

Co-creation Capability Spectrum for Classification and Scaling of Processing Services

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Abstract

Co - creation capabilities can be used as a strategic business logic that portrays in creating superior relations between consumers and firms as a source of competitive advantage for organizations. Capabilities could be used for enhancing value co-creation for mutual and long-term betterment. The authors developed a conceptual matrix of willingness and unwillingness in terms of co-creation using in depth literature review. Conceptualizing capabilities provide a foundation of bridging a co-creation continuum with various capabilities and processing services to attain the level or extent of consumer interaction. This article also sets out an agenda for future research.

Keywords: S - D logic orientation, co-creation willingness matrix, co-creation continuum, value co-creation

JEL Classification: M 30, M100, M390

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S -D Logic - The Basis of Value Co-Creation : Service-Dominant (S-D) Logic is an approach for an integrated understanding of the purpose and nature of firms, customers, and the markets. The foundational proposition of S-D logic is that the firms, customers, and markets are fundamentally concerned with exchange of services. S-D logic holds the notions of the value-in-use and co-creation of value as a key to superior competitive advantage, slightly more than the value-in exchange and embedded-value notions of Goods-Dominant logic. S-D logic considers the correlation among services and goods - that is, a good is an application used in a service provision. The service dominant logic of marketing (S-D logic) is a marketing paradigm development which shifts from the old paradigm to the firm-centric or good-centered view, to a new paradigm, the consumer-centric or service-centered view (Vargo & Lusch 2004a). The service-dominant logic (S-D logic) suggests that a service is the fundamental basis of exchange, and all social and economic actors are resource integrators that act together through the shared service provision to co-create value (Vargo & Lusch, 2004b). Service-dominant logic (Vargo & Lusch, 2008) described service as the significant purpose of exchange and provides understanding of how firms, customers, and other market actors co-create value through their service interactions with each other. The service-dominant logic has advised that markets are places where firms arrange and integrate operand and operand resources to co-create (Nenonen & Storbacka, 2010).

☞ **S-D Orientation :** S-D orientation signifies a set of strategic capabilities that enable the firms to co-create value in service exchanges. The concept of competing through a service orientation has been directly addressed in the context of S-D logic (Vargo & Lusch, 2008). S-D logic provides service-driven premises that are reflected in S-D thinking. In contrast, S-D orientation directs firms' attention to strategic capabilities that are service-driving and are manifested in business actions. The significance of interaction wants "that all co-creative management processes be enabled and supported by interaction-centric capabilities" (Ramaswamy, 2010). The strategically significant themes accompanying the premises of S-D logic, as outlined in the Table 1, helps to understand the S-D foundational premises to understand co-creation. In S-D logic, service is defined as the solicitation of competences (operand

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resources - invisible or intangible) through processes and performances for the benefit of another entity or the entity itself (Gronroos, 2008). An S-D orientation, in turn, identifies capabilities that firms may highlight to achieve a competitive advantage through superior services and mutual advancement. Essentially, an S-D orientation represents a set of operant resources that help customers and other value network partners accomplish greater value-in-context through the resulting interaction and resource integration processes (Vargo, Maglio, & Akaka, 2008). The more the firms are responsive to their customers' resource integration preferences, requirements, desired experiences, and experience environments, the better value propositions and outcomes can be co-created (Vargo, 2011). It is interpreted that S-D orientation is a higher-order co-creation capability created by the following six lower-order interaction capabilities, that is, individuated, ethical, relational, concerted, empowered, and developmental. S-D orientation offers firms scope to achieve a competitive advantage through value co-creation with network partners.

