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Co-creation of Value: Creating New Products through Social Media

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Abstract

Co-creation of value with consumers is an emerging marketing paradigm for the firms. One way to understand co-creation of value is to examine co-creation of value at the new product development (NPD) stage, when consumer has yet to interact with the fully formed product. We first describe the emergence of social media as an evolution of the social nature of the web. Then we describe *social validation, social information,* and *social inspiration* as three processes that help explain why consumers like to be part of co-creation at the NPD stage. Finally, we describe two stages of NPD in the context of co-creation with consumers: *ideation* and *prototyping*, and discuss implications for the emerging markets like India.

Keywords: New Product Development, Social Media, Idea Generation, Prototyping

Introduction

Customer Relationship Management (CRM) and Relationship Marketing in general have been a focal point of scholarly efforts and managerial attention in last several years. Customer loyalty and customer lifetime value have increasingly been part of the marketing matrices. This focus is now rapidly shifting to customer interactions (Rowley 2007), customer experiences (Prahalad and Ramaswamy 2004), and co-creation of customer value (Prahalad and Ramaswamy 2004, Vargo and Lusch 2004). In particular, while expanding upon their S-D logic framework, Lusch and Vargo (2004) argued that value is not inherent in the product, rather, is co-created with the consumer in each interaction. Here, by value we mean "interactive relativistic preference experience" (Holbrook 1996).

One of the foundational propositions (FPs) of the "new" logic of marketing by Vargo and Lusch (2004) states that "the customer is always a co-creator of value: there is no value until an offering is used- experience and perception are essential to value determination". They also maintain that marketing should be viewed as a set of processes and resources with which the focal firm aims to offer value propositions. Co-creation of value stems from the fact that the consumer must learn to use, maintain, repair, and adapt the offering to their individual needs, usage situations, and behaviors (Payne et al 2008). On the contrary we take the view that the value co-creation is not integral to just the product use

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and maintenance stage, rather, consumers can be part of that process at the product development stage itself. Indeed, the customer can be a payer, competence provider, a controller of quality, a co-producer, and/or a co-marketer (Storbacka and Lehtinen 2001).

While value can be created at various points in the value chain, we focus on the New Product Development (NPD) stage here. In fact, studying the approaches companies have developed to integrate their customers into the innovation process is one of the top research priorities of the Marketing Science Institute (2008). Our position is that when customers are engaged at the new product development stage, both the firm and the consumers can reap benefits in terms of enhanced value delivered by the firm, as the integration of consumers helps infuse their preferences in the NPD process and increases their preference for the product, brand, and the firm.

Traditional marketing research methods often fall short of gauging consumer preferences as evident by the high failure rates of consumer innovations and new products even when the product decisions are based on marketing research. The quantitative methods are often not adept at capturing what is unsaid, and the qualitative methods can be too laborious, complex, long drawn, and expensive. While the Internet offers possibilities for two way communication, consumers in general shy away from engaging with a firm unless the issue on hand is causing extreme agitation. Virtual communities and brand communities are advocated as a suitable platform to capture the voice of the customers (Sindhav 2004). Of lately, social networks and virtual communities have come together to form social media where these consumer voices can be harnessed.

Co-creation of value is not a new concept. However, until recently, it had been discussed and applied mostly in the business-to-business context. For example, the apple iPod allows developers to create applications for its mobile devices which increases the value derived from the device by the consumers. Since last decade or so, consumer co-creation has attracted increasing attention. In 2004, Prahalad and Ramaswamy described it as "the next practice in value creation" (p. 5). They argued that value creation is shifting from being a product-centric concept to being a consumer interaction-centric concept, and the "interaction between the firm and the consumer is becoming the locus of value creation" (p. 5). The co-creation of value implicitly points to the contextualized nature of marketing: that the value created has less to do with what is embedded in a product, and more to do with the interaction of the firm with the consumer.

Value Co-creation and the Emergence of Social Media
The first phase of the modern Internet (i.e., post-1992) facilitated company-to-consumer communication, aiding the interactions between the firm and its consumers. The co-creation of value was greatly enhanced primarily through interactivity and personalization. For example, the Dell Computers distinguished itself with creating personalized systems for the customers, letting them create the combination that served their purpose the best. The airlines started letting the consumers choose their own itinerary, seats, and meal preferences, and even let them make changes in some instances.

The value creation through the dyad of company-consumer interaction was supplemented by consumer-to-consumer interactions taking place at various newsgroups and forums, also known as virtual communities. These social gatherings aggregate around an activity (e.g., videography), a product (e.g., prosumer camcorders) or a brand (e.g., Canon). Now the value co-creation is being enhanced by consumer interaction on the social media platforms. The term *social media* is more inclusive than the term virtual community, as it includes both virtual community and social networking platforms. It is important to draw a distinction between *virtual community* and *social networking*, the two components of social media. Social networking platforms such as the *facebook, twitter, linkedin,* or *youtube* are structurally different from these virtual communities in that unlike the virtual communities, the focal point is self, i.e., an individual.

