

The Henley Centre for Customer Management



Co-Creation and the Customer Experience

Professor Roger Palmer, Dr Neil Hair and Professor Moira Clark

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1. Introduction

This is an interim, update report by researchers at the Henley Centre for Customer Management. Drawing from the theoretical base provided by the concept of “service-dominant logic” an in-depth case study is being conducted into a firm that is distinctive for its commercial success and approach to business. This report discusses both the principles of service dominant logic and how this is being tested in practice.

Some of the early findings are discussed together with the implications for managers. Although at an early stage of development the concepts discussed in this report are generating considerable academic interest, these concepts offer the tantalising opportunity for companies to create competitive advantage and improve profitability.

2. The Principles

It was in 2004 that Steve Vargo and Bob Lusch, two American academics, had their prize winning academic paper published in the world’s leading marketing journal, *The Journal of Marketing*. This introduced the concept of service-dominant logic (SDL) which sparked considerable interest amongst academics around the world (see www.sdlogic.net, <http://marketing.otago.ac.nz/events/otagoforum2005/index.html>, and <http://marketing.otago.ac.nz/events/otagoforum>). This has resulted in the topic becoming the primary focus for the work of many leading academics, resulting in numerous books, special editions of journals and conference presentations.

Before discussing the topic further it is important to make several very clear distinctions:-

Service – that is to say the distinction between *service* and *services*. In conventional marketing thinking, i.e. goods dominant logic (GDL), we think of service as being an intangible product, and what we sell to our customers may actually be a mixture of products and services. The tangible element of “product” could be a laptop computer, and the intangible “services” element the software that runs on it or perhaps the warranty that supports the purchase. In SDL terms, many services are “productised” and marketed in much the same way as any other product. However service may be defined as:-

*~ Service is the application of competences
(knowledge and skills) for the benefit of a party ~*

And in terms of SD logic:-

~ Service is exchanged for service ~

All firms have resources and capabilities which they use for the benefit of others. Products in the conventional sense are simply a means of conveying the knowledge and skills that are captured within them, thus goods are simply distribution mechanism for service. Hence from an SDL perspective:-

~ All firms are service firms ~

Value – in the conventional thinking of GDL value is something that is added to products, typically by augmenting them with services. Hence the value becomes “productised” and inherent within the product or service that is marketed. Typically we consider that we market

products containing value to our customers. From an SDL perspective value can only be created in conjunction with the customer, giving rise to the term “co-creation”. With a GDL mindset we **market to** our customers, but within the SDL paradigm we **market with** them, as value can only be co-created with their involvement. Hence:-

~ The customer is always a co-creator of value ~

But as we know, different things mean different things to different people. Despite the value that we might believe we have added to our product this might not be seen as such by our customer and therefore:-

~ Value is uniquely determined by the beneficiary ~

If this is the case then whilst we might attempt to “productise” value and capture it within the products that we sell, from an SDL perspective it is argued that:-

~ The firm cannot deliver value, but only offer value propositions ~

If value is determined by the beneficiary, as noted above, then value is only created when the customer accepts the value proposition and realises the value through the process of co-creation. As this understanding of the value proposition is unique to each individual then that individual’s experience is important; if the quality of the experience can be improved then the value realised in the co-creation process is greater.

~ co-creation and experience increase value realisation ~

Anyone seen a 12-year-old?

How many of us have a piece of electrical equipment in our sitting rooms that we find difficult to operate? The video recorder sits underneath the television with an array of buttons with very small print or hieroglyphics to denote them, requiring the average couch potato to get down on their hands and knees to try and understand how to operate it. Here we have a product of considerable technological sophistication that if we can only make it work delivers a valuable service to us. But if it is so difficult to use do we really take the time and trouble to learn how to operate it, and even if we do to make regular use of it? This principle applies to so many products/services that we use these days. How much of the functionality that is built into mobile phones, digital cameras, software programs, microwave ovens and so on do we actually use?

