

# **Co-Creation Theory - Marketing's Last Resort or Just Momentary Buzz?**

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## Executive Summary

The advent of the internet as a publicly available service in the 1990s set new standards for communication. With e-mailing and chatting in the picture, the way people talk to each other was revolutionized; within years, it became normal to have at least one personal computer per household in the westernized world. With the dawn of the third millennium, however, the digital revolution had only just begun. Inventions such as the iPod, wireless internet and social media, branded westernized society and shaped consumer behavior. The younger generations, most notably Generation Y, those born between 1978 and 1992 (Bielski, 2007), live up to the new stereotype of the super-connected networked consumer.

But in accordance with the shift in consumer behavior, the fashion in which companies were catering to buyer demands had to change as well. The internet, panacea to traditional communication barriers between buyers and suppliers, emancipated the consumer from the receptive position top-down approaches put him in. Thus, the approach of relationship marketing was widely adapted to build sustainable connections and maximize customer lifetime value for companies. However, companies do not only face the challenge of marketing to a very informed and demanding consumer, but also have to achieve a competitive advantage in a globalized economy with essentially infinite shelf space. Therefore, relationship marketing has to be taken to the next level.

Co-creation theory which is based on a thorough and continuous dialogue between companies and consumers appears to be the next logical step. It largely utilizes online communication tools and advocates the importance of companies listening to their customer's opinions and ideas. The dialogue is not tied to a certain field, but ranges from product development to marketing and distribution, giving companies unprecedented pos

Nevertheless, because co-creation is a new approach, there are very few statistics, mostly case studies, half of which there are no results yet. Furthermore, there is a lack of an extensive theoretical framework.

In conclusion, co-creation theory is obviously an interesting field for marketers right now, if they want to achieve a competitive advantage on grounds of company-consumer relations. Yet, each

company, or rather each brand, which engages in co-creation with their consumers has to evaluate the process in great detail, adjusting the few models the theory is based on towards the individual situations.

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## Preface

Before I started my studies at The Hague University, I followed a Junior Studies program in Marketing in my hometown Hanover. The program at Leibniz University made me curious about applied and theoretical Marketing, hence when I came to The Hague, I managed to generally choose electives, which enhanced my knowledge in this field. This semester, I am doing my obligatory internship with Advertising Research Foundation in New York City, so I am yet again concerned with Marketing. Furthermore, my main internship task is to be a research assistant, which will improve my Marketing knowledge even further. Hence, the general topic of my dissertation was found rather quickly.

Prior to my internship at the ARF I did not know about co-creation theory, but one of my first research projects (the creation of a fact sheet on the demographic group Generation Y), introduced me to this very current issue. My interest grew following the discussion surrounding the topic and by the dissension among experts regarding the usefulness of the approach. Therefore, I decided to dedicate my dissertation to the very matter in question.

## Introduction

The first chapter of this dissertation on marketing co-creation is to elaborate on the structure of the paper and the methodology used for the research. Furthermore, a brief introduction to the subject matter will be given, explaining some basic terminology. The chapter concludes with a listing of additional terminology in the glossary.

## Structure

In this thesis I am going to discuss the current marketing trend of co-creation and its theoretical background, answering the question *What Is Co-Creation in a Theoretical and in a Practical Sense?* After a brief introduction in Chapter 1, I present a view of how company-consumer interactions have evolved in the last two decades and a detailed analysis of the modern consumer (the *new normal*) in Chapter 2, explain co-creation theory and its applications in Chapter 3, and conclude by discussing the impact of co-creation in marketing on the future of companies and consumers in Chapter 4. Each chapter is divided into several sub-chapters. The sub-questions I will address are:

1. *Who is the modern consumer?*
2. *Why do “traditional” marketing approaches not work on him anymore?*
3. *Who is already involved with co-creation?*
4. *How are they doing it, and is it successful?*
5. *What does this mean for future operating strategies of companies/brands/advertising?*

## Methodology

In my research for this dissertation I have mainly used secondary research methods, because the topic, marketing co-creation theory, is a very contemporary issue, for which there is little empirical evidence at this point. The literature consists largely of research case studies and expert opinion papers on the importance of co-creation in the context of 21<sup>st</sup> century consumerism. Throughout the researching and writing process, I have considered conducting expert interviews myself, but have then decided not to pursue this plan, as the aforementioned papers already provided me with a wide range of information and different perspectives.

To thoroughly assess the subject of marketing co-creation theory, I have used the following sources of research.

- Scientific journals (such as the Journal of Interactive Marketing)
- Opinion papers, published in scientific journals
- Online research
- Technical literature
- Databases: ARF Powersearch, (database of the Advertising Research Foundation) EBSCO (Business Source Corporate Database), Nexis, WARC (World Advertising Research Center)

## Chapter 1

### 1.1 Introduction to the Topic

Marketing lives off the cohesion of research and innovation; because a company has to know its customers when it wants to successfully target them and in doing so gain a competitive advantage. For a marketing strategy to make sense, the research has to shed some light on what drives the customer's purchasing behavior, and more importantly, what it takes for him to purchase the product again in the future. As the rules of effective marketing dictate, a customer is only worth as much as his lifetime value (CLV, customer lifetime value) to the company. Hence, the satisfied re-purchasing and brand loyal consumer is of the highest importance for the firm.

Marketing theory is centered around consumer understanding and customer communication. Certainly, it is also concerned with product distribution, in the sense that it tries to provide a strategy to link the company and the customer. Notably, the customer and the consumer are not always, although often, the same individual, which only makes it more difficult to develop a successful targeting strategy. A descriptive example for this phenomenon is the children foods and beverages market: although the product is consumed by an age group that responds to bright colors and animal mascots, it is being purchased by parents, mostly mothers, who would rather be informed about how healthy the product is. In this paper however, the terms consumer and customer will mostly be used interchangeably.

Traditionally, the marketing school of thought dictated a top-down approach, meaning the company-consumer communication was mono-directional rather than a dialogue. The advent of the internet, however, whose relations to the modern consumer will be explained in greater detail in the second chapter, changed the world, and transformed it into a *global village*: everybody talks about everything with everyone; the internet offers people the opportunity for virtually boundless discussion. This global dialogue extends to product experiences, prices and services, combined with access to news and reference works results in more knowledge and information sharing by consumers than previously possible.

