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Invited commentary

Customer value propositions: Value co-creation

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1. Introduction

In a very insightful paper, Eggert, Ulaga, Frow, and Payne (2018) provide the historical evolution of customer value from value in exchange to value in use, and how this has dramatically changed the nature and scope of customer value propositions. In this paper, I will further elaborate on who creates value (the marketer or the customer or both) in a B2B context. In particular, I will focus on customer value propositions when value is cocreated between the supplier and the customer. This paper will conclude that co-creation of value is more prevalent in all B2B markets and almost universally inherent in B2B services. Furthermore, since most customer value propositions are from the marketer's perspective, I will discuss new value propositions from the joint perspectives of both the sellers and the buyers.

2. Who creates customer value?

In the traditional literature, the presumption is that it is the marketer who creates or should create value for the customer. The only debate is whether customer value is created through exchange (market transaction) or by usage after the product or service is bought by the customer.

In Fig. 1, I broaden the scope of who creates customer value.

2.1. When the customer creates value

First of all, customers create value by creating the product or service in-house. In fact, in the B2B market, it has been very common for the industrial conglomerates, especially in Japan, to have most value creation in-house through subsidiaries and captive suppliers. The best example, often cited, is the Mitsubishi group with more than 200 subsidiaries and more than 400 captive suppliers. In the U.S., there were also similar industrial groups including General Electric, General Motors, and IBM.

In the industrial age, vertical integration was the driving force and transfer pricing was key to financial outcomes including minimization of corporate taxes. Also, monopolies were created by establishing trusts with owned subsidiaries. This led to the creation of antitrust laws and the breakup of the Standard Oil Company in the early 1900s. These laws are still in place and were exercised in recent times against the Bell System, IBM, Microsoft, and Google.

Most value creation was achieved by value added manufacturing of industrial and agricultural raw materials. Internal customers were common throughout the value chain from procurement of raw materials to delivering finished products to external customers. The customer value proposition was conspicuously absent because there was no formal or conscious mindset that conglomerate's subsidiaries were all customers of each other. Today, this is referred to as internal marketing.

Internal branding and marketing have become increasingly important for the supporting staff functions such as human resources, procurement, legal, and IT services. First and foremost, it requires a change in mindset to treat internal users as customers and not as employees or peers. Once this is achieved and performance measures such as 360-degree feedback and employee satisfaction are incorporated in the reward and recognition system, it becomes important to develop and communicate customer value propositions to internal customers. The most common value propositions are responsiveness, 24/7 access, and the internal ease of doing business. In other words, less bureaucracy, more market orientation, and customer centricity are the basis for internal support services.

The focus is on the user and not the payer or the buyer of internal services. While internal sourcing can be more effective, many companies today believe that unless it is a strategic asset or resource, outsourcing may be more efficient and effective. The focus is on cost and head count reduction through third party vendors and contractors.

2.2. The marketer as the value creator

Historically, the essence of marketing has been the market transaction between the buyer and the seller in organized markets such as bazaars, shopping centers, and the online marketplaces. In the B2B context, the distributors often represent the marketplace. Examples include W. W. Granger and Graybar in the industrial sector. In most enterprise markets, and especially in goods markets, the producer is the marketer and its sales force sells directly to customers. Examples include IBM, Lucent, Microsoft, and Cisco Systems. They also include GE Energy, Siemens, and Thyssen-Krupp of Germany.

Value in exchange is the dominant logic. However, in most situations there are at least three customers in an enterprise: the buyer (procurement), the payer (finance), and the user (operators). The

