Co-creating BoP ventures
A new form of interaction to develop shared value among equal stakeholders

Key lessons from three pilots for pro-poor innovation
Preface

Co-creating, together!

Our business context is becoming more and more complex. We aren’t expected to create value for our shareholders only anymore but for all our stakeholders as well, as the interdependence between the value created for both groups is becoming more and more obvious.

The business practices transformation deriving from this interdependence requires innovative, bold approaches. The same observation can be done for activities addressing countries development and common interest, especially at a time when governments expect companies to bring in a larger contribution.

The relationship between all socio-economic actors – civil society, companies, administrations, research institutes and NGOs – has always been based on a traditional segmentation between private interest and general interest purposes. Each actor was focused on their own agenda. Cooperation and opposition were the two only ways to work together for a long time.

Today, a third approach named co-creation is experimented by many. But what are the main characteristics of co-creation as we see it at Danone?

It is a whole process we can look at through 4 major steps. The first step is to gather different organizations around a common challenge, to share, learn from each other and check their cultural compatibilities. If they are ready to allocate resources and have a real ambition – which are the first evidences of a credible approach – companies can initiate the connection. The second step is to design together a pragmatic, problem-solving program where complementary perspectives, competencies, networks and financial resources will generate the global impact expected. The third step consists in defining a hybrid governance model which will guarantee a mutual accountability for the actions implemented. The last step is to define clear impacts from both business and social and/or environmental perspectives.

What are co-creation key success factors? First of all, a new form of leadership, based on mutual, dynamic listening, compromise management, long term vision, openness and finally resilience. The second point has been mentioned above: new governance models and tools are needed to measure social as well as business impacts within a different performance paradigm. This helps to create a common language between partners and ensures that each organization is accountable for overall outputs.

Last but not least, we need – as we put it at Danone – a positive “friction” between actors and ideologies. Nothing is worse than agreeing on everything! Let’s accept to be challenged and overcome disagreement to move forwards. This “friction” is an evidence of the diversity and robustness that co-creation can bring to the discussion.

After nearly 5 years of existence, the Danone Ecosystem Fund has supported the co-creation of nearly 50 programs with more than 30 different non-profit partners. Co-creation is the Ecosystem Fund specificity. Without this approach and without partners as bold as Danone to dare giving it a try, we wouldn’t have succeeded in launching all these innovative initiatives.
Co-creation

Co-creation is the development of shared value through a new form of interaction between a number of equal stakeholders in an open environment.

Shared Value
The concept of shared value can be defined as practices that enhance the competitiveness of a company while at the same time advancing the economic and social conditions of the communities in which it operates (Porter and Kramer 2011).

Mueller BV is a for-profit cooling unit production company. It is working with local Ethiopian entrepreneurs, Wageningen University, the BoP Innovation Centre and SNV to develop a small cooling unit for small-scale dairy farmers. This unit will enable farmers to sell their milk to higher-value market segments, resulting in higher-income opportunities and less waste. Retailers and processors gain access to quality local products. It will also generate new job opportunities.

Benefits of co-creation
Co-creation adds different forms of value for the different parties involved. It is important to distinguish the goals of all stakeholder groups, especially those of companies versus those of the BoP. Critics of BoP ventures argue that only businesses benefit from co-creation, sometimes even to the detriment of poor communities.

What’s in it for the BoP
Co-creation gives BoP consumers an active role in the value chain of the innovation. They are included as producers, suppliers or distributors. This creates employment and transfers knowledge and skills.

BoP consumer as shaper
It became clear that doing business at the BoP requires a deep dive into the local context and a thorough understanding of the end-consumer. The role of poor consumers changed from passive recipient to active player involved in shaping new products and services. In 1999, Prahalad and Ramaswamy introduced four building blocks of interaction to create shared value. They encouraged companies to make better use of consumer competences – to engage in dialogue, mobilise communities, manage customer diversity and co-create personalised experiences with them.

What’s in it for the companies?
Co-creating with the BoP and local partners helps to:

- Overcome gaps in the local business ecosystem.
- Guarantee additional resources and competences to cope with the time-consuming, complex and unpredictable process.
- Understand local conditions, customer preferences, aspirations, needs and demands and lifestyle. These insights can be translated into new business opportunities that meet the demand of the community.