The firm can only offer value propositions – such as the video recorder

Value is uniquely determined by the beneficiary – if you have a video recorder but never use it, then it is of little value to you

Co-creation and experience increase value realisation – a simple, easy to use video recorder enables a housebound grandmother to see the recording of her granddaughter’s wedding. How valuable do you think that it is to her?

As may be seen these are challenging concepts for those of us entrenched in the product based or GDL perspective of marketing. Building on the concept of SDL, Vargo and Lusch have proposed a series of transitional concepts that contrast GDL with SDL. (table 1)

Table 1 Concepts And Their Transition

Goods dominant logic concepts	Transitional concepts	Service dominant logic concepts
Goods	Services	Service
Products	Offerings	Experiences
Feature/attribute	Benefit	Solution
Value-added	Co-production	Co-creation of value
Profit maximization	Financial engineering	Financial feedback/learning
Price	Value delivery	Value proposition
Equilibrium systems	Dynamic systems	Complex adaptive systems
Supply chain	Value-chain	Value-creation network/constellation
Promotion	Integrated marketing communications	Dialog
To market	Market to	Market with
Product orientation	Market orientation	Service orientation

The table notes a number of interesting features, in that experiences that deliver a high perception of value are based not around products but around solutions. Something of a cliché in GDL terms, but an important point to understand in terms of SDL. Solutions are typically not delivered by one single firm, as it is unlikely that the firm has distinctive capabilities in all the areas required, and hence it requires a network of organisations that can contribute to the solution. Also important here is the role of dialogue, by maintaining genuine two-way communication with the customer much deeper insight and understanding of the perception of value can be understood by the seller, and equally the buyer can appreciate the value on offer as it is revealed to them.

The research programme discussed in this report has been designed to test these concepts and ideas in order to help managers understand how they may apply these concepts within

their own organisations. The next part of the report discusses how the research was conducted.

3. The Research Process

It is important to appreciate that SDL is a logic rather than a theory. For an academic researcher the testing of theory is a well understood process, but understanding how to nail the jelly of a logic to the wall of managerial guidelines is rather more difficult. For this reason an in-depth study is required, and in order to concentrate the appropriate resources, only a single case study has at this stage being conducted. In order to optimise the understanding it was necessary to select a co-operator company that was both evidently successful and distinctively different and who were prepared to allow us access to their organisation and talk to their managers.

The company selected, termed PharmCo for the purposes of this report, has been marketing their prescription pharmaceutical product for some years. However it was in 2002 that sales suddenly and dramatically increased with at least a 34% year on year growth rate being sustained to the present day. The company is based in the USA, and is the prescription pharmaceutical business (as compared to pharmaceutical products that can be bought over the counter) of a large and diverse multinational corporation.

In order to gain the necessary insight, in-depth interviews have been conducted with a wide range of managers, agencies, doctors, clinical staff, counsellors, patient organisations and other health care associated workers. These interviews were conducted in April 2008, followed by a period of analysis, with a return visit to the company in October 2008 to conduct more interviews and gather other marketing information. The preliminary findings are based on the analysis of the first round of interviews.

All the interviews were recorded and then transcribed in order that they could be analysed using a specialised software program designed to help the researcher to distil the essential meaning contained within this considerable volume of data.

4. Previous Work

Some earlier work conducted by one of the research team gave some early insight into the understanding of SDL within organisations. This work was conducted with a nationally known housebuilding company. They recognized that they could create higher value with their customers by engaging them in dialogue at an earlier stage of the housebuilding process. This was in order that they could design the room layout, select fixtures and fittings and using the newly developed the “design studio” to select furnishings, curtains and carpets etc to meet their exact needs. Quality standards were also improved to minimise the number of after sales repairs required, commonly known as “snagging”. Prior to the hand over of the keys each house was given a three stage clean, with the final “sparkle” clean to ensure complete satisfaction.