Table 1. Revisited Foundational Service Logic Premises Based on a Structured Definition of Value Creation

Revisited Foundational Premises	Original Premises
The customer is always a value creator.	The customer is always a co-creator of value.
Fundamentally, the firm is a facilitator of value for the customer.	The firm cannot deliver value.
Provided that the firm can engage with its customer's value-creating processes during direct interactions, it has opportunities to co-create value jointly with them as well.	
The firm is not restricted to making value propositions only, but has an opportunity to directly and actively influence its customers' value creation as well.	The firm can offer only value propositions.
Value is accumulating throughout the customer's value creating process.	Value is always uniquely and phenomenologically determined by the beneficiary (e.g. customer)
Value is always uniquely and both experientially and contextually perceived and determined by the customer.	

Source: Adapted from C. Gronroos & P. Voima (2011). "Making sense of value and value co-creation in service logic." *Journal of Service Management*, 22 (1), 5-22.

Current Research

🔗 **Co-Creation Capabilities** : The term co-creation was coined by Prahalad and Ramaswamy (2000), and service is said to be a value co-creating process. Interaction becomes the defining aspect of resource integration efforts (Prahalad & Ramaswamy, 2004). Various interaction capabilities are present that facilitate and enhance value co-creation with customers and firms (Karpen, Bove, & Lukas, 2012). S-D Logic led to the identification of the following interaction capabilities: Individuated interaction capabilities, relational interaction capabilities, empowered interaction capabilities, ethical interaction capabilities, developmental interaction capabilities, and concerted interaction capabilities. Along with these capabilities, various other capabilities can enhance value in co-creation such as knowledge orientation, customer- knowledge acquisition, customer information sharing, and customer information interpretation. These co-creation capabilities can be used for identifying or adequately defining the nature or scope of the changes required in the co-creation process for various service industries. There is a lack of understanding on how businesses function, and organizations can effectively and efficiently design their service delivery in the value co-creation with customers. The co-creation capability can be reconfigured to enhance value co-creation by the formation of a co-creation continuum.

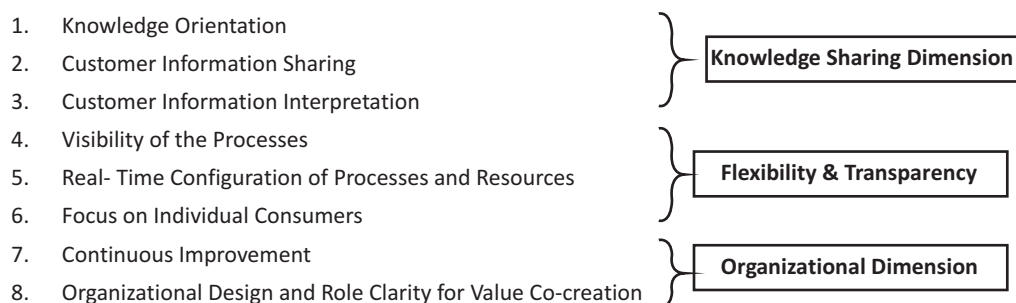
Customers are viewed as an integral part of value creation, the new mindset is molded for the value co-creation process towards customers on the basis of some dimensions, that is, authenticity (part ethics, transparency, and trust), flexibility, and conviction. These dimensions could be utilized in co-creation capabilities, which can help in business functions to create value and develop the co-creation process. When firms share resources with a different degree of involvement of customers for value co-creation by utilizing the co-creation capabilities with the customers, molded dimensions could help in identifying to what level the co-creation will vary among various industries and business functions. Various interaction capabilities help in developing the co-creation process, and it also requires in

