

By Rhea Wessel / Illustrations by Christoph Kienzle

# ME & YOU

With the emergence of the Web as a global development platform, a space for collaboration and a marketplace, new forms of cooperation and collaboration are emerging. And this is forcing executives to look harder to find win-win solutions.

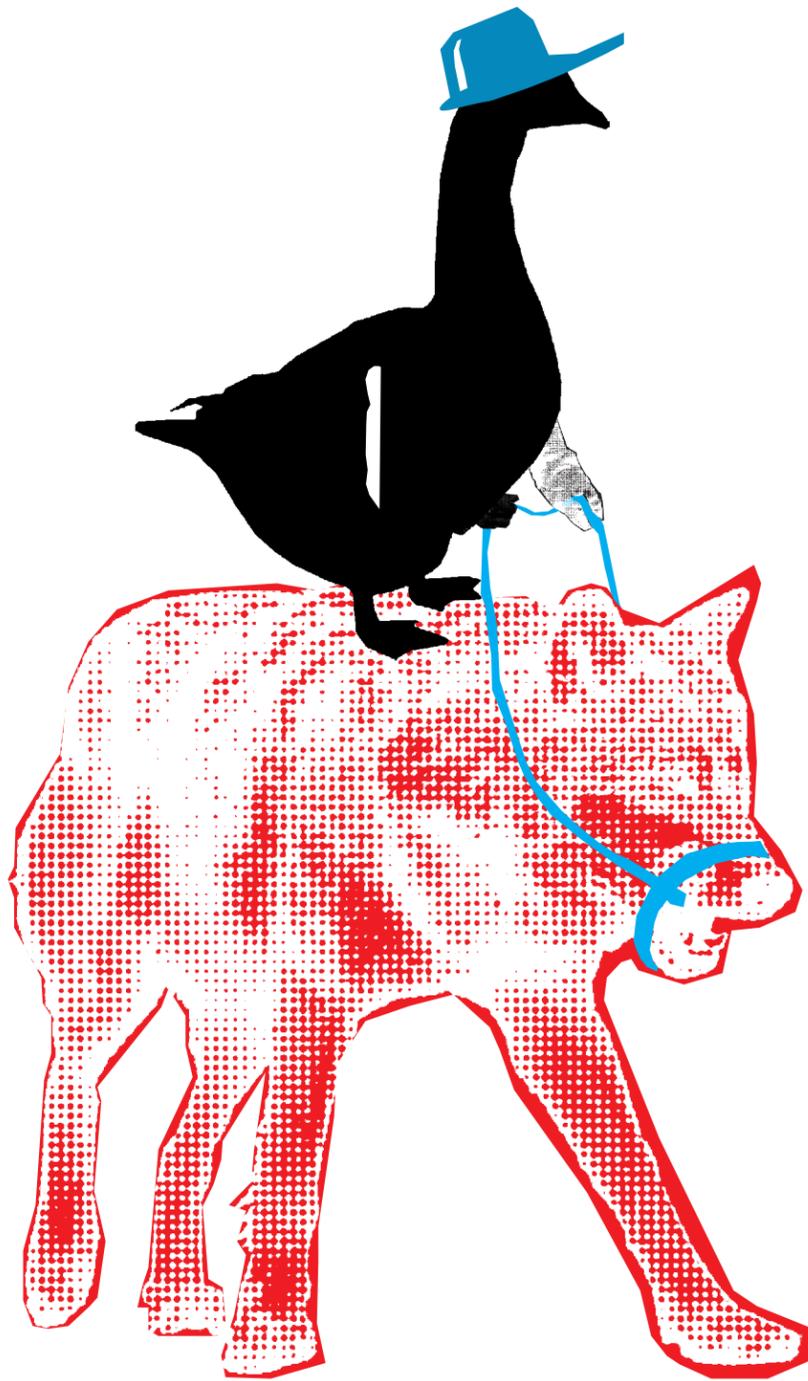
We have been cooperating in small ways since pre-historic times. Hunters and gatherers shared what they foraged, and eventually people increased their cooperation to achieve bigger goals that benefited more people, such as the digging of wells. Writer and social critic Howard Rheingold traces the roots of today's desktop-based mass collaboration to pre-historic hunters. As one of the first commentators and experts to identify the power of mass collaboration as it was emerging on the Internet as a new networking tool, Rheingold says, "At some point, [people] banded together to hunt bigger game. It only makes sense that you can't hunt mastodons while you're fighting with the other groups. We have no way of knowing, but it must have been that a new form of wealth emerged: more protein than the hunter's family could eat before it rotted. That raised a social problem ... did the people who ate the mastodon meat owe something to the hunters?" Scroll forward to the Internet age and human behavioral evolution at broadband speeds. Every desktop has become a printing press, a

