CONFERENCE EXECUTIVE SUMMARY

“Co-creation strategies—once an occasional approach to product development—are rapidly becoming a necessity to build and maintain competitive advantage,” said Harbir Singh, Co-director of the Mack Center for Technological Innovation, Mack Professor of Management, and Vice Dean of Global Initiatives at the Wharton School, during his opening remarks at the November 18, 2011, Mack Center conference, Innovation through Co-Creation: Engaging Customers and Other Stakeholders.

“At the Mack Center we study strategies and practices for improving the management of innovation, which leads us to ask such questions as: how do you choose an innovation strategy, how do you develop it, and where do you invest? We also look at innovation ecosystems and how firms work with multiple partners, customers, and suppliers to co-create innovations. An important issue is, how do firms develop mechanisms to appropriate value from innovation?” Singh added.

This conference featured presentations and discussions that focused on co-creation in the biopharmaceutical and IT arenas, the influence of stakeholders, and how the firm and customer co-create innovations.

From IT to pharmaceuticals, companies are engaging their customers in co-creation strategies that go beyond simple feedback surveys. As never before, firms are making customer and stakeholder input an integral part of their business models. Medical devices under development are showcased at academic medical centers while NASA invites anyone with access to the web to help them predict solar flares. The importance of engaging all stakeholders, not just shareholders, was illustrated through research by Witold Henisz of the Wharton School. He studied publicly traded mining companies, correlating the net present value (NPV) of the gold they had access to with the political and social environments in which they operated. He determined how much of the company’s market capitalization was attributed to the political and environmental context in which a mining company operated and the support it had from stakeholders, and he found that these external factors accounted for more than twice as much of its market cap as the gold.

When a crisis does arise among a company’s external stakeholders, Alan Kelly of Playmaker Systems, a consulting firm, has developed a lexicon for the “plays” companies can initiate. Kelly has developed 25 unique plays, which he defines as “a stratagem employed by a person or organization, irreducibly unique, which serves to improve mutual or exclusive advantage through influence.” Because all companies exist in a political and social landscape, whether they acknowledge it or not, learning the minute pieces of strategy plays in these environments is a necessary skill for success. According to Scott Snyder of Mobiquity, whatever the play, up-front discussions among the partners about how they will react to differing scenarios at different points in the co-creation process must be part of the equation. All parties must continually ask themselves if they have something that’s worth bringing to the market.

In the context of rapid technological change, the current pharmaceutical business model is broken, said Daniel
Zweidler of Daniel Zweidler & Associates. Because patents are granted early, prior to commercialization, companies duplicate experiments to hedge their bets on technology, which can be a costly waste of resources. Zweidler recommends moving patenting to the later, proof-of-concept stage to avoid such duplication. Recently, pharmaceutical companies have begun sharing their databases with academic medical centers and other researchers. The Penn Center for Orphan Disease Research and Therapy uses a solution-driven form of co-creation. Research labs from around the world bring their ideas to the center to find a treatment or cure for one of the estimated 7,000 rare or “orphan” diseases. Terry Fadem of the Perelman School of Medicine said that the center encourages collaboration by allowing each party to retain its own share of IP rights. The center’s only requirement is that a disease treatment reach the patient population within two years.

The U.S. government initiates similar public-private partnerships, according to Tom Cellucci of the Department of Homeland Security (DHS). The DHS oversees the approximate 25 million first responders through FEMA and is tasked with safeguarding the nation’s critical infrastructure, 80% of which is privately owned. And Kevin Werbach of the Wharton School reminded attendees that the government’s funding of billions of dollars in research each year is a form of co-creation. The America COMPETES Act empowers federal agencies to post co-creation challenges, leading to more than 130 challenges from 36 government agencies, all seeking private help and cooperation. Co-creation requires due diligence up front. Otherwise, conflicts can arise over what attorney Tara Rachinsky of Fox Rothschild calls “co-owned intellectual property,” in which one or more parties can use the IP however they want without consulting their co-owners. Additionally, different legal systems around the world can make enforcing rights very difficult across borders.

In the IT arena, constant updates are the norm, and designing these updates with your customers via co-creation is the only way to stay ahead. The next release always has to “wow” your customers, Scott Gnau of Teradata Labs, told attendees. Gnau said unexpected extras can make a new release significantly powerful. “It turns out that these additions have become extremely important and critical for our long-term success at Teradata.” Alph Bingham, co-founder of InnoCentive, helps companies such as NASA develop and post challenges. A challenge is a specific, detailed, and actionable description of a problem that needs a solution. They are posted to publicly available web sites and such crowdsourcing provides collective problem-solving that could not be accomplished at any company, no matter how large. A continuous feedback loop of ideas is created through use of “engagement platforms” comprised of people, interfaces, processes, and artifacts that interact to create value-generating platforms, explained Venkat Ramaswamy of the Ross School of Business. “Co-creation is building value based on experiences through engagement platforms that expand ecosystems,” he said. One example is the Nike Plus platform, an online forum that allows runners to log information on their mobile phones during runs and to share this information with other Nike Plus members.