

Benefits of co-creation of value



**ASSIGN
BUSTER**

Back in 1953, Neil Borden introduced the concept of Marketing Mix. In 1960, it was classified into 4Ps – product; price; place; and promotion – in 1960 by Professor McCarthy. Product can be either physical or service; Price is dependent on its value; Place refers to distribution of; and Promotion refers to communication related to marketing of the product.

The concept of ‘ 4Ps’ was mainly used in the past when physical product was dominant in the market (Constantinides, 2006). He also found some limitations in 4Ps and identified two main limitations of the marketing mix – common in all examined domains: (i) a model’s internal orientation; and (ii) lack of personalization.

Consequently, the model of exchange was introduced having logic based on exchange of manufactured “ goods”. This logic focused on tangible resources, embedded value, and transactions. Over the past several decades, however, new perspectives have emerged having a logic focused on intangible resources: the co-creation of value and relationships. This new perspective is converging to form a new dominant logic for marketing, one in which ‘ service provision’ rather than ‘ goods’ is fundamental to economic exchange. Over time, marketing thinking has developed from ‘ goods-focused’ to ‘ service and interaction-focused’ approach of SD logic (Vargo and Lusch, 2004, 2008)

Co-creation of Value

Co-creation is a marketing strategy based on consumer values. Customers use different forums to share ideas and problem faced and their knowledge for product improvement. This in turn, creates an additional value to the

product. Personalized experience and loyalty to the product increases its value. This also affords an opportunity to the manufacturer to earn higher profits (Parahalad and Ramaswamy, 2004).

Some consumers do not buy any product nor use any service, but are still adding value to them. On various social networking sites (facebook, twitter, beboo), consumers have share their experiences of products and services they use. They also provide solutions to problem faced by consumers. This way, consumers add value to product and services without being in touch with companies. (Witzel and Mattu, FT, 2010)

In his keynote address at Gartner CRM Summit, Paul Greenberg gave the example of Threadless T-shirts (threadless. com). Customer places customized T-shirt design on a social website that is voted by site visitors and the winner design goes for sale on website (Conlon, 2006).

One can therefore, conclude that each customer wants personalized experience regardless of value of intended product. It is left to the companies to get to the best conclusions. In other words, products and services are now valued by customers (Conlon, 2006).

“ We no longer live in the business ecosystem, we live in a customer ecosystem,” Greenberg said. “ So you have to provide value and values to customers.” (Conlon, 2006)

The trick is that each customer wants a personalized experience regardless of their value. Companies have to figure out how to do this with millions of customers. Some are giving them the tools to own/run their own customer

experience. In other words the products and services are now valued by customers. (Conlon, 2006)

In their ' Harvard Business Review' article, " Co-Opting Customer Competence", C K Prahalad and Venkat Ramaswamy (2004), conceptualized the co-creation of value. They concluded that consumer could no longer be satisfied with offers made by manufacturers: the value of a product increases only if it is co-created by customer and consumer. Co-creation is a marketing strategy which is based on consumer values. Customer use different forums to share the ideas, problem faced with solutions and their own knowledge for the improvement of the products, this creates an additional value to the product. (Parahalad and Ramaswamy, 2004)

Consumer co-creates the value using any product and service produced by firm and able to personalize and customizes so that it satisfies his/her need and complete the required task. Personalized experience and their loyalty to the product increase the value of the product which allows the companies to earn higher profit and revenue. (Parahalad and Ramaswamy, 2004)

Market Practitioners and Co-creation of Value

A study conducted on the importance of social motives for watching and interacting with digital interactive TV (iTV) is based on a sample of 867 subscribers. Results were used to find out how consumers fulfil their personal needs by watching iTV that provides inactive function. If a consumer plans to travel, he can press a coloured button that brings him the latest weather report. They can also use interactive service for most of their social needs, such as watching news, currency rates, etc. This made iTV more

personalized for consumers. Involvement of consumers makes the product more appealing, thus adding to its value. A study has shown that consumer added value to product, i. e. digital TV, and services provided by Sky TV and iTV channel. Marketing practitioners are now taking benefit by making the interactive service more personalized and thus increasing sales (Bellman et al., 2010).

