WEEK 8: CO-CREATION OF VALUE:
-HOW FIRMS COLLABORATE WITH CUSTOMERS TO BECOME MORE EFFICIENT AND MORE INNOVATIVE.
-WHAT DOES CO-CREATION MEAN AND WHY IS IT IMPORTANT? The reason why co-creation is so interesting is that the role of the customer has changed dramatically in the last twenty years. Largely due to the internet, customers can engage and collaborate with companies in a totally different way. many companies are still struggling with trying to find ways to engage with customers. Previously customers were viewed as passive audiences who reacted to various types of signals sent to them by the firms, e.g marketing communications: advertising the firms use to create attention and interest and demand for its services. They were viewed as passive recipients of value that the firms distributed to them. The whole notion of consumers and consumption is based on the idea that companies produce value and customers consume that value. In fact consumption has previously been viewed as a process where customers use and destroy the value created by companies. Today the view on customers has changed; they are active players who create value for themselves by using the company's services and products.

e.g. WORLD OF WARCRAFT: Multiplayer on-line role-playing game, an engagement platform, CO-EXPERIENCE: players interact with the game and other players.
This service only becomes valuable when consumers use it and the value is created when the players interact with the game and with the other players. Co-creation is a mandatory part of the service.
Today companies, NEED to co-create with customers, recently open innovation is become an integral part of many companies innovation strategies, e.g. apple apps. 10-40% of users engage in developing or modifying products **(COLLABORATION).** There is a community for almost every topic/industry → thousands of people talk about industries using social media. The customers are more innovative and committed to a product than others, and their ideas are increasingly important. There are unlimited ways for companies to engage in co-creation.
Additionally, the ideas of offline customers are very important, surfers today have many unmet needs, and thus they create their own solutions to their problems. Therefore companies have created CROWDSOURCING PLATFORMS where users create ideas that help improve a business → BMW interior design contest. Consumers come up with innovation, highly technical solutions and have enormous creative abilities.
Innovation sessions within companies are also an important facet to co-creation sharing and discussing ideas to encourage playfulness, intuition and compelling ideas. Firms can become more innovative by having an open mind towards co creation, consumers must have input in the final product for a co-created market. After releasing the final product companies must go social and let brand ambassadors market the product.

e.g. P&G'S CONNECT AND DEVELOP: CO-INNOVATION with stakeholders engaging them in every process of the business environment, web platform to submit and browse for technologies, licensing technologies from other companies, licensing P&G's technologies to other companies.
THREADLESS.COM= built on the co-creation idea: Threadless is an online community where users log on to an interface to co-design T-shirts. A community and an e-commerce site, customers have designer, consumer and many other roles. Designers are awarded cash for their designs when they are purchased.
UNILEVER'S PROJECT SHAKTI: Co-distribution in rural area, provide rural women with income-generating opportunities. Consumer good company around food, beverages, cleaning and personal care products, its famous brands include Dove, Lipton, Rexona and Sunsilk. It is an Indian project focused on unleashing the potential of Indian woman and changing the lives of local woman. Women in villages set up small business and then act as retailers for consumers, become co-distributers of Unilever's products. The scheme equips women with skills and a way out of poverty, as well as creating a new distribution for Unilever's products in the very large and growing consumer market of low spending.
NIKE ID-personalized: Co-design of shoes, based on modular design. Platform for personal design and customization allows for many different designs to be created, if the customer does not want to design the shoe themselves they can chose from premade designs. In order to accommodate differences in taste and differences in sports the websites are different in different regions.
AIR NEW ZEALAND: All kinds of self service can also be viewed as co creation. A totally new check-in process relies on customers as co-producers, uses technology as an enabler to run its operations and is done in order to make the consumers life easier (eliminate queuing which creates value to customers). Banking services, grocery and ticket buying are also methods of self-service.

CO-CREATION IS IMPORTANT FOR COMPANIES:

HOW DOES AIR-NEW ZEALAND CO-CREATE VALUE WITH ITS CUSTOMERS? Changed from putting manufacturing at the start for the process to customers → communication to customers through many different channels.

