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bigger say, and they'll lead  
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## Building the Co- Creative Enterprise

by Venkat Ramaswamy and Francis Guillard

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# Building the Co-Creative Enterprise

## Idea in Brief

Realizing that interactive technologies have changed people's behavior, a small but growing number of companies have invited customers to participate directly in the design of products and services.

In doing so, these pioneers have discovered that other stakeholders, like employees and suppliers, won't wholeheartedly participate in *customer co-creation* unless they're allowed to generate value for themselves, too. That requires giving them the opportunity to design and manage their own work experiences and to help identify and solve problems.

The payoffs of the *co-creative enterprise* are greater productivity and creativity, lower costs and employee turnover, and new business models and sources of revenue.

*Give all your stakeholders a bigger say, and they'll lead you to better insights, revenues, and profits.*

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# Building the Co-Creative Enterprise

by Venkat Ramaswamy and Francis Guillard

Virtually all companies worry about their customers' experiences with their products and services. But how many care about the experiences of their other stakeholders who directly or indirectly shape customers' experiences—from employees, suppliers, and distributors, to NGOs and regulators? We mean *seriously* care.

Sure, companies have strived over the years to build more trusting relationships with stakeholders and to involve them more deeply in solving problems. We've seen Japanese-style participative management, "partnerships" with suppliers, quality circles, lean production, and Six Sigma. And the latest thing, of course, is to invite everyone to trade ideas and opinions on company websites and through social media like Facebook.

The reality is that the experiences of most stakeholders still get short shrift. That's because the stakeholders have no significant say in designing them. But people are inherently creative and want to engage with organizations; they don't want to have products and processes imposed on them. And thanks to in-

teractive technologies, they now expect to be able to communicate directly with one another and share and shape their own experiences. At most companies, however, managers are behind the times: They cling to their hierarchies and their control over the definition and creation of stakeholders' experiences.

Some companies, though, are beginning to get it. The shift began in the late 1990s, when a few pioneers began to let customers participate in product development. Lego, for example, invited consumers to create designs of toy robots and construction models, write applications for the robots, and offer them to other consumers on its website. C.K. Prahalad and one of the authors of this article (Venkat Ramaswamy) coined the term *co-creation* to describe this emerging relationship between customers and companies. Over the past decade, dozens of other firms—including Cisco, Dell, Procter & Gamble, Sony, Starbucks, and Unilever—have embraced "customer co-creation" and discovered something crucial: Generating new experiences for end customers often re-

quires designing better experiences for internal players, a fact frequently overlooked in conventional process analysis.

A project in which we were involved—a large European bank’s launch of a low-end life insurance product with an investment feature—is a case in point. At the time, the bank’s life insurance division was facing a serious challenge from a relatively new player, ING of the Netherlands. By offering its products on the internet, ING had slashed its distribution costs, putting bricks-and-mortar competitors like the bank at a significant disadvantage.

Classic process design would have addressed the problem by asking, “How should we redesign the steps in developing and launching products to minimize cost and time to market while meeting the requirements of the customer?” The team would have interviewed some customers to understand their basic requirements, analyzed the existing product-development and launch processes, tried to reduce the number of steps and hand-offs, and ended up with more-efficient, streamlined processes. Nobody would have cared about the overall experience of the bank’s employees. And the customer experience would have been defined as a minimal threshold of features, such as a competitive rate, a well-trained adviser to help the customer make the right choice, and a comprehensive, easily deciphered product brochure.

Co-creation yielded a very different answer, because it used a different starting point. It began by focusing on the experiences of all the stakeholders who would be involved in or affected by the new offering. The bank held a series of workshops in which seven kinds of employees—insurance product managers, actuaries, IT people, bank insurance specialists, branch managers, senior branch advisers, and junior branch advisers—met first with one another and then with target customers to discuss their experiences with past product launches. During the discussions, the bank discovered that the answer to its problem lay in the experience of its junior customer advisers.

The junior advisers had largely been limited to performing front-desk duties in the branches, such as opening checking accounts and handing out brochures. Most of them were 25 to 35 years old and felt they were in dead-end positions; many would quit after just a few months on the job. Though they needed

to master investment products to get ahead at the bank, the branch managers and senior customer advisers had repeatedly ruled that they were unqualified to handle offerings that were somewhat risky. The junior advisers saw the new life insurance product as an opportunity to change their circumstances—to learn how to handle complex securities-based products and advance their careers.

