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# Change of Attitude, Technology and Practice: Identifying the Change for Increased Value Creation with Customer Co-creation

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## Abstract

Building customer relationships and customer equity is the prime concern in today's business decisions. The emergence of internet, especially social media like Facebook and Twitter, changed traditional marketing thought to a great extent. The importance of customer orientation is reflected in the axiom, "The customer is the king". A good number of organizations are engaging customers in their new product development activities via social media platforms. Co-creation, a new perspective in which customers are active co-creators of the products they buy and use, is currently challenging the traditional paradigm. The concept of co-creation involving the customer's knowledge, creativity and judgment to generate value is considered not only an upcoming trend that introduces new products or services but also fitting their need and increasing value for money. Knowledge and innovation are inseparable. Knowledge management competencies and capacities are essential to any organization that aspires to be distinguished and innovative. The present work is an attempt to identify the change in value creation procedure along with one area of business, where co-creation can return significant dividends. It is on extending the brand or brand category through brand extension or line extension. This article, through an in depth literature review analysis, identifies the changes in every perspective of this paradigm shift and it presents a conceptual model of company-customer-brand-based co-creation activity via social media. The main objective is offering an agenda for future research of this emerging trend and ensuring the way to move from theory to practice. The paper acts as a proposal; it allows the organization to go for this change in a large scale and obtain early feedback on the idea presented.

**Keywords:** Conceptual model of value co-creation; consumer co-creation; brand management; brand value co-creation.

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## **Introduction**

Delighting customers should be the main objective of all producers of goods and services. With particular capabilities and with the aim to create sustainable competitive advantage, the social media has triggered profound changes in corporate approaches, especially in knowledge sharing with customers. By allowing individuals to express themselves, share information and interact online, social media sharing redefines the scope of the organization, creating new ways of acquiring information, skills and innovations. This insight becomes even more crucial as the number of social network members and the amount of time spent in these networks will continue to rise. In such virtual environments users often gather together in sub-groups with a specific brand in its center (Woisetschläger, Hartleb, and Blut, 2008), called a brand-related community; consumers sharing their interest for a brand, exchange information and knowledge, or they simply express their demands for this specific brand in the market.

## **Conceptual model of value co-creation**

Marketing is about creating, developing and running a business to achieve the organization's goal by creating values through the supply-chain. The focus of effective value creation strategy is determining a specific competitive position (stakeholders, competitors, customers, etc.), which has been emerged and proved a current concern in the present decade. Traditional marketing thought and practice that largely view new product development or brand stratification as an internal firm-based activity, in which customers are relatively passive buyers and users.

This study assumes that valuable innovations may be produced outside the firm (Chesbrough, 2003), by different stakeholders, such as customers, suppliers, manufacturers, universities. In this paper, the focus is on company's one specific stakeholder - the customer. Moore's "Crossing the Chasm" (1999) highlighted the importance of companies working with early adopter customers. In addition, von Hippel wrote about user-created innovation in his "Sources of Innovation" (1994). The previous findings suggest there is a place for value development and use of co-creation in marketing by engaging the customers in the process by providing complete transparency and a proper feedback loop.

The aim of this paper is to contribute to business and society by providing valuable findings from our research, relating engagement and efforts of our customers in value creation. Whilst consumers have few unmet needs, having more choice of products and services than they have ever had, they do not appear to be entirely satisfied. Nowadays, people do not want products; they want solutions to their

problems. They are, however, in an ideal position to suggest improvements to a product or new category that they might have been using or looking for. It ensures to match the need, which creates value associated with innovation and business creation.

Customer participation refers to customer's involvement in the new product or brand development process at any level. Participation in the breadth allows customer to be involved in just one activity (e.g., product testing), or in a wide range of activities from new concept generation, prototyping, up to and including product testing. Depth represents the customer level of involvement, one may only be externally involved and other may be deeply involved. Like consumer wants and needs, there is a shift in business innovation as well as in branding. Nowadays, companies are into constant innovation for meeting customers' changing needs. Earlier, brand used to imply the ownership and the identity, but present and future of branding is more than an identity. It is bringing a unique idea, which should not be negotiable. The idea should be thoughtful, value adding, unique, appealing, exciting and finally feasible to execute.

Since 1995, the literature has analyzed the potential impact of the Internet in terms of consumer marketing. Mahajan and Wind (1989)<sup>1</sup> anticipated the Internet's possible contribution as an element able to create discontinuity in the trend, generating a profound change in the market dynamics, and so with implications on the performance of entire sectors and businesses. The Internet can change consumers' behavior unpredictably (Fox, 1995; Molenaar, 1996), with an impact on conventional marketing and its main activities (Peterson et al., 1995).