Co-creation has many important implications for how firms run their operations, so it is important to collaborate with stakeholders around the company and tap into their competence and use it to create new products and services and fundamentally innovate their operations.

To benefit from co-creation firms need to move from closed operations to open processes (open attitude towards stakeholders), there should be now boundaries in the market, and processes should be transparent in the eyes of the customer. There should be an overlap between the firm space and the customer space/ any stakeholder. Companies have to change from being inside-out orientated to outside-in, meaning the starting point is from the customer and the customer's value creating process (It is the customers who create value). Firms have to view themselves as an extension to the customer's value creating process →companies today must view themselves as ENABLERS of customer value creation.

CUSTOMER LIFETIME VALUE: The value of all the cash flows (the customer is the "mother of all cash-flow") created by the relationship with a customer. The **NET PRESENT VALUE** of all cash flows is the customer lifetime value generated by the relationship we have with the specific customer. There are differing ways to calculate this.

Relationship marketing is undertaken when a company is focused on creating customer lifetime value. It puts more emphasis on long-term relationships, rather than on maximising short-term sales, and acknowledges a firm's value is improved by increasing the value of the customer relationships; hence focus is on retaining customer rather than on acquiring customers. Various researches has shown that the cost of acquiring customers is (5-10 times) greater than that of retaining customers, thus it makes business sense to retain customers. If a firm's focus is too much on acquiring customers it may be less cost effective than a business that has a balance between the two.

Long term customers are worth a lot more than they may seem, thus businesses should be doing more to retain them.

Having a long term view of customers is very important, highlighting the value of regular customers.

The Long Term Value of a Customer - LTV

	Customer spend	Visits per month	Months per year	Years	Total Sales
Daily Coffee	$3	20	11	3	$1,980
Quick Lunch	$8	20	11	3	$5,280
Sunday Brunch	$16	4	11	3	$2,112
Dinner	$40	1	6	3	$720
Function Booking	$600	1	10	3	$18,000
Gym Membership	$85	1	12	3	$3,060
Holiday Resort	$600	1	2	3	$3,600
	A	x B	x C	x D	= Total

DIMENSIONS OF CUSTOMER LIFETIME VALUE:

TIME: "the length of the relationship with a customer" How long can a business retain the customer?

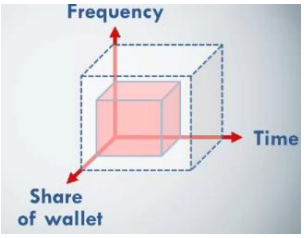
FREQUENCY: "number of occasions during a period of time that a customer buys a particular product from a particular firm"

SHARE OF WALLET: "the share of a customer's total expenditure that goes to the firm" Customers have different wallets for different types of consumption → holiday travel, groceries, clothes.

THESE CONCEPTS ARE ALL INTERRELATED.

To increase the size of the customer's lifetime value, it is important to encourage the customer to CONCENTRATE a specific category or product from the firm.

The 3 dimensions needed to measure the value from customers. By measuring how long we expect the customer to be retained, and by estimating the frequency of purchase by a customer and by calculating the present share of the wallet we have been able to secure, we will have a fair understanding of how valuable a customer is to an organisation.



The job of a marketer is to develop initiatives by which we can increase the time we can retain the customer for longer by increasing these 3 dimensions.

INCREASING THE CUSTOMER LIFETIME VALUE:
CREATING LONGER CUSTOMER RELATIONSHIPS: Deliver value to the customer, secure customer satisfaction, personalise the customer experience, get to know the customers better, it is easier to buy a product or service from a well known place and have regular meetings with the customer to enhance satisfaction (e.g. in an Airline or Hotel staff may get to know your first name to enhance their relationship with you, banks want to meet you once a year to see if you are satisfied).
TOOLS APPLIED BY COMPANIES:
FREQUENT-FLYER PROGRAMS: Loyalty programs: Customers enrolled accumulate frequent flyer points corresponding to the distance flown. Tier program (levels with different server experiences such as lounges, upgrades on flights etc): silver, gold, platinum.
FLY BUYS: New Zealand's largest loyalty program. Almost 3 million cardholders (80% if New Zealand households), customers collect points in over 2200 outlets. Points can be redeemed by changing them into airmiles or buying products. By rewarding customers for loyalty business' can create longer relationships with customers.

