

# CUSTOMER CO-CREATION: STRATEGIC TOOL FOR CUSTOMER ENGAGEMENT

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## ABSTRACT

Co-creation is a recent model that has concentrated on what customer is looking for not on what a industry wants to produce. Cost effectiveness & rich interaction opportunities with the help of internet & social networking sites have provided a sustainable platform for customer co creation, value addition & overall success of a new product. The meaning of value creation and the process of value creation are rapidly shifting from a product and firm-centric view to personalized consumer experiences. In this digitalized era, delivering greater customer value has become an ongoing concern in building & sustaining competitive advantage by driving customer relationship management. The paper explores the basic concepts of customer co creation, how these co creations helps in building the relationship of customer & firms, use of social media for value addition activities & engagement of customer for product development process.

**Keywords:** Value Creation, Co-Creation, Satisfaction, Innovation, Customer Engagement, Digitalization, Social Media

## INTRODUCTION

Prahalad and Ramaswamy, defined co-creation as “The joint creation of value by the company and the customer; allowing the customer to co-construct the service experience to suit their context” Information asymmetry between customer demand & firm's capabilities, customer empowerment & widespread application of digital technology are the major attributes for initialization of customer co creation term. Customers are seeking for more active role. Social networking sites, internet & digital literacy have become an interface between the company & its users. At a MacWorld conference in 2007, Sam Lucente, the legendary design and innovation guru at Hewlett-Packard, described his epiphany that designers can no longer design products alone, using their brilliance and magic. They are no longer in the business of product and service design, he stated; they are really in the business of customer co-creation.

The traditional perception where the value is created by a “producer” & “customer” was just the consumer. But in modern area of competition where differentiation is continuous process has replaced the concept of producer as value creator. More recently, this producer-consumer model has begun to be replaced by a model of co-creation of value, a model in which value is created through the joint activities of

providers and customers but also the activities of others in the networks of these parties.

The purpose of the present research is to investigate descriptively the different approaches of customer co creation, understanding the role of social media in value creation, co creation as tool for relationship management & a source for content development as well as to begin to explore the relationship between co-creative approaches and outcomes. To accomplish these purposes, first we understand the basic concept of co creation, next is to understand and connect the co creation with the prospects of value creation and how social networks, internet & digital literacy pool themselves together for bridging the gap between firms potential & what customer is looking for.

## LITERATURE REVIEW

The literature review is majorly deals in two parts:

- (1) Role of demographic variables in the co-creation process;
- (2) Understanding the co-creation process & its influence in shaping customer satisfaction.

According to the study named as 'Demography and design: Predictors of New product team performance (Deborah Glandstein Ancona & David F. Cladwell, 1992)',

Organizations are focusing on team work for new product development. This paper discusses on how team formulated & work divided among each member for product development. Employee works as a co-creator for this process. Demographic diversity of employees in term of the tenure they spent in the organization, culture & education level has an impact on product development process. The paper introduce the way how the uniqueness of the diversity can bring a constructive impact on product development. At present, the new product development is not restricting with team within the organization but a great contribution from the society who are the end consumer of that innovation.

In the literature 'Co-opting customer competence (C.K. Prahalad and Venkat Ramaswamy,2000)' it is clearly pointed out that customer experience management should essentially incorporated with business models. Also, the paper discusses the evolution and transformation customers. Customers are shifted from passive participation to active participation in this digital age. They are more knowledgeable & show great interest in exchanging views about the products & their features.

In the McKinsey quarterly review (July, 2011), in the article 'How we see it: three senior executives on the future of marketing' it is revealed that today is an epoch of customer engagement. It is a hit and trial strategy where you connect with your customer, listen them & tries incorporating all valuable suggestions. Virgin Atlantic Airways CEO Steve Ridgway mentioned about how his company has been pushing the boundaries of collaborating with customers, while experiencing the pleasant surprise of a successful mass-media campaign. American Express CMO John Hayes discusses about few steps he has taken for customer co-creation that helped organization to stand apart from the existing competition. Duncan Watts, principal research scientist of the Human Social Dynamics group at

Yahoo! Research, explains how today's data-rich surroundings expose the restrictions of instinct in marketing and the need to get a scientific approach to know consumers. The story state that co-creation cannot be completed with the organizational support. Organizational structure need to reform according to the modern customer centric approach. Customer & company interaction touch points need to be increase; to support this modification should be in organizational structure. Recruitment of new employees, reshape customer care strategies & most important is develop the online community for easy & effective communication. Company as a whole should engage to adopt and accept the new marketing revolution called "co-creation".

