

# OMC GROUP INSIGHT

No. 4 in a series of short papers on new perspectives in customer strategy and innovation



## Eight Styles of Firm-Customer Knowledge Co-Creation

by Chris Lawer, CEO, The OMC Group

A perspective of the firm as an autonomous knowledge creator that learns about customers and creates value for them is increasingly redundant. Now, firms are exploring alternative modes and building capabilities to co-create new knowledge and innovate superior and mutual value with their customers. Such a shift in assumptions about the value of customer-held knowledge has profound repercussions for how companies innovate as well as the nature of value itself. Some even argue that the very locus of innovation is slowly migrating from within to outside corporate boundaries and that this movement demands a new consideration of questions relating to how firms actively access and deploy the knowledge held by customers.

Whilst the principles of co-creation are widely understood, little attempt has been made to identify and distinguish the different styles or types of value co-creation that companies are currently pursuing. In this paper, we make a bold attempt to do just that by presenting eight different styles of co-creation with examples of companies practising each.

In doing so, we seek to help firms determine which style is right for their particular context as well as assess which capabilities they can actively build to explore the possibilities of innovation with customers.

### **The factors that distinguish types of co-creation**

First, we identify and summarise some of the factors which help to distinguish the

different modes or styles of co-creation. These are:

**The nature of the value created** – What form of value the co-creation primarily delivers for the customer – whether tangible value in the form of products with a fixed set of features and attributes or intangible services or experiences with high knowledge content.

**Who is primary beneficiary?** - Who benefits from the involvement of the customer and the exchange of their knowledge in the innovation process?

**The explicitness of the customer benefit** – Whether the customer value benefit is explicitly stated or rather is an inherent part of the value-exchange process (for example, it is expressed through lower prices or more convenience, it is simply part of the “contract” between the firm and the customer).

**The timing of value creation** – When the value created is used, whether in the design phase in pre-market testing, when in the market in “beta” mode or when in context to an individual customer’s actual consumption-in-use.

**The degree of customer competence** – The degree of end-user competence and skill required.

**The intensity of firm-customer interaction and customer involvement** – The frequency and intensity of knowledge exchange between the firm and the customer.

**The number and types of customers involved**– Whether value co-creation is limited to lead users, a single customer at a given point in time or all customers possessing knowledge or seeking some kind of value.

**The customer’s role in the value-creation process** – Whether customers are performing an active or passive role, i.e. they are aware they are contributing value to the firm or are not.

**The nature of customer knowledge exchanged** – Expressed or latent knowledge, or some combination of both.

**The degree of customer-customer interaction** – Whether co-creation occurs in distributed (usually digital) environments amongst peer users and away from the direct management of the innovation process by a firm.

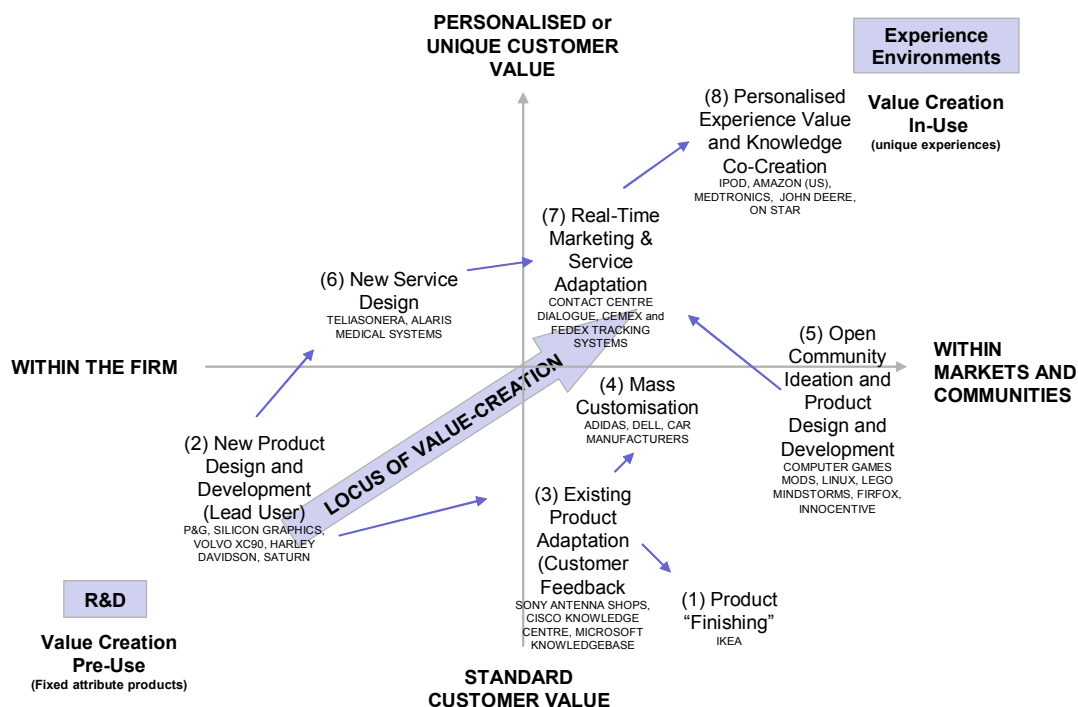
**Who owns the intellectual property created** - Whether there is no ownership of any IP or the firm takes ownership for its own purposes (which relates to the second factor - the primary beneficiary of co-creation).