No one leading a reengineering or Six Sigma initiative would ever include the junior advisers’ desire for career advancement as a design factor. But a premise of co-creation is that by sharing experiences, all the parties involved will acquire a deeper understanding of what is happening on the other side of an interaction, enabling them to devise a new, better experience for both sides.

In the workshops, it became clear that the junior advisers and the target customers had a lot in common: The product was aimed at people who didn’t have a lot of assets or experience in investing and were in roughly the same age bracket as the junior advisers. Like the junior advisers, these customers wanted to improve their financial know-how but were intimidated by investment theory and the language of risk and return. They also were afraid of losing their capital. It became apparent that junior advisers and customers could learn the basics of investing together with the help of senior advisers and investment specialists from headquarters.

The junior advisers and target customers decided to experiment with informal evening and weekend sessions in branch offices, at which the specialists from headquarters would explain the new product to both groups. During the workday in the branch offices, the junior advisers would serve as relationship managers for the customers, and the senior advisers would offer their expertise as needed.

Shortly after the informal community sessions started, the junior advisers asked the bank to launch an intranet where they could teach one another how to sell the new product. The bank agreed. Later it launched a similar website for the target customers, where they could exchange tips on how to save money (one of their main challenges) and the junior advisers could chime in.

The launch of the new product was the most successful (in terms of revenues generated in the first two years) in the life insur-

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**Venkat Ramaswamy** ([venkatr@umich.edu](mailto:venkatr@umich.edu)) is Hallman Fellow of Electronic Business and a professor of marketing at the University of Michigan’s Ross School of Business in Ann Arbor. **Francis Guoullart** ([fgoullart@eccpartnership.com](mailto:fgoullart@eccpartnership.com)) is the president of the Experience Co-Creation Partnership, a management education and consulting firm in Concord, Massachusetts. They are the coauthors of *The Power of Co-Creation: Build It with Them to Boost Growth, Productivity, and Profits* (Free Press, 2010).

ance division's history. Thanks to the reliance on junior employees, the community sessions, and the websites, the bank was able to dramatically cut the cost of selling the new product. The community-based online-learning tools sharply reduced training costs. The loyalty of younger customers increased. And by creating a path for advancement for junior advisers, the offering and the processes for selling it dramatically reduced their high turnover. In summary, the co-creation process yielded a lower-cost model for the bank and a better experience for all involved.

### The Four Principles of Co-Creation

In the past five years, we have studied or helped launch co-creation efforts at dozens of companies. From this work, we have distilled four basic principles that apply in any kind of business:

**Stakeholders won't wholeheartedly participate in customer co-creation unless it produces value for them, too.** Think about it. If something is not in your own interest, why would you enthusiastically participate in it? For the individuals involved, the value can be psychological (greater job satisfaction, feelings of appreciation, higher self-esteem) or

economic (higher earnings, the acquisition of skills, opportunities to advance). For their organizations, the value is economic (lower costs, higher productivity, increased revenues, a smaller asset or capital base) and, in some cases, the chance to do social good.

La Poste, the French postal service, provides an example of a co-creation initiative that engaged multiple stakeholders. When its mainstay mail business declined rapidly because of the internet, La Poste's leaders decided to try to expand its package-delivery and banking businesses. They confronted three obstacles: unmotivated, unionized tellers with rigidly defined jobs; dissatisfied customers who were annoyed by long waits; and frustrated local managers, who felt caught between the dispirited tellers and the command-and-control style of regional and national management.

La Poste's leaders decided to set a few high-level service goals and invite tellers and managers of post offices to talk with local customers about how to reach those goals. A critical step in getting the tellers' buy-in was giving them a say in their own work schedules. In local workshops, the three groups jointly decided what hours each office should be open and how its space should be configured.

The results: The redesigned post offices have reduced customer-waiting time by 50%. Customer satisfaction, which had long been in decline, is now on the rise. Job satisfaction among tellers and managers at the post offices touched by the program has soared. And last but not least, both the package-delivery and banking businesses have exhibited significant growth in the past year, despite the recession.

**The best way to co-create value is to focus on the experiences of all stakeholders.** Most organizations focus on creating economic value. Successful co-creators, in contrast, explicitly focus on providing rewarding experiences for customers, employees, suppliers, and other stakeholders.