The marketing director appointed to lead this change generated considerable commitment and enthusiasm amongst the sales and marketing team. However the initiative eventually failed because, when the boom market for house sales started to decline, the company reverted to previous habits and cut cost in order to maintain short-term profitability. The lesson learned from this research was that whilst the company can change its marketing practices, for this to lead to a sustained change in the way the company conducts its business, it requires a more fundamental change in terms of behaviour and underlying culture and attitudes.

5. Findings

The research set out to consider the contrast between GDL and SDL, as summarised in table 2. These are the central criteria around which the analysis of the data was conducted.

Table 2 GDL & SDL Criteria

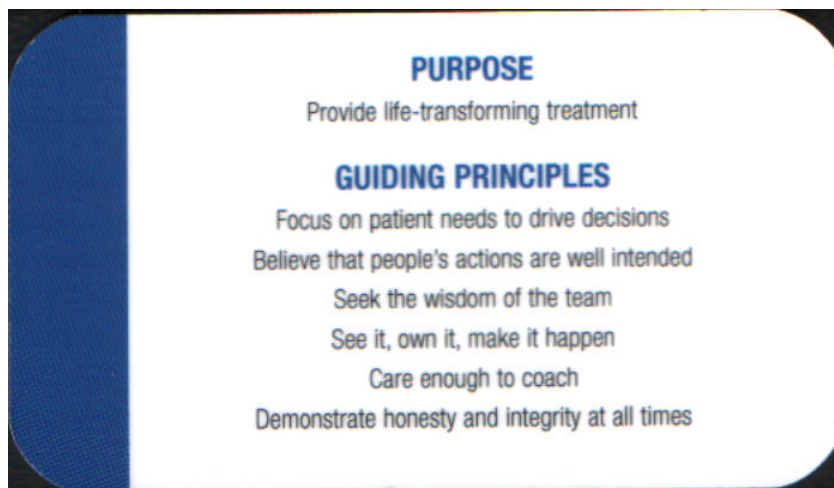
Goods Dominant Logic	Service Dominant Logic
● Goods	● Service
● Products	● Experience
● Supply chain	● Value creation network
● Promotion	● Dialogue
● Price	● Value proposition

in this section the report of the findings will be summarised under four main headings – culture, network, co-creation, value creation network.

5.1. Culture

It is clear that the President in particular and also the other members of the senior management team have a very clear and readily articulated view of the type of organisation they want it to be. In the interviews that were conducted the research team were careful to check with the respondents interviewed their understanding of not just the behaviours that were expected, but also the attitudes and approach to the business that they were expected to have. Whilst behaviour can be controlled or even manipulated to a significant extent, staff in the organisation were encouraged to express their real opinions. Many people in the organisation carried a small credit card (Figure 1) sized checklist summarising what the organisation stood for. This was useful to the research team as a reference point for questioning.

Figure 1 PharmCo Principles



The organization cares very deeply about its culture. It is regarded as integral to the organization and is carefully defined, managed and nurtured as these quotations illustrate:-

"...we said 'right, we now need to define the culture, we now need to say 'ok, this is how the culture is going to be' otherwise if we don't form a vision of the culture and lead the culture, the culture will eventually form itself..."

"I took my leadership team off-site and we had a couple of days where we actually formally brainstormed you know, 'what do we want our culture to be? What are the elements of culture? What goes into making culture? What's our value set? Because once we've agreed it guys, we've got to stick to it. We're not going to compromise on it."

The quotation above says "we've got to stick to it", the culture and the guiding principles are tools with which the business is managed, as these quotations from two different managers illustrate:-

"If people don't fit the culture they're going to be leaving the company - and this is how it's going to be."

"If you're only interested in being a business shark and making money then there's no job for you in this company."

