

The Six Faces of Value Co-creation: A Field Guide for Executives

Kumar Rakesh Ranjan

Indian Institute of Management Calcutta

Stuart Read

Willamette University

Abstract

How can firms best engage customers to co-create value? A surge in academic and practical interest around this question of value co-creation (VCC) highlights the possibilities people see when Ford enables customers to design their own cars, Facebook enables customers to create content for other users, and Proctor and Gamble sources more than half its innovations from its own customers. At the same time, both academics and managers wrestle with exactly how to handle the enormous task of co-creation. Seeking insight, we searched the scholarly literature on VCC, and reviewing 149 unique papers, realized VCC is not one enormous task. Instead, it is composed of 6 different faces, 3 that describe the first VCC stage of co-production and 3 more that describe the second VCC stage of value-in-use. We understand why people have an incomplete understanding of VCC, as for example 79% of the studies in our data set considered only one stage or the other. In this paper, we describe each unique aspect of VCC so managers and researchers can see the whole, work with the parts, and generally better utilize the power that is derived when firms and customers collaborate.

Micro Case

The global delivery and supply chain firm DHL has formalized its co-creative interactions with customers through innovation centers. A recent article in Fortune Magazine indicates that from more than 6,000 interactions/engagements with its customers, DHL has generated innovations that include:

- “Smart glasses” created in collaboration with Ricoh (a DHL customer) to give inventory and warehouse picking staff hands-free access to mobile data.
- Parcelcopter, a drone delivery prototype for faster, less expensive delivery with a lower CO2 footprint.
- “Maintenance on demand”, co-developed with customers that include Volvo Trucks, combining sensor and communication technologies in vehicles to automatically manage truck maintenance.
- IoT Report, authored with Cisco, describing new uses and applications of Internet of Things technologies in the logistics environment.¹

In order to generate these innovations, DHL employees have to be willing to include customers in the innovation and co-production process, share information and collaborate on prototypes and solutions. As you read this article, we encourage you to consider what additional activities DHL might most profitably undertake to encourage and sustain such strong co-creative activities with its customers.

Introduction

Value co-creation (VCC) has gained the attention of academics, describing collaboration between multiple stakeholders.² Fuelled by the influential studies of Vargo & Lusch on a co-creative service-dominant logic (SDL) of marketing,³ research interest in VCC has grown rapidly in recent years. At the same time, the concept is still critiqued by researchers as ambiguous and amorphous, resulting in an understanding that is equivocal at best.^{4,5,6}

Practical interest has paralleled research work, as firms seek stronger customer relationships and competitive advantage through collaborations with customers. Examples are widespread, ranging from The American Girl Store, which makes its customers the central attractive value of the events it hosts, to E.ON, the German energy provider which offers rewards to innovation challenges customers solve. The common insight is summarized in a recent Journal of Marketing article entitled “Creating Enduring Customer Value” which simply expands the scope of interactions beyond the supply of value from firms to customers, to include the supply of value from customers to firms.⁷

VCC Starts with Co-Production and Advances to Value-in-Use

Seeking to better understand how co-creation works, we searched all the academic research papers published between 2000 and 2012 for work related to co-creation. We then organized the results to describe different sub-

dimensions of co-creation. In the next three paragraphs, we summarize our findings.

Almost immediately, we realized the results of our search split into two distinct stages of the co-creation process. One category of work focused on the start of the VCC process, most often referred to as “co-production”. In this stage, firms and customers work together to create things. Activities such as understanding customer needs, developing new product or services, or figuring out how best to produce, fell into this category. The second group of work concentrated on what happens once that product or service is available, and how value is co-created when the product or service is actually used. This second stage, often termed “value-in-use” (ViU), describes the way actors behave, interact, interpret, experience, use, and evaluate products or services. We focused within these two stages to gain more insight into how each works.