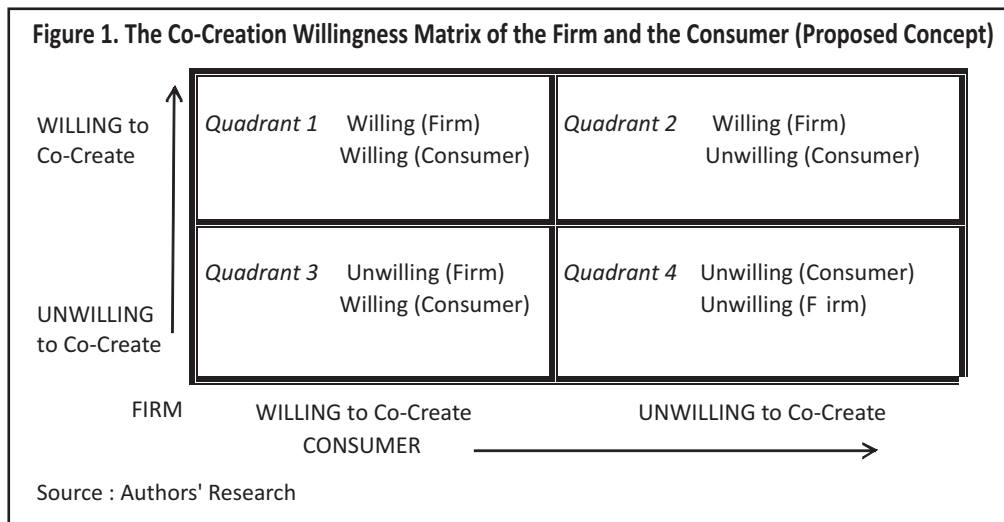
determining how to configure linked business activities across firms to meet customers' needs without imprecision of their own - or the consumers' - time , effort, and resources. Co-creation exists in every business function of the firm, but the track is required to enhance the value co-creation. Every business has its own capabilities for the level or extent of participation in co-creation; some components must work together to help a firm to build co-creation capabilities, that is, listen, engage the customers, respond externally, and respond internally. Through this, we can understand that co-creation exists, and it could be enforced in every business sector.

This can become clearer with the help of some examples: Dell has collaborated with its customers and is co-creating products through its innovation site “Idea Storm” . Dell has provided a platform for customers to give their views and suggestions on the site especially managed for customers. Yahoo's search application developed a platform “SearchMonkey,” which allows developers and website owners to use a variety of embedded tools to build customized applications; with this, both the company and developers are benefitted, and it could be used for the co-creation process as well. Nokia Pilots is a program that helps to get Nokia users around the world involved in the company's creative development process. The program acts as a channel for users to share their ideas and suggest improvements that the firm can put into action as they create their products and services. Amazon (www.amazon.com) analyzes search and purchase patterns in order to better understand an individual's interest portfolio. Based on this knowledge, as well as reference group or reference item comparisons, Amazon is then able to make meaningful recommendations or provide notifications responding to an individual customer's context and preferences. From these examples, we can identify that the IT business sector has the ability in forming coordination between firms and consumers, and has become efficient in offering co-creation. Another example to know the extent of co-creation among various industries is the South Beach Diet Brand, which is a product developed by Kraft, one of the largest food and beverage companies in the world. By involving customers, Kraft was able to co-create 48 products. These examples explain how co-creation creates incremental value for both the customers and the company.

The aim of the present paper is to integrate the conceptual framework of co-creation capability with a greater precision so that an approach of the co-creation process to create value can be developed. New co-creation capabilities based framework provides new insights into managing the process of co-creation. Firstly, the persistence of this article is to cultivate a co-creation capabilities framework for understanding and improving value co-creation within the context of S-D logic. To begin with, this paper will go back over the S-D logic as to isolate within it the main elements of all business functions that provides a platform for co-creation. Secondly, it will highlight the strategic capabilities on the basis of the customers and all business functions in terms of a value creation and involvement of customers' and firm's network. Thirdly, from the S-D Logic perspective, we will retain the co-creation continuum in terms of co-creation capabilities, which aims at providing a strategic approach for the need of co-creation in variant industries and to what level the industry can co-create with various co-creation interaction capabilities (individuated, relational, ethical, empowered, developmental, and concerted interaction capabilities). Fourthly, on the basis of the willingness and unwillingness matrix, we will try to identify the interest of firms and customers' participation on the basis of co-creation capability to enhance value co-creation.