The key to improving experiences is letting stakeholders play a central role in designing how they work with one another. Our experience at work, for instance, is a function of our interactions with our colleagues, bosses, subordinates, HR department, customers, and suppliers. As long as we are passive recipients of processes designed by the company, our work experience tends to be mediocre—it's not optimized for us, and we can't influence

## The Co-Creation Approach to Process Design

Traditional process design strives to meet a defined set of customer requirements and focuses on streamlining existing processes. By eliminating steps and handoffs, it increases efficiency and saves time and money. It ignores the interests of all stakeholders but the firm and its customers.

The co-creation approach, in contrast, aims to serve the interests of all stakeholders. It focuses on their experiences and how they interact with one another. Here are the steps a firm typically takes:

1. Identify all stakeholders touched by the process (employees, customers, suppliers, distributors, communities).
2. Understand and map out current interactions among stakeholders.
3. Organize workshops in which stakeholders share experiences and imagine ways to improve them.
4. Build platforms to implement ideas for new interactions and to continue the dialogue among stakeholders to generate further ideas.

### The Payoff

**For firms:** New business insights, new sources of revenue and profit, lower costs and risks

**For stakeholders:** Improved experiences, increased economic value (higher earnings, the acquisition of skills, opportunities to advance), and increased psychological value (greater satisfaction, feelings of appreciation, higher self-esteem)

it. But if we're given the latitude to redesign our interactions, we can change the quality of our experience.

When first exposed to co-creation, people often think allowing stakeholders to create their own experiences sounds like a recipe for organizational anarchy and economic destruction. In fact, the opposite is true. Co-creation is not a free-for-all. The management of the company sets the overall strategic direction and defines the boundaries between what can and cannot be co-created.

At 24/7 Customer, the strategy is to shift from providing call-center services and competing on cost to remotely reengineering the service processes of U.S. and European clients. In India, to attract the higher-caliber college graduates needed to perform that more sophisticated job, the company went beyond just offering higher pay. Conscious of the hot competition for these employees, it decided to also offer them a better work experience. One way it did that was by inviting individual recruits to assemble a group of friends and apply as a team. This proposition was a hit with the target group and proved particularly effective in recruiting young women, who, in big cities like Bangalore, often worried about working night shifts and getting robbed or attacked on their

way home. In addition, the company gave the teams some authority over scheduling: If a team member wanted to take time off, the team made sure that someone else filled in.

The result: The joint-recruiting efforts have been more successful than traditional recruiting at attracting desirable college graduates, and turnover is lower among staffers hired in groups as well. And at operations where teams handle their own scheduling, productivity is about 10% higher than average, and the incidence of shifts with unfilled slots is virtually zero, versus about 10% at traditional operations.

**Stakeholders must be able to interact directly with one another.** In most organizations, work is hierarchical and sequential: Someone takes an order and passes it to somebody else to fulfill. What gets lost is the ability of multiple individuals to have a dialogue. And that's a big loss. Most business problems are complex, and their solutions are not obvious. To address them, people with a wide range of expertise and perspectives often need to come together to hear and see the issues firsthand and work on a resolution. Deciding up front who exactly should be at the table is not always easy. The best approach is to simply invite all interested parties to interact directly and to reach out to yet others along the way.

This is the tack Starbucks took when a sizable number of customers suggested on its My Starbucks Idea website that the chain begin serving nutritious food, including hot sandwiches. One challenge, of course, was figuring out precisely what customers meant by nutritious food, how much they would be willing to pay for such items, and the cost of producing them. Toward that end, the product marketing function initiated a discussion on My Starbucks Idea involving not only customers but also in-house nutritionists and potential suppliers. During this process senior managers expressed concern that the smell of hot food might smother the aroma of coffee in the store, thereby undermining "the coffeehouse experience." In the end the resolution of all these issues (including hot sandwiches that wouldn't overwhelm the coffee aroma) required a great deal of back-and-forth among all the parties.