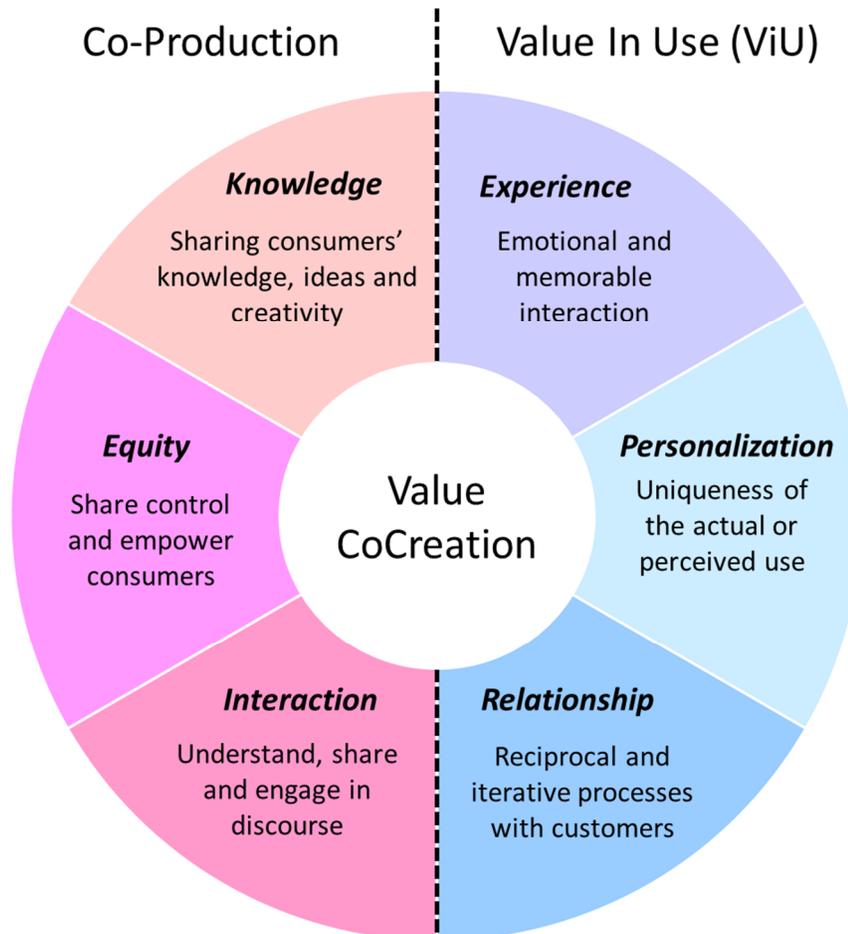
Detailing the Co-production Stage of VCC

Co-production consists of coworking with customers or participation in the product or service design process. This co-working takes three forms: (1) Directly or indirectly, customers share knowledge or information with the firm. (2) Customers also provide interaction both with employees and with products/services, offering deep engagement so both firms and customers can understand the value they are providing each other. (3) Underneath these elements, customers can be psychologically involved in the co-production process. Several studies highlight equity in the form of mutualism, openness, and non-command relations as an important ingredient of co-production. Though in co-production, the locus of control of the process resides with the firm, equity describes the extent to which external stakeholders can feel a sense of ownership in the process.

Detailing the Value-in-Use Stage of VCC

Once the product or service is complete, the locus of co-creation shifts to the customer. Three different aspects describe this second VCC stage of ViU: (1) The customer’s experiential evaluation of the product or service proposition beyond its functional attributes is central to engaging the customer in this second stage. (2) The networked actions of consumers reinforce their own beliefs and identity and result in associations and relationships with the proposition that enrich customers’ lives. (3) Additionally, in ViU, customers’ mental models attach identity to the usage process, offering personalization – a unique consumption value through the enjoyment of doing, or an idiosyncratic use process.

Figure 1. The six faces of value co-creation



Validating the Six Faces of VCC

To determine whether the two stages and six elements of VCC actually predict the activity of co-creation between customers and firms, we conducted two tests. First, we built survey items for each of the faces of VCC and tested those items against seven pictorial and text-based vignettes describing real product brands which engage customers in co-creation:

- Subway (co-production of a food offering)
- threadless.com (design, purchase and usage of garments)
- Wikipedia (consumer as content producer and user)
- Tide detergent (P & G Connect + Develop™ initiative)
- Nike (Nike+ sport sensors enable runners to share data and remotely compete)

The Six Faces of Value Co-creation

- Audi (replaced by local car name Maruti, design of accessory)
- Axe deodorant (product development story of Axe deodorant)

Customer respondents were asked to imagine the actual experience and interaction with one of these products/services. Analysis of the questionnaires showed each of the six faces is unique, predicts the activity of co-creation, and each is measurable (please refer to the source paper for the measures if interested).⁸ We then tested the whole model against customer satisfaction using general service contexts such as those of a medical doctor, a hotel, education services of a professor, as well as two co-created brands of Subway and Facebook. Results supported the differences between the six faces of VCC and showed the relationships persist through VCC to enhance customer satisfaction.

So What?

Delineating the elements of VCC makes co-creation more understandable. Being able to measure the elements within VCC makes the process more manageable. Here, we focus on practical implications, first addressing the finding that VCC is composed of two main steps, and then focusing in on each of the six faces.

