

Innovation, Business Models and Entrepreneurship
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Lecture - 14
Co-creation for Innovation

Welcome friends, in this course of Innovation and Entrepreneurship. We have consistently emphasized the importance of innovation as competitive tool, in the present business environment. Now, when the business environment is becoming competitive day by day as organizations, we also need to think that how to make better innovation management programs in the organization, because it is such a unique thing that it should not be easily imitated by our competitors.

And therefore, one of the term which is becoming very popular these days that is co creation. And in this session we are going to discuss that how co-creation can be used for innovation, the term has used in a variety of settings, it is co-designing, it is co-production, it is co-service, but here I want to use umbrella term that is co-creation and co-creation particularly for innovation. When we talk of co-creation word some of you will go to value discussion, because the term has its roots in the discussion of values and we all know, the concept of value is a age old concept.

So, therefore, we need to go slightly in past and we need to see that what are the different views on value, and how co-creation can be a competitive tool for innovation in the present environment, when I talk of co-creation let us first understand.

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The creation of value is the core purpose and central process of economic exchange.

12th pass → Value addition → B. Tech. graduates

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That how value is created or what is the significance of value in our discussion, you see an entire economic process creation of value this is the central idea, you create value when a manufacturer uses some raw material and produces some finished goods.

So, actually the manufacturer is adding value to the raw material to convert that raw material into the finished products, you get like in a typical engineering college, you get twelfth pass students, then you do some kind of value addition. And then B. Tech graduates move from your college, they are the output of your college B. Tech graduates. So, the creation of value, if this college is not able to add that value to convert 12th pass students as B Tech graduates, it is not creating any kind of significant importance to the overall economic development of the nation.

So, we need to understand that in the economic system in the entire process of economic development, the idea of creation of value is the central theme those processes. And therefore, you see Japanese organizations have a very well, decided about the value added activities and non value added activities, I am teaching you I am delivering this lecture. So, I am using my voice my throat and this throat is giving me value, but if I move here and there.

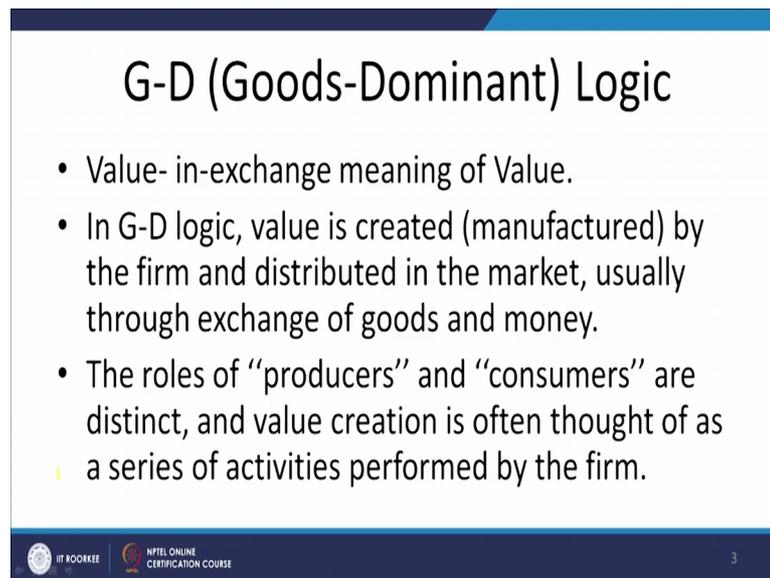
So, these movement here and there is non-value added activity. This is an activity this is taking my efforts, but this is not contributing any value to my lecture, my facial

expressions my hand movements, my eye movements all these are adding value to my lecture.

But my legs movement is not adding any value. So, the whole Japanese management system is focusing on this particular point, that what are the value added activities in a process and what are the non value added activities in a process. And by systematic approach, by following the principles of kaizen, they try to eliminate all non value added activities. So, that you get cost efficiency you get higher value with minimum efforts. So, that is something else.

But at this point it is important to understand that creation of value is the central purpose or the central process in any economic exchange.