**Companies should provide platforms that allow stakeholders to interact and share their**

## Traditional Strategy Versus Co-Creative Strategy

### Traditional Strategy

**Value:** Creates value by delivering defined customer experience to targeted customer set

**Goals:** Establishes strategic goals at the outset and doesn't significantly change them

**Key focus:** Focuses on the interests of the firm: that is, how the firm can maximize its share of the created value relative to the shares of its industry competitors and the other members of its value chain

**Advantage:** Achieves advantage through realizing economies of scale before competitors do and making big, bold moves (such as acquisitions and investments in proprietary assets)

### Co-Creative Strategy

**Value:** Creates value by constantly enhancing experiences for all stakeholders

**Goals:** Uses the initial strategic goal as a starting point and lets the full strategy emerge over time

**Key focus:** Focuses on the interests of all stakeholders and how the ecosystem can maximize the size of the pie; maximizing the share of value captured by the firm is secondary

**Advantage:** Achieves advantage through the increased engagement of stakeholders and by continually building new interactions and experiences, which lead to higher productivity, higher creativity, and lower costs and risks

*By early 2010, three years after Orange had rolled out its employee-idea program, 93,000 ideas had been posted on the website, more than a third of all employees had posted or commented on an idea, 7,500 projects had been implemented, contributing more than €600m in earnings or savings.*

**experiences.** The internet and other information technologies, of course, have made collaboration among stakeholders vastly easier and cheaper. Despite this, a lot of businesses' IT systems don't actually help people share their experiences and develop an understanding of other key players' problems and priorities.

For instance, when a shortage of a critical component could threaten the delivery of a product, the raw data that can alert people to the looming problem is frequently in the company's ERP system. But often there is no mechanism to ensure that all the people potentially affected (the operator in the components plant, the manager of the factory that manufactures the finished product, the salespeople responsible for the end customers, and those customers) are conducting a dialogue. All of them need to be aware of the shortage and understand the other parties' concerns. If they do, they can work together to devise an optimal solution, which might be paying a steep premium to obtain the part from an alternative source or delaying shipment of the product to clients that can afford to wait.

My Starbucks Idea is a co-creation platform that facilitates this kind of dialogue. Another is IdClic, an intranet site that Orange, the operating brand of France Telecom, built to encourage employees to submit ideas for improving processes, redesigning products, and optimizing their workplace. It's more than a mere suggestion box. Employees can promote their ideas through a blog and gain visibility through a point system that rewards people for commenting on others' ideas. By early 2010, three years after Orange had rolled out the site, about 93,000 ideas had been posted on it. More than a third of all employees had contributed or commented on an idea, and more than 7,500 projects had been implemented. Collectively, the projects had produced more than €600 million in earnings or savings.

As we hope is evident by now, the payoff of broad stakeholder co-creation is much greater personal engagement by all stakeholders, which in turn can result in greater productivity and creativity, reduced turnover, and lower costs.

### **Work Design and Strategy**

Co-creation changes the way companies think about operations and strategy. In conventional approaches, activities and processes are

the two building blocks of business design. Each link of the value chain or step in the process is judged on its economic merits, which leads companies to produce where the cost is the lowest (for example, by offshoring manufacturing) or to cut steps out to save time and money. The experiences of people that could lead to new sources of competitive advantage and new business models are largely ignored.

Reengineering focuses predominantly on identifying "pain points" that cause inefficiencies in the system, which are bounded (the firm, not the individuals affected, defines the process and the problem), negative (the easiest thing to do is to fix what's wrong), and incremental (in spite of messianic incantations about "clean sheet design," nearly all reengineering projects start with an "as is" view of the process and its shortcomings, limiting the scope of change). Co-creation has none of those constraints: The people involved in redesigning work imagine new, positive experiences for themselves and develop interactions that did not exist before—like the informal community sessions and websites that the European bank's junior advisers and target customers dreamed up. Moreover, co-creation avoids other critical disadvantages of traditional strategy formulation.

We believe that conventional thinking about business design and strategy suffers from three limitations:

**It is solely focused on the economics of the firm and its industry.** In this world a firm fights to appropriate as much of its industry's and value chain's profits as it can. Toward that end it tries to gain a competitive advantage that allows it to hold as strong a bargaining position as possible. In all cases, competitive advantage is located within the walls of each firm.

Traditional strategic moves tend to be big and highly visible—taking the form, for example, of acquisitions or large investments in new technologies. But competitors can counter these moves by acquiring the next best candidate or investing comparable amounts in the same technologies. With co-creation, the careful weaving of new interactions between stakeholders and new experiences tends to stay below the radar screen of traditional strategists. However, because these interactions and experiences are difficult to monitor and copy, they often can provide a more enduring source of advantage.

