomes.

*"If enterprise growth is wanted as a research outcome, there are no shortcuts. Swimming instructors should be able to swim, also in this sport, and the swimming schools be located by the water."*

Mikko Reinikainen

Partner of PwC in Finland

Action learning and action research are at the heart of the Live Case approach. Faculty and students participate alongside entrepreneurs in the growth resourcing action: real life, real time. Herein, the roles of entrepreneurs, investors, customers, faculty, and students are often rotating and sometimes multiply integrated. PhD candidates willingly participate in delivering study courses to multidisciplinary groups of master's level students whose work produces valuable research data for them. Needless to say, the ideal PhD candidate is a co-founder of a Live Case target enterprise.

We underscore that there are only early observations available from the GVL action. The value and potential of the pilot ending at the end of 2011 is under evaluation and will be reported in December at EBRF 2011 at Aalto University in Helsinki.

## Conclusion

As final note on the future of the value co-creation business and innovation paradigm we could summarize a somewhat prophetic view of Prahalad and Krishnan (2008). According to them, there is a fundamental transformation of business under way, which is supported by two basic pillars: i)

value is based on unique, personalized experiences and firms have to focus on one consumer experience at a time (N=1), even if they serve 100 million consumers; ii) no firm is big enough in scope and size to satisfy the experiences of one consumer at a time, therefore, all firms will focus on acquiring resources from a wide variety of other big and small firms, i.e. the focus will be on access to "R"esources on a "G"lobal scale (R=G).

As Prahalad and Krishnan state: "We believe that the traditional sources of competitive advantage, such as access to capital, physical location, and raw materials or technology, will become table stakes. These factors are diminishing in their importance as sources of competitive advantage. Access to these factors is becoming easier. As we move to an N=1 and R=G world of value creation, we believe that competitive advantage will depend on a firm's approach to business processes that can seamlessly connect consumers and resources and manage simultaneously the needs for efficiency and flexibility."

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