

# Prosumers as Co-Creators – Partners in Knowledge Creation

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## Abstract

The concept of value co-creation as highlighted by the Service Dominant Logic (SD Logic) has stressed the importance of customers importance as an active resource in creating and developing new market offerings. This study analyses a very simple model of value co-creation process and also a new terminology termed as Customer Knowledge Management (CKM). The CKM process in a marketer transforms the customer into a co-value creator, endowing him/her with new competencies and benefaction opportunities also known as prosumer.

## Keywords

Service Dominant Logic, Value Co-Creation, Customer Knowledge Management, Prosumerism

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## 1. Introduction to Service-Dominant Logic

The seminal works of Prahalad and Ramaswamy has led to various researches pointing towards the value added by engaging and co-creating with customers (Hippel 2005, Fueller&Hippel 2008). These concepts, co-creation and engagement were extensively developed by researchers to identify and estimate the value added through user-generated co-creation process. The emergence of the service-dominant logic (SD-Logic) in marketing has also generated a higher interest in the value co-creation process in general and more recently, towards branding in particular (Hatch and Schultz 2010).

The concept “co-creation of value” has been described through joint, interactive, collaborative, unfolding and reciprocal roles in a relationship (Vargo, 2009). In addition the authors Vargo and Lusch (2011) state that while marketing theory and practice as well as SD-Logic have had a strong focus on producer consumer characterization (Vargo and Lusch, 2011). The authors further identified that co-creation of value occurs through resource integration and

service integration. Furthermore SDL argues that service is fundamentally the basis of all exchange, regardless of whether a provider produces services or products (Vargo and Lusch, 2008). Thus looking at the different types of relationships that provide a context for co-creation of value becomes interesting.

Service-Dominant Logic (Vargo&Lusch, 2004) has attracted a widespread and generally favourable response from marketing academics, prompting a number of refinements, developments, and amendments (Vargo&Lusch, 2008). S-D logic is concerned with how all parties, or actors, integrate their resources to co-create value. However, the ‘logic’ remains in the early stages of development, with much academic debate regarding definitions of many of the underlying principles and terminology used. In particular, there is limited shared understanding of how customers engage in value co-creation (Payne, Storbacka, &Frow, 2008). A key element of the Vargo and Lusch proposition is the role of the customers in value creation process. Value is not embedded within goods by enterprises that generate value to

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be passed onto ‘passive’ customers who destroy that value through the use or consumption process. S-D logic conceptualises the use or consumption process as key to achieving value – hence, the S-D logic emphasis on value in use and the active role of the customer in co-creating value.

Vargo and Lusch distinguish between two types of resources that have the potential to create value. Operand resources, such as raw materials, are ‘. . . resources on which an operation or act is performed to produce an effect’ (Vargo&Lusch 2004). These are usually tangible, inert, and passive, and require input from an active agent in order to realise its value potential (Arnould, Price, &Malshe, 2006). Operant resources are those employed to act on operand resources and on other operant resources in order to create value. These resources are usually intangible, such as knowledge, skills, and labour (Arnould et al., 2006; Vargo&Lusch, 2004). Neither type of resource has inherent value, but both offer value potential that may be realised through integration with other resources. However, those operant resources, including the tacit knowledge of the service employees, may be codified and transformed into an operant resource.

## 2. The Value Co-creation Process

The notion of developing relationships with the customers for a profitable and meaningful outcome have been the outcry of many researchers (Storbacka, Strandvik&Grönroos 1994, Berry 2002, Parvatiyar and Sheth 2001) and has changed the role of marketers from customer acquisition to customer retention (Winer 2001). The perspective of relationships and service management has been studied by many researchers including Gronroos (2000) and Gummesson (1994). The concept of co-creation of value has taken a dominant role in late research about value configuration and relationship building. Different authors have highlighted the customer’s active role in configuring their own value (Holbrook, 1994; Prahalad and Ramaswamy, 2000; Vargo and Lusch, 2004). Co-creation of value is the concept that reflects the premise that value is not created exclusively by the firm but by the interaction of different actors including the customer. Different researchers (Holbrook, 1994; Richins, 1994a, 1994b) and practitioners (Pine and Gilmore 1999) had previously acknowledged the experiential nature of value. As value is experiential it cannot be determined by the firm but by the customer using the product or service and the Service-Dominant Logic considers value in use and the customer as a co-creator of value (Vargo and Lusch 2008). This perspective on value creation challenges the idea of production as a value creation activity and consumption as a value destruction