Nowadays, it is not difficult to understand audiences' needs and tastes and then persuading them to act in a particular manner, that is co-creating and managing the process of getting from idea to concept and to delivery with the help of social networking sites like Facebook, Twitter and so on. Due to the advantages of social networks, brand management now allows to implement brand communities with less time and financial effort. A brand community can be defined as an enduring self-selected group of actors sharing a system of values, standards and representations (a culture) and recognizing bonds of membership with each other and with the whole. However, choosing the appropriate branding strategy, cultivating consumers' interaction, and staying tuned to understand their demands are critical factors to gain anticipated brand outcomes. One area of business, where co-creation can return

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<sup>1</sup> Quoted and translated by Peterson et al. (1997),



significant dividends, is about extending the brand or brand category. One form of extension is line extension, which is using an existing brand name for a new product that belongs to the same product class (Aaker and Keller, 1990). Tauber (1981), first termed a phrase “franchise extension”, referring to the use of the existing brand name, yet as a vehicle for the new product, therefore enabling it to enter to a completely different (new for the brand) product class (Aaker and Keller, 1990; Reddy et al., 1994, Tauber, 1981, ), also known as brand extension. This situation creates challenges and opportunities that organizations must take into account in terms of brand management (De Chernatony, 2004). The study points to the critical role of creating visibility for change as well as the importance of the infrastructure supporting changes.

This study reviews the state-of-the art on this topic to identify major changes that foster the concept of value co-creation. Thus we aim (1) to identify the changes required in traditional value chain for increased value creation; (2) to find out the scope of company – consumer- brand co-creation via social media network and in marketing strategies such as brand extension, line extension and so on.

**The paradigm shift and realizing change**

The table below summarises the limitation of each intervention approach for realizing change (Huy, 2001).

Tangibility of Content	Emphasis of change Literature	
	Episodic Change	Continuous Change
Tangible (Theory E)	Formal structures (change through commanding)	Work processes
Intangible (Theory O)	Beliefs(change through teaching)	Social relationships (change through socializing)

*Changing customer needs - need-based approach*

The world is constantly changing – and so is our customer. Consumers' wants and needs are constantly evolving, and we must keep pace with those wants and needs in order to remain competitive. It is vital to understand how and why your customers' preferences changed and what approaches they prefer to grow your share in the market. Have your competitors recently done something outside the custom? For example, have they made their customer participate in creating the product according to their own? This ultimately involves understanding the emerging market trends.

Changing customer needs may lead to competitive advantage for a company if they understand better. The companies have to go in deep. Being deep means being a resource. Resources may compete based on expertise only. Being deep or intense in scope means being specialized in offering. In this age of customer orientation, go for something, which is not close but exactly, fits their need? The shift has been identified as the change from regulatory focus to customer focus. However, one approach can help to define the need for change. It comes from performing a customer needs assessment. The marketing team should outline how customer needs are changing and what if anything the company can do to adjust to this new environment. Is there a new trend of company customer interaction? How the company may increase their brand value keeping their customer satisfied in the current environment?

*Change in customer role - customers have become "co-creators of value"*

The evolution of the Internet had a significant impact on the cooperation between organizations and consumers since the 1990s (Kleemann, Voß and Rieder, 2008). Prahalad and Ramaswamy (2000) highlight the relevance of the Internet as it facilitates direct contact between producers and consumers. In particular, "collaborative networks" and "virtual customer communities" as key enablers of the co-creation paradigm caught the interest of many academics recently (Romero and Molina, 2011).

According to Prahalad and Ramaswamy (2000), the customer's role has undergone a change and the customers have become "co-creators of value" instead of being passive receivers of value. In particular, the co-creation or co-production process is grounded on a conscious and stimulated co-operation between companies and consumers, which interact through their operating resources (skills, knowledge, competencies, experience, physical and immaterial spaces, etc.) to co-create value about brands, products and/or services of the same companies. The term co-creation implies collaboration between the firm and some other entity. In this particular context, the consumer collaborates in the creation of value. Knowledge is a source of competitive advantage since it fosters innovation (Grant, 1996; Nonaka and Takeuchi, 1995). Thus, the knowledge provided by customers may help companies to adequately assess and fulfill customers' needs, and reduce the risks of product failure (Ogawa and Piller, 2006). This interaction can take place anywhere within the business operation (not just at the point of sale). This study assumes that valuable innovations may be produced outside the firm (Chesbrough, 2003), and from different players, such



as customers, suppliers, manufacturers, universities. In this paper, the focus is on company's one specific stakeholder - the customer.