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G-D (Goods-Dominant) Logic

- Value- in-exchange meaning of Value.
- In G-D logic, value is created (manufactured) by the firm and distributed in the market, usually through exchange of goods and money.
- The roles of “producers” and “consumers” are distinct, and value creation is often thought of as a series of activities performed by the firm.

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Now, when we are talking of this value we also need to see that there are two different meanings of value; one mean one meaning of value is related to value in exchange. This is one meaning of value that value in exchange, the other meaning which we will discuss shortly that is value in use. Now, the value in exchange meaning of value is coming from this age old principle that is the goods dominant logic, which is very popularly known as G-D logic goods dominant logic.

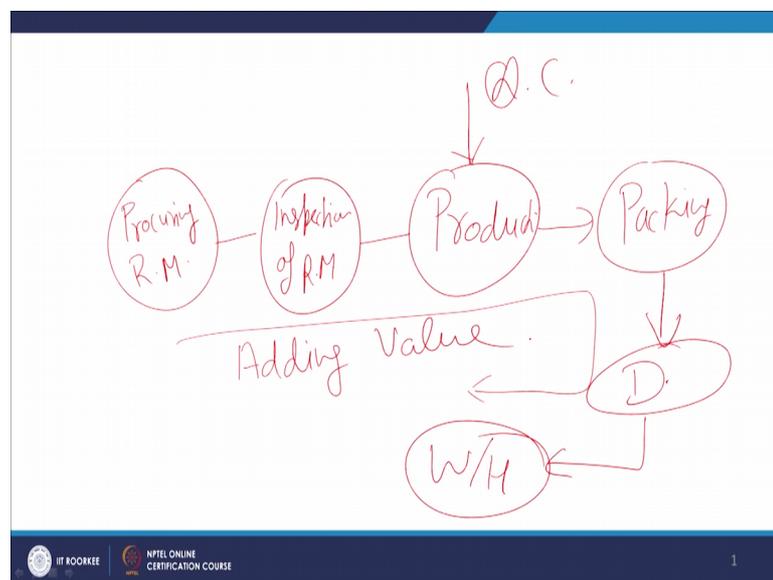
Now, in this goods dominant logic what actually happens that value is created by the firm and distributed in the market, usually through exchange of goods and money like,

you are an automobile manufacturer, you use different types of raw materials, rubber, tires, metal components and then you put together all those components raw materials to make a car.

And through your distribution system, you are distributing that car to the customers. So, here in G-D logic the assumption is that, you have created value in the factory, you are creating value in the distribution process. And then a customer is coming who purchases the car and, in that purchase process either customer is giving you money to take the car, or customer is offering some other value to you so, that you can give him a car.

It is possible that customer gives his house and you give car. So, that type of exchange is also possible. So, here we exchange value car is valuable to me money is valuable to seller so, we are exchanging the values here, the meaning is that value is being created by manufacturer. And now you are finding something so, that you can exchange this value. Now, in this case the roles of producers and consumers are different and, value creation process as I mentioned is often thought of as series of activities performed by the firm.

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So, the firm the manufacturer is performing different types of activities like he is procuring raw material, then he is doing the inspection of raw material, then the production activity. And this production is also governed by quality control, then it is packing, then it is dispatch and maybe warehousing all these are the different types of

activities, which are involved at the manufacturer level. And we say that all these activities are adding values, or these are the activities which are creating value at the firm level.

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So, what we discussed, that the value is created through series of activities and all these activities, we just discussed are performed one after another. So, that is the traditional way of looking the value, value in exchange and here the creator of value is the organization. And we have as a producer and as a customer we have different meaning of value.

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- According to G-D logic, the firm's production process creates value for customers through the manufacturing and delivery of a product.

The diagram shows two ovals. The left oval is labeled 'Created Value' with 'Mfg.' written below it. The right oval is labeled 'Value' with 'Customer' written below it. An arrow points from the left oval to the right oval. The word 'Exchange' is written in the middle, with a yellow highlight. The entire diagram is drawn in red ink.