Members of the research team soon became convinced of the importance and understanding within the company of the culture and how this is managed and maintained. (Note in these quotations how the interviewer herself reflects her insight and understanding of the culture - any emphasis in these quotations has been added by the authors) :-

Interviewer - *Tell me about how you feel about, and you have touched on this and everybody is touching on this, the organisational culture and how that affects the day-to-day practice.*

***Respondent** - Well it is absolutely unique. Here is the way I look at it - wherever you go whichever company you go with, whether it is in our business or any other business, you look around the walls and you see mission statements, visions etc. nicely framed and often a pretty picture behind them and they are stuck on the wall and if you ask someone most people would not know what on earth they said or even remember that they were there. I really do believe that we very much live the culture here and that is not a passive thing, it is an active thing. We actively, in all our team meetings and so on, we actively try to have a cultural moment. So at the start of the meeting we will take part of the culture, talk around it and give examples and try to embody it and we do try to live it - we really do.*

5.2. Network

The company has recognized that its product alone will not solve the patient's problem. The product is for the alleviation of the symptoms of opioid drug addiction (e.g. heroin, morphine etc). However, it is clear that this alone will not help the patient to beat their addiction. This requires a change in behaviour as well, through the provision of counselling to help and support vulnerable people at a time of their need. The purpose of the company was shown in Figure 1, and in order to provide life transforming treatment the company organises all the necessary support services that patients need. This quotation illustrates the role of the "clinical liaison" - the company does not have a field based sales force and as can be seen this member of the team acts as a resource provider and coordinator around which a network is constructed.

"...we were in a sort of unassigned area, but they assigned our area one of the clinical liaisons and she was great. She provided educational resources, she joined our community drug court committee, we were starting a youth drug court to try and keep them out of the jail and she joined that because she had lots of information that she could share from other communities."

Here it can be seen how the clinical liaison person developed the network within the area by providing resources, expertise and linking together the various people and agencies concerned. Again, as with the aspect of culture, this is shared throughout the company as this comment by a head office rather than field-based member of staff reflects:-

I see that the company and me are alike in that we are trying to do is link, try to create connections.

These connections are built both at the individual and personal level and at the more formal level by developing interactions with organisations that represent, for example, doctors organisations, government departments and patient interest groups. Network development is catalysed by carefully targeted events organised by the company:-

"...at that point (they) got invited to present at the first "PharmCo" Treatment Advocate Conference."

Gradually as the initiatives developed and more was understood about who needed to be involved in the network, and also why it was important to them, the level of engagement extended to include such organisations as:-

"I got the drug and alcohol counselling folks and asked them if they would be interested in partnering..."

"...I was contacted by SAMSA, it is the Federal addiction organisation - it is the Substance Abuse And Mental Health Services Administration..."

"the police and the judges they were all very interested in helping this to be successful"

At this stage of the research 14 distinct functions within the PharmCo organisation have been identified, together with 36 organisations that are external to the company.

However, it is important to note that these organisations do not necessarily regard themselves as being "external". Quite the contrary, they consider themselves to be fully involved and committed to the common objective of improving patient outcomes. In fact, one of the authors was interviewing a respondent on this point and was sharply reprimanded for suggesting that as an external agency they had anything other than a complete sharing of objectives. The interviewer considered himself to be duly reprimanded!

Extensive use is also made of online tools, with websites containing useful information to people concerned about problems of addiction and demonstrating ways in which patients can obtain further help. This might be by taking an online addiction test for example, or entering the postal code in order to find a doctor who is certified and willing to provide treatment (US government regulations require that doctors take a training programme to prescribe the product).

5.3. Co-Creation

Within the company there is much discussion about the "disease space" as compared to what in GDL terms would be understood as "the market". The disease space is generated by building the network of relationships, understanding the reason why each member of the network participates in it and underpinning this with an understanding of how all of this can support the patient.