✍ **Co-Creation Willingness Matrix Concept :** By seeing various capabilities (refer to Figure 1), the co-creation matrix could be formulated, which could help in knowing the firms' and consumers' willingness and unwillingness and level of participation in co-creation activities on the basis of their interests. Co-creation capabilities can help the





firms to identify their position in this matrix to develop interests in participation through interaction. The interaction needs to be translated in real value creation, the degree of which depends upon the efficiency of the firm to orient its internal and external processes for value co-creation. The three important dimensions which reflect the firm's willingness and preparation for value co-creation are : Knowledge sharing dimension, Flexibility and transparency, and Organizational dimension.

By mapping the dimensions of co-creation capabilities, a matrix can be proposed that defines the firms' and customers' willingness and unwillingness to co-create. Co-creation willingness matrix (Figure 1) provides a framework for the firm-consumer locus of co-creation on the basis of the above mentioned co-creation capabilities in the variant service sector. Four quadrants are formed; one quadrant side willing to co-create is mentioned on the other unwilling to co-create. Quadrant 1: Both the firm and the consumer are favoring or are willing to co-create in variant service or business activity. Quadrant 2: The consumer is unwilling to participate, but the firm is willing to take an action on the basis of the customer in the business process. Quadrant 3: The firm is unwilling to take action on the basis of customers in services as well as in business activities, but the customer is willing to participate. Quadrant 4: Neither the customer is willing to participate, nor the firm is willing to involve a customer in any business function. The following are some of the dimensions for willingness of co-creation, in which the customers can take an initiative on effective interaction:

- ✎ Knowledge / understanding of value creation,
- ✎ Positive perception of the outcomes,
- ✎ Seeking opportunities to maximize value output,
- ✎ Personality tolerance to ambiguity,
- ✎ Openness to experience.

The Concept of the Co-Creation Continuum

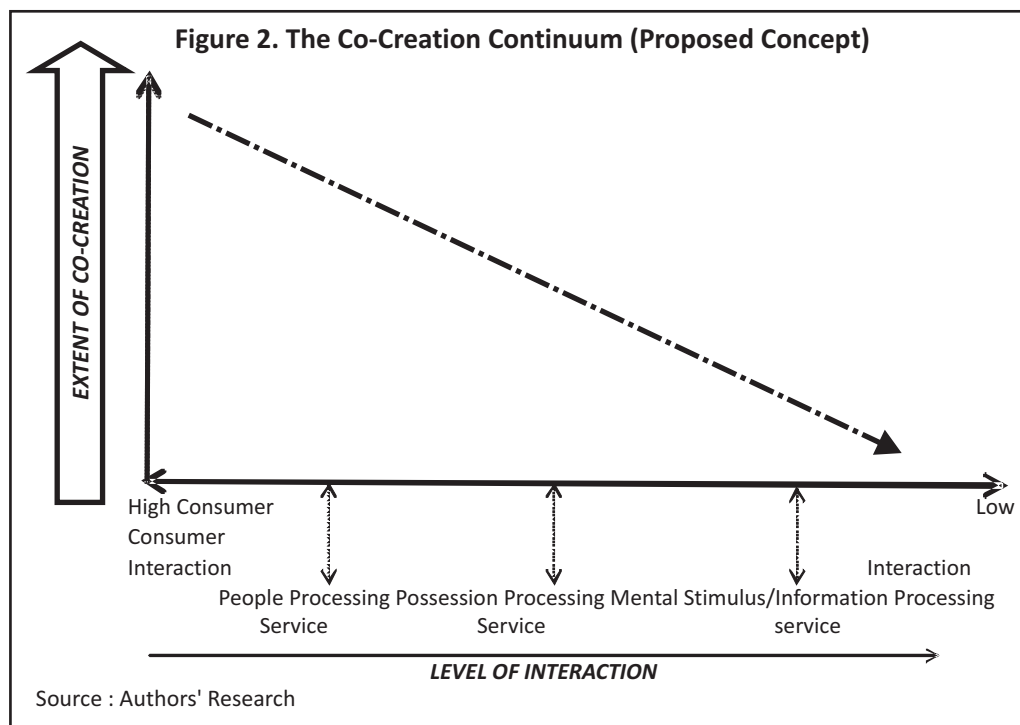
The co-creation continuum is formulated based on the types of services processes; it gives an idea regarding the extent to which the consumer can interact in co-creation in various service processes on the basis of the co-creation capabilities. There are three types of processing services, which are as follows (Lovelock & Wirtz, 2010) :

