Co-creating value through customers' experiences: the Nike case

Venkat Ramaswamy

Venkat Ramaswamy, the co-author (with C.K. Prahalad) of *The Future of Competition: Co-creating Unique Value with Customers* (Harvard Business Press, 2004), is a Hallman Fellow and Professor of Marketing at the Ross School of Business, University of Michigan (venkatr@umich.edu). His current book project (with Francis Gouillart) has the working title *Co-creating Strategy: Building a Co-creative Organization to Generate New Strategic Capital through Valuable Engagement Experiences*.

Customers need no longer be mere passive recipients of value propositions offered by firms. They are now informed, connected, networked, and empowered on a scale as never before, thanks to search engines and engagement platforms like Google, the growth of Internet-based interest groups, and widespread high-bandwidth communication and social interaction technologies. Customers have learned how to use these new tools to make their opinions and ideas heard, and involve themselves in the value creation process. Seeing opportunity in this new environment, leading firms are responding by engaging their customers in the co-creation of value. In the process they are inventing new competencies and business practices.

The innovation and marketing processes of one such company, Nike, provide a glimpse of the next ''best practices'' of value co-creation with customers. The source of new competitive advantage and the seeds for a firm's future profitable growth lie in the strategic capital it can build by continuously interacting with its customers through engagement platforms, especially those centered on customer experiences. This new strategic capital is the accumulated knowledge and skills continuously garnered by the firm through interactions with customers. These interactions strengthen a firm's capacity to use global network resources and thematic communities to continuously identify and act upon new innovation and value creation opportunities. In sum, leading firms are learning how to sustain competitive advantage by co-creating experiences of value with customers.

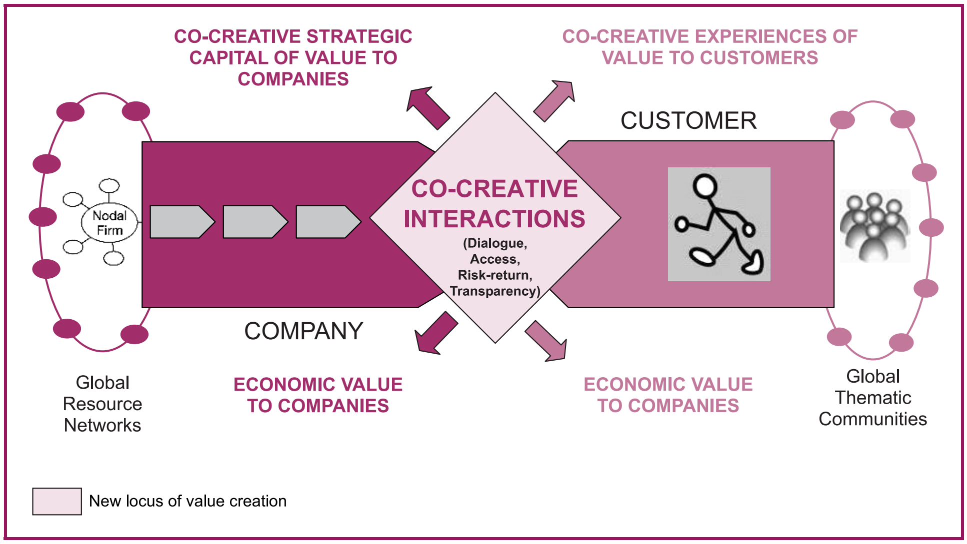
As shown in the center of Exhibit 1, co-creative interactions are an emerging strategy for value creation. By engaging with informed, connected, and networked customers around the globe, the shoe company Nike has found a new source of value. Whether as ''single individuals,'' or as members of global thematic communities, customers or other stakeholders now can and want to be involved with Nike in shaping outcomes of value. They do this by sharing their interactions and experiences – these range from their ideas about how to improve or customize products to their feelings when they use products.

The Nike case

During the 2006 World Cup, in partnership with Google, Nike set up a social networking site, Joga.com, that invited individuals to film their soccer skills, upload the videos that showcased their talent, and then have the network community comment on, rate and share the user-generated content. The community was the judge of a winner every month. Joga.com invited individuals to create their own profiles and socially network with others. Joga.com was in effect a thematic community that enabled individuals to share personal and collective soccer experiences. With over one million fans participating in this innovative brand building effort, Nike had a unique opportunity to learn directly from its customers.