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Now, in these goods dominant logic, we believe that the firms process production process creates value for customer and customer actually finally, uses that value. And the important process of this value is the exchange process, where the manufacturer has created value and, customer is now is looking for he also has some value and this exchange process.

So, here in this system this exchange process is the important thing, you look for this exchange process.

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S-D (Service-Dominant) Logic

- Value-in-use meaning of value
- In S-D logic, the roles of producers and consumers are not distinct, meaning that value is always co-created, jointly and reciprocally, in interactions among providers and beneficiaries through the integration of resources and application of competences.

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Now coming to the next phenomena and which is becoming nowadays more popular, and this is service dominant logic the S-D logic. And here the meaning of value has changed, now the meaning of value is value in use, earlier it was value in exchange, but now the meaning of value is value in use. Now, when we say that value in use the meaning is customer is not having the value of the product only in the exchange process, because once customer purchases the product, customer starts using the product. And when customer is using the product customer also realizes the value.

If I purchase a car, but I do not use that car the product is of no value to me, according to this service dominant logic, when I start using a product then I realize the value of the product. And therefore, the focus has shifted from value in exchange to value in use from goods dominant logic to service dominant logic. So, that is one very important distinction between two concepts, or two views G-D and S-D, G-D says value in exchange S-D says value in use. And, now let us see some more points some more characteristics of this S-D logic. The S-D logic says the roles of producers and consumers are not different.

Remember in our G-D logic we said that the role of producers and consumers are distinct, but here you need to see that it is not distinct, they are not two different parties, they need to collaborate meaning that value is always co-created. So, now we are coining this term co-creation, this service dominant logic is actually the reason of this term co-creation. If I do not believe in service dominant logic, then I will also not believe in the concept of co-creation but let us see more things.

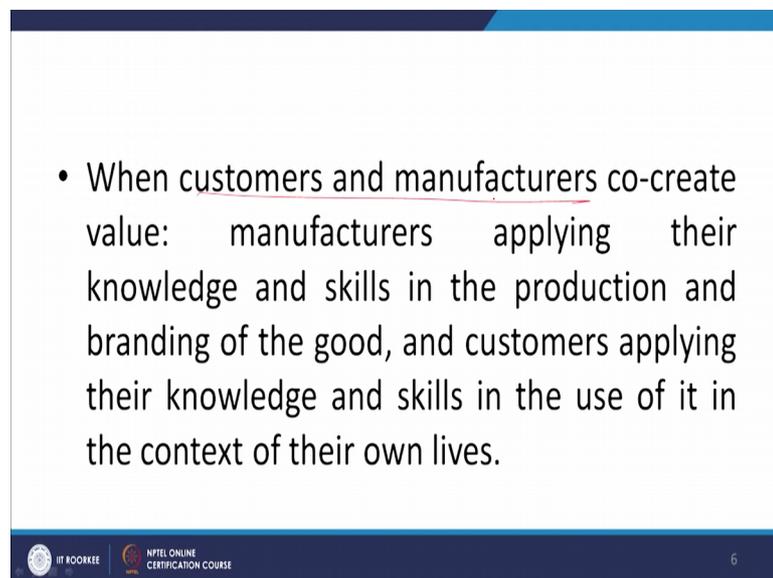
So, value is co created jointly and reciprocally in interactions among providers and beneficiaries through, the integration of resources and application of competencies. So, there is a collaborative approach of manufacturer and customer. The integration of among the providers and beneficiaries, that meaning is the provider is actually normally in our simple language this provider is manufacturer and this beneficiary is customer.

So, the interaction between provider and manufacturer and customer leads to co-creation of value and, here we integrate resources and we use the competencies of manufacturer, which are in terms of skills, in terms of knowledge, in terms of experience and competencies of user the beneficiary that in what way user wants to use this vehicle take the example of automobile again.

For somebody the automobile is a basic mode of transportation, but for somebody else the automobile is a symbol of a status, for somebody else the automobile is a symbol of personality. And therefore, particularly in motorbikes you see different types of designs of motorbike, which is a result of co-creation because, different types of users they have different expectation from the product and, when you have different expectations from the product, you come up you means the manufacturer the provider come up with the different type of designs and solutions.