"So rather than going out driving product and trying to get people to buy the product, the real goal is to get doctors to understand the disease space. So they are out there getting people to understand addiction, what it is all about, how you can effectively treat it and then the sale comes after that."

The disease space is the arena in which co-creation takes place. This can be seen as a process of successive revelation of insight and understanding with the participants within the network, catalysed by the intervention and management of PharmCo. This is illustrated by the quotation above which illustrates the way that the disease space is generated and fuelled, and by the quotation below that shows how value is generated by dialogue.

“the patients just latched onto this community of people who they didn’t know existed; didn’t realise the scope of the issues; didn’t know that there was even a solution that they could even potentially have and from that was this literal online community that just exploded”

In order to achieve co-creation and realisation of value this quotation shows how the culture of the organisation supported by the tools and techniques of marketing enables a much better quality of discussion and dialogue to take place.

“It is partnering. It is a different level of interacting with the physician, because if you are just trying to sell them something it is such a different conversation rather than saying these are all the tools I have for you.”

PharmCo recognizes that in order to not just invite individuals and organisations to join the network that it is managing it also needs to ensure that objectives are aligned and that confidence and trust is nurtured.

“our job is to get behind the behaviour to the value set and the belief structure and help those people see the opportunity.”

If it can achieve this then the "business" or operational unit is not PharmCo itself but all the individuals and organisations that are aligned to common objectives and participate in the network. Each of these organisations recognizes that their own value objectives are met, and in doing so those of others are achieved in addition. PharmCo is distinctively successful in achieving patient's objectives, in co-creating value for other members of the network and gaining reward for themselves through the sale of their products.

“Of course we’re empowering the medical societies and leaders, clinical opinion leaders in the scientific community to take this argument to government and show them the evidence because government doesn’t do what I say, government does what the body of evidence says - embraces all of that. So we were able to partner and influence social strategy towards this.”

In terms of creating value the interactions between each of the network members can be identified. Whether this is by referral to the website to gain more information which can then

escalate to the treatment process, or by the provision of education and training to doctors. The value creation process is illustrated very well by this final quotation.

“I have an unlimited budget - because I knew that the more doctors they trained I would get revenue streams on the back of the payments and the whole machine was self-liquidating in many ways.”

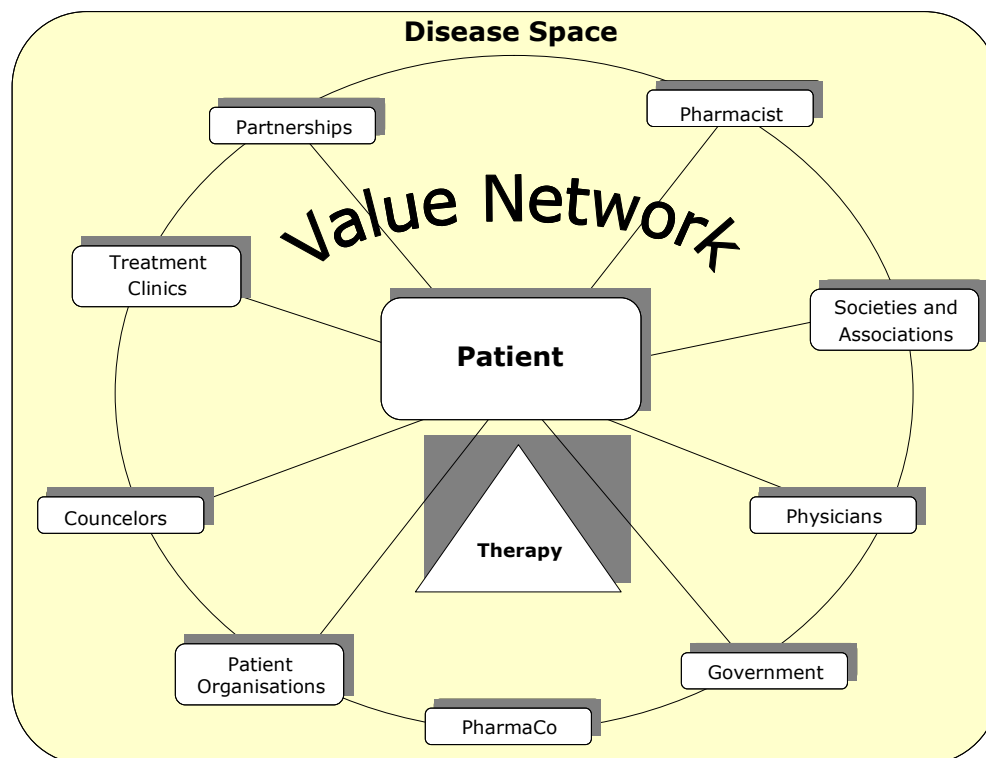
As noted earlier government regulations require that doctors are trained in the provision of this treatment. This training is provided by a number of professional associations and once certified doctors can then treat patients and prescribe PharmCo products, as well as those of their competitors. PharmCo recognize that the opportunities for patient treatment can be increased if the number of trained doctors also increases and this in turn contributes to the development of the disease space. PharmCo are remunerated by sales of their products that doctors prescribe. Doctors may also prescribe competitor products but PharmCo recognize that creation of the disease space is essential to their business and accept that competitors may also benefit. By continually creating and demonstrating the value they offer PharmCo manages to optimise their value capture.