### *Change in business innovation - Constant orientation*

As competition increased, organizations began to move from a mass market to smaller segments and on to a single customer perspective. This change correlates with the shift from a firm-centric to a customer-centric view about value creation (Sheth, Sisodia, and Sharma, 2000). Superior organisational performance is dependent on superior thinking (Basadur and Gelade 2006). It is based on efficiency, adaptability and flexibility. Adaptability depends on seeking out new problems, trends, technologies and information, and using them to create new routines (Basadur and Gelade 2006). Flexibility depends on turning unexpected events such as crises into opportunities or quickly restoring equilibrium. Although having the necessary knowledge is important, not knowing how to use it innovatively can render it useless.

### *Innovation in an enterprise*

For example, brand orientation is closely related to the idea of innovation. It is a deliberate approach to work with brands, both internally and externally. Strong brands offer several advantages to firms such as entry barriers to competitors (Karakaya and Stahl, 1989), and/or opportunity for brand extensions (Pitta and Katsanis, 2001). Urde (1999) presents a brand orientation model that focuses on brands as strategic resources. According to him "*Brand Orientation is an approach in which the processes of the organization revolve around the creation, development, and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands*" (p. 117-118).

Participatory branding brings users, brands & suppliers together and that is good for customer-focus and in creation of future business. Assessing customers need of their favorite brand to their service, for new product under the same brand name and assessing customers need for new brand's creation.

### *Change in branding trend—developing ideas through brand communities on social network*

Albert Muniz Jr. first coined the term "brand community" and Thomas C. O'Quinn in 1995. Social media based brand communities are special types of online brand communities that are initiated on the platform of social media like Facebook and Twitter. In this article, we explore the ways in which brand communities based on social media

may workout the value creation practices. A brand community may be formed through attachment to a brand. Prior research demonstrates that social networks influence their members' behavior (de Valck, van Bruggen, & Wierenga, 2009). Recent developments in marketing and research on consumer behavior result in stressing the concept of a brand community focusing on the connections between consumers, brands and companies. This type of social interactions between community members profoundly influence customers' relationship with, and attitude towards, the brand (McAlexander, Schouten, and Koenig, 2002). These social formations offer many advantages (e.g., Brown, Kozinets, and Sherry, 2003), and serve as a tool to build strong and lasting relationships with customers (e.g., Algesheimer, Dholakia, & Herrmann, 2005). The actual numbers of selected online social networks are impressive. Facebook, for instance, reaches more than 500 million active users around the world in April 2011 (Facebook.com, 2011a), and Twitter counts 106 million people in April 2010, growing by a rate of 300,000 members a day (Huffingtonpost, 04/30/2010). In a brand-related community, it is easier for consumers to share their interest for a brand, exchange information and knowledge, or simply express their demands for this specific brand.

*Change in customer-company-brand interaction- Social media as a key enabler*

Online social networks are virtual places that cater for a specific population; on such platforms, people with similar interests gather to communicate, exchange contact details, build relations, and share and discuss ideas (Raacke and Bonds-Raacke, 2008). Among other activities, users can interact, share stories in written form, or visually, in the form of pictures and videos (Cheung and Lee, 2010). All of us know about Twitter and Facebook today. In the consumer-to-consumer area, de Valck et al. (2009) describe social networks as virtual communities of consumption, which feature characteristics like high consumer knowledge and companionship, and therefore influence consumer behavior. "Along with other forms of computer mediated communication, they [social networking sites] have transformed consumers from silent, isolated and invisible individuals, into a noisy, public, and even more unmanageable than usual, collective" (Patterson, 2012).