So, that is the important thing in the S-D logic. So, what happens when customers and manufacturers co-create value?

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• When customers and manufacturers co-create value: manufacturers applying their knowledge and skills in the production and branding of the good, and customers applying their knowledge and skills in the use of it in the context of their own lives.

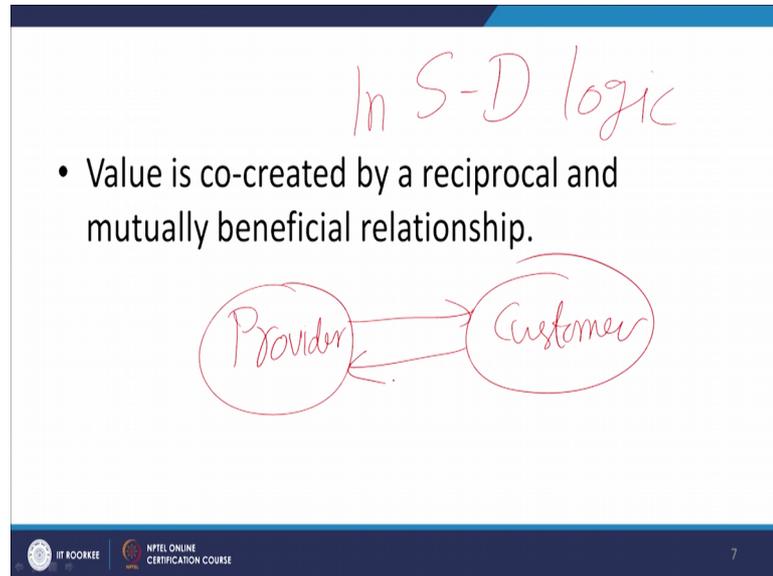
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When customers and manufacturers they co-create value manufacturers apply their knowledge and skill in the production and branding of the products, and customers applying their knowledge and skills in the use of it in the context of their own lives. So, as I mentioned that how you want to use this product as a customer, this only you know. And therefore, if you collaborate with the marketer, if you collaborator with the producer you will be able to get more customized suitable products according to your requirements.

So, you also feel more value in the product and the provider also feels that yes I have delivered a product which is as per the requirement of the target customer. So, therefore, this co-creation process is a reciprocal process, this is a process of integration, this is a

process of collaboration, where both parties where both parties respect each other, where both parties use the strength competences of each other to co-create value, which is different from value in exchange and now this has value in use.

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So, as I emphasized that in a S-D logic in S-D logic value is co-created by a reciprocal and mutually beneficial relationship, we develop a relationship between provider and customer, which is mutual which is reciprocal and in this relationship value is co-created. Which is used as a important tool in the process of innovation. Now, if I want to see the usefulness of co-creation for the process of innovation. So, we say that co-creation is a building block for developing that platform, where a different stakeholders can come and share their views.

If you recall in one of this session, we discussed about building participation, we discussed about communities and co-creation, provides such type of platform where communities can be developed. People having similar kind of needs similar kind of expectations and, providers having similar kind of expertise skills knowledge can come together on this platform. And therefore, they can co create value for each other. Just to give you the example, we see that different types of industrial expo take place sometime you find industrial expo related to machines of paper technology.

Sometime industrial expo related to farm related machines, sometime you find industrial expo related to printing technology. Now, when you have a sector specific industrial

expo, the use of that all those who are having expertise in that particular industry they will come and all those who are the potential customers, they will also go there and when you have this platform. So, they will tell their requirement, they will tell their expertise and with mutual discussion value will be co created on those platform.