Joga.com, however, was not an isolated Internet marketing initiative. Nike sponsored street soccer competitions, created a web site that connected professional players with their fans, and also sponsored conventional Internet marketing programs. A Nike video of Ronaldinho,

Exhibit 1 Co-creating value through experiences



the world-famous Brazilian striker, was downloaded over 32 million times. In addition, on the ''Nike ID'' web site, the firm invited twenty purveyors of sneaker culture to compete in designing a new shoe for Nike. The firm structured the competition as if it were a reality show and then asked the Nike Internet community to vote on the best design. Besides these designs and Nike's original new designs for the season, fans could go on the Nike ID site to personalize their own shoes from various styles and colors, including putting the flags of the countries they wanted to support on their shoes. Nike provided software tools for local soccer teams and professional leagues to co-design and customize the soccer shoe.

Through these many initiatives, Nike is connecting with millions of soccer fans around the globe. The strategic opportunity for Nike is to build and promote the use of Internet engagement platforms through which the firm can establish customer relationships on a scale and scope as never before. Effectively managing these new initiatives initially posed a new challenge for Nike, a traditionally product-centric organization. The company soon recognized that competition for advantage in the sneaker market had shifted to creating value through experiences.

Charlie Denson, president of the Nike brand, says the market reaction to these initiatives helped persuade the company to translate Joga.com into a sustained effort to develop customer relationships, something the company had failed to do in the past. ''When the World Cup was over, the Nike brand teams who had built that whole platform moved on to the next thing.'' And Denson thought, ''Whoa, whoa, whoa, you just dropped the keys to the kingdom in the moat.''[1] To Nike's credit, it is now proactively working on building a strategic architecture to ''connect the dots'' between Joga.com, its retail network and Nike ID, all centered on the soccer experience. As Stefan Olander, the company's director of digital content notes, ''In the past, the product was the end point of the consumer experience. Now it is the starting point.''

In the Nike soccer example, Nike can generate and refine new ideas rapidly, accumulate learning about what customers want and don't want and how they want to engage. Plus, Nike can tap into the collective creativity of its customer base. As it engages with its community of customers Nike can build its brand in unique ways. For example, Nike's customers gain experiences of value to them through their participation and influence in the design process, by being a part of creating the product/service offering, by socially networking with people who share like-minded passion for the sport, and by reducing their risk of dissatisfaction. The positive word of mouth from the community can reduce new product-service failure and misalignment with the market and accelerate and enhance market acceptance. Nike has started to move rapidly in this direction across its other businesses as well.

The DART guidelines for co-creating value with customers

From the firm's perspective, co-creating value with customers involves rapid and continuous learning by the firm from interactions with them about how they relate to the options and features that the firm has on offer and how those offerings might be of more value to customers. Taking this idea one step further, the Experience Co-Creation (ECC) process involves enabling co-creative interactions so that individuals can have meaningful and compelling engagement experiences. Either process requires some management guidelines based on enlightened self-interest.

To illustrate how an EEC initiative works in practice, consider the running shoe business of Nike. In May 2006, Nike launched the Nike + (NikePlus) platform, a collaboration between Nike and Apple, consisting of an Apple iPod music player, a wireless device to connect the music player to running shoes, a pair of Nike shoes with a special pocket to accept the wireless device, and membership in the iTunes and Nike + online communities (itunes.com and nikeplus.com). The Nike + co-creation platform capitalizes on the connection between running and music. The combination of innovative, mobile technology, online communities and athletic gear expands the field for co-creation.

To manage the co-creation of value process in this market Nike uses guidelines based on the DART Model – dialogue, access, risk-return and transparency – to establish best practices (see Exhibit 2). At Nike, these guidelines set the stage for high quality co-creative interactions between individuals (runners); groups (teams of runners, running clubs); and organizations (Nike and Apple).[2]

Dialogue. The DART co-creation model is designed to foster meaningful dialogue, for example, between the customer and the company. The Nike + system encourages meaningful dialogues:

- Between the runner and Nike.
- Between the runner/listener and Apple.
- Among runners.
- Between runners and running experts.

Runners can engage in nearly real-time conversations online. Groups of runners can challenge one another and friends can cheer on each other as they make progress toward their goals and resolutions.