FREQUENCY: Encourage customers to increase their purchases, "Buy 3, get one for free"→ idea is to increase consumption, encouraging customers through the mindset that they are spending less and receiving more, "Super-size and save" this logic is to increase consumption with a small price increase.
MORE PURCHASES: some companies have a card where you can get something for free for repetidly purchasing an item. "Buy 10, get 1 for free" e.g. Salvation army $10 card, encouragement to come back AND purchase more e.g. $10.

BIGGER SHARE OF WALLET: **"**Bundling" create a bundle of products that logically fit together and sell them as a combined product. E.g. a burger and fries, earrings and a necklace.
UP-SELL AND CROSS-SELL: the logic of this is to get the customer to buy something extra based on what they have already decided to buy. E.g. buying a buger, "do you want fries with that?". <(logical connection) CROSS SELLING> When purchasing online, consumers often get reccommedations based on their previous purchases, "you might also like…". **<AMAZON> UP-SELLING.**

Relationship marketing involves a change in focus from the single sales encounter in an attempt to develop a relationship with the customer and to increase customer retention and concomitant growth for the businesses involved. The marketing focus for many organisations has thus moved from attracting customers to retaining the most profitable customers. These profitable customers are often referred to as 'key customers' in consumer markets and 'key accounts' in business markets. The aim is to hold the loyalty of these key customers by totally satisfying them, thereby developing and maintaining their trust by convincing them that the vendor is reliable and has integrity. Customer relationship management (CRM) is one of the most important concepts of modem marketing. Until recently, CRM has been defmed narrowly as a customer data management activity. By this defmition, it involves managing detailed information about individual customers and carefully managing customer 'touchpoints' in order to maximise customer loyalty.

1 Basic. The marketing organisation salesperson sells the product but doesn't follow up in any way.
2 Reactive. The salesperson sells the product and encourages the customer to call whenever they have any questions or problems.
3 Accountable. The salesperson phones the customer a short time after the sale to check whether the product is meeting the customer's expectations. The salesperson also solicits from the customer any product improvement suggestions and details of any specific disappointments. This information helps the marketing organisation to improve its offering continuously.
4 Proactive. The salesperson or others in the marketing organisation phone the customer from time to time with suggestions about improved product use or helpful new products.
5 Partnership. The marketing organisation works continuously with the customer and with other customers to discover ways to deliver better value.

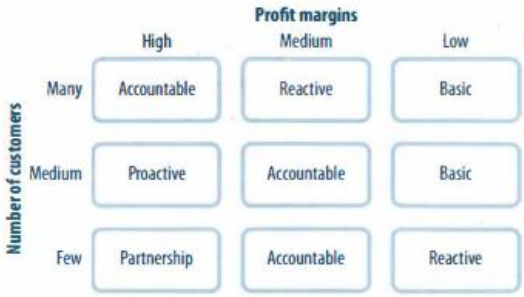
FINANCIAL BENEFITS: The first value-building approach relies primarily on adding financial benefits to the customer relationship. For example, airlines offer frequent-flyer programs, hotels give room upgrades to frequent guests, and supermarkets sometimes give discounts on less-busy days. Loyalty programs such as the Fly Buys program in Australia encourage customers to sign up in order to gain long-term rewards. In turn, the companies involved obtain information about their customers' shopping habits, and have the opportunity to target customers with particular offers. Such programs are very expensive to run, however, and will be beneficial to companies only if they add value by encouraging customers to spend more. The loyalty program must provide greater revenue than the cost to run the program, as well as a better return than any other program on which the company could have spent its money.