5.4. Value Creation Network

All the points discussed so far -culture, network co-creation - coalesce to create the value creation network. This is illustrated in Figure 2.

As already noted, this comprises at least 50 distinct entities (14 distinct functions within the PharmCo organisation, together with 36 organisations that are external to the company) who participate because of their alignment of interests, the value that they can realise from this engagement and the value that as members of the network they deliver to others.

Figure 2 Value Creation Network



Rather than see the value creation network as a fixed and static entity, it should be considered as organic and open-ended. It grows and develops as the disease space evolves and network members deliver higher levels of service. That is to say they become more effective at applying their capabilities for the benefit of others - the definition of service referred to above. This organic and flexible nature of the network is captured in this quotation.

Interviewer - ...my impression is that the lines are a little fuzzy in terms of where the organisation actually finishes...

Respondent - That is a great point. Each of our Clinical Liaisons has as you mentioned key opinion leaders and they work with the treatment advocates who are doctors in the field to set up round tables in the community and that way they have one treatment advocate who is an expert in their zone and he does the sessions for other doctors. He is able to provide advice and guidance and use of the product, so you are right that it continues to branch out.

The importance of the culture and the guiding principle of the focus to patient treatment have been emphasised, rather than the more direct commercial emphasis on selling products.

What I was so impressed with was their focus not on selling medication, but on trying to improve access to treatment. They really just wanted people to get treatment anywhere in the country, whether it included (their product) or not.

This is very much a direct contrast to the conventional pharmaceutical business model which involves large sales forces calling on physicians in order to "detail" the benefits of their particular medication and to encourage sales.

"...which is very foreign ... to the sales model that most pharma companies (have)"

The belief within the company, in fact it is more than a belief but rather a fundamental and driving conviction, is that the relentless focus to improving the quality of patients lives will also lead to commercial success.

"they are out there getting people to understand addiction, what it is all about, how you can effectively treat it and then the sale comes after that."

Inevitably the company is a commercial organisation, part of a large multinational. There are bottom line deliverables that the parent company expects. Whilst not reported on in depth here, the company has developed a series of measures and metrics that enables them to measure and manage the network and obtain best value for their resources. This is a constant learning process as the tools and techniques that they use are constantly fine tuned and reviewed for their effectiveness.

"we got very heavily into search engine marketing because it is a very targeted and cost effective way to advertise and to get information across."