Introduction

Since 2002 a growing number of companies and NGOs have gained their first experiences in launching innovative products and services at the Base of the Pyramid (BoP). The BoP represents the four billion people with an income below US$ 4 per day. Most of them lack proper access to the basic human needs of food, water, shelter and clothing – let alone sanitation, education and healthcare. This results in life-threatening challenges such as chronic malnutrition and health issues. People at the BoP predominantly live in the developing and emerging economies of Asia, Africa and Latin America.

This experience-based review is part of a series of publications. The series covers key challenges for any organisation that wants to address the most pressing issues experienced by the BoP.

Previous publications
- Inclusive Innovation
- Gaining BoP Insights
- Developing BoP Partnerships

Upcoming publication
The BoP Innovation Cycle
The guiding principles for co-creation

Co-creation is more than working together. It requires following a set of principles that define the rules of engagement.

- Trust each other
  - Relevant information and access to resources become available when mutual trust between parties is established. Trust facilitates effective dialogue and the disclosure of crucial information which adds value to the product or service.

- Benefit together
  - Active contribution will surge when participants recognize what sort of value can be created for them. This refers to the ‘what's in it for me’ motive. For example, a producer wants to bring a product to market, make a profit and have a stable income, while the consumer has an interest in affordable products of high quality and stable availability.

- Assess all risks
  - Before co-creation starts, all participants should assess the risks involved and determine the risk of damage. There should be data and appropriate methodologies for assessing the personal and societal risk associated with products and services. In the vulnerable context of the poor, a company with a social purpose wants to make sure it does not compromise on that purpose.

- Be open to learning
  - A successful co-creation process requires participants to listen to each other and be open to different perspectives. This is especially true in a BoP context, where local circumstances and consumer demand are not easily understood by actors from industrialized countries. It is important that participants are willing to adopt their initial ideas to changing circumstances and new information.

- Keep the dialogue
  - Co-creation flourishes in an environment that allows for effective dialogue between contributing partners who agree to extract the fruits of the produce equally.

- Be transparent
  - Co-creation is enhanced by making information fully available to all co-creators. There are no hidden agendas or unknown conditions. For an open exchange to be possible, the rules of the game need to be fair and clear. Access to information and tools allows informed decision-making, an important asset, especially for the BoP.

- Be public authorities
  - Relevant information and access to resources become available when mutual trust between parties is established. Trust facilitates effective dialogue and the disclosure of crucial information which adds value to the product or service.

Motto

Co-creation is a major re-think on how businesses create value.
Three Pilots for Pro-Poor Innovation Consortium

Co-creating BoP ventures

Co-creating BoP ventures

Cold storage Vietnam

Cold storage Ethiopia

Medical test-kit

Purposes of Co-creation

Developing inclusive innovation is an iterative process. From identifying the value to be created, to defining the assumptions to be validated, to ultimately creating a new business line. Through these steps, the value proposition, partnership, market, business and ecosystem need to be developed. In each of these steps, co-creation is the interaction for reaching sustainable social impact, especially when end-users or consumers are the co-creators.

Co-lead: partners share responsibilities and participate in the strategic decision-making process of the venture. The 3P4PPI consortium has adopted a dual governance structure. At the programme level, all partners are represented, including those representing the BoP, and they decide on overall directions and initiate the collection of knowledge of value to each of the pilots. For each of the three pilots, a pilot team decides on operational activities. Leadership is shared, but is often strongly influenced by the perspective of the private sector.

Co-identify: joint market research provides insights into BoP market opportunities and facilitates a better understanding of market needs and demands. At the same time, it stimulates awareness of the new product or service.

Co-design and build: guiding consumers to develop solutions for themselves can create impactful products and services. Human-centric design (http://www.ideo.com/work/human-centered-design-toolkit/) is an efficient tool for co-designing and building these products and services. In the ‘biogas’ pilot, human-centric design was applied in re-designing an existing socket prototype. Local metal smiths worked on a new version. While the version produced did not reflect the anticipated new design to the extent that it could be used as a final version, the experience provided useful insights into Rwanda’s production capacity and highlighted the need to seek an additional technical partner.

Co-venture and sell: a route to market requires distribution channels, staff and marketing campaigns that are commissioned jointly by the company and the BoP partners. Distribution networks, in particular, are often co-established with BoP groups. The barley ’drying’ pilot in Ethiopia, where local barley entrepreneurs were engaged from almost the start of the pilot to act as ambassadors, local facilitators and, ultimately, sales agents for the newly developed barley cooling unit.