*In co-creation, strategy formulation involves imagining a new value chain that benefits all players in the ecosystem.*

**It fails to allow for the possibility of co creating an ecosystem whose members all win.** Strategy formulation in the co-creation paradigm, on the other hand, starts with a focus on the entire ecosystem—not the individual firm’s position in it—and tries to imagine a new value chain that benefits all players, including, of course, the company itself. The top priorities are growing the pie and maintaining the vibrancy of the ecosystem; maximizing the firm’s slice of the pie is secondary.

**It assumes that a strategy will be completely defined at the outset, though uncertain circumstances often make that impossible.** In the co-creation paradigm, strategy emerges slowly through a process of discovery by the individuals in the firm. A firm starts out with a strategic objective and a target customer whose needs it is trying to serve. In pursuing that goal the firm enlists the participation of the members of its ecosystem by striving to improve their lot as well as its own. The full strategy can be discovered only through a live process organized by the company but conducted by the stakeholders themselves.

This more expansive view of value, competition, and strategy is attuned to the realities of today’s business world, where technological advances and economic shifts are rapidly rendering traditional business models obsolete. Emerging markets are a case in point. As managers have discovered, traditional business models built to serve developed economies often can’t be applied in emerging economies, where costs must be an order of magnitude lower if the company is to compete and the infrastructure for distributing and servicing goods is often lacking. But as ITC, a \$6 billion Indian conglomerate has demonstrated, co-creation can provide a way to invent effective business models for the developing world.

### **Co-Creating an Ecosystem in India**

In 2000, ITC faced challenges in two of its businesses: improving its position in the global export market for commodities, particularly soybeans, and sourcing high-quality agricultural products for its new packaged-foods business. In India the quality of farmers’ production was not up to the level demanded in international markets, and farms’ productivity was too low to support ITC’s growth. The main causes of these problems were clear: the plethora of small, inefficient farms that domi-

nated the country’s agricultural sector, and corrupt and opaque state-run markets.

The conventional strategy would have been to consolidate farms by employing two tactics popular in the United States and Europe: acquiring or leasing lots of small farms and rolling them up into vast agribusinesses run by trained professionals, and forcing small independents to merge by imposing stringent purchase contracts that stipulated farming methods and quality and productivity standards that only much larger operations could achieve. A traditional competitor would have raced to take these steps in order to seize advantage through economies of scale. The farmers’ human experience—their aspirations and concerns—would not have entered into the equation.

ITC followed a different path. Because it was a company with an Indian soul, its leaders empathized with the struggling small farmers and their fierce desire to stay independent, and wanted to help lift them out of poverty. ITC’s leaders reasoned that the best way to raise the farms’ productivity and quality was to help growers discover and implement better practices. So improving the individual farmer’s experience was a primary goal at the outset.

ITC decided to involve multiple stakeholders that shared this goal, including NGOs and the Indian government, from the start. In early workshops with farmers, the idea of holding forums that taught them how to improve yields and upgrade crop quality quickly emerged. The farmers also expressed interest in learning how to store their crops and when to sell them to maximize the price received.

In response, ITC built a series of kiosks with internet access called *e-choupals*. (*Choupal* means “meeting place” in Hindi.) Each was located within walking distance (four or five kilometers) of several villages. Each provided information in the local dialect on the daily weather forecast, crop prices, and other agricultural news; advice on farming methods; an e-mail service that let farmers interact with scientists at agricultural universities, technical people at ITC, and fellow farmers who may have dealt with challenges similar to theirs; and access to land records, health and educational services, and information from NGOs on the latest developments in cattle breeding and crop seeds.

ITC field people identified a natural lead farmer, or *sanchalak* in Hindi, to manage each e-choupal. They trained him to operate the kiosk and lead the group education process, but he did not become a corporate agent; he remained one of the farmers and publicly swore allegiance to them. His compensation was a commission on farmers' sales to ITC and an increase in prestige in his community.

As you would expect, the sanchalaks proved to be an effective means for surfacing and discussing the main issues on farmers' minds. The online network allowed the sanchalaks to compare notes and discuss with each other and ITC personnel where the e-choupal program should go next. High on the list of farmers' frustrations were the *mandis*, the traditional government-run marketplaces where the farmers sold their crops. The mandis were (and many still are) notoriously inefficient and corrupt. Farmers were frequently cheated on weight and price and often were not paid in full on the day of the sale—a violation of government regulations.