British Telecom (BT) is providing customer service and support to millions in the UK. Due to poor response from 'Customer Service' and adverse feedback for resolving the issues related to phone and broadband, a group of customers decided to setup a complaint service through Twitter. The group started resolving the issues and problems faced by the customers of BT. This is a clear example of how customers are adding value to a company's services through their initiative. A website [www. btcomplaint. com](http://www.btcomplaint.com) has been setup to receive and share complaints from customers who were fed up by the BT Customer Service. Based on the above approach, BT setup BTCare service, in collaboration with Twitter, is providing updates and customer support to all of its customers. Simon Rowney from BT Business explained that social media is playing bigger role in helping BT to have regular contact with customers (www. btplc. com, 2010).

Internet is playing an important role in promoting the concept of co-creation. There are a number of websites using the concept of co-creation as marketing tool for promoting their products and enhancing their sales. LEGO has developed software for the customers that can be downloaded for making a virtual bespoke. Customers can view and buy their own as well as designs created by others.

P&G developed a community-dedicated website for the collaboration of chemical and biotech industry. 'Innocentive' is another website developed for those with creative ideas who resolve the challenges placed on website. As the challenges are tougher, the website gives financial incentives to the users who resolve these challenges (Clark, 2008).

The application of knowledge and skills by one entity for the benefit of another is called 'service' (Vargo and Lusch, 2004, 2006). It is the study of service systems and of the co-creation of value within the complex constellation of integrated resources (Spohrer et al., 2007, 2008). So value and value creation are at the heart of service. For example, a manufacturing firm constructs an automobile out of metal, plastic, rubber and other parts, arranges them precisely, and packages them together. In their raw form, the metal and other components cannot be used as transportation; a manufacturing firm applies its knowledge, skills, and capabilities to transform raw materials into an automobile. If no one knew how to drive, had access to fuel and maintenance, and functioned in social networks for which particular automobiles had particular meanings, the car would have no value. It is only when the customer makes use of the automobile that it has value. In this case, 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. Value is co-created by this reciprocal and mutually beneficial relationship (Vargo et al., 2008).

Customer-conscious companies are no more producing product independently; they require regular input from customers who have now

influence from designing to the production. This collaboration resulted in co-creation. Market is now changing from conventional values where the product and services had the values and is exchanged from producer to customers. It has moved toward the co-creation where customers and companies are creating values. Ramaswamy found that in future individual will not interact with single company for co-creation but will be collaborating with groups of different professional communities, service provider and different firms. Prahalad also presented the DART model for co-creation of values. In this model, companies will be learning in depth about the consumers to get new ideas for designing, engineering and manufacturing of products. Product thus manufactured will truly reflect customer needs, lowering the risk of uncertainty (Prahalad and Ramaswamy, 2004).

Opinions/suggestions of customers can enhance the quality of a product or service. As such, customers have become co-creators of value by getting involved in the development and usage of a product and service (Kambil, et al., 1990).

When Fiat, the Italian car giant, wanted to test a new design concept for 'Punto', 3, 000 potential customers visited their website and chose from the options given for different features. Based on this survey, Fiat was able to know what the customers wanted. This way, they were able to test different design concepts at a relatively low cost. Due to such involvement, customers were able to get a car that was more reflective of their choice and opinions (Kambil, et al., 1999). Add to this the pride of ownership of a design, and the value of satisfaction becomes colossal.

Co-creation adds a new dimension to producer-customer relationship: by involving customers in production and/or distribution of value. Some managers even turn the brilliant customers into “ employees”. Consequently, managers must learn new techniques to motivate customers to co-create value (Kambil, et al., 1999).

Drawbacks and Disadvantages

Though the potential for co-creating value through interaction is huge, the possibility of interactional value co-destruction should not be overlooked. Managers and academics alike must recognize that value co-creation is not the only possible outcome of interaction between service systems. Adverse consequences can occur for a variety of reasons. It is therefore essential, before implementing a strategy based on S-D logic, to consider where, how, and to what extent co-destruction might occur (Ple and Caceres, 2010).