As for the company-consumer relationship, these circumstances have changed the dynamics. Having companies ask for their buyer's opinion in the manner they do, the consumer is (slowly)



growing aware of the influence that he has. The term *empowered consumer* evolved, based on the relative power of user-generated content and fueled by the internet-savvy young generations. Additionally, the plethora of information has turned the internet into a very trusted medium, making it hard for companies to ignore the buzz that is being created online.

An example for the interference of the internet with traditional marketing approaches may be illustrated by the case of the webMD, which creates a very unconventional seller-buyer relationship: Consumers pursue online research to form opinions with which they later confront their doctor, the seller if you will (Prahalad & Ramaswamy, 2004). This example illustrates the change in consumer attitudes and buying habits created by information sharing via the internet: consumers research, share, and get smart, and then buy.

Taking knowledge to authority, the implied empowerment led to a shift in the power equilibrium between the company and the consumer, in which, as mentioned above, the company used to have the upper hand. This democratization of the markets, “globalization, deregulation, outsourcing and the convergence of industries and technologies are making it much harder for managers to differentiate their offerings” (Prahalad & Ramaswamy, 2004). Hence companies need to find a new way to be ever closer to the customer. The introduction of social media and networking websites offered interested parties a completely unprecedented set of data collection tools, as consumers began to lead online lives, displaying interests or tastes. It is developments like these, which drive marketing research away from traditional theoretical analyses and towards an interactive approach of the target group on online platforms.

Henceforth, the “audience joins in” (Gehling, 2008) on a conversation about products, which used to only take place between a company and its competitors. However, for this new dialogue to work effectively, there has to be a link between the company and the consumer that goes beyond the purchasing process. *Relationship marketing*, another buzz-word frequently used in past years, is trying to bring company and consumer as close together as possible. This approach builds an explicit relationship that lasts beyond the initial purchasing. Companies want their customers to live and breathe their brands, to be their friends on Facebook and to follow them on Twitter. Relationship marketing is largely seen as the last resort or “[...] one of the few sources of sustainable competitive advantage available to organizations [...]” (Brown & Muchira, 2004).

The practice of co-creation theory may be classified as a kind of relationship marketing, however there is more to it. Its actual application in marketing strategies, which among other things, stands for a new way of communicating with consumers, will be thoroughly scrutinized in chapter 3.

## 1.2 Additional Terminology

When considering that marketing is based on the economics of the exchange of goods, there generally used to be two approaches a marketer could take. The most traditional approach is goods-dominant, G-D logic, which describes a market situation in which a company manufactures goods and sells them in exchange for money (Vargo et al., 2008). The consumer's role in this model is merely to pay the price for the product. However, as the understanding of consumer behavior grew more important in the second half of the century, marketing shifted from applying G-D to S-D, service-dominant logic. This approach includes the customer in so far, as value is added to the product once it is consumed by him. Thus, S-D logic, as the name suggests, emphasizes the service that is being performed as the product is distributed to the buyer, for him to consume and add value to it (Vargo et al., 2008).

## 1.3 Glossary

### *Buzz*

A buzz-word describes a term or issue that creates a hype; it is increasingly linked to internet discussion platforms, such as blogs and social networking websites. The created “buzz” is a form of word-of-mouth communication.

### *CLV*

Consumer Lifetime Value; “Total profit (or loss) estimated to result from an ongoing business relationship with a customer over the life of relationship.” (BusinessDictionary.com, 2010)

### *Open Innovation*

Concept introduced by Henry Chesbrough, defining “the future of innovation as an open system allowing companies to search externally for useful ideas to leverage their business.” (Gehling, 2008)

### *G-D Logic*

Goods-dominant logic

*Generation Y*

Age group born between 1978 and 1992 (Bielski, 2007)

*Great Recession*

Colloquial term to describe the global economic crisis of 2007-2010

*Relationship Marketing*

Approach involving “Promotional and selling activities aimed at developing and managing trusting and long-term relationships with [...] customers.” (BusinessDictionary.com, 2010)

*S-D Logic*

Service-dominant logic

*UGC*

User-generated content, describing everything published by private individuals on the internet

*Viral Marketing*

Marketing Approach that utilizes the power of word-of-mouth communication, as it is build upon the passing on of information

*Value extraction*

Term describing the profiting of sales situation: extracting value in terms of purchasing something for consumption, or extracting value in terms of monetary profit

*WOM*

Word-of-mouth communication

## Chapter 2

Contemporary consumerism is a complex issue, because its many layers are influenced by social change, technological innovations, and political and economic circumstances. The second chapter of this dissertation will suggest general changes in 21<sup>st</sup> century consumer behavior, stressing topics such as the new normal of consumer behavior, globalization and deriving modern societal trends. A thorough understanding of modern consumerism is crucial to grasp why the idea of co-creation theory evolved and why its practical implementation is bound to the 21<sup>st</sup> century. It should be noted that the chapter will not offer a detailed explanation of the coming about of the digital revolution.

### 2.1 The New Normal

*“Digital media is profoundly transforming consumer behavior and traditional media business models. While creating new opportunities, its disruptive influence is being accelerated by the global recession”*

(Morgan Stanley Research Europe, 2009)

If a 17 year-old teenager writes a blog about his high school year abroad, that is normal. If a 23 year-old student uses an application on his cellphone to identify the music that plays in a cafe, that is normal. If a 58 year-old woman orders a digital camera on the website of a book e-tailer, that is normal. Recent history has shown that innovations that make use of technological breakthroughs spark societal trends; inventions such as Facebook, micro-blogging, or the renaissance of the term *application*, which attended the release of Apple's iPhone in 2007. The umbrella-term *new normal* (sometimes referred to as the *new mainstream*) embodies conceptual changes like these, not only on a sociological, but also on an economic and hence managerial level.

Today, the internet, and therefore the major stream of information, is dominated by something new: UGC, user-generated content. It is composed of everything that is uploaded, posted or written by private individuals on the internet. It represents the emancipation of the consumer from the demand-dictating top-down approaches companies used to apply. Thus, user-generated content nurtures consumer intelligence, and a growing interest in what is actually being consumed. Certainly, this interest is being stimulated by the information already available on the internet, provided by companies, news sources or consumer reviews. However, it is considerably

accelerated by UGC, which offers the user a plethora of opinions on every topic imaginable, from technology to self-help.

