Value co-creation approach in B2B-service

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Korhonen, Karri

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Karri Korhonen
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Karri Korhonen

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This thesis examines the value co-creation approach in B2B-service. The objective of the research is to identify co-creation activities and roles in B-to-B service relationships and to find out what kind of challenges companies may face when changing and developing the business model towards co-creation approach.

The purpose is to analyze the current state of the case company in terms of co-creation of value in service. This will give the company view of their current state of the business and also guidelines to the change towards more customer centric value co-creation approach.

The thesis includes a theory section and an empirical section that deals with the case company. In the theoretical background the service business as an approach is presented. The purpose is to clarify the development of the service business and change of customers' role in service process moving from being passive audience to involving the service process as an active participant. Second the paradigm service-dominant logic is presented. In this section the differences between the traditional goods-dominant logic and service-dominant logic are clarified. Last part in the theoretical framework is defining value co-creation in services as it is the locus of the research part. The roles of supplier and customer in value co-creation are defined and presented.

In the research part the case study and its theoretical background and interviews are presented. The interview themes and questions are presented and the process of interviewing and the data analyzing is defined. The tool of co-creation continuum as the foundation of data analysis is presented.

In results the interview data is analyzed and the results are presented. Results are divided under three different sections of pre-defined co-creation categories. Each section is analyzed and examples are given. Lastly, conclusions are drawn, proposals for development areas based on the key findings are presented, and the benefits of the thesis are concluded.

Content

1   Introduction

1.1   Background

The service business today is facing major changes that will bring challenges to service companies. The competition is becoming harder and the most important players in the market are constantly looking for new solutions and services to their customers. This causes lot of pressure to companies to develop their operations to keep up with the competition.

The global business environment has changed and companies are less able to differentiate themselves. The great product variety does not bring automatically the competitive edge fro companies. (Prahalad & Ramaswamy 2004). Therefore companies are developing their business models and offerings in order to create value not only from physical goods but also services, knowledge and relationships. In these concepts the service offering is at the core of the value proposition and exchange whereas physical goods are seen as appliances enabling companies to provide services (Vargo & Lusch 2004).

A service dominant approach of marketing is taking place from the traditional goods dominant view. The approach is moving from tangible output and discrete transactions to intangible exchange processes, and relationships. Competences like knowledge and skills form the service process through different organizational actions, e.g. processes. (Vargo & Lusch 2004)

Customers´ role has also changed and they cannot be seen only as a recipient of company´s output. The organizational boundaries are expanded and customers operate as temporary participants inside the organizations (Storbacka 1994). They bring in resources to the service production process and also participate actively in the service production. Customers have more power to influence the service production process and power to demand more from it. Therefore customers should be seen as an integrated part of the organization. (Ojasalo 2003).

In this new business environment customers are looking for service value, total solutions and memorable experiences. Customers can choose from a greater variety of products and services than ever before but this is not guaranteeing the customer satisfaction. The meaning of value and the process of value creation are rapidly shifting from a product- and company-centric view to personalized customer experiences. (Prahalad & Ramaswamy 2004)

It is a major challenge for companies to continuously offer improved or totally new services, to remain one step ahead of the competition and at the same time comply exactly with customers ´ needs and expectations (Edvardsson et al. 2006). However adding value through services and getting new or changed services into market has become an important

competitive advantage. Launching a new or changed service might offer the company a significant lead over the competition and provide also many financial benefits, such as the possibility to charge higher prices.

In service companies value is usually produced with the customer as customers often participate in production of services. They provide resources needed in the production process and the output of the process is dependent on customer's input. However customers are not in charge of the service production process as the company is defining the way how customers are involved. (Ojasalo, 2011)

Like mentioned earlier the value for customer is coming more from customer experiences. This means that the interaction between the company and the customer is becoming the locus of value creation and value extraction. During these interactions with customers companies can have access to the information on customer requirement, needs, and user experiences. Dialogue between company and its customers, access to the customer information, transparency in company´s processes, and understanding of risk-benefits are central in value creation. (Prahalad & Ramaswamy 2004)

Companies can get deep customer insights by cooperating and spending time with their customer (Flint 2002). This customer involvement can also be used in service design process. Companies should actively involve customers early in the service design process as a appropriate forward-looking service design requires that deep long-term development partnership is built with customers. Informed, net-worked, empowered, and active customers are increasingly co-creating value with the company. (Prahalad & Ramaswamy 2004)

In order to offer superior service performance a strong customer orientation is in the fundamental role (de Brentani 1995). This means understanding customer latent and conscious needs as failing with this or ignoring these needs will easily lead to poor service quality (Voss 1992). If companies succeed to understand customers latent needs and what creates value for them it may offer a high potential in terms of differentiation and competitiveness. Narver et al. (2004) have defined latent needs as "opportunities for customer value of which the customer is unaware".