broadcasting station, a community and/or a marketplace, representing the empowerment of consumers on a broader scale than ever before. With every click, the power of governments, the media, corporations and other institutional stakeholders erodes, and the influence of the individual increases. Companies that utilize the power of collaboration can access and exploit the fertile ideas of the masses.

By managing collaborative networks and building communities, companies can seize the upside of mass collaboration to expand their base of engineers, entrepreneurs and customized products, and positively shape their brand image along the way. Down the road, we can see a further development ahead. Some leading firms will eventually evolve the co-creation trend to the next level by democratizing strategy. University of Michigan professor [Venkat Ramaswamy](#)<sup>1</sup> believes that Web 2.0 will do to strategy development what it has done to product development. The culture and tools of interaction lead companies to seek collaborative input online →



1/ VENKAT RAMASWAMY is Michael R. and Mary Kay Hallman Fellow and Professor of Marketing at the Ross School of Business at the University of Michigan.



→ to develop strategy, he says during a conference on transforming business networks through collaboration, sponsored by the software company SAP.

### ADVANCING STRATEGIES

Many companies have already acknowledged the shift toward collaboration and are adapting the way they operate internally and externally. Firms leading in the field distinguish between cooperation and collaboration. Where cooperation occurs between two entities with a focus on achieving a specific goal, such as the delivery of merchandise, collaboration occurs among multiple parties with a focus on co-creating particular content, a product or a service. Two people editing a document

back and forth via e-mail is cooperation; many people editing a Wikipedia entry online is collaboration. Given this definition, it's easy to see why collaboration often comes first and is followed by cooperation: Collaboration is the domain of the startup (think undefined challenges, a lack of hierarchy and a fast-moving environment) and cooperation comes naturally to established companies (think set business goals, hierarchy and slower response times). How then can established companies create a culture of collaboration?

**Geoffrey Moore**<sup>2</sup>, an author, venture capitalist and consultant for TCG Advisors, addressed this question in a five-month SAP-sponsored project called Business Network Transformation. His research showed that companies with retail supply-chain networks – what he calls coordinated networks – found it hard to collaborate, while those with project-oriented, peer-to-peer networks, which he terms collaborative networks, struggled to expand the operations because of the complexity of relationships and tasks. “The behavior that allows you to operate efficiently at scale is not the same behavior you need to innovate,” says Moore.

The missing ingredients for scaling collaborative networks? Trust and a good interface to coordinated networks. “Networked innovation implies gain-sharing plans based on the idea that supporting the orchestrating company means everybody will win. Still, there is an enormous amount of mistrust in coordinated networks of powerful companies who have a history of extracting margin concessions at every phase of a negotiation. So while collaboration looks like a good idea, companies are unwilling to try it. As Moore quotes the American director Woody Allen, “The lion may lie down with the lamb, but the lamb will not get a good night’s sleep.”

**Tim Brown**<sup>3</sup>, the CEO of design company IDEO, says problems that are big in scope and not industry-specific are more likely than others to be tackled collaboratively. “In global warming, you see energy competitors collaborating. And companies work together on water access issues in India and Africa,” says the head of the creative business company.