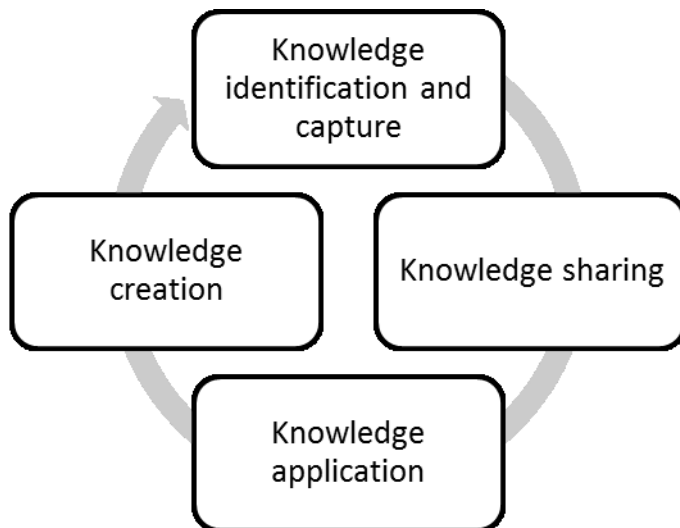
*Increased life cycle - Prolong the brand life cycle / product life cycle*

One of the main benefit is that co-creation will allow to prolong product life cycle. Product's superiority is in itself no longer sufficient to guarantee its success. The fast pace of technological development



and the increased speed with which imitations turn up on the market have dramatically shortened product life cycles. Product life cycle refers to the phases, starting from the product's first launch into the market until its final withdrawal. To prolong the life cycle of a brand or product an organization need to use skillful marketing strategies. Reputed companies rarely withdraw the product from the market rather than they try to extend the life of the product through innovative extension strategy. Marketer will get more confidence in introducing new products because chances of product failure will be much less.

**Figure 1.** The knowledge management cycle



Source: Metaxiotis and Psarras (2006).

*Customer gets more value*

The customer gets benefits and assumes costs, as shown in this equation: Value = Benefits/Costs = (Functional benefits + emotional benefits)/ (Monetary costs + time costs + energy costs + psychic costs). Based on this equation, the marketer can increase the value by offering more benefits to customer.

### **Key findings**

A substantial portion of the research was concerned about trends emerged in the past decade involving consumer co-creation. In marketing research, yet there is a dearth of studies exploring how companies are involving ordinary customers in their innovation process (Hoyer et al., 2010). Existing marketing and innovation studies on co-creation focus on customer relationship management and



ignore new product development (Hoyer et al., 2010), with a few exceptions (Prügl and Schreier, 2006; Rowley et al., 2007; Füller and Matzler, 2007; Kohler et al., 2009; Kristensson and Magnusson, 2010; Füller et al., 2011). There is a research gap, which exists concerning the mutual interests and roles of an organization as well as a customer, the simple process that we may follow to go from theory to practice at any size of organization, the impact of this value creation feature on new product-related outcomes like brand extension, line extension etc. This paper is one of the pioneering studies to explore consumer “co-creation” within a framework of change identifying research model (figure 1) and establishing the scope of various extensions in this particular context.

### **Practical implication**

The paper highlights the need to reconsider the role of consumers and identifies various changes to be adopted in the knowledge sharing, nurturing brands and their management that have become apparent because of the changing market environment to encourage customers in the co-creation process.