However, it is not that easy to have access to customer information, understand customer´s needs and especially meeting the latent needs if companies are using only structured research methods (Miettinen 2009). Gaining deeper customer knowledge and customer insight through customer involment is crucial in innovative thinking and development of breakthrough services. If customer is used only as a source of information, it may result only in minor improvements (Ojasalo 2009). When companies use customers as active partners and

co-designers in service development it may help managers to access valuable information that customers would not otherwise express. As customers tend to have troubles imagining services that they have not experienced it is more difficult to find ideas leading to new service innovations by using traditional methods, such as surveys (e.g. Miettinen 2009).

In everyday business value is created by customers in their practices and, therefore, a thorough understanding of people's, every day practices has to be the starting point for developing a customer-centric offering based on a service logic (Grönroos 2008). The meaning of value and the value creation process are rapidly shifting from this kind of a supplier company-centric view to customer experiences and joint value co-creation where customers engage in the process of both defining and creating value (Ojasalo, 2011).

Companies need more than ever innovations to serve their customers increasing demands and needs. Traditional attribute-based views of innovation might not be enough as this perspective emphasizes an artificial distinction between product and service innovations. Companies should focus on a more customer-centric view of innovation rather than the traditional and limiting product-centric view. All innovation today should be seen as service-logic innovation. (Michel et al. 2008)

As described earlier companies are facing increasing competition and differentiating from competitors with products or services becomes more challenging. The value co-creation with customers can give companies the competitive edge.

This case study is part of the Tekes funded project "From co-production to co-creation". The research project aims to identifying co-production/co-creation activities and roles in B-to-B service relationships and to developing models and management tools for effective and efficient co-creation of services. In addition to creating new scientific knowledge, an important aim of the project is to develop service design methods and a virtual platform for co-creation to be applied in companies offering B-to-B services.

1.2 Objective of the thesis

The objective of the research is to identify co-creation activities and roles in B-to-B service relationships and to find out what kind of challenges companies may face when changing and developing the business model towards co-creation approach. The purpose is to analyze the current state of the case company in terms of co-creation of value in service. This will give the company view of their current state of the business and also guidelines to the change towards more customer centric value co-creation approach. The research question is "what kind of challenges companies may face when moving towards co-creation approach".

This case study focuses on one KIBS-company (Knowledge Intensive Business Services). The project starts by building sections for interview themes and questions as well as defining the final interview guideline during several workshops. In the case study company employees are interviewed and thereafter the interview data is carefully analyzed. The analysis is based on the criteria which was planned and built in workshops.

My responsibilities was among three other Master´s degree students and one PhD student to participate actively planning process of interviews and analysis, executing part of the interviews in this particular case company, fully analyze the interview data, and together with the project manager to present the results to the case company.

1.3 Main concepts

1.3.1 Service

According to Grönroos (2008) service is a value-supporting process, whereas goods are value-supporting resources. There are three different aspects that can be defined in concept of service: Service as an activity, service as a perspective on the customer's value creation, and service as a perspective on the provider's activities, i.e. business logic.

Service as an activity is a process where someone, for example a service company, does something to assist someone else, for example a customer, and his or her every day practices (activities or processes)(Grönroos 2008).

The second and third aspects of service are not related to the service activity but they are perspectives that can be applied as a foundation for customers' purchasing and consumption processes i.e customer service logic, and for organizations' business and marketing strategies. This approach can be defined as provider service logic (Grönroos 2008).

Vargo and Lusch (2006) uses the singular term "service" in Service-Dominant logic, indicating a process of doing something for someone, rather than the plural "services". Using term "services" implies more units of output and therefore indicating the Goods-Dominant logic approach. They also give a definition of service as follows: "The application of specialized competences (knowledge and skills), through deeds, processes, and performances for the benefit of another entity or the entity itself."