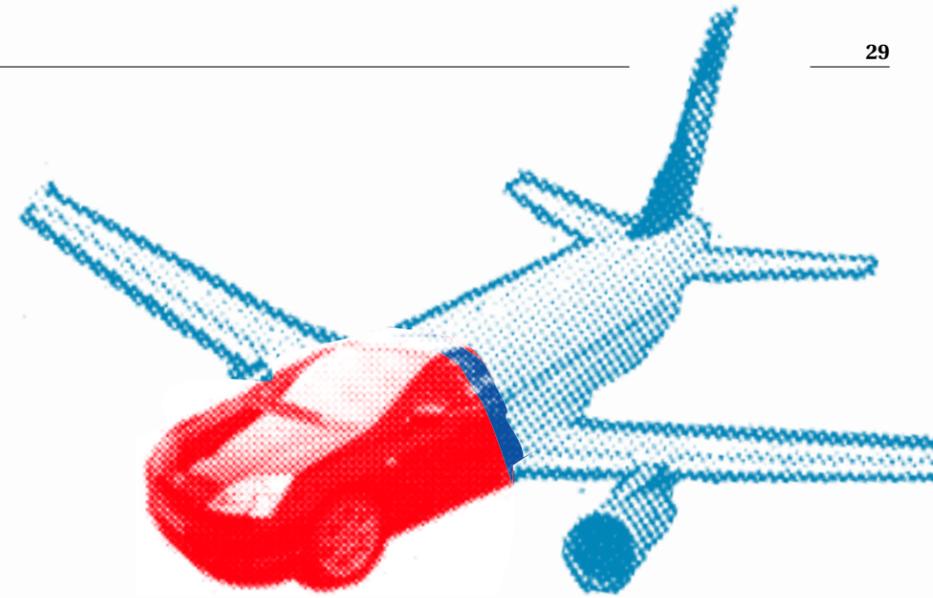
Some arch rivals have even joined together to help each other out when the benefits for the whole are easy to see. Car manufacturers are jointly developing hydrogen infrastructure and thereby creating a new market. And semiconductor makers, such as IBM, Samsung Electronics and Chartered Semiconductor Manufacturing are jointly developing manufacturing processes, given the high cost of developing them. In fact, of the CEOs questioned in the January 2008 “Global CEO Survey” conducted by PricewaterhouseCoopers, more than

50 percent said that collaborative networks will become a major organizational principle for businesses. Only 17 percent thought the costs and risks outweighed the benefits. Still, some 37 percent of these CEOs did not place priority on establishing collaborative networks.

### BEST PRACTICES

IDEO’s Brown draws a parallel between collaborative networks and ecosystems – natural systems of interaction. Given their complex nature, these networks can be difficult to manage in the absence of clearly defined rules of behavior. “Look at biology, such as ant and bee colonies. They’re massively complex, but behavior is subject to the rigorous rules of the pheromone trail,” he says. Collaborative processes are best managed by leaders who know how to deal with uncertainty and do not feel threatened by highly empowered colleagues. These managers will be adept at operating in a landscape in which frontiers and borders are constantly shifting. They will see themselves as guardians of a collaborative problem-solving process that can be emotional, messy and potentially hazardous, but also of discussions that lead to shared understandings based on trust and dialogue. Brown recommends companies improve internal knowledge sharing and understand that the trend to collaboration infuses all relationships – both internal and external ones. He advises companies to engage staff, customers and end users to help solve problems. To him this way of harnessing brain power is essential for success. “Increase the size of the ecosystem,” Brown says. “Innovation is a numbers game. The more people, the more ideas – the more productive you can be.”

For example: Brown’s company was able to help Kraft Foods solve a problem it was having with one of its business processes. Kraft’s supply chain group contacted



IDEO because Kraft had become a least-favorite vendor for several customers. So IDEO got Kraft and a particular supermarket chain to sit down together. As it turned out, Kraft was packing Capri Sun lemonade boxes at the bottom of mixed-flavor pallets, making it difficult for shelf stockers to reach them. The combined result was that the supermarket was left with additional stock and customers were not able to find the flavors they wanted.