activity. In fact, different authors following a postmodernist approach to the matter have positioned both symbolic production and consumption as major areas of community participation considering consumption as a value-creating activity (Firat et al. 1993; Firat and Venkatesh 1995).

Prahalad and Ramaswamy (2004) define co-creation in the context of experiential marketing as “*the process that allows the individual consumer to determine the design of future products and services, the marketing messages and distribution channels where the products will be available*”. Lusch and Vargo (2006) have defined coproduction as customer participation in the development of the core offering (product or service), considering it as a component of value co-creation. Van Doorm et al. (2010) also stated that “*co-creation occurs when the customer participates through spontaneous, discretionary behaviors that uniquely customize the consumer-to-brand experience*”. These authors highlight the importance of interactions as the determinant of value and the importance of the personalization of the co-creation experience to determine value. Other authors have characterized the co-creation of value as an interactional concept (Vargo and Lusch, 2008), highlighting its dialogical focus and collaborative essence (Ballantyne and Varey, 2006).

The foundational premises of the “*service-dominant logic (S-D) logic*” defined marketing relationships as a process of co-production where the consumer is always involved in the production of value and is a continuous-process (Lusch and Vargo 2004, 2008). Gronroos (2000) identified that value is created through the interactions between the customers and the supplier or service provider. He stresses further on marketing as a value-creation process where customers play the role of being co-creators.

According to the S-D Logic, the customer is a coproducer of service and primarily acts as an “*operant resource*”, only functioning occasionally as an operand resource. Moreover, it states that “*value results from the beneficial application of operant resources sometimes transmitted through operand resources.*”(Lusch and Vargo 2004). It defines the active role of customers as participants in relational exchanges and coproduction. Thus the value coproduction process is highly experiential, inherently subjective and contextual in nature (Brodie, Hollebeek, Jurić&Ilić, 2011).

The concept of Service Dominant Logic focuses on the relative importance of interactivity and relational process of creating value for the customers. This interactivity and cocreation process is the foundation premise of “*Customer Engagement*”. Prahalad and Ramaswamy (2004, p254) states “*Companies can no longer act autonomously, designing products, developing production processes, crafting marketing messages and controlling sales channels with little*

*or no interference from consumers..... Armed with new tools and dissatisfied with available choices, consumer want to interact with firms and there-by co-create value. The use of interaction as a basis for co-creation is at the crux of our emerging reality."*

Vargo (2008) suggested that the term "value-in-use" should be substituted with a wider terminology "value-in -context" to accommodate this interactive process. Vargo further suggested that this value co-creation process is relativistic and different meanings can be constructed depending on the social context of the situation. Edvardsson et al(2011) further suggests that "context" includes much more than the resources (operant and operand) that have been the focus of much of the literature on S-D Logic. The authors further define that the operand resources can also be understood as social constructions, since the actors involved in a service exchange use these resources within a social system. Thus, social forces or social constructions defined the value-creation process and on how this value is defined and perceived.

## 2.1. From Relationship Marketing to Customer Engagement

Relationship marketing emerged as retribution in the late 1970s to the mass-market focus of the mainstream marketing practices. Most of the literatures on RM are documentations of the theories, ideologies and empirical studies of the market practice (Mitussis et al, 2006). By the 1990s, Customer Relationship Management (CRM) has propagated and was used extensively by practitioners and received a great deal of attention from academicians as well. RM was conceptualized to increase both the efficiency and effectiveness of marketing by bringing the customer into a cooperative partnership with the organisation (Sheth and Parvatiyar, 1995). Moreover, the practice of RM would lead to greater value creation through cooperative and collaborative relationships, with this value benefiting all parties engaged in the relationship (Tzokas and Saren, 1997; Parvatiyar and Sheth, 2000).