First Co-Produce, Then Build Value in Use

As the examples in this article illustrate, firms co-create with customers at different points in the process (Ford enabling customers to co-design represents co-production, while the co-created value of Nike+ is all in its use). Placing the activity of your firm in the process tells you which of the six faces is most important. And though this is a future research question, we suspect firms which are able to engage customers all the way from co-production through value-in-use are likely generate the highest extent of co-created value.

Focusing on Co-Production

Each of the three faces of VCC on the left-hand side of the circle in Figure 1 contains the word share. Spend a day in a kindergarten, and you can see sharing is not something that comes naturally to many human beings. But being able to genuinely offer knowledge and offer control (equity) to your customers is central to working with them. Clearly, there is information any organization needs to keep proprietary. But take stock of the rest, because that is the starting point of your offer to co-produce with your customers. Furthermore, build a process that is not a one-time event. Instead, design processes to enable iteration, ongoing interaction and feedback. Customers

want to work with you, and you need to help them feel part of the process with more interaction.

Focusing on Value-in-Use

We do not refer to customers as consumers. Consumption is an idea which only goes one direction. And even during the use stage of VCC, there is a great deal of interaction. As VCC stages progress, the locus of interaction shifts from firms interacting with customers, to customers interacting with a product or service. So the implication for firms working to create value-in-use is to find ways to design offerings such that, as much as the offerings motivate purchase, they also motivate engagement. From our literature review, we identified three faces of that engagement. Customers only bother to interact with offerings where there is some form of an emotional or empathic connection, as described by "experience". One of the elements which enables that sort of connection is personalization. And though the focus is on the offering, there still needs to be a channel back to the firm to build the relationship with the customer, either to better understand the use, or to input learning back into the next cycle of co-production.

Conclusion: Applications in Specific Environments

Knowing is only the first step toward doing. Taking action to collaborate with customers means consistently and creatively applying this information to a specific (ex: product or service) context, a specific industry area (ex: B2B or B2C), in a specific place and by a specific group of people. Such applications demand the best managerial thinking to animate the six faces of VCC in particular environments.

We conducted a third investigation measuring the six faces of VCC. We asked a group of 51 senior managers, spanning service industries (ex: IT-Service, Retail, Financial, Media, Telecom) and product industries (ex: IT-product, Engineering and Healthcare Equipment, Consumer Durables) to respond to measures of co-creation. We found similarities with regard to the extent of co-creation across the six faces as well as important differences across product vs. services and B2B vs. B2C contexts.

Contrasting products vs. services, we found co-creation of services statistically greater for the faces of Interaction, Experience and Personalization. We also found statistically higher levels of co-creation in B2C industries than B2B for all faces except Personalization. Although B2B might intuitively be associated with higher interaction and engagement, this finding implies those interactions with consumers do not necessarily translate into higher levels of VCC. Rather, business customers, perhaps

The Six Faces of Value Co-creation

owing to high-stakes relationships with their vendors, co-create more with firms across the faces of VCC.

Figure 2. Services are more cocreated than products

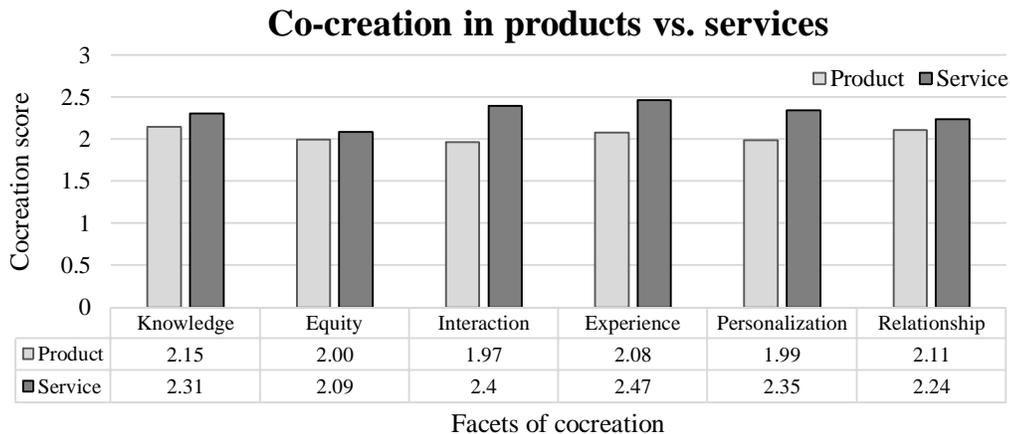
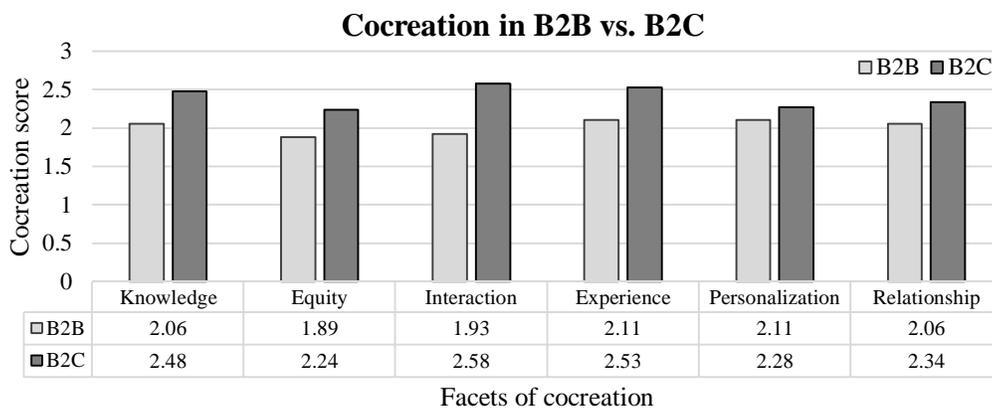