### EASY SOLUTION

After several experiments with prototypes, the team landed on a design in which each flavor gets “chimney-stacked” vertically. Now stockers can easily reach any flavor that goes out of stock. This experiment led to a 162 percent increase in sales over the previous year, and Kraft became the top preferred vendor. “As soon as they brought the warehouse folks together with Kraft, they identified this problem instantly. They just redesigned the pallets in a short amount of time,” says Brown.

Another best practice: Managers must know how to frame the problem so that others can tackle it. And company bosses must cleanse themselves of traditional hierarchical thinking to give people more autonomy. “Command and control will definitely not support collaboration,” says Brown.

InnoCentive is perhaps the most advanced corporate example of the practice of letting individuals decide how to meet the goal. The firm acts as a knowledge broker, a platform for scientific companies that have research and development problems to solve. R&D problems are defined clearly and posted on the Internet site so InnoCentive users can tackle them. If a user comes up with the winning solution, he or she earns prize money. Companies seeking solutions with the help of the InnoCentive innovation service include Procter & Gamble, Dow AgroSciences and Eli Lilly. As of 2005, more than 200 “challenges” in 40 scientific disciplines have been posted. Some 58 were solved by more than 120,000 “solvers” of the smart network. →



2/ Geoffrey Moore is a best-selling author and managing director at TCG Advisors as well as a venture partner at Mohr Davidow Ventures. He studies disruptive technologies.



3/ Tim Brown is president and CEO of IDEO. He serves on the Board of Trustees for various colleges and funds. His designs have been exhibited at the Museum of Modern Art, NYC, the Axis Gallery, Tokyo, and the Design Museum, London.

→ The LEGO Group was one of the first global brand companies to put the collaborative spirit to work internally and externally. It embraced its customers in a collaborative manner by building communities and allowing fans to design and even sell their own LEGO models.



4/ Jørgen Knudstorp. As CEO, he recharged iconic toymaker LEGO, and established best practice examples for collaborative development. A former McKinsey executive, he joined LEGO in 2004.



5/ Diane Hessian is President/CEO of the U.S. social networking company Communispace and leads her employees in building and managing about 300 online customer communities.

## A COLLABORATIVE CULTURE

The shift in culture that came with the LEGO Factory project was a major reason for the company's successful turnaround. "We completely revamped our culture. The only thing that didn't change was our brand. Now we are by far the most profitable company in the industry," says [Jørgen Knudstorp](#)<sup>4</sup>. Around the same time in 2006, the toy maker began to involve customers in its product testing. It approached a small group of loyal fans and proposed something exciting: "If you sign this non-disclosure agreement (with penalties), we will let you participate in our product development community." Fans got hooked, and the LEGO Group has even hired a few full time. Knudstorp's advice for companies that want to cultivate communities: The leadership has to be on board and spend time with the community. "Since the relationship is based on goodwill and trust, the personal involvement of the CEO and senior executives is very important," he says, adding, "You've got to treat partners like fellow employees."

With the LEGO Group's collaborative projects came internal changes, some quite practical. The world's sixth-largest manufacturer of toys has tightened safety and security around its headquarters and advised employees on what they can and cannot say, since more external people are now present on site on a regular basis. Secondly, the Danish company is keeping a tighter watch on its intellectual property, something it has always guarded fiercely anyway. It increased the size of its legal department by about 10 percent since 2006, now employing roughly 20 lawyers who deal with everything from suppliers and contracts to IP; in addition, Knudstorp monitors LEGO's legal environment more vigorously than in the past.

Because of the new focus on collaboration, the LEGO Group now works with suppliers and retailers in different ways. It brings in retailers early on for discussions about product development. In February 2008, the company was already hosting talks about the Christmas 2009 season. The company also sees its suppliers as partners. "We invite suppliers into our process of innovation, and we outsource more of the manufacturing process. In the past, we never used outside companies for the innovation process," says Knudstorp. A few final words of advice from the Scandinavian toymaker's CEO: Companies have to admit that collaboration is both an opportunity and a risk. "Strike the best of both worlds. Work with your IP and share your IP. The companies that will benefit most are those that are good at collaboration."

