



Claiming the Competitive Edge – One Customer at a Time

A world where three billion people connect via cell phone or computer, and where tech-savvy consumers come to market expecting a customized experience, calls for a radical shift in strategy. *The New Age of Innovation* (McGraw-Hill, 2008), by Ross Professors **C.K. Prahalad** and **M.S. Krishnan**, delivers that strategy. In their new book, subtitled *Driving Co-Created Value through Global Networks*, the authors argue successful companies no longer will invent products and services on their own. Instead, they will “co-create” them in partnership with customers and suppliers. They label the concept of a co-created, personalized experience as $N = I$. To achieve $N = I$ requires a global network of partners and suppliers, an idea dubbed $R = G$. Reconciling these two concepts demands new ways of thinking about strategy, management talent, information technology (IT), data analysis, and corporate culture. Some companies already are taking steps in this direction, from new technology firms to long-established manufacturers. If your company isn’t making this move, it should, the experts argue.

Prahalad, the Paul and Ruth McCracken Distinguished University Professor of Strategy, and Krishnan, Michael R. and Mary Kay Hallman Fellow and professor and chair of business information technology, discuss the genesis of the $N = I$ concept, offer some examples, explain why it’s critical, and reveal what it will take for companies to get there from here.

DIVIDEND: Can you give a quick, real-world example of the $N = I$ and $R = G$ ideas?

KRISHNAN: The classic example is iGoogle. It’s easy for all of us to connect with; you can have your page and I can have my page and they may be quite different from each other. Google co-creates an experience ▶

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with you on their platform. You may be interested in football and world news, and you can design your page the way you want. And I may be interested in soccer, basketball, and business news, and I can create my own experience. So that's $N=1$. At the same time, Google does not own the resources that they bring in to present

industry boundaries. (For example, your cell phone is a computer, a camera, a map, a watch, and a calendar — and you could watch television and maybe listen to the radio with it.) The fourth trend is the rapid evolution of social networks like Facebook. You put the four together with globalization. And you come to the conclusion

so they can customize the product. Meanwhile, we are seeing more and more toothpaste that helps your gums, not just the teeth, which speaks to this whole idea of personalized medicine.

PRAHALAD: P&G is focused on what they call “connect and develop,” which is basically accessing product

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their experience to us. There are multiple content providers and that’s the $R=G$ part.

PRAHALAD: Netflix is another good example. Like Google, they don’t have their own content or own the product, but each customer is allowed to create their own experience. They show that one person’s experience is going to be critical as a source of value.

DIVIDEND: How did you develop this model?

PRAHALAD: This follows on work from *The Future of Competition* (which Prahalad co-authored with Ross Professor Venkat Ramaswamy in 2004). There, we created the idea of “co-creation.” It assumes an individual and the company jointly work to solve a problem. Since that time, four factors have accelerated this move toward the process of co-creation of value. First, connectivity across the world has increased. You have three billion people already connected by cell phones or personal computers. Second is the digitization of business and the decreasing cost of digital technology. The third is the convergence of technology and

that this process of co-creation ($N=1$) and global network of suppliers of product, services, and talent ($R=G$) is going to accelerate.

KRISHNAN: The way companies compete and the structure of the business model has been morphing for quite some time. Companies are struggling to find out, “How do we innovate? How do we beat the competition and transform industries?” Observing these trends, we realized we may be at a tipping point in terms of crystallizing the structure of the business model that is evolving.

DIVIDEND: This strategy sounds easier for some industries than others. Google’s entire business is based on this idea, but what about a more established business, say Procter & Gamble, which sells things like soap and toothpaste?

KRISHNAN: In some industries it’s very, very explicit and in some others it’s not as explicit. I was on a panel recently with the former vice president of technology and innovation for Procter & Gamble. He said this speaks to so much about where P&G is going, right to the point of watching customers do their laundry

ideas and technology from a wide variety of sources. They are already at $R=G$. You mentioned toothpaste: There’s no reason why you can’t have a diagnostic of your oral care and create products just for you. If I am 80 years old, why do I have to buy toothpaste to fight cavities? I need a very different product. When these products are focused on wellness, they have to have a diagnostic front end. The products will transform themselves. Some salons do face cream or hand cream customized to your skin type and age. Now, all of that is already happening at the high end. The question is to how to do it at all ends, not just the high end.