For an individual, their social graph on these social networking sites mimic their offline relationship network. Besides the familiar nod-and-connection structure, the social networking sites can also have a feature such as a "fan page", making it possible to create a virtual community on the social network. Thus, social network can contain a virtual community, and together, both constitute social media. The term social media also represents the evolution of how marketing communication is conducted (see Table 1). One, because the members already know the fellow members on the social media, there is already a pre-established trust, people feel more engaged, at ease and accountable compared to being in a virtual community where they are likely to be anonymous (Shih 2009). In addition, we contend that since the members of the social media network imitate offline relationships, they are likely to meet offline, creating opportunities for further interaction and conversations.

The "rich media" available during only the face to face meeting can enhance the effectiveness of the communication. Further, activities such as product display, demonstration, and explanation are more amenable to an offline encounter, more likely to happen in social networking rather than a virtual community setting. Since the social media platforms are centered around an individual, they follow the lead of Prahalad and Ramaswamy (2004) that "the information infrastructure must be centered on the consumer and encourage active participation in all aspects of the co-creation experience" (p. 11). There is a confluence of the roles of the consumer and company through the social networking platforms. The social filtering is provided by one's connections in the network as they refer to their interface with various companies, products, brands, and purchase- and consumption-related experiences. As the *facebook* founder Mark Zuckerberg recently mentioned, the web is defaulting to social. It is important to explore the linkages between co-creation and social media because increasingly, the value creation is materializing at the consumer-company interface as it happens on various social media platforms.

The Social Media and Value Co-creation in New Product Development
Innovation is a critical ingredient especially for a firm seeking growth and above normal returns. Innovation can happen in manufacturing processes, management processes, and in products. We confine ourselves here to product innovation for the sake of brevity. While the ideas fuelling innovation can and should come from multiple stakeholders, ideas coming from consumers underline the practice of market orientation. Consumers gather on social platforms for fulfilling the need of social connections. Their delight or frustration with products, brands, and firms often gets expressed in online forums in the natural course of conversation ("My HP laptop seems fried. The only thing I am seeing is a black screen with a strange back glow"). Friends and family often chime in with their own experience, comments, suggestions, work around solutions, refutation, and advice ("Probably the LCD display is acting up. Try hooking up an external monitor and see if it works"). The conversation gets recorded and the thread involving text, pictures, and sometime video evolves around the topic. Many such threads in various homogenous groups are searchable, thanks to the logics capability of the computer. A trend can be discerned about the consumer frustration with a specific product feature or a recurring problem. As is the common knowledge, consumer complaints are the fertile source for the ideas pertaining to product improvements and innovations.

Co-creation at the product innovation stage is discussed under the hubris of *customer knowledge management* (Gibber et al 2002 p. 460), *communities of creation* (Rowley et al 2007), and the *wisdom of crowds* (Surowiecki 2004) among other phrases. The competence of consumer is recognized and consumers are encouraged to share it with the company and be a partner in the co-creation of value. Empirical studies have shown that consumers can be a source of valuable and pragmatic ideas, and often outsmart the product design specialists in originality of ideas (e.g., Kristensson et al 2004).

The literature on consumer communities have been vocal in describing how new products and innovations spread through online word of mouth (e.g., Dholakia et al, 2004).
Further, these communities are also considered to be active participants in the new product development process (e.g., Pitta and Fowler 2007). Nambisan (2002) argued that the participation of these communities in new product development could be facilitated by thoughtful design of virtual environments that foster open dialogues and exchange of ideas. Rowley et al (2007) provide a description of one consumer community that centered around kite flying, and the way the community members helped create a new product by contributing their ideas. We contend that the consumers can gainfully be engaged at two main stages of new product development: idea generation (ideation) and product development (prototyping). The benefits of engaging consumers in NPD are obvious: the consumers are more likely to become product evangelist when they help create the product. Further, integrating consumers in NPD signals to the vibrant and consumer-centric culture of the firm.

Social Media and Ideation

The idea generation for the new product development can happen two ways: passive and active. In the passive mode, one can scan the conversations for unearthing consumer ideas expressed in various contexts. Almost all social platforms allow a search function to facilitate this process. For example, one can scan Twitter to bring up tweets containing a specific key word such as "goat cheese" to examine how consumers perceive and use that product.