**In the literature 'Relationship Glue: Customers and Marketers Co-Creating a Purchase Experience (Edwin Rajah, Roger Marshall & Inwoo Nam, 2008)'** it is discussed that co-creation is a mutual process occurs when marketer & customer come together to create value. This report is the empirical study liking many aspects called; co-creation, trust, loyalty & relationship. Customers varies according to their contribution in co-creation process while satisfaction level they posses is on an average same. The research variables measures & structural equation model shows that a positive relationship, where co-creation definitely has an impact on relationship building, trust & loyalty that insist the customer for repeat purchase. This paper also deals in the benefits of customer co-creation & sustainable competitive advantage of adopting the strategy.

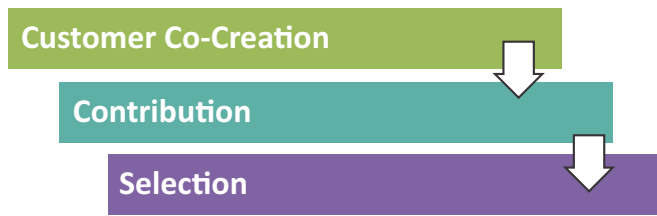
**In the literature 'Co- experiences: The next practice in value creation (C.K. Prahalad and Venkat Ramaswamy, 2004)** they have discussed, the interaction becomes the pillar for value creation. Now interaction is not limit with point of exchange or customer service. Traditionally the definition of interaction was where the transaction between buyer & seller takes place, the point of purchase in the market and value was created through firm's value chain system. On the other hand in customer centric system they participate aggressively for value creation in the firms offerings. Customer satisfaction is not only derived from the value they get but also from the whole experience of interaction with the company.

### **THREE MODES OF INTERACTING WITH CUSTOMERS IN THE INNOVATION PROCESS**

Access to customer information is one of the basic requirements for any successful innovation (Cooper 1993).In the past studies, contribution of the customers for the innovation process is a growing field. This research also has identified some contributions of customers that seem to go beyond their traditional role of being a mere respondent to a company's activities (see for an overview Danneels 2002; Fredberg and Piller 2008; Fang 2008; Carbonell et al 2009). The studies exhibit a broad consent on the benefit of customer integration for innovative performance. They also signify the various roles a customer plays for an innovating process. Some studies propose that contributing customers should have special characteristics (Gruner and Homburg 2000; Urban and von Hippel 1988), implying that not all customers are equally suited to contribute to the innovation process. Other studies, however, stress the need for a broad interaction with customers for successful innovation (Gales and Mansour Cole 1995; Joshi and Sharma 2004; Magnusson 2009). In general, however, this research indicates that

customers can take different roles in the innovation process. Customers can distinguish in two categories, some may help in forecasting the future trends, and others are best suited for value creation, evaluate the innovative concept & modify the existing one.

Three Modes can be discussed as the introduction part of customer co creation. Firstly the steps of customer co creation, second what all motivates the customer to share ideas and suggestions & the third step is different type of customer co creation a firm may engage itself.