Figure 3. Degree of cocreation in B2C is more than that of B2B



Such differences highlight both where to focus, and expose areas which are underserved. Connecting with the micro-case at the start of this article, DHL is a Service/B2B firm. The VCC examples in the micro-case are centered in the co-production stage. And while this may have just been the focus of the article,⁹ it suggests the operationally focused DHL may be drawn to VCC activities in the co-production stage. But from our research, we know its customers may be equally interested in co-created value down the line, in

Experience, Personalization and Relationship. We hope our work encourages DHL to be more co-creative in specific, and people across business-customer activities to ask such questions in general.

Authors

*Kumar Rakesh Ranjan completed his Fellow Program in Management (~Ph.D.) in marketing from Indian Institute of Management Bangalore in 2014. Prior to his doctoral education he worked for four years in Sales and Marketing roles. Currently he is an Assistant Professor in Marketing at Indian Institute of Management Calcutta. At IIM Calcutta he teaches and trains in the area of Sales and Distribution Management and Marketing Research. His research investigations include social media and electronic word-of-mouth, co-creation, service interaction quality, and performance issues in sales channels. He has published at the Journal of the Academy of Marketing Science, Journal of Services Marketing, Journal of Interactive Marketing, and Journal of Business Research.
email: rakesh@iimcal.ac.in*

*Stuart Read is a Professor at Willamette University's Atkinson Graduate School of Management. Professor Read's research is focused on effectuation. Derived from practices employed by expert entrepreneurs, effectuation is a set of heuristics that describe how people make decisions and take action in situations of true uncertainty. Professor Read has nearly twenty years of industry experience, having participated in the creation of six high technology start-up firms. Four of those firms were acquired by industry leaders including Sun Microsystems and Lotus Development Corporation, and two issued initial public offerings.
email: sread@willamette.edu*

Endnotes

1. Crandell, C. (2016). Customer Co-Creation Is The Secret Sauce To Success. *Forbes*, Jun 10, accessed online on Jan 26, 2017 at: http://www.forbes.com/sites/christinecrandell/2016/06/10/customer_cocreation_secret_sauce/#73ddceea4d44
2. Prahalad, C.K., & Ramaswamy, V. (2000). Co-opting customer competence. *Harvard Business Review*, 78(1), 79-90.
3. Vargo, S.L., & Lusch, R.F. (2004). Evolving to a new dominant logic for marketing. *Journal of Marketing*, 68(January), 1-17.
4. Cova, B., Dall'Aglio, D., & Zwick, D. (2011). Critical perspectives on consumers' role as 'producers': Broadening the debate on value co-creation in marketing processes. *Marketing Theory*, 11(3), 231-241.
5. Grönroos, C. (2012). Conceptualizing value co-creation: A journey to the 1970s and back to the future. *Journal of Marketing Management*, 28(13/14), 1520-1534.
6. Leroy, J., Cova, B., & Salle, R. (2013). Zooming in VS zooming out on value co-creation: consequences for BtoB research. *Industrial Marketing Management*, 42(7), 1102-1111.
7. Kumar, V., & Reinartz, W. (2016). Creating enduring customer value. *Journal of Marketing*, 80(6), 36-68.

The Six Faces of Value Co-creation

8. Ranjan, K.R., & Read, S. (2016). Value co-creation: concept and measurement. *Journal of the Academy of Marketing Science* 44(3), 290-315.
9. Crandell, C. (2016). Customer Co-Creation Is The Secret Sauce To Success. *Forbes*, Jun 10, accessed online on Jan 26, 2017 at: http://www.forbes.com/sites/christinecrandell/2016/06/10/customer_cocreation_secret_sauce/#73ddceea4d44