## BUILDING COMMUNITIES

[Diane Hessian](#)<sup>5</sup>, President and CEO of Communispace Corporation, has helped hundreds of global brands build grassroots communities. Founded in 2000, Communispace establishes private, online communities for companies that want access to their customers on a 24/7 basis. Clients include GlaxoSmithKline, Charles Schwab Corporation and Hallmark. Hessian says the idea of engaging customers in communities is catching on, but it remains a "mind-blowing" idea for many companies. "The scale hasn't tipped yet. People get addicted to having the pulse of their customers right at their fingertips. Companies realize the activity makes so much sense, but communities are still in their infancy," she says. Why community? Hessian says people are keen to participate in communities because they love the fact that big companies listen to them. They also enjoy having a voice, find the material interesting and want to meet people like themselves; some people seek recognition and financial reward for participation.

Communispace helped GlaxoSmithKline Consumer Health Care engage five separate groups of dieters over two years as the company developed its marketing strategy for the first FDA-approved diet drug, alli. Community members shared intimate details about their dieting struggles that helped GSK position the product. When the drug was launched in 2007, sales reached \$155 million in the first six weeks. In another example, Charles Schwab used Communispace to help it gain a better understanding of young investors. Schwab started the 400-member Money and More community and learned that Gen-X savers don't want to hear about retirement

and being an old-timer one day. They aren't familiar with investing basics such as no-load funds. Schwab used the analysis of young investors to create a new product that suits their needs. It launched the Schwab Bank High-Yield Investor Checking account and now has about 65,000 customers, representing a rise in young customers of about 40 percent, according to Hessian. The Money and More community helped the financial services company to develop a relationship with the target audience of young investors while it sought to tailor its products for the demographic group. The project was managed internally by a Schwab business-to-consumer task force.

## CO-CREATING STRATEGY

The University of Michigan's Ramaswamy has been studying the interaction of individuals within corporate-sponsored communities. He believes that interaction has replaced the activity of production as the basis for the next value chain in business. The key, says Ramaswamy, is for companies to find out how to make the experience of interaction compelling and turn it into sales.

To do so, companies must change their mindset on who gets to define the experience. Instead of Nike imposing its view of running on every buyer of shoes, Nike now seeks to co-create it with Nikeplus.com, a portal that links running clubs and helps people track their individual progress. Through Nikeplus.com, Nike now asks itself how it can help specific runners interact, says Ramaswamy. He adds, "This is what's missing in classical market research." However, Ramaswamy says Nike must go beyond what it is currently doing for customers on Nikeplus. "It must not only find a way to help each runner define the experience for him or herself, but also enable employees and managers inside Nike to engage in continuous two-sided dialogues with customers, communities and stakeholders," he says.

In his forthcoming book tentatively entitled "Co-Creating Strategy," Ramaswamy takes his ideas about interaction one step further. He says that companies must co-create their strategies by building collaborative platforms for strategy development inside the company. St. Gallen

Consultants, a division of Swiss company CPS Schliessmann, is already helping companies take the first steps toward co-creating their strategies. In a knock-off of the InnoCentive business model called NextToMind.com, the site lets users propose solutions to business and management problems posted by companies and receive payment in return. Who knows where this will lead? Maybe a hobby business consultant in a far-off country will come up with the ideal platform for a large company to use for co-creating its strategy. That would make the solution a co-created strategy for collaborating and co-creating strategy. Roll over, Darwin. This is 21st-century evolution. ■



## Further Reading

### WEB

**Definition**  
en.wikipedia.org/wiki/Collaboration

**Collaboration Blog**  
www.smartmobs.com

**The Art of Communities**  
www.communispace.com/research

### BOOKS

**Sandy Schuman (ed.)**  
Creating a Culture of Collaboration

**Jon C. Jenkins & Maureen R. Jenkins**  
The 9 Disciplines of a Facilitator

**Paul W. Mattesich et al.**  
Collaboration: What Makes It Work