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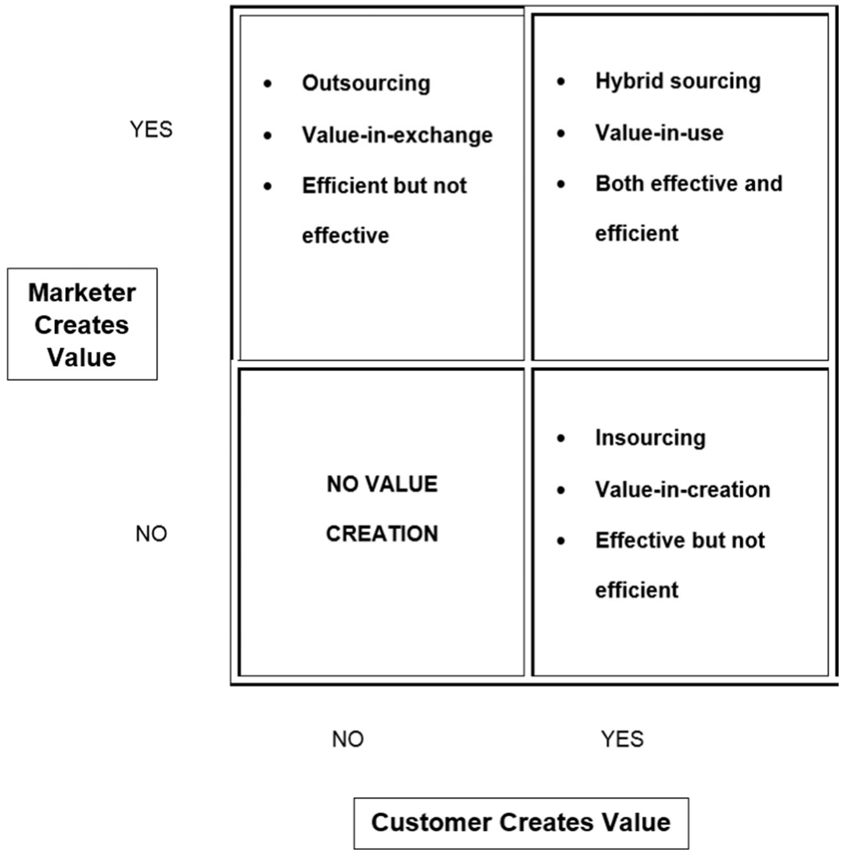

Fig. 1. Who creates Value?
The customer and the marketer can either solely or cooperatively provide value.

traditional relationship is between the supplier's sales organization and the customer's procurement organization. The value proposition for the procurement (buyer) department is the negotiated price and the delivery. It may also include ease of doing business and post-sales support. However, the value proposition for the payer is with respect to terms of payment and the financing of capital goods such as machinery in the factory. Finally, the customer value proposition for the user is performance delivered through quality, mass customization, differentiation, and innovation.

2.3. Value co-creation

Finally, value co-creation arises when both the supplier and the customer engage in an interdependent relationship. Each party contributes resources which are unique and complementary to value creation. Without cooperation by both parties, it is not possible to create value. Examples include hardware and software capabilities in cell phones, networks, and apps.

In general, value co-creation is mostly prevalent in services including after sales services such as repairs and maintenance. In services, mutual cooperation and commitment of resources by both the supplier and the customer are necessary to achieve both efficiency and effectiveness. The focus shifts from the product offering to process integration between the two organizations. These processes are not just limited to supply chain operations but also involve information technology, legal contracts, and payment systems.

Unlike in value creation (make it) or in value exchange (sourcing), value co-creation is both more complex and at the same time more versatile in scope. Diverse objectives can be achieved ranging from quality improvement (Kanban) to cost reduction to reducing carbon footprint to serving the society. In other words, value co-creation is a non-zero sum game (win-win), unlike value in exchange which tends to be a zero sum game (win-lose) between the supplier and the customer.

The fundamental axiom in value co-creation is to enhance the wellbeing of the ultimate consumers (end users) and their ecosystems such as the community and the planet. It is focused on a win-win-win outcome between the supplier, the customer, and the ultimate user as a stakeholder.

Co-creation of value is analogous to both parents working together to raise a child and, if necessary, making short-term sacrifices through strategic investments in the child's college education as a long-term outcome. Just as it takes a village to raise a child, so does value co-creation for the wellbeing of the end users and their ecosystems.

Since value co-creation requires continuous cooperation and commitment between two or more entities, it is subject to externalities such as a merger of one of the partners or a change in leadership. It requires more than legally binding contracts between the supplier and the customer to sustain value co-creation.

3. Types of value co-creation

In Fig. 2, I have identified seven types of value co-creation. Each type has a unique customer value proposition. The rest of the paper describes each type of value co-creation and its unique customer value proposition.

3.1. Growing the Customer's business

The most common type of value co-creation is growing the customer's business or what is referred to as Customer Business Development (CBD). The best examples are typically cooperation and collaboration between the manufacturer and the retailer. While in recent years, there

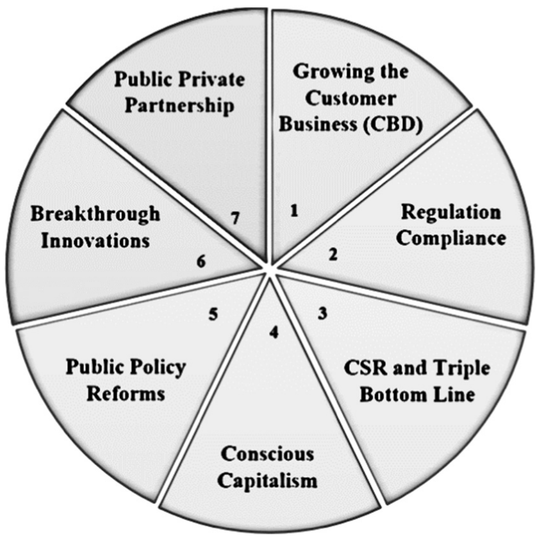

Fig. 2. Types of Value Co-creation.
Seven different types of value co-creation with a unique value proposition to the customer.