In working sessions, ITC, the sanchalaks, and the farmers started imagining a convenient and comfortable new market where farmers would receive fairer prices. ITC would be able to buy more high-quality products directly from them there, reducing its handling costs. The upshot was the creation of a network of ITC-owned marketplaces. Each of these *choupal saagars* (or hub facilities) serves about 40 to 50 e-choupals. In contrast to the mandis, they employ electronic weighing systems, conduct objective quality testing, pay farmers in full on the spot, and offer modern amenities such as clean bathrooms. Today, ITC has more than 6,500 e-choupals and nearly 150 hubs, which serve more than 40,000 villages and 4 million farmers across 10 Indian states.

This system has cut the firm's procurement related transaction costs by 25% to 30%. Most important, it is providing ITC with a stable, growing supply of high-quality products capable of supporting the expansion of its export trading and packaged-foods businesses.

At ITC, co-creation never ends. Discussions among farmers, sanchalaks, managers of the hub facilities, and the company's employees led to the creation of other facilities at the choupal saagars, such as centers that sell fertilizers, seeds, pesticides, and equipment and offer farmers soil-testing services and agro-

nomic advice. The centers have the scale to obtain much better prices from manufacturers than the villagers could get on their own, and, of course, are a new source of revenues and profits for ITC. At the hubs, ITC also opened retail stores that initially sold grocery products and other consumer goods and have since expanded into financial services. And a mobile-phone platform now being rolled out will allow millions of additional people, including rural villagers, to obtain agricultural information and other consumer services for about a dollar a month.

Meanwhile, ITC's competitors have adhered to the conventional strategic path and raced to consolidate Indian farms by establishing corporate and contract farms. To date, few, if any, have been successful.

In taking a co-creation approach, ITC has achieved its initial business objectives and then some. It has built a business model and a competitive position in India that no rival can easily match. The farmers have seen their productivity dramatically increase, the quality of their crops significantly improve, and their income rise, and they now have access to products and services that have enhanced the quality of their lives.

The new paradigm of co-creation presents an enormous opportunity for enterprises that can figure out how to harness it. Individuals are far ahead of most organizations in their eagerness to engage in co-creating value, and organizations must now respond. Managers accustomed to focusing on process efficiency and the protection of the competitive advantage in their value chain are faced with the challenge of designing new multiparty interactions and building new engagement platforms, generating new experiences for all stakeholders.

Undoubtedly, the biggest challenges to getting managers on board are deeply entrenched attitudes and behaviors. HR people may feel threatened when employees participate in the design of recruiting or performance measurement processes. Purchasing people may find it difficult to accept that the firm should care about its suppliers' experiences. Plant managers may dislike having to engage with environmental activists who challenge their firm's sustainability practices. Conceding that people at the receiving end of traditional processes may

## For Further Reading

To learn more about companies that work with their customers to co-create value, see

"Co-opting Customer Competence," by C.K. Prahalad and Venkatram Ramaswamy (HBR January–February 2000)

*The Future of Competition: Co-Creating Unique Value with Customers*, by C.K. Prahalad and Venkat Ramaswamy (Harvard Business Review Press, 2004)

For more on co-creation efforts that involve multiple stakeholders, such as employees, customers, and suppliers, see

*The Power of Co-Creation: Build It with Them to Boost Growth, Productivity, and Profits*, by Venkat Ramaswamy and Francis Gouillart (Free Press, 2010)

*In taking a co-creation approach, ITC has built a business model that no rival can easily match.*

have better ideas than the experts who have been designing those processes for many years requires a new humility.

The best way forward is to start small. Begin with a platform that focuses on the experiences of two or three key stakeholders and a specific purpose like gathering customers' requirements for a new product, improving order fulfillment, or figuring out the best sales pitch for a new offering. Then let the perimeter of co-creation naturally expand over time to include a wider range of experiences for those stakeholders and then new stakeholders. At each stage, the organization will realize new

economic benefits, giving it the motivation to continue the journey and explore more and more strategic applications of co-creation.

Ultimately, co-creation is about putting the human experience at the center of the enterprise's design. The time has come for a democratic approach, in which individuals are invited to influence the future of enterprises in partnership with management.

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