✎ **People Processing Services** : In people processing services, the provider performs physical actions for the client. The client is part of the service production process and remains in the domain of the provider during service delivery. There is simultaneity of production with consumption in a people processing service event, and the provider and client are regarded as co-producing the service. Various forms of transportation service, health care, restaurants /motels, hospitals, and hairstylists, and so forth are some examples of this service type.

➤ **Possession Processing Services :** In possession processing services, the provider alters the state of one or more tangible objects under the jurisdiction of the client. Many possession processing services are direct, as in car washing and other maintenance activities. These services relate to the condition of an object and are regarded as physical services. Clearly, there are other attributes of service objects, and one of the most common is ownership that puts retailing into the domain of service processing. In fact, some manufacturing operations consist of a sequence of services applied to a physical object or system. Another physical attribute is location, and an operation that provides components to a just-in-time production process is a form of service. Package delivery, after sales services, laundry and housecleaning, for example, are a form of possession processing services.

➤ **Mental Stimulus/ Information Processing Services :** Mental stimulus/ information processing services deal with the collection, manipulation, interpretation, and transmission of data to create value for the client. Accounting, banking, consulting, education, insurance, advertising, entertainment, legal, and news are commonly experienced examples of information-processing services. There are important issues with information-processing services, such as representation (as with lawyers and accountants), infrastructure (as with computers, databases, and the Internet), and self-service (as with online facilities, ATM machines, and other administrative functions).

On the basis of co-creation capabilities, the Figure 2 explains the extent to which customers can participate within the sector of business or in different sectors, and along with that, which processing services have a high potential and low potential in the activity of co-creation could be identified through the co-creation continuum.



Discussion

➤ **Relationship Between 'Co-creation Willingness' and 'Co-creation Capability' :** Co-creation capabilities can be seen in two dimensions. One could be sector difference and the other could be within the sector. In the first dimension, we can see that some of the sectors have a natural interest of the consumers. The co-creation capability is largely governed by the interests of the consumers. The interest can be due to the involvement and attachment with a specific industry, product, or the connected things. We have products like automobiles, chocolates, and so forth, where the consumer has a greater interest as compared to things like cleaning agent or table salt. The homogeneity and

monotony have a great impact on interests of the consumers. In case the consumer has a natural interest in a particular product, then the chances of willing co-creation are automatically high. While we consider the same sector, even then we find a difference in consumer capabilities. This could be due to the various interfaces and platforms the industry provides to the consumer. Hence, the co-creation capability can be increased by virtue of different parameters even in the industries which are not naturally blessed with the consumers' interests. The continuum presented in the Figure 2 gives an indicative representation of the service industry. The key criterion which guides the continuum is : Higher the level of consumer interaction (among consumers or between consumers and the firm), the higher is the capability of co-creation (Lovelock & Wirtz, 2010). The service industry comprises of varied diversity within any particular segmentation, whether it is people/ possessions/ or information processing type of industry. In a generalized format, information processing services witness a high-level of consumer interaction and hence, a higher degree of value co-creation. However, conversely, they have been plotted at the end of the co-creation continuum, owing to the fact that these services are largely delivered through online platforms, which are highly conducive for interaction and sharing (user-generated content, generated content, online communities, social networks, etc.). But by the virtue of potential for interaction, people and possession processing are more capable for value co-creation. This can be achieved by development of agile and conducive platforms for value co-creation, which can facilitate interaction and sharing and at the same time, it should be accessible and usable.