This dramatic increase in consumer intelligence results in consumer activism shaped by the influence of blogs on the public perception of virtually any product/service, brand or public figure. Furthermore, societal trends play a pivotal role in behavioral change; for instance, trending topics can include: climate change, health and social responsibility. The food and beverage industry for example is largely influenced by the trends towards a healthy lifestyle, weight loss, and organic products. Such relevant aspects are often represented by non-profit organizations, e.g. organizations which promote products of local farmers. Now however, the empowered intelligent consumer, who makes himself heard through the internet, reshapes demand

Furthermore, the internet gives consumers and companies a new platform to interact, either on an informative or a responsive (feedback) level. Hence, the reason why the *new normal* is a pivotal factor to the evolvement of co-creation theory may be explained by stating that the modern consumer has grown too used to interacting with companies and being informed about their activities, to respond to traditional top-down approaches. Therefore, it may be stated that any socio-economic models that are developed today, are necessarily build around user-generated content as an essential part of people's consumption culture.

## 2.2 Generation Y

It is important to take notice of another phenomenon of present times: Generation Y. According to Bielski (2007) this age group is defined as those born between 1978 and 1992. The stereotypical characteristics and attitudes of this demographic group are self-explanatorily connected to the new normal and therefore co-creation theory. According to Woodruffe (2009), Generation Y is shaped by their baby boomer parents, who brought them up to be individualistic, self-conscious and thriving for (academic) success. Other research identifies five Gen Y-specific characteristics, four of which are relevant to the subject matter of this final paper:

- Intimacy and devotion with which they handle their online relationships
- Loyalty to these online networks
- Awareness to news and social issues

- Risk-assessment and openness to change

(Syrett & Lammiman, 2004)

The reason researchers and anthropologists can generalize ideas concerning this demographic group is that Gen Y is the first generation that grew up with the internet and the complementary connectivity. The term *global village* for example was shaped by the increasing degree of globalization and technological innovation during their childhood and adolescence, and is therefore fundamentally integrated into their social and behavioral patterns. Generation Y, also referred to as Millennials, is essentially the first generation that truly benefits from the internet revolution, as older age groups do not adapt to novelties such as social networking, at the same rate.

The affinity to social networking however, makes Generation Y a convenient target for marketers, as campaigns can reach them on a large scale and at fast speed. Also, Millennials appear to be far more responsive to content they are exposed to on the internet than older generations, which increases the audience measurability of not only marketings campaigns but also product satisfaction for this age group (Macasai, 2008). This attitude and intrinsic affinity towards the internet, together with the willingness to adapt to social change, are reasons why Generation Y is especially relevant in the context of co-creation theory. The cases which describe implemented co-creation strategies in chapter 3 indicate that Generation Y's responsiveness and openness to change is crucial for companies' attempts to engage in a dialogue with consumers.

## 2.3 Consumer and Purchasing Behavior

Culture and generation studies are crucial for the understanding of societal change, transformations in consumption behavior and thus economic development (Tsui, 2001). A detailed comprehension of behavioral patterns is essential, because it emphasizes why the modern consumer is inclined to interact with companies.

The research focus of today's consumer behavior is closely related to the internet, which “[...] has been viewed as both panacea and anathema to marketers interested in fostering ongoing interaction with consumers.” (Brown & Muchira, 2004). The internet offers great opportunities for audience measurement, which are only being accelerated through social networking websites, on which members display their interests and tastes more or less publicly.

MySpace, Facebook, LinkedIN, Twitter – adding, tweeting, socializing. While the boomers remain skeptical, Generation Y is engaged to the maximum. Privacy concerns describe the paradox of modern times, as they are redundant and current at the same time. Especially “older” generations (generally Boomers, but also Generation X) are concerned: They are known to be more skeptical regarding innovations, as found by Brown and Muchira, whose research shows the top three of privacy concerns in regard to the internet are “unauthorized secondary use of data, invasion of privacy, and errors”(2004). Furthermore, their research found that people appear to be more comfortable sharing personal information when under the impression that it is not being collected for research/marketing reasons. Certainly, that is only another implication for the relevance of relationship marketing in contemporary consumer culture, as the perceived trustworthiness of a company by the consumer plays a pivotal role.

On another note, marketers must have a thorough understanding of purchasing behavior. Payne, Storbacka and Frow identify “three elements of the [consumer’s] relationship experience” (2008) with a company or product/service. Starting out with the cognitive phase, consumers process information, followed by the emotional phase, which affects the consumer beyond the initial reaction and appeals to their attitudes and preferences (Payne et al., 2008). The third phase is the actual purchase, and it takes place beyond the preliminary choice process (Payne et al., 2008). Also, this third (behavioral) stage leads to the consumer’s experience, which links back to the concept of S-D logic discussed in the first chapter of this dissertation: Payne, Storbacka and Frow note that, since value is only being added to the product in when it is being consumed (ergo after the service of distribution has been performed), this experience and perception stage is most important in this process and “essential to value creation”(2008).

In addition to the described consumption process, it also appears necessary to identify some consumer stereotypes, to conclude the basic understanding of consumer behavior for the understanding of co-creation processes analyzed in chapter three.

In the research paper “Exploratory Consumer Buying Behavior – How to Identify Innovator Characteristics” (2001), Hasselmann and Helm introduce a behavioral model which identifies different types of buyers. In the course of this, they discuss characteristics and attitudes of the *risk takers*, *variety seekers* and those acting out of *curiosity-motivated behavior*, based on the Optimum Stimulation Theory, which states that “consumer behavior is partly motivated by consumers

searching for a desired level of stimulation which causes them to act in a sense of intrinsic motivation.” (Hasselmann & Helm, 2001)

Firstly, the *risk takers* are driven by innovativeness and consequently account for the group of early adopters, because their innovative behavior always pushes them towards new products. This customer segment is very likely to purchase high involvement products, since those wear off slower. Hasselmann and Helm conclude that “Risk takers are more inclined to choose new alternatives rather than familiar ones.” From a corporate point of view this segment is of high importance, because it is the source of the first buzz regarding new products.