SOCIAL BENEFITS

Primary construct	(Other common constructs)
Creation	Attracting, establish, getting
Development	Enhancing, strengthening, enhance
Maintenance	Sustaining, stable, keeping
Interactive	Exchange, mutually, cooperative
Long term	Lasting, permanent, retaining
Emotional content	Commitment, trust, promises
Output	Profitable, rewarding, efficiency

Although loyalty programs and other financial incentives can build customer preference, they can usually be easily copied by competitors and may thus fail to differentiate the organisation's offer permanently. The second approach is to add social benefits as well as financial benefits. Here marketing organisation personnel work to increase their social bonds with customers by learning individual customers' needs and wants and then individualising and personalising their products and services in order to meet them.

STRUCTURAL TIES: The third approach to building strong customer relationships is to add structural ties as well as financial and social benefits. For instance, a business marketer .might supply customers with special equipment or computer linkages that help them manage their orders, payroll or inventory.



RETENTION AND CUSTOMER PROFITABILITY

Ultimately, marketing is the art of attracting and keeping profitable customers. However, companies often discover that 20-40 per cent of their customers don't represent profitable sales. Marketing managers must ensure that their marketing dollars are being well spent. In the past, many marketers spent freely on big advertising campaigns and other expensive marketing programs, sometimes without thinking carefully about the financial returns on their spending. But all that is changing. Given today's more competitive economy, marketers face growing pressures to show that they are adding value in line with their costs. Many companies now view marketing as an investment, rather than an expense. ***RETURN ON MARKETING***: investment (ROMI, or marketing ROI) is the net return from a marketing investment divided by the costs of the marketing investment. See Marketing Highlight 2.3 for a discussion of how smart marketers are measuring their lifetime customer value, and managing different customers in different ways, according to that value.

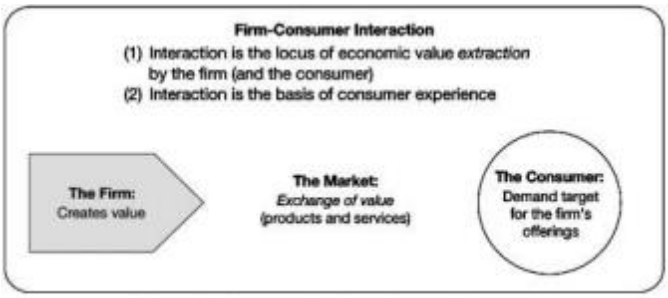
CUSTOMER LIFETIME VALUE: What makes a customer profitable? Marketers refer to customer lifetime value where the revenue from each customer (whether a personal or business customer) is calculated over the entire length of that relationship. Customer lifetime value is the amount by which revenues from a given customer over time exceed the marketing organization's costs of attracting, selling to and servicing that customer. This definition emphasizes lifetime revenues and costs, not profit from a single transaction. Understanding the lifetime value of customers is important, because it can help marketers to decide which customers are worth keeping. For example, a university student with a low bank balance may be a low-profit customer for the bank, just like a retired person with limited savings.

EMBEDDING MARKET CULTURE IN PEOPLE AND PROCESSES: An important factor in customer satisfaction and retention is retaining valuable and committed employees. There is evidence that employee satisfaction is associated with higher levels of customer satisfaction, which is in turn associated with higher levels of customer retention and higher customer profitability. A focus on customer retention, therefore, also requires a focus on retaining and satisfying the employees with whom customers interact. This means that the organisation needs to consider its internal marketing practices.

INTERNAL MARKETING: In almost every interaction with a company, a customer is likely to have direct or indirect interaction with its employees. The interaction may be face-to-face, by phone or by written communications such as letters and emails. Each of these interactions, which can be thought of as moments of truth in the relationship, can be

important in the customer's view of, and loyalty to, the organisation. If the employee is unhappy because of poor work conditions, or is stressed because of inadequate backup, they are less likely to be able to manage these moments of truth as the company might wish.