In "relational exchange" (Morgan and Hunt, 1994), the cooperative relationships amongst marketing actors allows them to "share resources and engage in joint value creation, such as co-production, research and development partnering, co-marketing, etc" The primary activity relates to value creation through joint action by participants in a relational engagement (Heide and John 1990). However, most of the RM literature provides guidance on the broad structures for developing a behavioural understanding of consumers (Mitussis, O'Malley & Patterson 2006) Therefore, it calls for a more systems-level interactive multi-dimensional engagement and learning process of engaging customers in the process of interaction and co-creation. Vivek, Beatty, and

Morgan (2010) has conceptualized Customer Engagement as "the intensity of an individual's participation & connection with the organization's offerings & activities initiated by either the customer or the organization" and hence has included the cognitive, emotional and behavioural dimensions of the cocreation process and hence does not include only sharing of resources and participation in the value creation process.

But many authors (Gronroos 2000, Brodie et al 2011 etc-) have questioned the role of the present practices of merely using customer information as a post-partum analysis and suggested a new concept "customer engagement". he theoretical roots of Customer Engagement are drawn from marketing relationships and interactive experience (Brodie et al 2011). The concept of Service Dominant Logic focuses on the relative importance of interactivity and relational process of creating value for the customers. This interactivity and cocreation process is the foundation premise of "Customer Engagement".

Identifying and understanding value for customers is a "costly and inexact process" because even customers themselves may not know what they want or may not be able to articulate it and hence it would be more profitable and effective to provide them with "tools to design and develop their own products" (Thomke & von Hippel, 2002). Prior and existing literature indicated that the terms "engage" and/or "engagement" are typically used in discussions about processes, cocreation, solution development and/or utilization, interactions and/or relevant, marketing-based forms of service exchange (Brodie et al 2011).

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## 2.2. Co-creation Process

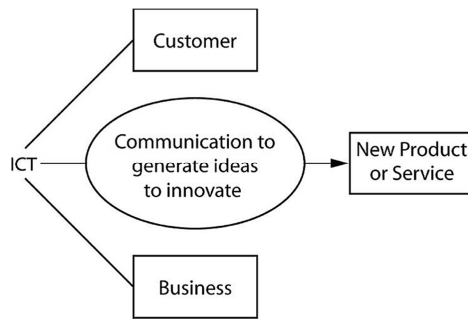


Figure 1. A Model of Co-Creation (Ray & Seddighi, 2012).

A number of studies have attempted to explore how value co-creation occurs. In an empirical study of ten different co-creation projects into how consumers are empowered through internet-based co-creation activities, it was found that the level of empowerment and enjoyment experienced depended on the design of the virtual interaction tool (Fuller et al., 2010). A simple co-creation was proposed by Ray and Seddighi (2012) proposed the model given in fig. 1. According to their model, ICTs have changed the role of the customer. The same ICTs enable business processes, which have been identified as the key enablers that provide the link between strategy, business models, and day-to-day operations. ICT enables management and operational capabilities giving impetus to co-creation possibilities. It forms a link between customers and company thus, establishing easy and continuous contact and communication

between the customer and company.

This simple model highlights the importance of sharing of knowledge between the customers and the company. ICT acts as merely a bridge between these two resources and enables a communication. A focus on an innovation strategy via co-creation activities is predicted to help organisations to generate competitive advantage through the integration of customers' views into the organisations' key operations, making customers' ideas an input for product and process development. This in turn could potentially lead to falling costs, product differentiation, and quicker responses to changing market conditions. Co-creation predicted a move away from a product-centric or service-centric view of value towards an experience-centric view that involves high quality interactions between companies and customers.

## 2.3. Exploiting Customer Knowledge through Customer Knowledge Management

Customer Knowledge Management (CKM) refers to the management of knowledge from customers, i.e. knowledge resident in customers. CKM is contrasted with knowledge about customers, e.g. customer characteristics and preferences prevalent in previous work on knowledge management and customer relationship management. Though often confused with Customer Relationship Management (CRM) and Knowledge Management (KM), their key differences are highlighted below.