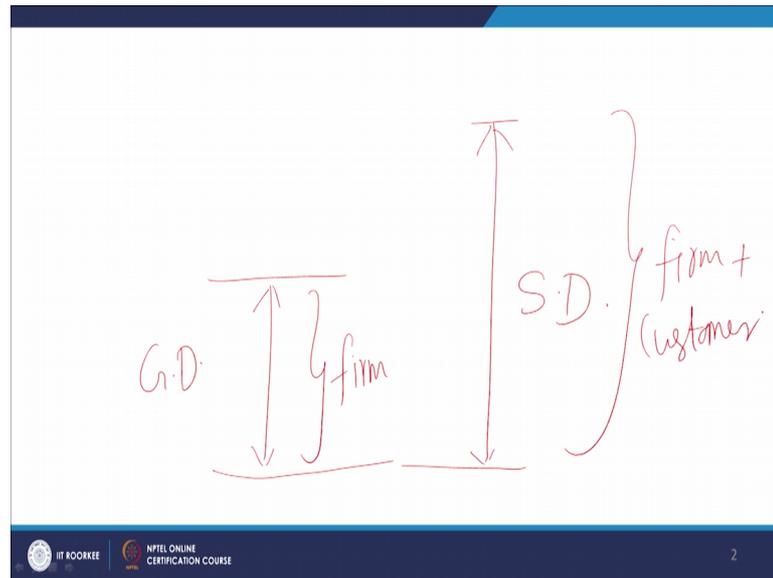
So, those types of platforms are actually the platform for co-creation and in this you actually when you are giving opportunity to your customers. So, this becomes a very good platform, for harnessing the creativity of your customers and your employees, your customers are equally creative. But because we were following G-D logic and, in that G-D logic our assumption was that only firm is creating the value. So, we ignored the creative potential of your customer, but in this co-creation process, we feel that value is created we assume we believe that value is created in a mutually integrated manner and with this idea. We are able to take the advantage of creativity of our customers.

So, that it becomes more valuable product the level of value if you say. So, if you are creating this much value in value in exchange process. So, in value in use process you should be able to create this much value just to give you an idea, because here only one party is creating the value that is the firm. And in this process value by use, your firm as well as your customer, they both are creatively engaged. So, you create higher values if I just want to compare in monetary terms. So, you create higher values when we have value by use or we go by co-creation process.

So, it is the other way to simplify the discussion that how value by use give more value to the products and, it is a way where people are engaged people means manufacturer and customers, they are engaged in a meaningful creative and transformative way. So, that you get higher values out of your mutually discussed, products, mutually discussed services and a combination of products and services.

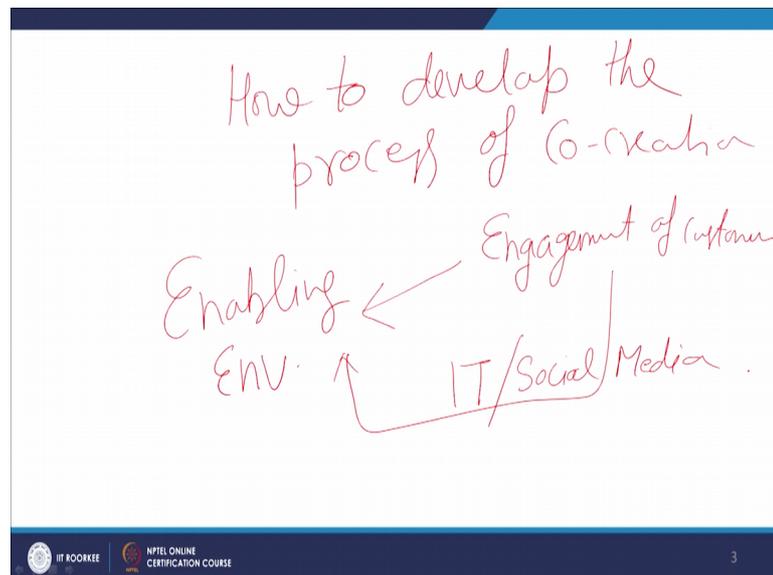
So, with this we come to end of this discussion, that the co-creation is a very important tool because, we want to have high and high value and high and high value can only be created by you have this level of value.