KRISHNAN: This becomes faster as digitization in products and processes becomes more common. Auto and health insurance are good examples. In the insurance industry, firms tend to work with static rules that determine their policy structures. They offer five or six policy choices, pool the risk estimate, and come up with a premium. But if you look at ICICI Prudential in India or Norwich Union in the U.K., they’re making health and auto insurance policies more flexible. The premiums

you pay in these policies are based on your real-time behavior. Auto insurance premiums are determined by where you drive and how you drive. Emerging technologies such as GPS tracking make it possible for firms to develop dynamic risk profiles.

DIVIDEND: Doesn't that raise privacy concerns?

KRISHNAN: Firms may have to rethink security and privacy issues on two fronts as they make this transition. First, firms cannot simply adopt the traditional thinking of the fort and the moat (in which customer data is protected from outside access using firewalls). It's necessary but not sufficient. Firms need to think in



› Professors C.K. Prahalad (left) and M.S. Krishnan (right) set forth a game-changing strategy in their latest book, *The New Age of Innovation*.

terms of proactively watching for the patterns of unique behavior changes. On privacy issues, customers will share data as long as they trust the firm. We see this trend in the generation growing up with Facebook and social networking sites. The willingness to share information is there as

long as they get a benefit in return — and their privacy is ensured. For example, it has been reported that U.K.-based Norwich Union has not seen any serious privacy concerns from their customers.

DIVIDEND: You talked about why this is important and have provided some examples, but how do companies make this transition?

PRAHALAD: You have to fundamentally rethink your IT architecture. You have to make it resilient,

focused on business processes and analytics. You need a migration plan for the IT capabilities. Equally important is to have a migration plan for managerial capabilities, moving from the existing skills and behaviors to what is required. Then you need a plan to move both of them from “A” to “B” in a systematic way with small experiments. Then you operationalize the big change into small do-able projects, learn fast, and scale it.

KRISHNAN: The center of all of the capabilities is a resilient and flexible business process architecture supported by the right social architecture within the firm. That means creating a level of transparency in the company and shaping the behavior of managers to accept and leverage this transparency and flexibility in business processes. $N = I$, by definition, demands flexibility in business processes because how a firm connects with you as customer may not be the same as how they connect with other customers. Firms also need to build analytics to understand the trends at each customer level. A lot of companies collect data, but by the time they analyze the data, in a quarter or two months, it's too late. They don't have the systems in place or the management mindset to constantly look for trends and act. Hence, both IT and social architecture may need to be reworked.

PRAHALAD: Individual companies will have to develop unique applications. If I look at Wal-Mart, FedEx, UPS, Dell, they're not relying on the IT industry for product tools, but are developing their own unique tools and are very focused analytics. In most cases, the IT organization is not oriented toward this way of thinking. They need to be re-oriented. If the IT organizations in large, established companies change, the IT vendors will change rapidly.

DIVIDEND: You point out that this is a journey every company should be taking. But if a leading company in an industry is making good money, why invest all this time, effort, and risk?

KRISHNAN: Our answer is that several years back, Sony was very well known for Walkmans and personal music. This whole idea of listening to music while you're walking isn't new: Sony was on it long ago. What did Apple do? They changed the game. First, they digitized the content. They created a platform so you have your own playlist, your own podcast of content and news you want to listen to, and a wide selection of songs. It's a great innovation. Now look at the back of an iPod or any of their products. It was proudly designed in California. For the music content, they tap global resources from amateurs to professional music companies. For evaluating specific restaurants or coffee shops near you, they tap all their customers who have been to these restaurants. On the hardware side, Toshiba, Samsung, and many other firms provide components. That is the $R = G$ part. So our point is a new entrant to the music market that innovated on this platform has gained a significant market share in the last five years. So the bigger risk that firms face is by *not* taking the lead.

PRAHALAD: It's like saying, “Let me totally ignore the Internet. Let me totally ignore the cost of digital technology. Let me ignore the fact that four billion people will be connected in the next five years and it will have no impact on my business.” The interesting thing is that everybody understands they need to move in this direction. There is increasingly a better understanding of the need. The questions are about how — and how fast. ✦