Exploitation of customers under the norms of ‘ value co-creation’ takes place on two related but different planes. First, consumers are not generally paid for the know-how, enthusiasm, and social cooperation that they contribute to the manufacturing process of marketable commodities. Second, customers typically pay what the marketing profession calls a ‘ price premium’ for the fruits of their own labour. They call it the use value provided by co-created commodities is said to be higher than that which can be accomplished through rationalized systems of standardized production. In other words, the work undertaken by customers to customize their own commodities, ends up increasing the price one has to pay for one’s creation (Zwick, et al., 2008)

In most cases, companies had to reengineer established innovation and production processes in order to capture the affective and creative resources of consumers. LEGO, for example, as part of a seven-year corporate restructuring program, has put in place the 'Community, Education and Direct' (CED) initiative charged with finding avenues to mobilize consumers as part of the design, innovation, and production 'team'. (LEGO Group, 2006).

The idea of putting customers to work is not entirely new. For instance, Ritzer (2004) observed the increasing rationalization processes of companies in a McDonaldizing world that have long relied on the appropriation of customer work. McDonald's restaurants turn customers into waiters and cleaning personnel for example, while the automated teller machine (ATM) 'allows everyone to work, for at least a few moments, as an unpaid bank teller' (Ritzer, 2004: 63) and with the internet becoming a staple of everyday consumer lives, companies find ever more innovative ways to extract free labor from the consumer (Terranova, 2000; Reed, 2005).

Consumers have to also learn that co-creation is a two-way street. The risks cannot be one sided. They must take some responsibility for the risks they consciously accept. The tobacco company has the obligation to educate consumers on the risks of smoking and develop cessation programs. But if a consumer persists in smoking, he must take responsibility for his own actions. In cases where the consumer is unlikely to have the expertise to make that choice, they must accept the choice made for them by a neutral party such as the Federal Drug Administration (Prahalad and Ramaswamy, 2004).

Markets, industries, companies, systems, and people do not change so often: it may take quite some time before the whole world is co-creating (Prahalad and Ramaswamy, 2003). The concept challenges many of the habits of managers. To change the mind-sets of people within the company into the way that an external customer thinks is not an easy task (Prahalad and Ramaswamy, 2003).

Terranova (2004: 73) emphasizes that the continuous value production in the digital economy of the information age is fueled by what she calls the ‘free labor’ of consumers as producers, which is ‘simultaneously voluntarily given and unwaged, enjoyed and exploited’

Conclusion

Marketing evolved with concept of 4Ps. This concept remained dominant when the product was physical (Constantinides, 2006). With the passage of time, however, this has changed to ‘service- dominant’ logic marketing. It is known as ‘break free’ by Shostack’s and remained popular for decades (Vargo and Lusch, 2004, 2008). C K Prahalad and Venkat Ramaswamy introduced the concept of Co-creation. They have explained that value will be increasingly co-created by a firm and the customer, rather than being created entirely by the firm (Prahalad and Ramaswamy, 2004).

“ The key learning, from thousands of executives the world over who had begun to explore value co-creation was, “ Every organization needed a systematic approach to engage not only its customers but also employees, partners, and other stakeholders to both unlock value co-creation opportunities and execute those”, (Ramaswamy et al., 2010).

Like various other concept and theories, co-creation has some limitations. The concept is new to which new dimensions are being added. Managers cherishing status quo, are reluctant to let go of familiar practices and tools – their zones of comfort. The result is an emerging tension between the traditional ‘ company think’ and the emerging ‘ consumer think”. Like all humans, business managers are socialized into a dominant logic – they are shaped by the attitudes, behaviours and assumptions they learn in their business environments. Unfortunately, most managers seem to forget that they are also consumers (Parahalad and Ramaswamy, 2004).

To achieve a more comprehensive view of value co-creation, future research should examine the consumption pattern of traditional manufacturing industries that supply tangibles such as cars, computers, or beer. For example, BMW’s Mini car, manufactured in the UK, is made to order. Most Mini owners have opted to co-create a car to their own unique specifications. Today, only two out of every 100 Mini cars are the same. Co-creation opportunities based on ownership issues (e. g., purchase versus leasing or hire of a car) also present an area where research is needed. The proposed model has considerable potential to be applied in traditional consumer goods industries. Many brand owners are building a relational view with their end users and using a broad array of channels to communicate directly with them, both pre and post purchase. By mapping the end-users’ processes and practices, brand owners can identify opportunities for communication, service and usage encounters that support the co-creation of value (Payne, et al., 2008).