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# THE KNOWLEDGE

## VALUE CO-CREATION – INCREASING CUSTOMER ENGAGEMENT AND PROFITABILITY

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### SYNOPSIS

This article addresses the increasingly important topic of value co-creation. One significant aspect of this extensive and conceptually complex construct is the integration of various customer resources and capabilities into companies' processes; such as production, design or marketing communications. The benefits of co-creation are self-evident: more customer-oriented offerings, reduced costs, innovative solutions to company problems and last, but not least, pointing out that customers' opinion, skills, and capabilities are valued. However, before embarking on the journey toward customer engagement or getting too excited about yet another marketing fad, managers should carefully and critically assess and approach the possible mechanisms of value co-creation by considering their fit with the company's customer value proposition.

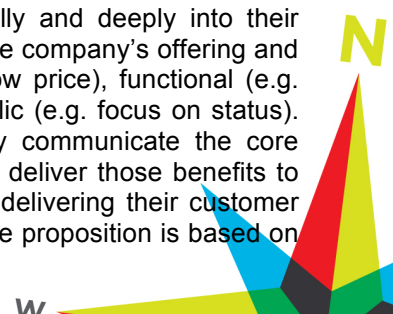
### DEFINITION

Over the last decade, an emerging phenomenon referred to as value co-creation has been widely referenced and addressed both by scholars and practitioners. This emerging evolution of exchange is fuelled by recent technological advancements, such as mobile technology and the internet, that allow unorthodox and innovative opportunities to revisit the traditional interaction taking place between customers and companies. For example, travel agencies are encouraging customers to share their experiences via social media during their travels and thus, they incorporate customer resources into their marketing communication campaigns. In the context of clothing retail, companies are using customers as designers, engaging customer creativity to harness the potential of emerging clothing trends; they then use this type of customer orientation also as a spearhead in marketing campaigns. With an increasing shift in business focus towards service, few companies now are perceived solely as goods providers and even fewer regard their customers merely as a source of income.

### CURRENT THINKING

Through value co-creation mechanisms, companies are able to integrate a wider range of customer resources into their own processes. Extending beyond the price a customer pays and their value as a potential reference or advocate, such resources can include, for example, co-distribution, co-design, or co-production. These are examples of mechanisms through which customer resources are integrated in the company's distribution, new product development, and production processes. Thus, the customer's role is redefined from being only a provider of money toward being a provider of additional resources, including logistical help supporting the company's distribution processes (e.g. using take-away delivery options), customer creativity supporting the company's NPD processes (e.g. encouraging customers to share their favourite food recipes), or pure labour work supporting the company's production processes (e.g. self-assembly of the finished goods). Furthermore, mobile technology and the internet are driving co-creation mechanisms that engage customer resources for providing solutions to specific company problems, often referred to as crowdsourcing. Similarly, companies can design platforms through which they integrate the knowledge and capabilities of professional users for the benefit of novice users. For example, Dell integrates customer resources both to design better products and help other customers using their products. Customer resources are engaged to aid the company's new product development processes as well as processes related to customer service. Altogether, these mechanisms challenge the existing boundaries between companies and customers and shift the attention beyond a traditional exchange of goods for money.

However, before leveraging different mechanisms, companies should look carefully and deeply into their customer value propositions. Customer value propositions encapsulate the core of the company's offering and are often based on specific value dimensions such as economic (e.g. focus on low price), functional (e.g. focus on convenience), emotional (e.g. focus on customer experience), and symbolic (e.g. focus on status). Customer value propositions are strategic tools for companies to both externally communicate the core benefits of their market offerings and internally focus on the right things in order to deliver those benefits to customers. New forms of customer engagement offer companies opportunities for delivering their customer value proposition, and understanding in depth whether the company's customer value proposition is based on



delivering economic, functional, emotional, or symbolic value (or a combination) is, therefore, critically important.

Whatever the mechanisms for value co-creation, managers should carefully assess whether or not it is appropriate to integrate customer resources into the company's customer value proposition. Aligning additional customer resources to the company's processes should always be regarded as a strategic issue, closely related to the customer value the company is proposing to the market. Furthermore, without considering the customer incentive to join in the co-creation (e.g. price discount, social status, self-expression), the company may end up degrading the value it proposes to customers and eventually churn its customer equity as a result of the company establishing value co-creation mechanisms that are not in line with the nature of the value proposition. Consequently, before getting too enthusiastic about value co-creation, managers should always address three questions: 1) what kind of value is eventually co-created and for whom? 2) what kind of resources may be used? and 3) what is the most appropriate mechanism?

### **IMPLICATION FOR MANAGERS**

No company can escape the fact that their customers are becoming more informed as well as better equipped with technological tools. Traditional boundaries between companies and customers are irrevocably outdated; the ways in which companies and customers support each others' processes are in constant flux. This evolution is not a threat, but rather an opportunity to harness customer potential. Knowledgeable and creative customers together with the rapid development of technology will drive and enable the emergence of various value co-creation mechanisms. In that respect, the race has started for companies to attract the most skilled, creative and active customers and develop effective value co-creation mechanisms. Provided there is a natural fit between the customer value proposition and the value co-creation mechanism, creating mutually beneficial synergy allows companies to leverage their most important asset - their own customers.

### **FURTHER READING**

Rintamäki, T., Kuusela, H., and Mitronen L. (2007), "Identifying Competitive Customer Value Propositions in Retailing", *Managing Service Quality*, Vol. 17 No. 6, pp. 621-634.

Saarijärvi, H., Kannan, P.K. and Kuusela, H. (2013), "Value Co-Creation: Theoretical Perspectives and Practical Implications", *European Business Review*, Vol. 25, No. 1, pp. 6-19.

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