In the active mode, a firm can use the community of consumers as a source of new ideas. In practice, companies are using consumers more for ideas related to marketing communication (e.g., creating a new advertising campaign on *youtube*) than genuine product creation. Even within the domain of product-related ideas, campaigns of creating aesthetics and designs are more common than innovations geared at creating a product to be developed fundamentally for its functional value. For example, the Swarovski crystal company of Austria ran a campaign wherein consumers were invited to design a watch. The community members created the designs, and the fellow members evaluated them. Based on the community evaluations plus the expert evaluations provided by a panel of professional designers, winners were chosen in different categories and were rewarded with cash or vouchers.

Proctor and Gamble and other consumer firms have taken initiative to incorporate consumers at the ideation stage. However, most organizations are not set up to harvest the consumer ideas. Partly this can be attributed to two realities: one, the new product development is relatively a lengthy and complex process, needing a good deal of managerial talent to keep all sub-processes on track. Adding external stakeholders such as consumers only adds to the complexity. Two, in most organizations, the new product development is a political process, which requires a product champion to see the process through to convert an abstract idea into a concrete product. Consumers, being outsiders to an organization, cannot champion their ideas, therefore, an innovation based purely on a consumer idea is still a rarity. One example is the lock developed by *Staples* that uses not numbers, but letters so that consumers can combine them to create words (easier to remember than numbers) as a secret code to unlock it. This product was developed on the basis of a winning idea submitted by a consumer. As companies become more comfortable with the practice of harnessing consumer intelligence for developing new products, we will see more products like this offered in the market.

It is important to understand the processes that drive the consumer participation in the idea generation stage of the new product development process. We propose that idea generation from the consumer community comes about through three processes: *social validation, social information,* and *social inspiration.* Social validation is the process of validating one's ties with the community and the specific community members. One way to demonstrate and strengthen one's ties with the community is to contribute to the common cause of the collective. If the community goal is to generate ideas, contributing to that goal becomes a way to strengthen one's ties with the community.

Social information process also contributes to a member's willingness to generate ideas. Information may be a crucial resource needed to generate new ideas. The information shared on the community platform becomes available to all for now and to be retrieved later. The members can fill the information gap to help further the ideation process. Moreover, a bit of information may be of less value on its own. However, when combined with another bit of information, it may become valuable in, say, generating a new idea.

Shih (2009) suggests that innovative ideas often materialize with the mechanism of social inspiration – a bit of information contained in one piece of communication is instrumental in giving birth to another idea in some other reader's mind that would not have existed otherwise. This catalytic mechanism proves productive when the network members are driven by their affinity to each other in generating and contributing ideas, rather than forced to generate idea as it often happens in a traditional focus groups. A contribution made by one member may kindle the memory of another member to unearth a meme that when fully formed, may become a valuable idea for innovation.

Rewards provide a special kind of inspiration to take part in the idea generation process. However, Ernst et al (2008) found that while rewards increase the likelihood that members will submit ideas, the quality of ideas go down. One way to increase consumer contribution at the ideation stage is to provide seed ideas in the form of examples, or providing a few open ended questions. This helps stir the idea generation process through inspiration. The community members, through constant conversations, make the new idea generation possible through social validation, social information, and social inspiration processes. It is worth noting that the social conversation is not limited to consumers as companies can actively support their employees to have an internal network. The external networks of consumers or internal networks of employees can be useful in spotting problems and generating effective solutions often embodied as new products.

Social Media and Prototyping
Prototyping or the development and testing of product versions until the product is finalized, is usually a secretive process, therefore, external to even most employees who are not part of the product development process. However, digital products, including software routinely go through alpha (with employees) and beta (with customers) testing. However, in other product categories, to open this process up to anonymous external stakeholders such as consumers is not a common practice.

A special segment of consumers, lead users, serve well for beta testing. They are intrinsically motivated to harness the power of new ideas. They often have a high level of comfort with technology, embrace uncertainty, are risk takers, and often dissatisfied with the current product use experience. They also have an evangelical stance towards new ideas offering significant enhancement in the user experience. Because of their bias towards trying out new ideas, they are more likely to self select themselves to be part of the consumer community.

On social media sites, friends and followers gather around them to benefit from their expertise in a particular area of technology. For example, the founder of red.com has a mission to develop a digital video camera for cinematographers that provides the same or better resolution than the traditional film based cameras at a price that an individual independent filmmaker can afford to pay. There is a devoted community of independent film makers on red.com and the owner of the site frequently interacts directly with the community members. The product development process is very transparent. The new announcements of product feature and other issues are routinely accompanied with "everything, including the product features and the deadline, is likely to change". This close knit community have several lead users that act as an integral part of the prototyping and feedback process.