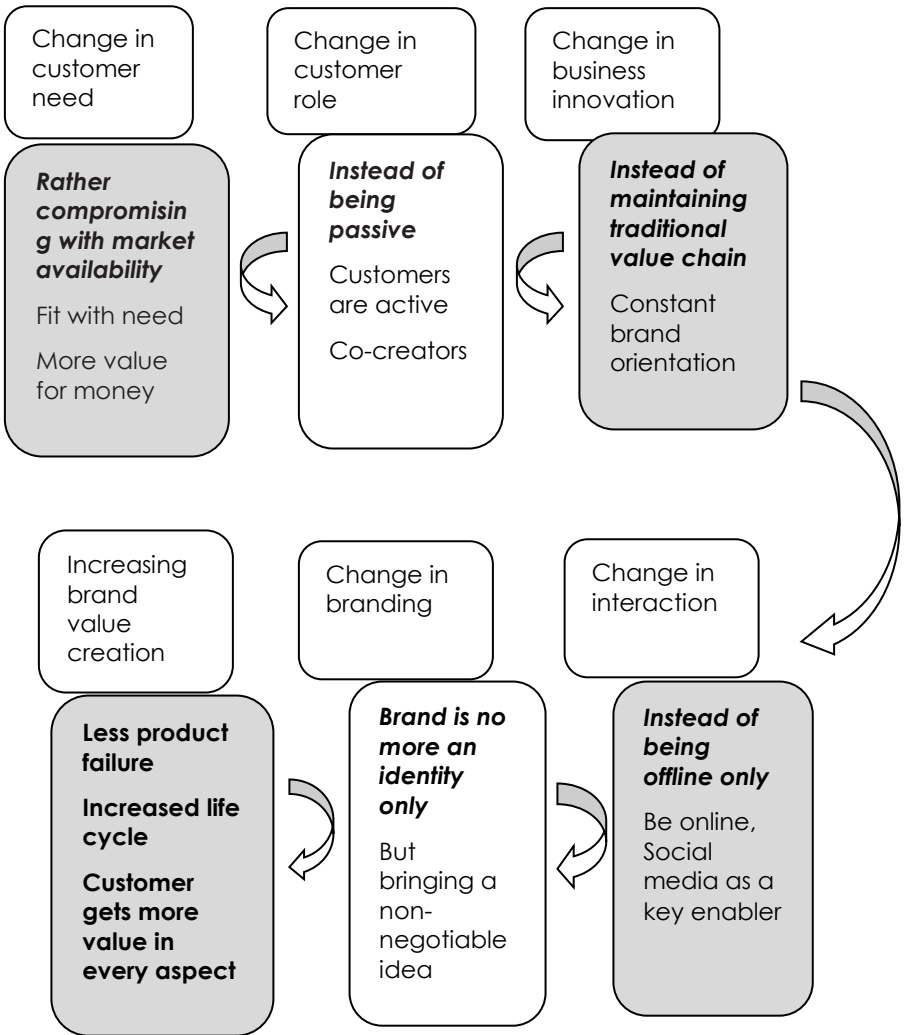
No longer can marketers afford to rely on the untested assumption that may increases in customer satisfaction and share will translate automatically into higher financial performance. This dilemma suggests a reformulation of the marketing discipline as about developing and managing intangible assets – customer and channel relationships and brands – to maximize economic value. We call this value-based marketing. This view of marketing is theoretically appealing and places marketing activities in a pivotal role in the strategy formulation process. Marketing strategy lies at the heart of value creation. It is the platform on which are based growth, profitability and return on investment. Marketing strategy defines the choices about which customers the business will serve and how it will create customer preference. Finally, social implications are so important. We support the call for the value-based marketing by emphasizing and redefining the role of customers as co-creators.

### **Conclusions**

There are major changes and these changes are advised to be expanded in the industries in a large scale. There is change of attitude, of technology and of practice. In today's highly competitive marketplace, a growing number of firms are placing increased reliance upon innovation as a means of achieving growth and profitability. Unfortunately, most new products fail because they do not adequately satisfy customer wants or needs.



**Figure 1.** Company – customer-brand – the paradigm shift in extension strategies



Source: personal work

Thus, as a means of minimizing market failure and enhancing financial performance, an increasing number of firms are empowering customers and allowing them to actively participate in the product development process. As we have shown, that may take a number of distinct forms like brand extension, line extension etc. Although co-creation types have its own potential benefits and challenges, they all lie outside the boundary of traditional worldview, and hence, are contributing to the emergence of an exciting new paradigm. Thus,

firms should look beyond the confines of their traditional extension approaches and develop effective strategies for identifying and harnessing the ideas, skills and talents of their customers and should go for this change. Moreover, in today's turbulent environment, continuous improvement and effective design and change have become requirements for all organizations.

### *Connecting via technology social change via Social media*

Designing and managing organizational change has been a frequently studied topic over the last decade. Yet, literature suggests that about 70% of all change initiatives fail (Beer & Nohria, 2000), clearly indicating despite the wealth of methodologies and guidelines for change that are available today, we still know less than we should. The study points to the critical role of creating visibility for change as well as the importance of the infrastructure supporting changes. It is ascertaining that the findings support the needs for degree of freedom and adjusts to mistakes that explicitly consider the role of marketing departments in new product development and changes.

### *Innovation is a continuous process – change for improvement and best solution*

Innovation is often an effect of small incremental/ marginal changes in the product or process. Innovation is a process through which the nation creates and transforms new knowledge into useful products, services and processes for national and global markets – leading to both value creation for stakeholders and higher standards of living.

### *Future scope*

Social Marketing Analytics is the discipline that helps companies measure, assess and explain the performance of social media initiatives in the context of specific business objectives. It is important to note that we are focused on how brands are marketed to both consumers and other businesses via social channels as well as how consumers discuss brands between each other. This focus allows marketers to make informed decisions about their social marketing initiatives through the lens of measurement. Social Marketing Analytics offers a measurement standard by which organizations can assess their efforts and apply a pragmatic system of management based on data. We hope this typology and research agenda fosters greater appreciation for an investigation into this important phenomenon.



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