

UNDERSTANDING THE CONCEPT AND CHALLENGES OF ENGAGING CONSUMERS IN THE VALUE CO-CREATION PROCESS

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Abstract

Consumers have shifted their roles from being a passive audience to being more interactive and participative. The access to information and social media has brought them closer and has greatly empowered them. Hence, the role of consumers in value creation across the value chain has increased and has become vitally important in recent times. Engaging consumers to co-create value has been largely appreciated and applied in businesses. But from the firm's point of view, the biggest challenge is to figure out the best strategy to engage customers to co-create value with them. There are pioneers like Nike, Apple, Facebook, Starbucks, Harley Davidson, etc. who have benefited from this concept immensely, but widespread application of this widely-discussed concept is not commonly witnessed. This research paper tries to put forward the key concepts of value co-creation. The difference in service ideology showing the difference between goods-dominant logic and service-dominant logic has been discussed. This digression from G-D logic to S-D logic has become the basis for implementation of value co-creation. After developing an overall understanding of this concept, the key challenges pertaining to practical use of this concept have been discussed. The major challenges have been classified into three levels, namely, organizational willingness, organizational preparation and execution. This research work is useful for developing a comprehensive understanding of the new evolving concept of value co-creation, which holds the potential of addressing the evolving customer needs in the new era of information technology, social networking and personalization.

Introduction

Value co-creation is an emerging concept which holds the capability to create desirable competitive advantages for companies. Now, value creation does not happen only inside the firm but the contribution of consumers must be incorporated in all phases of the value chain. Thus collaborative consumers become a source of competitive advantage. This development was proposed in 2000 by Prahalad and Ramaswamy (2004a). So, the traditional consumer-producer relationship has changed. Still a majority of companies lag behind in this new development and fail to involve consumers and their innovative capacities. Even fewer examples are quotable in this context from Indian companies. Why is it that the companies find it difficult to adapt themselves to the demands of effective co-creation? This research paper will try to draw deeper insights into the major challenges in the process of value co-creation, especially when it comes to the Indian consumers.

The Concept of Value Co-creation

Value co-creation is an active, creative and social process, based on collaboration between producers and users that is initiated by the firm to generate value for customers. It can be seen in practice in two distinct

approaches. First where, co-creation is used to boost regular businesses and the second, where co-creation is at the center of the business model. The concept of co-creation can be well understood by looking into some real-world examples, where the firms have largely benefited from this concept.

The first example is that of Gillette. The firm wanted to find out newer ways to make the shopping of beauty and grooming products among males to be more attractive and popular, especially for those who were dissatisfied with their current retail experiences. So, instead of choosing a traditional market research approach, they adopted an interactive, projective co-creation campaign and received around new 100 ideas and insights.

The second example is that of Starbucks. When Starbucks was going through tough times, with growing competition, and the firm losing its individuality, the firm started a co-creation campaign by the name, 'My Starbucks Idea', wherein customers exchanged ideas among themselves and with Starbucks. Customers provided suggestions on various issues like, products, services, advertising, layout, location, CSR, in store music and so on. The campaign promised rewards for most active users. More than 93,000 ideas were shared by around 1.3 million users, and a good number of ideas they received were implemented.

The third example is that of Dell Ideastorm. To come out of negative perception built in the customer community for their brand, Dell started what they called 'Ideastorm' campaign. When around 45% of posts regarding Dell were found to be negative, Dell created platforms like Studio Dell and Direct to Dell where the users were invited to share new ideas and issues openly and discuss them among themselves and with the employees. This resulted in around 3.5 million page visits per month helped Dell to turnaround their brand image by solving around 5,300 customer issues.

Understanding Fundamental Concepts

Co-Creation

According to Prahalad and Ramaswamy (2004), co-creation can be defined as "a form of market or business strategy that emphasizes the generation and ongoing realization of mutual firm-customer value. It views markets as forums for firms and active customers to share, combine and renew each other's resources and capabilities to create value through new forms of interaction, service and learning mechanisms. It differs from the traditional ... consumer market construct of the past."

Co-Production

The distinction between co-creation and co-production has not been clearly made in most of the researches and these terms have been used inter-changeably, as they refer to almost similar concepts. Some academicians have defined co-creation as the involvement of customers in the creation or delivery of products and services (Ballantyne, Williams and Aitken, 2011). But, this definition has been used to describe co-production by Vargo and Lusch. On finer analysis, Gronroos (2011) has separated the two terms, and argued that these terms are equally important but still they are fundamentally different from each other and work within the ambit of S-D logic. Co-production is the process where the participating entities integrate their resources. Co-creation is a refined form of co-production, where the resource integration is done for consumption, which means, 'value-in-use' experience.