Co-enable: BoP ventures are not developed in a vacuum. The enabling environment (public policy, existing aid-related projects, academia) is part of the co-creation process. With donor money being significantly present in Ethiopia, the ’drying cooling’ pilot maintains close contacts with donor programmes and the national government in order to ensure that the correct links are in place and to create an ‘institutional’ market for the cooling unit.
Challenges

Miscommunication: Co-creation ties into an involved organisation, changing it along the course of the process. It also involves opening up to other organisations. To achieve maximum impact, a clear vision, goals and game rules must be defined, as otherwise parties may unnecessarily drop out later on.

Uncertainty: One of the main concerns of co-creation is the uncertainty prior to and during the process. The strategy is usually not set at the start. Although this may lead to value creation in the long run, it also brings insecurity for companies considering getting involved. Companies have to set a budget prior to the process, which may be hard when the end-product, and thus the return on investment, is not known. Co-creation requires significant personal commitment and steadfastness, which may be a serious difficulty for companies considering getting involved.

Deeply rooted attitudes and behaviours: One of the biggest challenges remains the process of getting all parties on board in the initial phase. This is largely due to deeply rooted attitudes and behaviours. Interests and views of participating parties may seem too far apart to formulate a common goal as a starting point. Executives and managers should have an entirely open mindset for starting co-creation. This might be difficult in many cases where companies have been working in the same, traditional way for many years.

Lack of trust: A premise of co-creation is that by sharing experiences, everyone involved should be able to understand what is happening on the other side of the interaction. However, distrust may cause parties to be not entirely transparent as they are afraid of other parties stealing their ideas. This can cause some parties to become passive, not sharing and participating to the fullest. Inequality between the parties involved may lead to a power struggle. For example, in the case where one party also finances the – probably capital-intensive – process, the financing party tends to have a bigger say in the process. This may compromise the equality of parties, one of the crucial criteria for co-creation.

Learning Notes

Lessons from three Pilots for Pro-Poor Innovation

A learning environment to innovate for and with the BoP

Pilot

Key lessons Vegetable cold chain for Vietnam

Learning question: How do I deal with uncertainty when co-creating?

In Vietnam, a fully new line of business has been created to sell in Hanoi fresh vegetables produced in various rural areas. We identified a number of uncertainties, such as the level of engagement of the producers and the nature of the outlets in Hanoi where the vegetables would best be sold. We also needed technical innovations (cooling chain, mobile application for agronomists) to ensure the vegetables are safely produced and stayed fresh. Due to the initial uncertainty regarding which partners to involve and what outcomes to expect, we chose an agile process of development. We swiftly validated assumptions through small-scale testing. Trust, transparency, respect among partners and being open to learn from each other were prerequisites. Using a process that focused on “learning by doing”, partners were willing to be vulnerable (fail fast). Uncertainties soon became manageable in the sense that they could easily be understood from the experiment.

Partners in Vietnam pilot: Fresh Studio, The Fruit Republic, BoPInc, DGIS

Lessons learned:

Define the key assumptions that need to be validated
Use an agile development process that allows for validation, learning and failing fast
Be transparent and willing to be vulnerable

Pilot

Key lessons Pro-poor innovation

Learning question: What is the role of the intermediary organisation when co-creating?

In each of the three pilots, one organisation plays the role of intermediary (BoPInc, Fresh Studio, LEI, TNO, etc.) and facilitates the co-creation. Partners have stressed the importance of clarity with regard to the role of the intermediary during each of the co-creation phases, whether it is to co-lead, co-design or co-venture. The intermediary facilitates the transfer of knowledge between partners and efficient communication. It creates a common denominator for the different interests and needs of the participants. It also ensures the balance between business and impact objectives, as they were initially defined. Knowledge of local culture is important for the facilitator, combined with the comprehension of the different types of organisations at play (business, NGOs, public authorities).

Partners in Vietnam pilot: The Fruit Republic, BoPInc, local partners

Lessons learned:

Identify an intermediary organisation at an early stage to ensure the principles of co-creation
Provide the mandate of the intermediary organisation to play its role in the cooperation
The intermediary organisation should have an understanding of both for-profits and not-for-profits
You can’t defend your intellectual property if you do co-creation.

In practice in our pilot, there is indeed a limit to co-creation when it comes to intellectual property management. However, we believe that this should not be the case and that, theoretically, these two go hand in hand.