is a large amount of research on the Procter and Gamble (P&G) partnership with Walmart, I find the relationship between Whirlpool and Sears in appliances (Kenmore brand) more intriguing. It has survived several major disruptions including World War II and more recently significant changes in each organization. Whirlpool has expanded globally and it is facing more intense competition from global players such as Electrolux from Europe and Haier from China. At the same time, Sears has gone through a significant restructuring of its business including bankruptcy protection.

Another example is Coca-Cola's long-term relationship with McDonald's in growing the latter's business on a global basis. Of course, most of the manufacturer-retailer case studies on value co-creation need to include the power of online retailers such as Amazon and Alibaba. Growing the customer's business requires the supplier to get engaged with more downstream activities in customer locations, and for the customer to engage in more upstream activities in the supplier's organizations. This can be pursued to enhance end user experience; bundle offerings and it can be used for joint advertising and promotion.

3.2. Regulatory compliance

A less strategic and more necessary value co-creation is compliance with different regulations. These range from product and worker safety to environmental compliance to local regulations. Value co-creation for regulatory compliance is most common in the chemicals industry due to hazardous raw materials and safety concerns as the B2B customers add value in order to convert it to specific applications such as agricultural or pharmaceutical or semiconductor chemicals.

Value co-creation is also more prevalent in the aerospace, the automotive, and the appliances industries. The recent problems encountered by Boeing's 737 Max airplanes clearly demonstrate the need for value co-creation for regulatory compliance by both the aircraft makers and the airlines to ensure safety for their passengers.

Value co-creation for regulatory compliance is virtually prevalent for all industries where there are economic, personal safety, and environmental risks inherent in making and marketing the product or the service. Not surprisingly, industries such as banking and financial services, including wealth management as well as utilities, are highly regulated to protect the consumers from the economic risks. The most common customer value proposition in regulatory compliance is safety and protection against risks.

3.3. CSR and the triple bottom line

The third area of value co-creation is collaborating with customers with respect to corporate social responsibility (CSR) and the triple bottom line (profit, people, and planet) millennium goals of the United Nations. While CSR has been rooted in society in general and family owned businesses in particular (for example, the Nobel prizes, the Pulitzer prizes, and the Ford, the Rockefeller, the MacArthur, and the Gates Foundations), it is increasingly manifesting in value co-creation between the supplier and the customer. Examples include plastic recycling, water conservation, and reduction of carbon emissions. (Apte & Sheth, 2017).

In several cases, value co-creation is nudged by either a government entity (UNESCO, WHO, and UNIDO for example) or by several global NGOs such as CARE, Habitat for Humanity, Green Peace, Red Cross, and the Red Crescent. The fundamental value proposition is "doing well by doing good". A recent interesting experiment is the mandatory 2% tax on net income on all companies in India to invest in well-defined CSR activities such as employee wellness, education, or poverty reduction. This has to be reported in the annual report to shareholders, and therefore, all board members are personally liable for their fiduciary failures similar to financial reporting.

3.4. Conscious capitalism

Since the Great Recession of 2008, there has been a significant discussion about the role of capitalism in serving society. There seems to be a global awakening that growing income and wealth disparity are likely to be self-destructive to capitalism. The role of business is not just business as articulated by Milton Friedman. It has to create value for all stakeholders (employees, community, suppliers, and customers) and not just for shareholders. At a recent business roundtable meeting in New York, more than 200 CEOs in a joint declaration, committed themselves to go beyond shareholder value creation and to create value for all stakeholders.

Sisodia, Wolfe, and Sheth (2007), in their book, Firms of Endearment, based on an in-depth research on 30 companies, documented that companies driven by purpose are actually more profitable and enduring than companies that are only driven by shareholder value. That book struck a chord and has led to a conscious capitalism movement with more than 30 chapters all over the world. John Mackey, founder of Whole Foods, and Raj Sisodia, are the cofounders of this movement (Mackey & Sisodia, 2014).