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When you talk of G-D logic and, when we talk of S-D logic, you have this level of value. So, your level of value increases because, here only the firm is contributing for the value and here you see firm plus customer, they both are contributing in developing the value. So therefore, the process of co-creation is very very important for the innovation.

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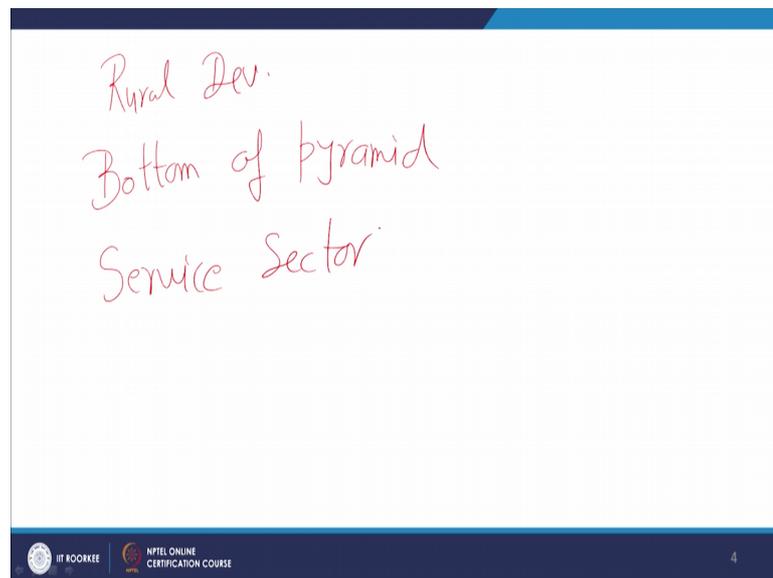


The other important question is how to develop the process of co-creation. And now to develop a meaningful co-creation it is important, that you create enabling environment. And the most important thing in this enabling environment is engagement of customer.

How do you engage your customer in this process of discussion and for that purpose you have presently the use of IT particularly social media, where physical presence of customer may not be required, virtually you can get connected with your customer. And some of you may have some doubt with respect to marketing research, but in that marketing research customer was a passive input to new product development activity, here in co-creation process customer, or your beneficiary is a very active member of value creation process. So, that is the difference between G-D and S-D with respect to involvement of customer.

If you have depending upon degree of involvement of customer, you can say the degree of co-creation also. So, the way you find how you can engage, because we just discussed the meaningful involvement of your customer. So, that you can take the potential or the creative ideas from your customers, you can understand their requirements in a better way.

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So, some of the cases like if I talk of India the usefulness of this idea may come for rural development, tremendous scope of co-creation for rural development, because of large gap between the providers and beneficiaries.

Providers are from multinational companies, providers are sitting in the ac rooms the condition at the ground are much different and therefore, most of the time when we deliver a product for the rural masses we do not get success. Therefore, there is a

tremendous scope of co-creation for rural development. Then there is another phrase which is known as bottom of pyramid, the very famous author CK Prahalad he mentions that there is a fortune at the bottom of pyramid for marketers, but that fortune can only be exploited that fortune can only be used, when we go for co-creation of value with this bottom of pyramid.

People living below poverty line are part of this bottom of pyramid, they make the bottom of pyramid according to CK Prahalad, but we are not able to give any product any value to them because, concept of value in exchange at all not apply to the area what value you are creating in firm is not value to them. So, therefore, this is another important area, where co-creation is applicable for innovation. Then another important area service sector, we all know services cannot be generated without customers.

So, customers are very much integral part of getting the service developing the service providing the service. And therefore, service sector where customer is already involved co-creation process can be done without much additional efforts. So, you can reap huge benefits, if you apply the service dominant logic in the service sector itself. And particularly in case of India, where the more than 50 percent of our GDP comes from the service sector this concept of co-creation in innovation becomes even more relevant.

So, with this we come to end of this discussion. And we discussed about the role of co-creation. We discussed about G-D logic S-D logic, we discussed about how co-creation can be applied how you can get the enabling environment and some of the potential application area of co-creation for the innovation processes.

Thank you very much.