Exhibit 2 The DART model

DIALOGUE	ACCESS
New rich dialogues between the runner and Nike, between the runner/listener and Apple, among runners, and between runners and running experts.	Nike provides access to its customers through the iPodNano/Sport Kit device and the Nike+ web site.
TRANSPARENCY	**RISK-RETURN**
For runners, Nike+ makes transparent a huge range of information about running, including routes, training knowledge, and how a runner's progress compares. Nike learns a lot about individual runners that was previously opaque to the firm.	For runners, Nike+ reduces the likelihood of getting hurt by giving them information about proper training methods. For the company, the risk of losing customers is lowered because runners are interacting with Nike+ frequently.

> “Nike soon recognized that competition for advantage in the sneaker market had shifted to creating value through experiences.”

Access. In order to foster such a complex dialogue, a company must provide its customers with access to each other and to company listeners. In the case of Nike + , access is provided by the iPod Nano/Sport Kit device and by the Nike + web site.

Risk-return relationship. This guideline considers how to manage the risk/benefit proposition for both the customer and for the company. For example, Nike + enhances the economic value of participation for runners by reducing their personal risk of injury. Many conversations on Nike + are about proper training methods to avoid getting hurt: why over-training is dangerous, how to monitor your heartbeat; or whether you should limit your running because of certain recent surgeries. From the firm’s perspective, Nike’s main risk is losing the relationship with the runner. Nike + lowers the risk of losing customers because runners are interacting with the products and the web site frequently, sharing personal results and soliciting and receiving feedback.

Transparency. The fourth guideline of the DART model of co-creation of value is transparency, in other words, shared information. Nike believes that runners need more insight into how they should train, what routes they should run, or what shoes might be best for their needs. Nike + offers a wide range of information. By logging into the Nike + web site, runners can find out which routes are most popular, what distances and paces others are achieving, and how their progress compares. From the company’s standpoint, Nike + allows Nike to know a lot about the individual runner. Many dedicated runners now record every run they make, their goals, the courses they run, the partners they run with, and, through the web site blogs and discussions, their personal concerns and feelings about running. This input provides Nike with a goldmine of ideas for potential innovations.

By using the DART model to assess the effectiveness of interactions, firms can co-create mutual value continuously, even in existing engagement spaces. For example, runners using the Nike + system have access to a host of new experiences: they can integrate two passions, music and running; they can track runs with unparalleled precision; and they can take part in an active, new social network. Nike + enhances runners’ enjoyment of the sport and increases their motivation. For Nike, the learning from these customer interactions creates new strategic capital. The company can now learn directly from the behavior of its customers, both from mining the data and from customers’ direct input on their preferences. Nike can build relationships and trust with the Nike + community and experiment with new offerings, all the while enhancing its brand.

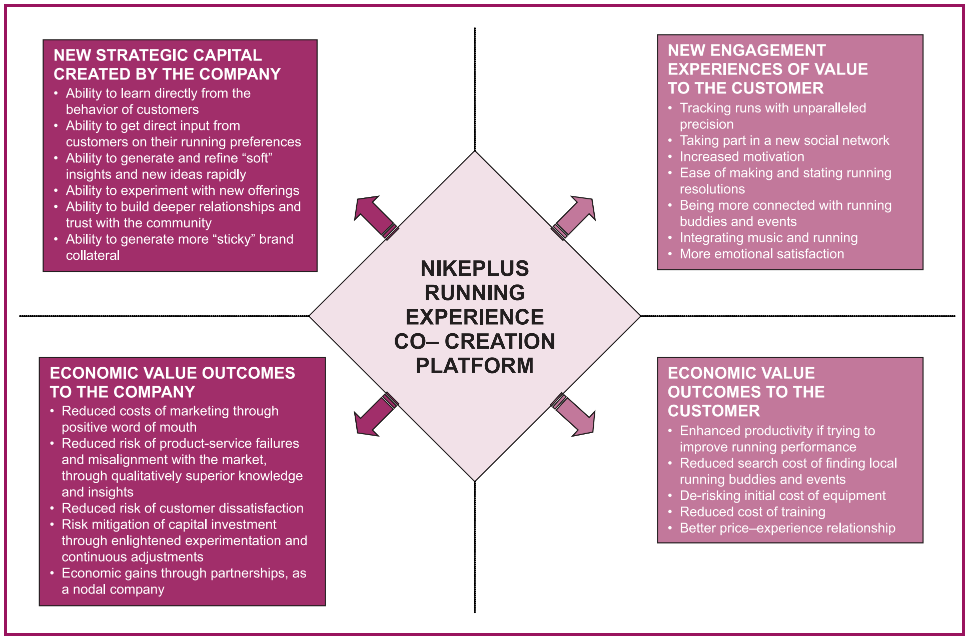
Nike + also generates economic value outcomes for both parties. For the customer, there is a reduced cost of training and enhanced productivity when seeking to improve running performance. For the company, there is a reduced risk of customer dissatisfaction and reduced costs of marketing (through positive word-of-mouth advertising). These value outcomes and others from the Nike + co-creation platform can be displayed in an ‘‘X Map of co-created value’’ see Exhibit 3.