Value co-creation between suppliers and customers for the happiness and wellbeing of end consumers has become the core purpose of business. Conscious capitalism does not endorse CSR. In fact, it opposes it. Instead, it focuses on the company's own culture, processes, and activities to be measured by indices other than shareholder value. These include creating value for suppliers, employees, customers, and the community at large while still delivering the financial performance expected by investors. The customer value proposition in co-creation needs to be the solution and not the problem for society.

3.5. Policy reforms

Recently, companies have been increasingly concerned about global trends in populism and using democracy as a way to topple unpopular monarchs, dictators, and elected officials. Recent elections in France and Ukraine are good examples for that. Equally, the mass protests in Hong Kong, France, Sudan, Libya, and Venezuela demonstrate this development.

Policy reforms focusing on either regulating an industry or reducing friction in the marketplace requires value co-creation between industry rivals and their suppliers. Examples include social media, autonomous vehicles, drones, and other new disruptive technologies. Further examples are to create new markets by mandating consumption that helps the end users or prohibition of products and services that harm the end users. Using seatbelts, subsidizing electric vehicles, and public funding of health care and education are examples for creating new markets. Banning cigarette smoking in public places, reducing opioid dependency, preventing suicides, and reducing gun violence, all require cooperation and collaboration between the suppliers and the customers to encourage policy makers for future survival or revival of the industry.

Finally, there are societal issues such as civil rights of minorities and the LGBT community (as well as religious communities such as Jewish, Muslim, Hindu, and other faith-based minorities) that require cocreation between the marketer and the customer. By definition, cooperation between suppliers and customers is essential in policy reforms. Furthermore, the customer value proposition is corporate engagement with societal problems. This is often referred to as Cause Related Marketing (Varadarajan & Menon, 1988).

3.6. Public – Private partnership

A significant opportunity for value co-creation is the growing popularity of public private partnership (PPP) between the business and the government. These include privatized parks, prisons, and highways. They also include major infrastructure projects especially in emerging markets. The most ambitious project is the multi trillion-dollar Belt and Road Initiative (BRI) initiated by China for developing the new silk roads by land and by sea.

There are also less ambitious PPP's such as municipal bonds for airports, schools and colleges, or the state lottery programs to benefit higher education. Value co-creation is inherent in these cases, not only between the supplier and the customer, but also stakeholders including sovereign funds, private equity, and state enterprises. For example, in many emerging markets such as Brazil and India, higher education by the state is augmented by private universities with regulated autonomy. The customer value proposition in PPP tends to be the government as an enabler of economic development.

3.7. Breakthrough innovations

Collaborative value creation seems to have inherent advantages in developing breakthrough inventions. Today, we are witnessing breakthrough discoveries in biological sciences and in space programs. The discovery of the DNA (cell structure) and the internet has generated major technological breakthroughs which could have not been imagined twenty to thirty years earlier. GPS, ecommerce, targeted medicine for cancer, and social media are consequences of breakthrough inventions. The recent emphasis on STEM (science, technology, engineering, and mathematics) is generating major new possibilities. Artificial intelligence, blockchain, and virtual reality are transforming businesses and society in a way which is difficult to predict.

Very few of these breakthrough innovations would have occurred without value co-creation between the government and the private sector. Most of them are mission-driven or moonshot programs and, therefore, not subject to shareholder value. The customer value proposition for breakthrough innovations is, therefore, marketing the moonshots. Elon Musk and Richard Branson are typical examples of entrepreneurs entering the private space programs in collaboration with NASA and the U.S. Defense Department.

4. Concluding remarks

Value creation is fundamental to capitalism. Customer value can be created by customers doing it themselves (insourcing), which is common in B2B markets. While this is very effective, it may not be very efficient due to internal turf issues, transfer pricing problems, and sharing the surplus generated by value creation among different internal business units.

Value in exchange is created when the customer outsources value creation activities to independent contractors and suppliers. The discipline of competitive pricing in unrestricted markets encourages cost efficiency in the supplier industry. Constructive destruction ensures that companies which cannot create value are doomed to go out of business. However, while there may be market efficiency, this may also result in market failures or partial failures with respect to neglecting and serving certain segments of society because of affordability and accessibility issues.

Finally, value co-creation arises when both suppliers and customers cooperate and allocate complementary resources and capabilities which can be informal or formal. Value co-creation broadens the scope beyond immediate quality, price, and service improvements to the end users.

In this paper, I have identified seven types of value co-creation which are often more strategic for the future survival and growth of customer and supplier companies. They include growing the customer business, regulation compliance, CSR and triple bottom line, public policy reforms, conscious capitalism, public private partnerships, and breakthrough innovations. Each type of value co-creation requires a different and often a unique customer value proposition. Most of them go beyond immediate profit seeking purposes of business.

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