Pieter Verhagen (TNO) & Sameer Castre (Simpas)

What are the partnership settings for developing your BoP/Business pilot?
Over one billion people in the world do not have access to electricity. A sustainable solution to this problem is producing electricity from biogas. Many rural households in Africa and Asia use household biogas digesters. These digesters produce gas that is used for cooking. Our pilot sells an electricity socket that allows people with biogas digesters to produce electricity in their homes. The partners currently working to bring the product to market include Simpas (an innovative design and production company focused on delivering affordable small-scale biogas and bio-sanitation systems), TNO (an independent research organisation), SNV (an international development organisation), the BoP Innovation Centre and local partners. The device will first be introduced in Tanzania and Bangladesh.

Which are the elements that you considered under co-creation?
From day one, the development was placed under the umbrella of co-creation principles. Partners co-led the consortium. Right after the initial idea was sparked by a TNO employee, the proof of principle was co-designed with local entrepreneurs, stakeholder meetings were held and the working principles of the device explained to others. By doing so, we actually broke a number of rules of intellectual property (IP) management.

Why did you consider an intellectual property management strategy in the first place?
In our case it was to increase the potential for the market to flourish. We work with retailers using a wholesale model and we simply get a better deal with a patent on the product. From the perspective of production (which might take place in China), it also lowers the risk of counterfeits, which would bring low-quality devices to the market, whereas our value proposition is based on quality. With an IP strategy, it is the entrepreneur who is in charge at the end of the day. This does not mean he will directly benefit financially by licensing the product, but the choice is up to him. Patent pending also puts a stamp of quality on a given device. Our aim is to make this product available to the mass market and this will require raising a considerable investment. Owning the intellectual property rights benefits the terms at which this investment can be raised and helps make the investment itself viable.

What are the intellectual-property challenges you have faced when co-creating with partners and consumers?
One challenge we certainly faced was the disclosure of too much information without having the right working environment in place. For instance, Non-Disclosure Agreements (NDAs) should have been signed more frequently during our co-creation activities. There is also a lack of understanding on the part of non-profit organisations about the benefit of IP. IP is not only about self-enrichment (and indeed it can often be licensed for free). IP protection can place the entrepreneur in a stronger position to secure social goals. Linking the licensing of IP rights to quality and service demands greatly benefits the end-user. Piloting is a major challenge, especially when co-designing involves consumer testing or in-house placement in a non-controlled environment. A general patent usually has to be filed before these activities can be performed.

What could you do to combine an IP management strategy with the structure of your BoP venture?
First of all, table the IP issue right at the beginning of the innovation pilot as you can then decide on the goals of the IP strategy and the conditions for sharing benefits. After that, you can agree on what and what not to disclose. It is also beneficial to start communicating around the performance of a product, rather than the working principles. This way you can still protect part of the product later on. Finally, capacity building with respect to IP should be part of the pilot activities, especially for not-for-profits, ensuring a level playing field and support for the IP strategy.

What would be your foremost advice when developing an IP management strategy for a business pilot for the poor involving co-creation?
Table the IP issue straight away, not only in the form of contractual discussions with IP lawyers, but also as a business decision among partners. IP is only one part of the value created by a company, but it could become an asset while co-creating.
What’s next

Do

HCD Toolkit
To help international staff and volunteers understand a community’s needs in new ways, find innovative solutions to meet those needs, and deliver solutions with financial sustainability in mind, IDEO developed the HCD Toolkit. The free kit walks users through the human-centered design process and supports them in activities such as building listening skills, running workshops, and implementing ideas.

http://www.ideo.com/work/human-centered-design-toolkit/

Profile

Previous Publications

Inclusive Innovation
A Shared value at the Base of the Pyramid

Gaining BoP Insights
On finding the BoP market and individuals, to understand the context

Developing BoP Partnerships
Towards collective impact at the Base of the Pyramid

Next Publications

The BoP Innovation Cycle
A specific approach to develop innovations at the Base of the Pyramid

Know more

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Co-Creation At Danone
Opening societal project governance to maximize the creation and sharing of economic and social value Danone, September 2012

The Danone Ecosystem Fund’s mission is to strengthen and develop the activities of general interest in Danone’s ecosystem, meaning Danone’s stakeholders, all along the company’s food chain (farmers, suppliers, local authorities, economic actors nearby factories, small distributors …) by encouraging job creation and developing micro entrepreneurship. Created at Danone General Assembly of April 23rd, 2009, it was endowed with €100 million.

www.ecosysteme.danone.com
Inclusive Innovation

BoP Insights

Partnership

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