Secondly, the group of *variety seekers* is distinguished; the category's behavior is based on a notorious search for familiar alternatives. This tendency to “repetitive brand switching” (Hasselmann & Helm, 2001) can lead to consumer drifting into the aforementioned category of *risk takers*.

Finally, the third group acts on *curiosity-motivated behavior*, meaning that they explore brands and their products/services “through shopping, interpersonal communication and information seeking” (Hasselmann & Helm, 2001). Members of this group of consumers also tend to vary between their purchase choices.

In conclusion, to prevent customers from variety seeking behavior, and rather build a long lasting relationship with risk takers or curious buyers after their initial purchase, companies ought to apply a sustainable relationship marketing approach.

## 2.4 Economic Context

Considering the aforementioned reshaped power equilibrium between companies and consumers, multi-national companies that want to distinguish themselves from other global players have to account for a number of new macroeconomic conditions.

Additionally to losing their unique expertise-based advantage as consumers intelligence developed, companies obviously have to be attentive to their competition. This competition has increased immensely through globalization. Producers of consumer goods suffer (in a way) from the decrease



in productions costs, which results in an increase of alternative products. Moreover, the internet created an infinity of shelf space, diminishing unique distribution and selling advantages.

Therefore, as pointed out in chapter 1, companies continuously emphasize sustainable CLV. This means that the consumer is engaged in a relationship with the company, to boost his lifetime value for the firm. Obviously, the priority of CLV maximization relates to the mentioned global competition, which forces companies to stress consumer satisfaction.

Despite that, the new normal and user-generated content put companies in an unprecedented and uncertain situation. As the internet might be referred to as the bullhorn of the modern man, firms have to account for any kind of buzz influencing their public image.; there can be no guarantee for positive or negative word-of-mouth. Press releases and corporate websites appear to be more or less all that is left to be controlled by companies. Hence, companies must acknowledge the emancipation of the consumer, of which the emergence of viral UGC is a indication.

In addition to technological innovations, the social media boom altered the economic landscape for both, the customer and the supplier. Suddenly, companies are expected to have not only a corporate website outlining e.g. their corporate social responsibility, but also an entertaining Facebook fanpage and a regularly updated Twitter account, to best advertise promotional actions. For companies, the internet, being the multilayered and overly complex medium that it is, represents “information retrieval source, sales tool, distribution channel, and customer support tool” (Brown & Muchira, 2004). The consumer on the other end of this chain, demands these platforms to interact with the brand, for which, again, it is increasingly easy to collect consumer data. On this level, company-consumer interaction truly becomes a dialogue.

As to the general economic landscape of today, it is necessary to point out that the global financial crisis certainly has an influence on consumer behavior. The failure of financial institutions, and the fact that many consumers lost their jobs and investments, shook people's trust in the corporate world, most clearly so in the financial sector (Distrusting the Bankers, 2010). Thus, now more than before, it is vital for companies to include their buyers, increase the perceived influx of information, and listen to consumer wants. Author Marc Gobé states that “These companies who can harness the power of design in order to make products that are better suited to their customers' unique needs and desires will, without exception outperform their competitors.” (Gobé, 2007, p.

283). Therefore, corporate strategies need to re-adjust their focus and try to engage their consumers more; this is where co-creation comes in.

## Chapter 3

Chapters one and two gave important background information regarding the traditional and new consumer marketplace. This chapter will scrutinize the actual co-creation process in a theoretical and in a practical sense. It is divided into three main parts; in the first, co-creation will be described and backed up with expert opinions on the matter. Second, examples in the form of two case studies will be given to illustrate the implementation of co-creation in a marketing strategy. The third section will outline models regarding co-creation.

### 3.1 What is co-creation?

For the purpose of this paper, I will define co-creation as a new method for company-consumer communication that shifts the locus of value creation from the company to its relationship with the consumer. Co-creation extends beyond the value extraction of the purchasing process and develops it further to value creation, involving consumers from product development through marketing to feedback and iteration.<sup>1</sup> When implementing co-creation the customer is being involved in marketing and product development activities to strengthen the sustainable company-consumer relationship, which virtually increases the CLV.

Co-creation is a recent buzz word in the marketing world; the theory is generally based on the interaction and cooperation of customer and supplier. Co-creation derives from a new company-consumer communication approach, the driving force for which is to build a sustainable relationship between the two parties involved. By no means is co-creation theory only limited to marketing [although it is sometimes referred to as co-creation marketing], it is also linked to product development and distribution.

As soon as the company has the opportunity to establish an ongoing dialogue with the consumer, it can also inquire about his interests and preferences regarding its marketing approach. Making use of this strategy embraces the consumer empowerment fueled by the internet. As Potts et al. state, “the post-modernist model of distributed and networked micro-media via the blogosphere, citizen

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<sup>1</sup>Prahalad and Ramaswamy first identified co-creation as a shift in the locus of value creation in their 2004 paper *Co-Creation Experiences: The Next Practice in Value Creation*

journalism and virtual public communication is eroding the traditional business model” (2008). Hence, it may be concluded that the internet as the benchmark of modern communication, is the most pivotal factor in co-creation.

Any encounter consumers have with brands also correspond to the categories of the relationship experience mentioned in chapter 2<sup>2</sup>, and are either emotion-supporting, cognition-supporting or behavior and action-supporting (Payne et al., 2008). Hence, considering the preceding schools of marketing thought, G-D and S-D logic, the consumer has now become the center of corporate decision-making, which has, so to speak, undergone a democratization through societal and economic change. To briefly clarify, communication encounters are any approaches of the consumer by the company (advertising etc.), while usage and service encounters are self-explanatory actions, such as online-banking or service hotlines.

Having said that, one can assume that the era of co-creation as a marketing tool represents an evolution of the prevalent socio-economic order (Potts et al., 2008). Thus, Prahalad states that “[...] new technologies, global connectivity and emerging markets have changed not only many facets of the business world but the nature of the consumer as well.” (Gehling, 2008). This new consumerism, holds the very important argument that the traditional and contrasting roles of production and consumption vanish (Prahalad & Ramaswamy, 2004). Also, it over-emphasizes the image of corporations, as so much user-generated information is available online.