New sources of competitive advantage

For many companies, as products and services become commoditized, as the forces of globalization and outsourcing flatten competitive playing fields, and as activity chains fragment, conventional value chain based sources of competitive advantage are eroding. Seeking new sources of competitive advantage, smart firms now recognize that customers are a source of competence which they can tap into.

As in the Nike soccer and running examples, the components of value creation now entail global resource networks of partnering firms and suppliers as well as communities of

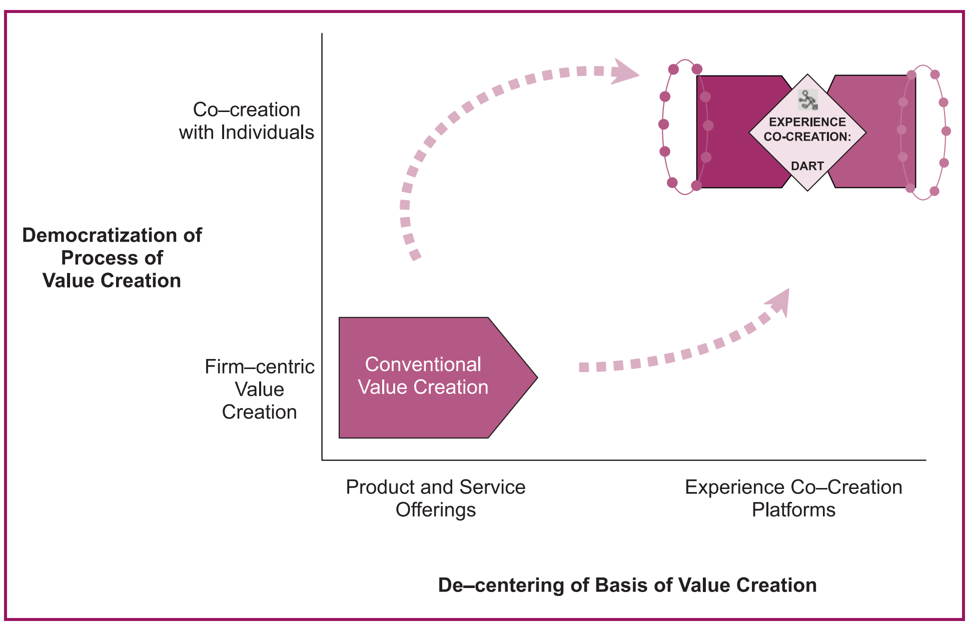
Exhibit 3 X-map of co-created value: NikePlus



individuals (customers) outside the firm. To grow in this environment companies must have the competence to manage and influence large numbers of collaborators – including skilled individuals, communities of customers, and many varieties of stakeholders around the globe. This de-centering and democratization of the process of value creation is spreading into many industries.

As shown in Exhibit 4, there is a fundamental shift in the basis and process of value creation – from products and services towards experience co-creation platforms, and from a unilateral value creation process by the firm to co-creation with individuals, in short

Exhibit 4 Transformation of strategy: new sources of competitive advantage



Experience Co-Creation. In sum, ECC is about firms jointly creating value, through co-creative interactions anywhere in the business system that generate experiences of value to customers and strategic capital of value to firms.

Notes

1. Global Brands – *Financial Times* Special Report, April 23, 2007.
2. The DART Model was originally developed by C.K. Prahalad and Venkat Ramaswamy (2004), and enhanced further to show how it can be leveraged to make engagement platforms co-creative and generate co-created value outcomes by Venkat Ramaswamy and Francis Gouillart (2009).

Corresponding author

Venkat Ramaswamy can be contacted at: venkatr@umich.edu