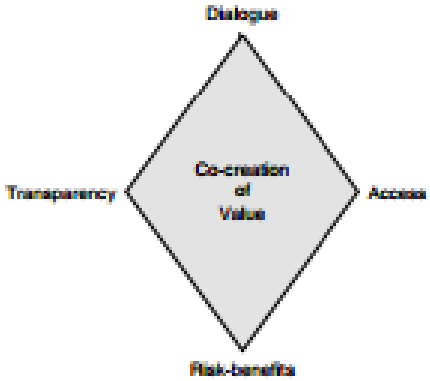
CO-CREATION IS ABOUT JOINT CREATION OF VALUE BY THECOMPANY AND THE CUSTOMER. IT IS NOT THE FIRM TRYING TO PLEASE THE CUSTOMER. Value exchange and extraction are the primary functions performed by the market, which is separated from the value creation process.
It is no surprise that the flow of communications is also from the firm to the consumer, as the market is a place where value is exchanged and the consumer has to be persuaded such that the firm can extract the most value from transactions. Informed, connected, empowered, and active consumers are increasingly learning that they too can extract value at the traditional point of exchange. Consumers are now subjecting the industry's value creation process to scrutiny, analysis, and evaluation. Consumer-to-consumer communication and dialogue provides consumers an alternative source of information and perspective. They are not totally dependent on communication from the firm. Consumers can choose the firms they want to have a relationship with based on their own views of how value should be created for them. From the customer's perspective, the advantage of the auction process is that prices truly reflect the utility to that customer, at a given point in time, of the goods and services being purchased. That doesn't necessarily mean that prices are lower, only that the customer pays according to her utility rather than according to the company's cost of production. As customers become more knowledgeable and increasingly aware of their negotiating clout, more businesses—from automakers to cosmetic surgery clinics—will feel pressure to adopt an implicit (if not an explicit) negotiation. High-quality interactions that enable an individual customer to co-create unique experiences with the company are the key to unlocking new sources of competitive advantage. Value will have to be jointly created by both the firm and the consumer.



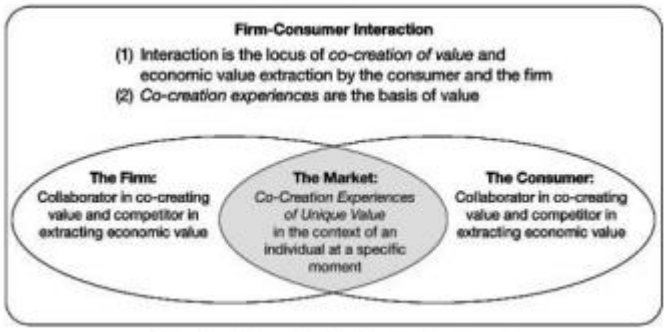
The market is separate from the value creation process

Personalizing the co-creation experience means fostering individualized interactions and experience outcomes.. A personalized co-creation experience reflects how the individual chooses to interact with the experience environment that the firm facilitates.

Once we discard the "firm-centric" view of value creation and accept the "co-creation" view, the evidence of this shift is visible in a wide variety of industries. For example, video games could not exist without active co-creation with consumers.



Co-creation of value fundamentally challenges the traditional distinction between supply and demand. When the experience, along with the value inherent in it, is co-created, the firm may still produce a physical product. But the focus shifts to the characteristics of the total experience environment. Now demand is contextual. Given that customers cannot predict their experiences, co-creation of value may well imply the death of traditional forecasting. Instead, the focus shifts to capacity planning, the ability of the experience network to scale up and down rapidly, and for the system to reconfigure resources in real time to accommodate shifting consumer desires and personalization of co-creation experiences. Such a system may be highly demanding, yet it promises incredible efficiency gains as well. We must view the market as a space of potential co-creation experiences in which individual constraints and choices define their willingness to pay for experiences. In short, the market resembles a forum for co-creation experiences.



The market is integral to the value creation process