After consideration of the above factors and a review of industry examples, we decided upon two additional criteria that together appeared most able to distinguish various different styles of firm-customer co-creation. These are:

**(1) The degree of adaptability or personalisation of the value created**, with standard, fixed products at one end of the scale and unique, personalised, adaptable experiences at the other.

**(2) The point (or “locus of innovation”) where the value creation occurs**, ranging on a scale from occurring wholly within the firm with limited invited customer involvement at one end (in this situation, value is created and embedded in new products before they are released to the market) to a situation where value creation occurs at the point of use by an individual consumer in the market or a community. In this instance, value is co-created according to the individual’s context, event or preferences in time and space.

Using these two factors, we are able to identify eight different styles of customer-company co-creation, which we show (with examples) in the chart below.



The eight different styles of co-creation are:

**(1) Product "Finishing".** The customer completes the product or service and is the final co-creator of value or actor in the business system or value chain, e.g. IKEA

**(2) New Product Design and Development (Lead User).** Here a limited number of expert customers are invited "into the firm" to share their knowledge and contribute to the development of new products and services. There is a good description of the Lego Mindstorms lead user project in February 2006's Wired magazine. Other examples include Harley Davidson HOG events, Saturn Cars, Proctor and Gamble's Connect & Develop programme and Silicon Graphics.

**(3) Existing Product Adaptation (Customer Feedback).** Here the company actively solicits expressed customer needs or feedback to improve its products, e.g. Cisco and Microsoft Knowledgebase

**(4) Mass Customisation.** This is the provision to the customer of a limited set of company-determined choices or options with which the customer can personalise a standard product or service template. Examples include Adidas custom shoes, Dell PC's and BMW cars (plus most other vehicle manufacturers)

**(5) Open Community Ideation and Product Design and Development.** We differentiate the open-source movement because a) it is more distributed and b) firms cede more control to the community of users and creators. Also, open source tends to bias in digital environments, creating mods to games software for example as well as the well-known examples of Linux, Firefox and Sugar CRM. We also include Innocentive here because of its community basis for creating solutions to R&D problems.

**(6) New Service Design.** We distinguish new service design from new product design and development (Lead User) (2 above) because services tend to involve

more consumers in the innovation process and are also easier to test in markets than products through experimentation, probe and learn approaches. Also, of course, service value is inherently more adaptable than tangible product value, involving more knowledge-rich interaction. Examples include Teliasonera's testing and piloting of new mobile phone services and Alaris Medical Systems constant dialogue with customers to improve its advocacy offering.

**(7) Real-Time Marketing & Service Adaptation.** Moving more to within markets and value-in-use with higher adaptability, this style of co-creation is characterised by high levels of customer dialogue and interaction, enabled by digital technology. This allows individual customers to change the value presented by the firm in real-time, so for example, Cemex allows its customers to modify the delivery time and quantity of cement to fit with the changing requirements, Fedex allows large corporate customers to change package transit times and destinations in real-time. These are enabled via an intelligent knowledge interface between the firm and the individual customer.

**(8) Personalised Experience Value and Knowledge Co-Creation.** Finally, this is where the firm and the customer interact within an experience environment to realise unique co-created value. The unit of value is not the product or the service but the individual experience and its interaction with a host or experience network partners. Examples here include those such as iPod / iTunes (facilitates a personalised music experience, it is less about the white box and more about the experience gateway it provides), Medtronic pacemakers (less about the pacemaker technology, more about the intelligent care network), John Deere (less about the heavy agricultural machinery, more about the remote sensing capability and adapt-to-farm conditions value) and Amazon (especially in the US which is now experimenting with all kinds of personalised interfaces and content).

**Summary**

In summary, we can identify that each style of co-creation requires different capabilities for strategy, learning and marketing. Each also demands a number of different pre-conditions and enablers for firms to be effective co-creators.

Naturally, some of the co-creation styles overlap and any one company may combine the different styles to realise

different forms of product, service and experience value.

In future editions of OMC Insight, we shall explore questions of enablers and capabilities in more detail.

---

Chris Lawer is Founder and CEO of The OMC Group, the customer strategy and innovation management consultancy. He can be contacted at [chris@theomcgroup.com](mailto:chris@theomcgroup.com) or via phone on +44 (0)845 057 4091

---

**ABOUT THE OMC GROUP**

The OMC Group is an associate network of customer strategy, experience and innovation management consultants, based in the UK but active across Europe and often elsewhere. We work across sectors but specialise in telecoms, financial services, retail, consumer goods, government and automotive industries, whether large or small companies. We are licensees of the highly acclaimed Outcome-Driven Innovation method.

For more information, visit [www.theomcgroup.com](http://www.theomcgroup.com) or contact us on +44 (0)845 057 4091