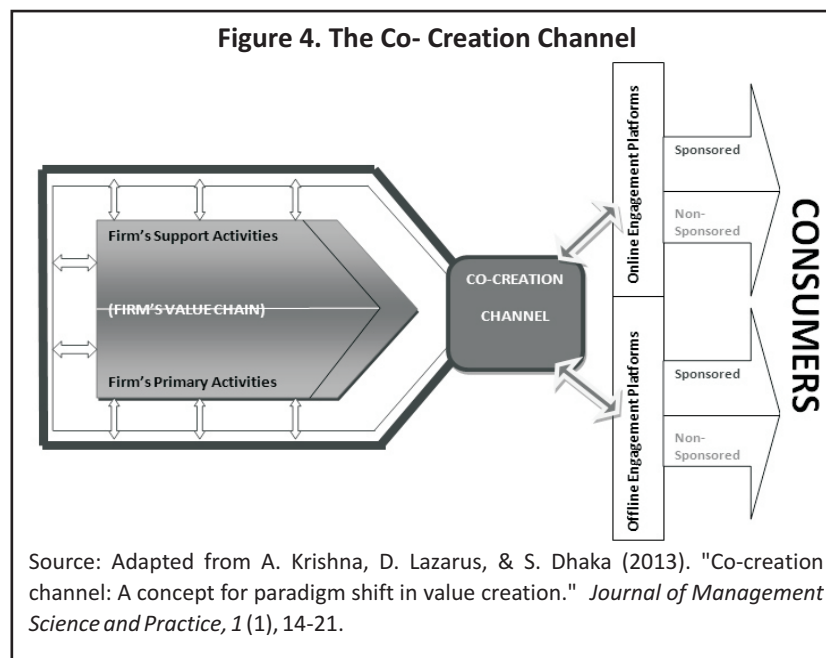
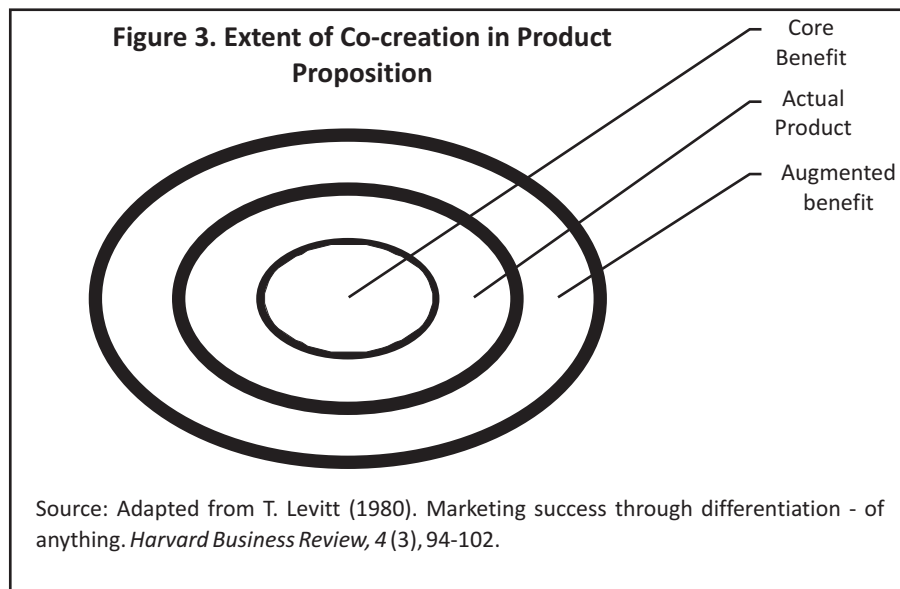
Hence, the firms which inhabit the advantageous position on the 'Co-creation capability spectrum' can only reap the benefits if they are willing to co-create value with the consumers. As discussed above, the firms lying on the end of this spectrum can reap higher benefits of consumer value co-creation by displaying higher willingness to do so. Simultaneously, on the other hand, there are certain services or firms, which witness higher consumer willingness to co-create value with them, even if similar reciprocation is available from the firm's side or not. Such a condition must be appropriately identified and utilized for creating a competitive advantage for the firm (Quadrant 3). Moreover, the firms need to elevate the 'consumer's willingness to co-create' to reap the full benefits and returns of the firm's willingness to do so (Quadrant 2 and Quadrant 4), as in the absence of consumer's willingness or to say interest in engaging oneself to co-create value with the firm, the firm's efforts will not be complete.