**Mode 1**

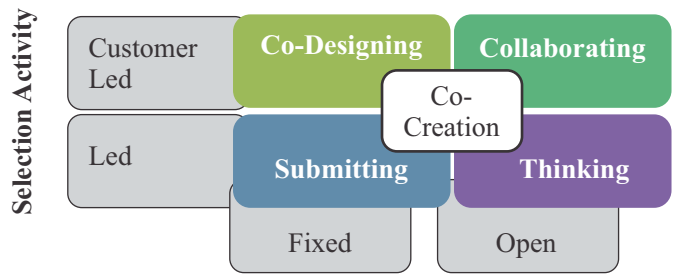
A successful customer co creation's process starts with the steps involve in engagement of customer. First of all a company must convince its customer for the contribution. Social networking sites are the rich source to get in touch with these innovative users & to collaborate with them. Thousands of people talk about your product on social media. Just listen what they are talking about your product in the community, user's gives bunch of opinions. Opinions & ideas can be drawn from social networks, review sites, user generated content, forums & blogs. Contest can be organized to utilize the wisdom of the crowd. A successful story of BMW, more than 1100 users joined BMW's Interior idea contest and submitted almost 750 ideas not only the ideas but also provided extensive feedback on idea submitted by others. The second is to select few viable once from the gathering you received it's the selection step. Both the steps are quite challenging. Not all these ideas have the positional to become breakthrough innovations, you have to find the gold nuggets & develop them into the concepts. Unlike other marketing strategies co creation is playful, intuitive & compelling.



**Mode 2**

The second part of the co creation process is motivating the customer who gives the valuable time & suggestions for the value creation process. There are two ways to motivate to

customer either give them social recognition or financial rewards. Make the use of both social & financial incentives. Sometimes customer engagement in production process for which a he has given the idea is the best tool for motivating them. Customer engagement in production attaches them emotionally with the brand & allows them to give a positive diffusion for the product as user was the part of the manufacturing process.



**Contribution Activity**

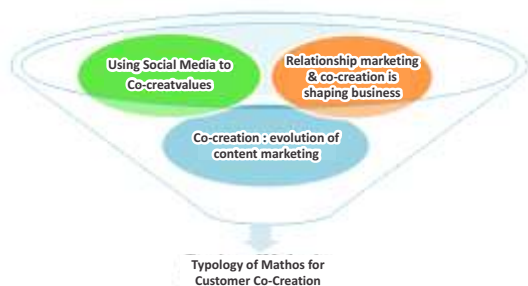
**Mode 3**

The last part of the process is to talk about four different type of customer co creation based on 2 by 2 matrixes. X axis shows the contribution steps & Y axis shows the selection steps & provides 4 combinations how a firm takes part in customer co creation activity. On the X axis the first box is fixed shows that customer has very little control over contribution activity & firm receives lesser then the amount of contribution it is looking for. The second box is open where customer involvement is very high, Customer may contribute anything they would like to about a particular product or an idea.

On the Y axis the first box is Firms Led where in no contribution from the customer in selection process of suggestion or idea. Firms itself chooses the best from the bunch of idea. The second box is Customer Led firm realize more on customer for the selection of idea. The ideas that get more points, thumps up & votes from the community will be selected & implemented.

So this 2x2 matrix provides 4 customer co creation combinations. Fixed and firm led combination is called Submitting where firms get very few ideas & select the best by its own analysis. On the upper right its Collaborating a combination of open & customer led where customer has enough control in idea generation & firm select the one which is rated high by the community & in the middle of these we have Co-designing & Tinkering. Co-designing combination of low idea contribution & high voted will be selected & in Tinkering from the bundle of idea firm will selected without the customer involvement in selection process.

## A typology of Methods for Customer Co-Creation



### USING SOCIAL MEDIA TO CO-CREATE VALUE

Communication between company & the customer is enhanced with the perfect tool call Social media. In manufacturing, these communications were never there before, unless the firm spent a lot of money doing focus groups or collecting survey data. Using Social media as a Co Creation tool, firms get impartial judgment from real customers and prospects at a fraction of the cost. Social media facilitate in co creation through collaborating innovation in new product development. The better way to identify the customers need is customers themselves. Using social media as a mouthpiece for insight is probably the most value aspect as companies learn customer pain points, their likings & disliking about their own brands as well as of competitors. Incorporating valuable suggestions from customers improves the product & brand image among the society.

Favorable brand messages shared by customers who are the micro celebrity of the society construct a favorable brand image. Consumers believe what their friends tell them much more than messages they get from the company's promotional strategy.