Online, the networked consumer can compare products, exchange opinions with peers and he most importantly can give feedback; any kind of feedback is of undeniable value for the company. Using the various means of communication that the internet offers it is far easier for companies to engage their customers in a conversation based on feedback on a purchase. Payne et al. (2008) conclude that “the customer can be a payer, consumer, competence provider, quality controller and co-marketer”.

### 3.1.1 Theoretical Background

However, the explanation of the phenomenon of co-creation can be rather complex, as it can be approached from a highly theoretical point of view, which sees it in context with other economic

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<sup>2</sup> See p.15

and behavioral theories, or from a practical “how to” perspective.

Because companies profit from the shared knowledge of the consumer, it appears important to identify two ideas behind this term. Experts distinguish “propositional and prescriptive knowledge” (Payne et al., 2008); while the former is abstract and can be acquired through observation and reasoning, the latter is rather pragmatic and learned through exposure to problematic situations (Payne et al., 2008).

Therefore, having consumers make their (prescriptive) knowledge available to companies, and having companies be as highly attentive to user-generated buzz as they are, a new form of creativity emerges: it works bottom-up, instead of top-down, reversing the dictatorship of companies regarding consumer trends (Potts et al., 2008).

Potts et al. discern a number of terms regarding the issue: Creativity is defined after, as evolving from an unconscious relation to temporary society and “socio-technological networks” (2008); thus creativity is simultaneously the result and driver of socio-economic change. Any concurrent change of society and economics, is derived from a “co-evolution between economic dynamics and cultural dynamics” (Potts et al., 2008).

In general, the idea of co-creation theory was preceded by G-D and S-D logic, which were described in chapter 1. Both theories also include the consumer in the process of value addition, however, only to the extent where the consumer has to either purchase (G-D), or consume (S-D) the product to conclude the value-adding process. The company-consumer interaction is limited to the physical exchange of goods and services, in which the value extraction may be mutual, but not sustainable. The thought of co-creation on the other hand, involves the consumer earlier and at as many stages as possible, adding value in form of insight and ideas, and potentially sparking innovation.

According to Schumpeter (Potts et al., 2008), innovation can only be reached through the approach of creative destruction; this concept lead to the idea of *open innovation*<sup>3</sup>, introduced by Henry Chesbrough (Gehling, 2008), and describes in itself the basis for the development of co-creation theory. The authors Pott et al conclude that “[...] consumer-producer co-creation in which

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<sup>3</sup> See p.10

consumers also enter into the process of both, production and innovation through the provenance of new web-based technologies [...] enable devoted micro-communities of consumers to engage in the process of production and innovation.”, meaning that there it is very likely for consumers to engage in co-creation when given the opportunity.

Research by Payne, Storbacka and Frow identifies three types of “value co-creation opportunity”, in other words favorable occasions for companies to engage in co-creation with the consumer.

- opportunity provided by technological breakthrough
- opportunity provided by changes in industry logistics
- opportunity provided by changes in customer preferences and lifestyles

(2008)

In terms of value extraction, the approach of co-creation is deemed to be more sustainable, as the interaction is based on an on-going dialogue, which builds a sustainable relationship between company and customer.

Certainly, the internet accounts for opportunity #1, although the iPod is another good example, as it changed the way people listen to music. Opportunity #2 is well illustrated by Swedish furniture retailer IKEA, and its well-accepted concept of pick-up and do-it-yourself. An exemplification of opportunity #3, introduced by Payne et al. (2008), can be found in chapter 2 in the discussion of Generation Y. Because of its status regarding technology and the internet, this demographic group stands for changed consumer preferences in the face of globalization and connectivity.

### 3.1.2 What Co-Creation Is Not

At this point, it ought to be mentioned that co-creation is by no means only the setup of focus groups. Focus groups became popular in the 1990s, and were used by companies to get better insight into consumers thinking and behavior. Focus groups were an important component of early relationship marketing. However, the reliance on focus groups accounts for a number of marketing failures, as it assumed that people in focus groups tend to not act according to their actual behavior. Resulting from that, Coca Cola failed with the launch of a new soda in the mid-80s and Pepsi was mislead in the same way in 2004, when launching Pepsi Edge (Kiley, 2005).

Marketing failures that stood in connection with focus groups gave the consumer interaction tool a bad reputation, which is why it is even more important to point out that co-creation differs from that approach. Rather, co-creation takes focus groups to the next level by thoroughly selecting participants used in workshops. But besides that, co-creation stands for more than just a next generation focus group, as the theory is based on an ongoing dialogue between company and consumer, resulting in a much more natural interaction and lastly creation process.

### 3.2 Practical Examples of Co-Creation

When considering global players, i.e. large multinational corporations, there are many examples to be found for the (successful) implementation of co-creation theory in marketing strategies. The average consumer would maybe even fail to identify them as marketing-driven actions.

Apple for example practices open innovation by making the various iPhone applications available for the Apple iPhone. But more so than the download itself, the fact that it is possible for consumers to easily rate applications and even develop them is an indication for the applied thought of co-creation. Thus, the customer leaves the purely receptive side of the company-consumer interaction. Furthermore, since the user can simply rate mentioned applications, for the developer to profit as fast as possible from this audience measurement tool.

To exemplify co-creation, two cases shall be pointed out in the following section of this chapter.

#### 3.2.1 Case 1: Unilever

Unilever and Procter&Gamble are two of the most important players in the consumer goods market. But after P&G embraced an open innovation approach “connect and develop” (Needham, 2009) to enhance their competitive advantage, it was time for Unilever to re-assess their strategy, leading to a restructuring of their communication with their consumers. The Dutch-British company therefore drew upon a co-creation model, which had first been used by Danish toy producer Lego (Aitchison, 2009).

The method used is based on an online portal called 'Headbox'. This internet community was created to assist companies in their endeavor to apply co-creation theory to their marketing

strategy. In the case of Unilever, more specifically in the case of the brand Axe/Lynx, which was the first Unilever-consumer co-creation project, the buyers who were to co-create with the multinational company were selected out of a group of 5000 headboxers between the age of 11 and 35 (Aitchison, 2009). According to Andrew Needham, a member of the Headbox team and author of *Co-Creation – a new way of innovating with consumers*, describes the appointed few as “adfluentials’ – people who have the passion, skills and brand connection to work with you and influence what you do and who have the networks to offer greatest potential for spread of positive word of mouth when they do work with you.” (Aitchison, 2009).