Managerial Implications

The co-creation continuum, on the basis of co-creation capability, helps in portraying effective managerial aspects. When the industry has a higher level of customer contact, that industry has more co-creation capability due to which degree of co-creation increases. The potential of industry to co-create depends on the extent of the industry's capabilities utilized for co-creation. This suggests that managers can increase their competitive advantage by utilizing their capabilities of co-creation. In the industries where the level of customer contact is low, by utilizing their capabilities, they can increase the degree of co-creation. The managers can focus on the potential of customer involvement on the basis of their capabilities, which will help them to increase the level of customer contact and can also increase the degree of co-creation. Through the continuum, the industry managers can focus on how effectively they can involve customers and on what services of the industry they should focus for co-creation. They can identify their effective capabilities and consequently, from side to side, they can increase their degree of co-creation. Managers can focus on continuous enhancement in the level of co-creation because it encourages various advantages for the industry to increase their business opportunities through innovation, creativity, and new insights through customers and will enhance the competitive advantage. It will be advantageous to develop capabilities of the industry which will reduce the risk and costs, and in addition, sustainable competitive marketing strategy will be developed.

The Way Forward

🔗 **Co-Creation Scorecard** : This research brings out a holistic view about the co-creation capability. It discusses about the development of the co-creation capability for various sectors. It suggests several parameters to foresee the co-creation capability of the industries. This research clearly states that every industry has a co-creation capability, which may vary from low to high depending on several factors. This capability can be enhanced by systematically



making a change in parameters which affect this capability. Future research studies can focus on making a co-creation scorecard, which may exactly give the position of the industry to find its co-creation capability. This scorecard could be developed by focusing on willing and unwilling forms of co-creation. It would also give capability within and across sectors.

🔗 **Product Proposition (Core, Extended, Augmented) :** Within a product, we have different propositions based on the core, actual, and augmented values. When we talk about co-creation capability, the provider may specifically identify the area which could have better potentiality for co-creation according to the product specification in a specific industry. The Figure 3 suggests the degree of consumer interest for co-creation in these three levels of market offerings, which can be utilized for generating co-creation strategies for specific contexts. Once we are sure of the product's capability in a specific proposition, it would be easier to actually find the platforms for its real implementation.

➤ **Value Chain Analysis** : This research goes deep into the various capabilities of co-creation. In literature and practical examples, we observed that it majorly concentrates on innovative product development and idea generation. This research advocates its existence in all parameters of the value chain. We suggest that future researchers find its existence and implementation in primary and support functions of the value chain. The Figure 4 depicts a new holistic concept of the 'Co-creation channel' based on the firm's value chain. The co-creation channel is a strategic blend of platforms for the consumers, where they engage with each other or with the providers, using their personal or acquired resources, abilities, and efforts to create and share value. It works as a unified bridge between various other organizational functions and the end consumers to co-create value for each other at various levels of the value chain. It also supports the entire value chain system of the organization. We suggest researchers to see co-creation in form of the value chain to find its presence in each function independently and also in connection with each other.



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