Firms with global operations often use social media applications geared towards employees for product development, testing and feedback. For example, IBM and McKinsey have internal knowledge database created documenting the past projects. This is now taken a step further by creating internal social networks of employees so that the employees can collaborate with their colleagues from across the world, even if they have never met in person. The social networking platforms such as *Yammer* are aimed at replacing email as a primary corporate communication media with some form of social networking platform. Alpha testing of products can be facilitated by community of employees that gathers around social platforms. The employees not only help out fellow employees in product development, but also showcase their expertise on a community platform, building their social capital in the process and boosting their chances for furthering their careers (Shih 2009).

Social Media in Emerging Markets and Consumer Co-creation
The emerging markets feature prominently in the use of social media, therefore, it is relevant to understand the role of social media in co-creation of value in emerging economies. In India, blogs are probably the oldest form of social media, recently completing a decade. However, these and other forms of social media have mostly remained an urban youth niche, according to 20:20 Web Tech, a market research firm in India.

The relatively low penetration of the social media in India is tied to several factors. One, the Internet itself is still accessed by barely 5% of the population in India at about 60 million users (livemint.com, 2009). Since social media implies constant online presence and conversation, the wider adoption and more frequent use of the Internet is a precondition for social media to be part of daily life in India. Two, in countries like India and China, permission-based culture exists. That means people do not necessarily feel comfortable expressing themselves freely in the public domain through blogs, tweets, or on the facebook. Three, most companies still do not have clear cut rules about the appropriateness for the employees to express themselves on social media platforms, creating uncertainty in the minds of those employees who want to take the initiative.

This is not surprising since most firms in India still consider social media as just another outlet to get their name out and club it together with other advertising outlets such as display ads. The firms in the marketing communication business have taken it upon themselves to teach their clients about the possibilities of the social media platforms and particularly the multinational firms have added social media marketing in their portfolio. For example, tweets from individual consumers are being responded to by firms which often result in sales and provision of customer service. According to a 2009 study by Digital Media Outlook, firms in India spend about the same percentage, 13%, of their online ad budget on social media as they do on display ads, and the trend is to increasingly earmark a bigger chunk of the budget for the social media.

In India, crowdsourcing of ideas is facilitated by upstarts such as Lattice Purple, who have launched the site yousuggest.us for letting firms collect ideas from consumers. Myidea.com is another site devoted to political marketing, collecting customer ideas related to politics. These social platforms are modeled after the similar global efforts such as innocentive.com. Nonprofit firms have also caught up with the trend. The role played by Twitter for monitoring Bombay monsoon and the terrorist attack on the Taj Hotel and organizing help for Pakistan earthquake is well known. Since cricket and bollywood are focal points of most social media in India, they can take lead in harnessing the power of social media in co-creation of value with consumers. Much of the target audience of the IPL is likely to be using social media, therefore, certain promotions, announcements, contests such as fantasy teams or designing logos, t-shirt designs and other marketing communications can be channeled using social media. Bollywood can think of involving consumers in creating posters, trailers, or parody for their upcoming projects as a start. Letting consumers write a story or a screenplay as a community effort can also be considered as text lands itself easily to the shared, digital nature of social media.

Managerial Implications and Future Research

The incorporation of social media in NPD is a relatively new idea, though consumers have been part of the NPD in various forms since long. Philosophically, implementation of tools allowing consumers to be part of the NPD is much closer to the consumer as an equal partner premise purported by Vargo and Lusch (2004). While the proposition of taking advantage of the spontaneous gathering of consumes for NPD is an attractive idea, it is neither easy nor cheap to implement it well. Tactically, this initiative can save cost in terms of reduced costs of marketing research and product failure. While eventually there may be cost saving, the front-end costs could be significant.

Further, the process of incorporating consumers in NPD should be part of the larger initiative of incorporating consumers in the co-creation of value in general. Therefore, this should be part of a larger initiative of culture change within a corporation. The firm might get an added benefit of being perceived as consumer centric and technology savvy. Consumer integration at the stages of commercialization of the product, evaluation of the campaign, and customer service should be focus of the future research. Many of the marketing though leaders have provided sketch of the role of social media in marketing in

general(e.g., Zarrella 2008), which should overlap with the scope of the suggested research domains.

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Appendix

Table 1

Traditional Marketing	Value Co-creation	Co-creation with Social Media
One-way	Two-way	Many-way
Firm to consumer	Consumer to firm	Consumer to consumer and firm
Controlled by firm	Controlled by both the consumer and the firm	Controlled by the community
Consumers are "prey"	Consumer can "hunt"	Consumers can filter out
Choice=buy/not buy	Consumer wants to/ can impose her view of choice	Choice is shaped by the community input as well

*First Two Columns adapted from Prahalad and Ramaswamy (2004)