The thorough selection works on grounds of a pyramid, which identifies different kinds of consumers on a scale from *active* to *passive* (appendix 1). Hereby is the *active* end of the range equivalent to *intimate*, whilst the *passive* end corresponds to *open*. As mentioned above the difference between these two categories stresses the exclusivity of the actual co-creators as opposed to other interested buyers. In any case, the suggests that only 1% of all consumers are eligible to be considered valuable for the co-creation process, “[...] to turn insights and concepts into something real and tangible that consumers want to buy.” (Aitchison, 2009).

Finally, Unilever had a choice of 16 young consumers, who were brought to a resort in Spain, where they were given the, latest Axe/Lynx product at the time. The participants were instructed to develop a product and activation plan together with Unilever experts. However, the first co-creating contact was based on the question “What are you going to do with [the product]?” (Aitchison, 2009). Certainly, there is no evidence yet, whether this product will lead to a success similar to its precursors, since it will only be launched in 2010. However, the well-known Axe “Chocolate Man” for the fragrance “Dark Temptation” was also created under consultation with a carefully selected group of consumers, and became one of Unilever's most successful campaigns (Aitchison, 2009).

### 3.2.2 Case 2: Henkel

Another example of the successful adaptation of co-creation theory into a marketing strategy is provided by Henkel. The German company used its Perwoll/Perlana brand, a laundry detergent, to try and engage its customers to a higher degree. The overarching goals of this approach were to build a consumer insights platform, generate ideas, create (marketing- and product-) concepts.



Furthermore, these concepts were to be processed into specific strategies for the different local purchasing types (Gehling, 2008). The geographic target markets for the product launch were determined to be Spain, France, and Germany; Gehling points out that the company was aware that innovating across borders would be a very complex undertaking (2008).

Henkel used the format of the *Super Group*, i.e. a group of consumers selected by Research International Germany (in this case) on grounds of various, but undisclosed criteria. Before the actual company-consumer co-creation begins, the candidates receive training in concept writing by Research International. Then, the participants, who are referred to as Super Groupers, spend two days in the scope of Super Group workshops in a work team. These teams were composed of Henkel employees and experts and one Super Groupers.

The process might seem lengthy and inefficient, Richard Gehling of Research International states that “experience [...] confirmed that co-creation means that different people from different backgrounds create something together that none of them can or should try to control” (2008). This considered, it is necessary to emphasize that transparency of motives and absolute clarification of the tasks are crucial for a successful implementation.

This statement may be supported by the outcome of the Henkel co-creation project, which resulted in “273 ideas, as well as 12 verbal concepts ready for subsequent testing” after only two days of work with the Super Group (Gehling 2008).

### 3.3 Method

The literature suggests that, even though co-creation is a very current issue for which there are hardly any statistics so far, there are models which may be used as guidelines throughout the process.

In *Co-Creating Unique Value With Customers*, Prahalad and Ramaswamy define a model abbreviated DART; the letters stand for **D**ialogue, **A**ccess, **R**isk assessment and **T**ransparency (10). Firstly, *dialogue* implies that a company needs to build a loyal consumer community before engaging in (successful) co-creation. This is certainly a logical step, as co-creation is supposed to derive from an ongoing dialogue, implying that the consumers are familiar with the

company/brand/product. Furthermore, co-creators (engaged consumers) have to have *access* to a certain amount of company data, meaning that firms have to be honest about their intentions not to mislead consumers and jeopardize the company-consumer relationship. This stands in direct relation to the last letter T for *transparency*. After all, companies should be just as open and objective, as they expect their consumers to be. Risk assessment on the other hand, describes the issue of responsibility of decisions made in accordance to the co-creation process: As the company transfers some of its creativity to the consumer, who should be held accountable?

All in all, the DART model represents factors which make it possible for companies to co-create with informed and trustful consumers, who are not only genuinely interested in the company/brand/product, but also make potentially rational decisions based on their knowledge (Prahalad & Ramaswamy, 2004). The model can also be expressed as a diagram (appendix 3).

Needham provides a graphic explanation for the difference between focus groups and co-creation in form of two pyramids (appendix 1 & 2). The first one (app 1) shows co-creation as a principle, dividing consumers along a parameter that ranges from passive to active. The upper (active) half is then divided once more, spanning from open to intimate, showing that participants of co-creation projects are selected much more thoroughly than members of focus groups. James Atchison (2009) concludes that the consumer group on the intimate end of the parameter describes an incredibly narrow group (about 1%; appendix 1), which was difficult to filter out before the communication revolution of the internet, when focus groups were the closest companies could get to consumers. In short, co-creation appears to be more appreciative of those core customers which potentially share the most valuable information.

The second pyramid classifies consumers more specifically, allocating a label to each group. Thus, co-creators are actually collaborating with the company, while the following group of advocates is only connected (app 2). Further, the graph assigns loyal consumers to the consumer community, while irregular buyers merely fit into the consumption category. The second pyramid is an extension to the first described above.

## Chapter 4

The fourth and final chapter of this dissertation will discuss the research results and propose answers to the research questions stated in chapter 1. Further, the last sub-question, *What does [co-creation] mean for future operating strategies of companies/brands/advertising?*, will be answered in the conclusion.

### 4.1 Summary

The discussion of co-creation theory is based on the findings described in chapters 2 and 3. In the former it was concluded that the modern consumer is an informed individual, who is connected with peers via the internet. However, it is to be noted that there is no such thing as homogeneity among consumers. When being concerned with co-creation it is nevertheless easiest to focus on a group of consumers which fulfills certain criteria, such as actively using the internet, and being willing to engage with companies over products; by any means these characteristics are descriptive for Generation Y. Furthermore, it may be stated that the consumer's urge to interact with companies is being accelerated by the skepticism that was triggered by the global financial crisis.