"We incentivize the sales force on how well they live out these guiding principles"

The value creation network has a foundation in the culture and attitudes of its members but nonetheless PharmCo has management and review processes in place to encourage appropriate behaviours that lead to the improvement of patients lives, ensure effective use of their resources and deliver profitability of the business.

PharmCo has developed a very different approach in the context of the pharmaceutical industry, but however innovative this may be it does not negate the need for sound and effective management.

"I think they have taken that to a whole new level."

6. Managerial Implications

This case study demonstrates a very different type of business, it also aligns well with the principles of SDL; as summarised in the right-hand column of Table 1. Of interest to managers is not just what the company has done, but how they have done it. Many organisations will talk of their distinctive culture and demonstrate their mission/values/vision statements but how many can succinctly articulate how they have managed the organisation in order to achieve this?

What is perhaps uniquely distinctive about PharmCo is how the desired culture was defined and then set in place. The vision of what needed to be achieved was generated and the senior management team not only demonstrated the appropriate values and behaviours in their own actions, but consistently emphasised this in their management of the business. This is demonstrated in many different ways - by the type of people that are recruited, the way that people are rewarded in the organisation and constant reinforcement through the way that the business is managed.

Comparing PharmCo with the housebuilding company that was the subject of the first research project conducted, it can be concluded that PharmCo has been much more successful in shifting the culture of the organisation. They have not just changed behaviours and marketing practices in the hope that this leads to cultural change, but rather the other way around.

Complementing this is the vision of how life transforming treatment can be provided to patients. Within this report a number of building blocks drawn from the concepts of SDL have been discussed. In managerial terms this might be referred to as a "business model". A term that seems to be increasingly used these days but perhaps as more as a descriptor of what the company does, rather than giving any insight into why and how it is done. One definition of the business model is "a generally accepted understanding within the organisation of how it conducts its business and how it creates profit". Consider this quotation:-

I think it is unique in the fact that with this (PharmCo) was not ... selling the product itself, but a whole new paradigm (of) how do you treat somebody with this disease.

As a result of this initial review of the findings and number of tentative conclusions and implications can be drawn.

- Business transformation entails changing culture and attitudes and not just behaviour
- Managers should focus to providing comprehensive solutions to customers needs and not simply the selling of products, and compete in the "problem space" rather than the "marketplace".
- The relentless focus on providing customer solutions creates the vision for the organisation
- It is unlikely that any single organisation has all the capabilities required to provide customer solutions. The building of relationships through dialogue is necessary to create a network which is sustained by a common vision

- The role of network members and why and how they create and deliver value should be carefully considered
- Marketing collateral can resource the network, measures and metrics provide the route to continual improvement
- A high level of management capability is still required to connect high-level vision with day-to-day activities

7. Conclusions

PharmCo is a distinctly successful business. There can be few organisations that have delivered a compound annual growth rate of at least 34% over a period of seven years. Such success deserves closer examination for lessons that can be more widely applied. Using the lens of SDL the company has been researched in detail and some interesting and insightful implications managers have been elicited.

A topic touched upon but not discussed in detail here is the nature of value, although this is a fundamental aspect of SDL. Importantly value is often non-financial and intangible. Evident in this research programme is the personal commitment that many network members have to improving the quality of life of patients suffering addiction problems. An understanding of what is valued by network members is integral to value co-creation, and is arrived at by dialogue.

This is an interim report of the ongoing research and as this continues more comprehensive findings will emerge.



The Henley Centre for Customer Management

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Centre Contacts:		
Director	Assistant Director	Customer Relationship Executive
Professor Moira Clark	Tony Harrington	Anne Tabbner
Tel: 01491 571494	Tel: 07815 938534	Tel: 01491 418710
Moira.Clark@henley.reading.ac.uk	Tony.Harrington@henley.reading.ac.uk	Anne.Tabbner@henley.reading.ac.uk
Henley Business School, Greenlands, Henley-on-Thames, Oxfordshire RG9 3AU		



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