### BUT HOW DOES IT CREATE A VALUE FOR CUSTOMERS?

Firm can increase the value of the customer who spend time and share the encouraging feedback about the brand by thanking them, by highlighting their comments, & other strategies that play into the micro celebrity status. Even rewards can be shared with the customers in the form of offering them additional discounts & free products.

### USER GENERATED CONTENT CREATES SIGNIFICANT VALUE FOR BOTH CUSTOMERS & FIRMS

Relationship marketing and co-creation is shaping

businesses Customers want value. So let' serve it up. One of the best behaviors to provide value for your customers is to understand and meet their needs. Customer attraction & retention for the enlargement of long term & profitable association is the primary objective of Relationship Marketing. Philip Kotler, the author of Marketing Management, summarizes the concept perfectly by stating that the operating principle of RM is to build a good network of relationships with key stakeholders, where profits will follow.

Customer attraction & retention for the enlargement of long term & profitable association is the primary objective of Relationship Marketing .Digitalization increases interface between customer & business that largely helps to shape business & their respective value proposition. It requires a brand to adopt a mindset of co creation driven innovation.

A great example of co-creation driving innovation is "Proctor & Gambles 100% Open project. They describe it as an efficient method for generating insight. It's a portal used to: listen, ideate, create, validate, evaluate and then ultimately develop products specifically for their target market. Just the economic saving in research and development alone makes this a viable concept.

Another company using co-creation to innovate their brand is Reckitt Benckiser. They have actually created a game to help develop customer centric marketing initiatives. The game doesn't only serve as a marketing innovation strategy, but is structured so that it will also help to recruit outstanding marketing talent.

Further, internet as an open network where information flows freely, innovative ideas can be shared, customer feedback can be coupled in the development of products & services & this co creation & collaboration occurrence becomes one of the greatest competitive aspects for business fortitude. Companies have realized the significance of the two levers of Customer Value Management Co-creation and Co-creation: evolution of content marketing

### ALL YOU NEED IS THE WILL, THE SMARTS & A PASSION FOR COMMUNITY

“The next wave of content marketing is getting the community to create content.”Jennifer Burnham.

Content marketing is the idea that businesses should attract and retain customers by creating relevant, valuable content, training marketers to create tons of content, or 'hiring journalists to be your brands storytellers, only gets you so far. The next step is to create connection between content

marketing & customer co creation in it. Get the community to be a part of content creation process. Whom you would like to encourage is very important to decide in advance. Company needs to narrow the focus area & understand who they want to reach, where their target is spending time & what their interest area is. Best content will come out from those who are passionate about your brand.

The specific & structured program will speak about the benefits customer will receive by participating in dialogue writing. Company has to have a watch on guest blogger, should share the topics company would like them to write about. Recognition always boosts the gossellers to write more & relevant. It becomes real bonding experience when they become the part of company's extended team.

### THE ART OF CO-CREATION

Digitalization as a makeover from traditional company centric view to consumer centric view.

### THE TRADITIONAL COMPANY-CENTRIC VIEW SAYS

- The consumer is not the part of value chain system.
- The companies have a control over where, when, and how value is added in production process.
- Value is shaped in a sequence of activities controlled by the company before the point of purchase.

### THE CUSTOMER-CENTRIC VIEW SAYS



#### Customer Centric Approach

- The customer is an essential part of the system for value creation.
- The consumer can influence where, when, and how value is generated.
- In this competitive era where market is full of substitute product the consumer need not admiration industry in the search for value.
- There are multiple points of exchange where the consumer and the company can co-create value.

The Local Motors, billing itself as “a different kind of Car Company”, has spurned the industry's traditional ways. It is a new venture in automobile sector. Jay Rogers founded this company in 2007 & came up with the idea while he was an MBA student at Harvard Business School. The company is located in Chandler, Arizona and is currently selling a variety of motorized vehicles; including an automobile called the “Rally Fighter” a typically using a concept of customer co creation & buyers played an important role in the creation of a new car.