Thus, traditional top-down marketing approaches fail to reach this emancipated consumer. Through the constant information stream online, people's knowledge regarding the modus operandi of companies increased a lot, putting more pressure on producers to deliver goods according to customer ideals. Furthermore, modern consumption culture demands companies to offer customized products and the option of a dialogue with the company. In this interaction, customers have the possibility to express their demands to the suppliers. All in all, mass customization replaces mass production (Prahalad & Ramaswamy, 2004).

Chapter 3 showed that co-creation theory evolved out of preexisting marketing approaches and theories regarding behavioral economics. Its development was essentially the next logical step after the introduction of *open innovation* by Henry Chesbrough (Gehling, 2008), and the wide application of relationship marketing. Unilever's Axe/Lynx brand works as a prime example of implemented co-creation, because it is one of the few which has fully been executed and proven successful (“Chocolate Man”-ad). The case of Unilever shows that consumer engagement can lead to successful product development and marketing

However, even after elaborating on the theory itself and describing its implementation, co-creation remains somewhat abstract. Research suggests that the consumer is not hesitant to interact with the company; further the little experience there is at the moment indicates that co-creation achieves positive outcomes. However, consumer behavior is subject to constant change. If a new phenomenon like the impact of social media arises at the same speed, consumerism might be reshaped rapidly.

## 4.2 Discussion

Needham points out, that “The rise of 'open source' software has shown how global communities of skilled and intelligent consumers collaborate to find better solutions, and are prepared to reveal and share their innovations to achieve their goal.” (2009). This statement, which is clearly related to the connectivity of people through the internet, may be put in relation with online buzz. As mentioned in chapter 2, buzz has a tremendous influence on buying behavior, which is why it is only logical for companies to make use of it for marketing purposes, but also to interact with the consumer. Interestingly, word-of-mouth may be considered as a by-product of co-creation, as consumer engagement potentially stimulates positive word-of-mouth.

On the other hand, inviting consumers to join traditionally company internal processes, requires a certain degree of openness and trust, as negative buzz can harm the firms' public image tremendously. Furthermore, involving company-external individuals in the process bears not only the risk of losing money and time in case of failure, it also leads to the question who to hold accountable. Hence, companies are to evaluate the strategic value of engaging in co-creation beforehand.

Considering that the internet plays such a crucial role in the entire discussion of co-creation theory, the question why the approach was not applied earlier is rather easy to answer. The internet gave such unprecedented power to the buyer, that consumer behavior had to be altered by it. Furthermore, it is important to remember that companies did not have the array of interactive tools to communicate with their buyers before the advent of the internet. Therefore, co-creation theory could only have emerged in the present context.

Chapter 3 elaborated on how the co-creation approach differs from the concept of focus groups,

which are infamous for delivering improper results, potentially leading to (marketing) failures. As participants of co-creation workshops are chosen more carefully, using a method that is more *intimate* than *open*, it results in a narrower group of people (Aitchison, 2009; appendix 1). This method allegedly decreases the risk of failure.

Co-creation however is comprised of more than the group marketing work described in e.g. Unilever's Axe/Lynx example: it also incorporates the extensive readiness to listen to consumer's ideas. Global players such as Apple or Google are famous for actively listening to their consumers. The key word *listening* can also prevent companies from the marketing tragedy of relying on information collected so early on that it becomes obsolete, upon usage (Prahalad & Ramaswamy, 2004). With co-creation on the other hand, there is an opportunity to react to potentially changed consumer traits faster.

Finally, it remains to discuss how traditional methods of marketing research will be incorporated in co-creation strategies. Obviously, traditional research methods clash with this very contemporary approach, leading to the question which practice is better. In terms of sustainability, it is to be assumed that co-creation is a rather thorough way of interacting with customers and research their consumption behavior; as stated before, social media offers great opportunities for audience measurement. However, companies should not give up on traditional marketing research: Co-creation is still such a new and unexplored phenomenon that there are hardly any metrics in place to support a sole co-creation approach.

#### 4.3 Conclusion and Recommendations

Finally, after explaining social change, modern consumer behavior and the approach of co-creation, the following section will attempt to answer the question if this method is worth engaging in.

As Needham argues “When they combine the rise of the empowered consumer with a better understanding of them, companies can quickly start to organize what types or levels of innovation can be done effectively, and with which customers, in both online and offline environments.” (2009). In other words, today's consumers can be used by companies to launch better products more effectively; this stands at the core of the co-creation approach.

Through the opportunities the internet offers in terms of communication, co-creation offers a way for companies to explore their consumer's creativity. Also, “89% of 16-24s are members of at least one social networking site” (Aitchison, 2009). According to Bzzagent (Balter, 2009) consumers want to be part of product development and marketing, because they know that it benefits them. Additionally, companies have to realize that the super-connected Generation Y, whose members respond so well to online interaction now, may change their purchasing behavior in a few years, and it is very likely that they will expect the same kind of dialogue with companies. Therefore, implementing co-creation strategy does not only increase CLV for the moment, it also embraces a sustainable company-consumer relationship.

However, there are certain arguments against the hyped phenomenon of co-creation. One which has been pointed out in this dissertation is that even though the theory is supported by some models, there is no solid framework, providing guidelines companies can make use of. Rather, it appears as though every company, and more precisely every brand, has to figure out a strategy specific to its needs. As co-creation is supposed to be a learning experience for both, the company and the consumer, this may sound reasonable, nevertheless, it also leaves corporations to the risk of misguiding their co-creators, or misjudge the outcomes of their data collection. After all, co-creation does not provide an answer to the problem of translating customer information into data.

In conclusion, co-creation is an approach that companies should definitely consider, if they want to sustain an proactive relationship with their consumer, whose behavior is subject to constant (social) change. Still, considering how new corporations are to this approach, there is a risk of misimplementing the strategy. The literature suggests that marketers are generally not opposed to co-creation, yet, firms may decide that it is (still) too risky. If co-creation becomes widely adapted by companies however, it will change the execution of marketing strategies, taking them from expert debates in the board room to company-consumer dialogues on the internet.

Hence, yes, co-creation is more than just buzz. The theory represents the next step of relationship marketing and consumer engagement. It relates to the rising empowerment of the buyer, the democratization of the marketplace and finally makes systematic use of the communication tools the internet offers.