Table 1. CKM Vs CRM Vs KM (Gibbert, Leibold & Probst 2002).

	KM	CRM	CKM
Knowledge sought in	Employee, team, company, network of employees	Customer Database	Customer Experience, creativity and (dis)satisfaction with products/services
Axioms	"if only we knew what we know"	"Retention is cheaper than acquisition"	"If only we knew what our customer know"
Rationale	Unlock and integrate employee's knowledge about customers, sales processes and R&D	Mining knowledge about the customers in company's databases	Gaining knowledge directly from the customer, as well as sharing and expanding this knowledge
Objectives	Efficiency gains, cost savings and avoidance of re-inventing the wheel	Customer base nurturing, maintain company's customer base	Collaboration with customers for joint value creation
Metrics	Performance against budget	Performance in terms of customer satisfaction and loyalty	Performance against competitors in innovation and growth, contribution to customer success
Benefits	Customer satisfaction	Customer retention	Customer Success, innovation, organizational learning
Recipients of Incentives	Employee	Customer	Customer
Role of customer	Passive, recipient of product	Captive, tied to product/service by loyalty schemes	Active, partner in value-creation process
Corporate role	Encourage employees to share knowledge	Build long lasting relationships with customers	Emancipate customers from passive recipients of products to active co-creators of value



The concept of CKM steers closer to Experiential Marketing which Mathwick, Malhotra and Rigdon (2002) has defined as "A perceived, relativistic preference for product attributes or service performances arising from interaction within a consumption setting that facilitates or blocks achievement of customer goals or purpose." Traditionally, market research was used to shed more light on what the customer knew and thought about the product, and how this differed from what the company had to offer the customer, resulting in enormous CRM databases (Galbreath and Rogers, 1999; Wilkestrom, 1996; Woodruff, 1997). More recently, firms thought they had found a new approach to access customer knowledge. Drawing on best practices from service companies, such as the big consulting businesses, most large organizations have instituted KM systems. These systems, however, are based in an indirect understanding of what customers want. KM systems are typically geared towards disseminating what their sales force or intermediary has understood from listening to the customers who bought, or didn't buy, the company's products.

SD Logic (Vargo 2008) has also highlighted the importance of an active participation from the customer as a key resource in creating value. With such notions, CKM researchers and practitioners try to create a system which allows active participatory roles from the customers thus co-creating value.

#### 2.4. Prosumerism

Alvin Toffler (1980) first used the expression 'prosumer'. Toffler defines prosumers as people who produce some of the goods and services entering their own consumption. They can be found making their own clothes, cooking their own food, rearing their own cars, and hanging their own wallpaper. All of these services could be purchased in the marketplace. and in fact, most people today purchase these goods and services from others. This is the essence of being a consumer. The essence of being a prosumer, on the other hand, is to prefer producing one's own goods and services.

The CKM process in a marketer transforms the customer into a co-value creator, endowing him/her with new competencies and benefaction opportunities. It liberates the customer from the platform of only past, accumulated knowledge by stimulating him with a pattern of open-ended value-creating ideas, thereby effecting coproduction and mutual new value evidenced in new products and services. It integrates planning, control and decision supply systems. Researchers have defined pre-, concurrent- and post-production integration where mostly explicit is transferred from the customers to the company. However, to develop means of transferring tacit knowledge, a

more interactive and continuous process of engagement has to be developed.

### 3. Conclusion

This study highlights the importance of consumers as an active resource in creating and developing new market offerings. Innovations led through customers usually have a higher success rate. Thus, the process of co-creation with customers cannot be neglected according to the Service Dominant Logic. The study further analyses a very simple model of value co-creation process and also a new terminology termed as Customer Knowledge Management (CKM). The CKM process in a marketer transforms the customer into a co-value creator, endowing him/her with new competencies and benefaction opportunities also known as prosumer.

However, the study is only conceptual in nature and also the nature and characteristics of a prosumer is not well-defined in existing literature. For future research, the level or proconsumerism can be identified and a measure may be developed.

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