Value

The concept of customer value developed in the 1990s, and since then a lot of research was done over it. It

finds application in many forms of marketing literature, which broadly includes consumer behavior, pricing, relationship marketing, total quality management, customer relationship management, marketing strategy, value co-creation, etc. (Khalifa, 2004). The heterogeneous researches, done in variety of contexts have resulted in a multi-faceted and rather confusing knowledge about the concept of customer value.

The works on consumer value has its roots in the literature on human values. However, the two terms, consumer values and consumer value appear to be similar, but actually they are not. The term 'value' suggests 'preference given to something', whereas, the term 'values' refers to the 'criteria' on which the preference is made (Holbrook, 1994). Classically, 'values' are the enduring beliefs which are deeply imbibed in a person (Rokeach, 1973), whereas, the term 'value' signifies the notion of preference, which can result from evaluation of benefits and costs or the quality of interaction.

Service Dominant Logic (S-D Logic)

Value co-creation and S-D Logic are directly related to each other. Or, it can be said that value co-creation has its origin in the S-D Logic. It is because co-creation occurs during the exchange of service, which is the fundamental premise in S-D Logic, that is, service is the fundamental basis of exchange (Vargo and Lusch, 2008c, 2008a). The tangible goods are only the tools for availing the service.

Goods-Dominant (GD) Logic	Service-Dominant (SD) Logic
Tangible product – services are considered as aid to the production of goods	Skills and knowledge
Products (units of output) = Operant resources usually tangible resources and knowledge)	Service (a process) = operant resources (static, (dynamic resources as competences like skills
Customers as a target group	<ul style="list-style-type: none"> • Collaborating with customers and partners • Customer = Partner who co-creates the value with the firm and promotes a market with philosophy • Customer is treated as endogenous
4Ps	3Cs
<ul style="list-style-type: none"> • Products • Promotion • Price • Place 	<ul style="list-style-type: none"> • Co-create service offering • Co-create conversation and dialogue • Co-create value proposition
Competitive advantage is goods	Competitive advantage is knowledge creation and application
Value is added to the products in production process – value delivery	Value can be only determined by the user in the consumption process – value creation
The external environments are considered as uncontrollable and forces to which needs to adapt	The external environments are considered as largely resources the firm draws upon for support by firm overcoming resistances and proactively co-creates

Table 1: Comparison of goods-dominant (G-D) logic to service-dominant (S-D) logic (cf. Lusch and Vargo, 2007; Mc Carthy, 1975, reproduced by Wollenick, 2012)

Service Experience

Service experiences are "the outcomes of the interactions between organizations, related systems/ processes, service employees and customers" (Bitner et al. 2006). Customer experiences are developed as the resultant of 'what is offered' and 'how it is offered'. Co-creation of service experiences was initially proposed by C. K. Prahalad and Venkat Ramaswamy of University of Michigan Business School. The co-creation of experiences is the final outcome of any value co-creation process. This co-creation of experiences involve platforms such as the web site, personal networking devices, call center, a social interface, to put the consumers and communities and the firm to have transparent access and dialogue (DART Model of Prahalad and Ramaswamy, 2004).

Co-creation Concept

	<i>Traditional exchange</i>	<i>Co-creation experiences</i>
Goal of interaction	Extraction of economic value	Co-creation of value through compelling co-creation experiences, as well as extraction of economic value
Locus of interaction	Once at the end of the value chain	Repeatedly, anywhere, and any time in the system
Company-customer relationship	Transaction based	Set of interactions and transactions focused on a series of co-creation experiences
View of choice	Variety of products and services, features and functionalities, product performance, and operating procedures	Co-creation experience based on interactions across multiple channels, options, transactions, and the price-experience relationship
Pattern of Interaction between firm and customer	Passive, firm-initiated, one-on-one	Active, initiated by either firm or customer, one-on-one or one-to-many
Focus of quality	Quality of internal processes and what companies have on offer	Quality of customer-company interactions and co-creation experiences

Table 2: Migrating to co-creation experience (cf. Prahalad and Ramaswamy, 2004c, reproduced by Wollenick, 2012)

Benefits of Co-Creation

Based on various examples of co-creation discussed above, such as Gillete, My Starbucks Idea, Dell Ideastorm, and other popular examples, such as Nike Plus, BMW Co-creation Lab, Threadless.com and Lego Toys, three primary benefits can be charted out. These are:

- Ideas for new product or service
- Enhancement of existing product and service, and
- Suggestions for improving business processes

Apart from these direct benefits of co-creation, there are three indirect benefits. These are:

- Increased customer loyalty, by acquiring greater mind share of customers
- Access to customer resources
- Development of competencies which cannot be easily acquired by the competition

Risks of Co-Creation

To understand the negative side of co-creation let us take the example of SPAR Bag Design Contest. SPAR is the biggest food retailer of Ireland, with over 450 high-quality outlets across the country. The retailer launched a re-usable bag design contest in Ireland. The objectives were to create a reusable bag which can be used in place of the existing Spar bag. The design was supposed to be appealing and the main focus was on facilitating customers to delegate work in teams and effectively communicating with each other. The idea was to take an existing idea, developing it further and to reusing it. The contest ran from 8th June to 27th July, 2009. Around 5,300 bag designs were submitted by over 2,500 members. The designs got more than 50,000 community evaluations, 12,000 comments, 5.5 lakh page views. So, the statistics show that the contest was highly popular and successful, but strangely, this contest proved to be a disaster for Spar. The jury's decision of the best design was not acceptable to the other participants, resulting in customer irritation, frustration and even revenge.

SPAR's experience illustrates that although there is a great mass of literature professing the benefits of co-creation, it has its share of risks. The risks are basically associated with the 'execution' of co-creation, and they can be avoided if carefully handled. The risk in co-creation, which requires them to invest their resources, ideas and feelings, is that it involves the consumers in a living relationship with the process. This sort of involvement leads to great hope and many expectations. When hope is belied or expectations are not met, customers are disappointed, which can harm the firm in the following ways:

- Spreading negative word of mouth
- Conflict arising among the participants of co-creation
- Co-destruction, where the customers join to use the company platform for destructive outcomes
- Mass defections because, co-creation works in communities and not in isolation

The Challenges within the Co-Creation Concept

Challenge Levels
• Organizational Willingness
• Organizational Preparation
• Execution

Organizational Willingness

It refers to the willingness of the organization to critically evaluate the need of co-creation and accepting the risks and challenges involved. The willingness needs to travel from the top to the bottom of the hierarchy.

Most of the firms are unable to implement co-creation due to lack of willingness at the top level, e.g., Nike or Threadless.com could co-create successfully, but such success could not be seen for their direct rivals such as Adidas, Puma, etc.

Organizational Preparation

The challenge of proper preparation is the biggest hurdle in the way of developing a fully functional co-creation mechanism. The preparation can be dissected into:

- Making action plan based on market study
- Platform selection, design and management
- Re-configuration of organizational architecture
- Creation of new roles and ensuring role clarity
- Re-defining existing roles across the value-chain
- Re-configuration of resources
- Developing new capabilities
- Setting objectives and benchmarks

Execution

- Reaching the target customers through right platforms
- Developing and maintaining customer interest in the co-creation project
- Checking conflicting situations and dissatisfaction among the customers and other participants
- Checking co-destruction activities and proper handling of customer grievances
- Filtering and processing of large amount of data
- Managing copyright issues
- Serving heterogeneous audiences with a common co-creation process
- Remaining prompt and fair in handling individual customers
- Remaining cost-effective
- Providing desirable results

Conclusion

The concept of value co-creation is relatively new and there exists a sense of ambiguity in the practitioners. Therefore, its widespread application is not evident in the market. There are certain clear benefits of co-creation, which makes it indispensable for any firm to understand and implement co-creation for ensuring competitiveness. The company can be best described as a part of the value creation concept which provides relevant resources and access to the customers to enable them to co-create value. The concept of co-creation must be properly understood and tested before application because improper execution of co-creation can lead to serious damages, such as, spreading of negative word-of-mouth publicity, conflicts between participants,

co-destruction and mass defection.

Looking into the challenges in the value co-creation process, it can be summarized that the firm needs to focus on three key dimensions while co-creation of value with the customers. These three are namely, organizational willingness to co-create, organizational preparation to co-create and execution of co-creation. By applying these concepts in the co-creation process, a long-term and fruitful relationship can be established with the customers, where a customer is the value creator and the firm acts as a value facilitator.

While transforming a company in a co-creating enterprise, its direction and scope needs to be defined from the customer perspective, where the employees must be considered as internal customers. It can be done only when the providers can understand customer's value creation process.

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