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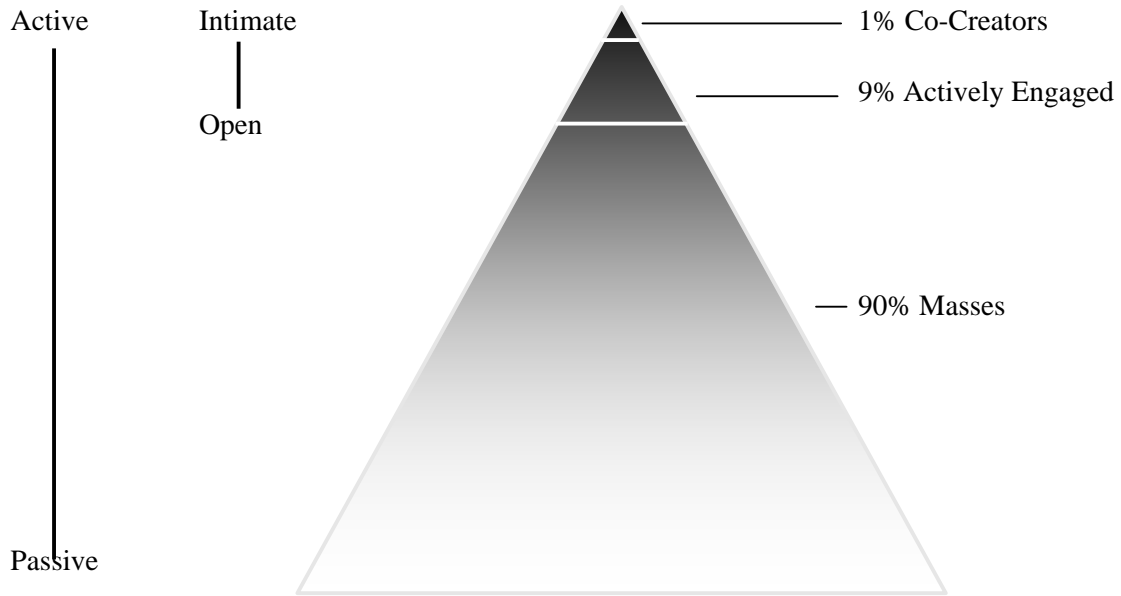
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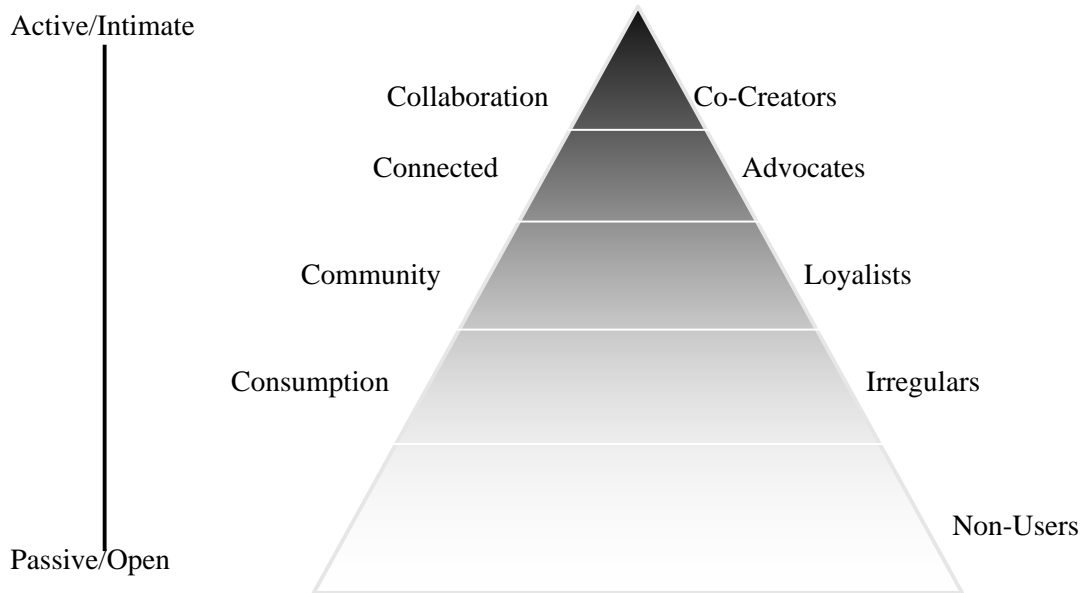
## Appendix

### 1. The Principles of Co-Creation



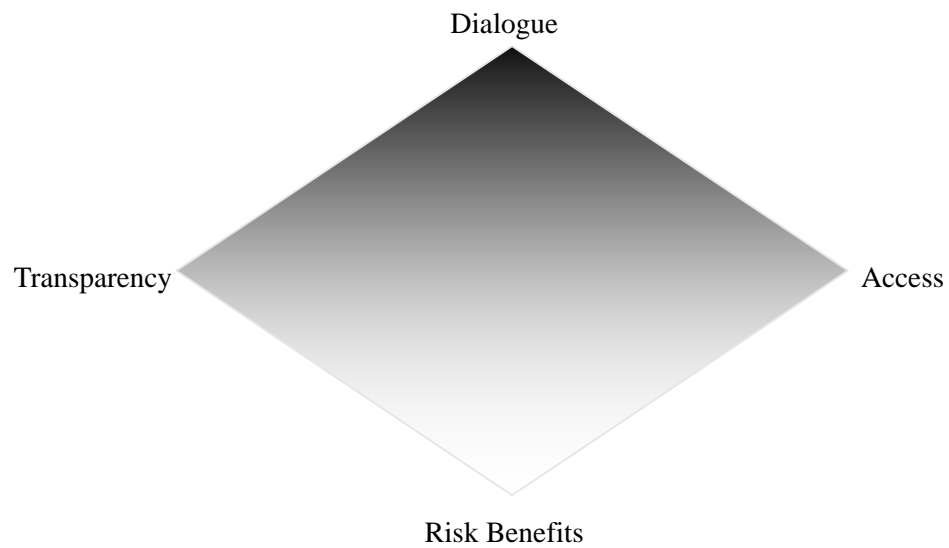
(Needham 2008)

### 2. Needham's Consumer Pyramid



(Needham, 2009)

### 3. Transparency Model for Co-Creation of Value



(Prahalad & Ramaswamy, 2004)