### POWER OF CUSTOMER IN THE DIGITAL WORLD: CUSTOMER COMPETENCY & CUSTOMER EMPOWERMENT



#### Involvement of dynamic customer

Consumer competence is individual's ability, function, and talent allowing to take their active role as consumers in the market, driving market system efficiently, fair and proper (Dickinson). Lee, Ki-Choon defines consumer competence as a combination of consumers' knowledge, attitude, and responsibilities to practice in wise manner in the market, boosting economy alive. Consumption competence is about searching information, comparing, and purchasing products by using digital technology and network efficiently and making evaluations about their purchased products based on their abilities to manage and use properly digital goods.

Same ways consumer empowerment means consumers will become less passive in accepting whatever is offered by employers. Customer Empowerment is “A mental state usually accompanied by a physical act which enables a consumer or a group of consumers to put into effect their own choices through demonstrating their needs, wants and demands in their decision-making with other individuals or

organizational bodies in the marketplace (Len Tiu Wright).

After the liberated information system of internet the consumer participation in business activities have been increased. Before the emergence of this system, companies could do everything — selection of raw material, product design processes & content marketing— with no interference. Nevertheless, companies should welcome, not resist, the consumer powers detailed below.

### **INFORMATION ACCESS**

Internet as a source of service provider consumer has understanding to take much more informed decisions. This easy access of information insisting industries to yield control over value creation and develop new ways of doing business. Consider health care. More than 70 million Americans have reportedly used the Internet to learn about diseases and treatment options and investigate how to get involved in clinical drug trials. Consumers now question their physicians more assertively and participate more in selection of treatments. This has changed the traditional pharmaceutical sales practices.

### **GLOBAL VIEW**

24\*7 information's are available on Internet & this is the first single source educate the customer about what all is happening around the world. Now consumer shows more involvement in scrutiny product, its price & how well it is performing across geographies. Customer feedback their blogs & information shared on public platform educates the industries to sharpen the business strategies in more customer centric view. New competitors and even cottage industries are also emerging in the global marketplace. Even poor artisans in Rajasthan, India, can sell their artistic work on the Web and deliver it to buyers in the U.S. in about a week, and for one-tenth the cost of same product available in the United States.

### **NETWORKING**

Networking of consumers on the basis of common interest, preferences & experiences encloses them in a bundle. The Internet amplifies this by encouraging an absolute comfort and openness of communication among perfect strangers. Internet is a place where people form communities of interest, where folks confabulate without geographic restraints and with few social barriers, exist all over the Web. Individual participating in chat with each other, exchanging ideas may not know about each other more than their interest area. The power of consumer network make the individual independent, now they share their real time experience & diffuse about the product or services they render.

### **EXPERIMENTATION**

Consumers use the Internet to experiment with and develop products, especially digital ones. The German research company Fraunhofer Institute for Experimental Software Engineering released MP3 as a freely available compression standard that accelerated the transmission of digital audio. The collective competence of software users has enabled the codevelopment of popular products, such as the Apache Web server software and the Linux operating system. The ability of consumers to experiment with each other goes beyond software and digital products. Cooks can share recipes. Gardening enthusiasts can share tips on growing organic vegetables. Companies that choose the path of co-creation can tap into consumers' creativity for the development of products and services.

### **ACTIVISM**

Digitalization educates the customer. As the learning increases customer become more emboldened to speak out. They become more thoughtful in their selection process of buying. Now customers provide voluntary response to companies and among their social group. Anything posted on social group become viral at very short span of time. The Web has also become a platform which educates the customer not only about the product & services they are using or available in the market but also draws the attention on the social issues such as environmental protection, women empowerment, corporate social responsibility & child labor. Although activism might seem menacing to companies, it also opens the door to competitive opportunity.

### **CONCLUSION**

Customer co creation not only helps in business expansion activity but an important tool for customer retention. In addition to endow them a platform for gathering the valuable ideas & feedback but also provide them the right training to make co creation more effective. Before undertaking the co creation activity it is important to understand the objective of the study. Objectives may vary according to what firm is looking from the customer. It may seek for a feedback or a marketing platform for introduction of new product or sometimes an idea generation contest for development of new product. Not all the customers are the best co creators but picking up the best from the bulk is the significant challenge a industry faces. The effective co creation is depending upon how a great deal of value is shaped for both customers as well as for the company.

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