From customers point of view service means using and integrating resources so that it will create value themselves in their practices. Resources as goods, service activities, and information are supplier´s resources that customers are using in their self-service process. Customers integrate these supplier resources to other available resources such as their own skills. Therefore service means to be able to use resources provided in a value creating way. (Grönroos 2009)

Heinonen, Strandvik & al. (2010) state that from the customer's point of view service contains three types of elements with outcomes. These can be divided company´s internal activities, co-creation processes, and customer´s own activities. All of these elements

According to Helle (2010) service may be defined as a process of re-configuring the whole process of value creation, so that the process is optimized in terms of its relevant actors, asset availability, and asset costs.

Suppliers make value propositions for customers and aim to deliver offerings that integrate with the customers' various practices and processes. Therefore service can be defined as how offerings are put to use in ways that support the creation of value from customers. In this respect all companies are service businesses. (Grönroos, 2010)

1.3.2   Service-Dominant Logic

Service-Dominant Logic is a mindset for a unified understanding of the purpose and nature of organizations, markets and society developed originally by Steve Vargo and Robert Lusch. In the more traditional Goods-Dominant logic services are typically conceptualized as outputs that are characterized as intangible, heterogeneous, inseparable, and perishable. In other words services are what goods are not. The foundational proposition of S-D logic is that organizations, markets, and society are fundamentally concerned with exchange of service, which is defined as the applications of competences (knowledge and skills) for the benefit of another party. That means that service is exchanged for service. In that sense all companys

are service companys and all markets are centered on the exchange of service. Eventually all economies and societies are service based. (Vargo & Lusch 2004).

1.3.3 Customer value

Value creation is a process through which the user becomes better off in some respect or which increases the customers´ wellbeing. Grönroos (2008, 303) defines value for customers in the following way: "Value for customers means that after they have been assisted by a self-service process (cooking meal or withdrawing cash from an ATM) or a full-service process (eating out at a restaurant or withdrawing cash over the counter in a bank) they are or feel better off than before."

According to Grönroos (2008) sometimes the value that has been created can be measured in financial terms, for example through effects on revenues or wealth gained or through cost saving, but value always has an attitudinal component, such as trust, affection, comfort and easiness of use. Holbrook (1996) defines customer value as an "interactive relativistic preference experience", i.e. the argument is that experience defines what is valuable to a customer.

Value for a customer can be divided into three dimensions. First are effects on the customer's growth- and revenue-generating capacity which mean business growth opportunities, i.e. new markets, and better customer or customer segment penetration. Company can also benefit from higher margins through premium pricing. Second there are effects on the customer's cost level. These can include decrease of operative and administrative costs and therefore generation of higher margins. Finally supplier´s value creating support can affect the customer´s perceptions of the supplier such as increased trust in the supplier, increased commitment to the supplier, increased comfort in supplier interactions, and increased attraction of the supplier. (Grönroos, 2010)

1.3.4 Value Co-creation

The traditional view of value creation process has been that customers have not particular role in value creation. The perception of value creation is that it has happens inside companies through company´s own activities. Also company´s and customers roles in production and consumption are distinct. In this perspective the market is separate from the value creation process and it has no role in value creation. (Prahalad & Ramaswamy 2004)

Payne, Storbacka & Frow (2008) defines the customer's value creation process as a series of activities performed by the customer to achieve a particular goal. The amount of information, knowledge, skills and other competencies that customers can use affects the ability to achieve those goals. Suppliers can support their customers´ value creation by providing additional resources to their customers such as competencies or capabilities. Suppliers can also try to influence positively their customers´ processes so that customers could utilize all resources more efficiently and effectively.

Grönroos (2000) states that value for customers is created throughout the relationship by the customer, partly in interaction between the customer and the supplier or service provider. The focus is not on products but on the customers´ value-creating processes where value emerges for customers and is perceived by them.

In the traditional economics the core of the business is in the exchange of products and services between the company and the customer. Value extraction happens only in the interaction between the company and the customer. In the co-creation view, all points of interaction between the company and the customer are opportunities for both value creation and extraction. (Prahalad & Ramaswamy 2004)

In this thesis, value co-creation means intense collaboration between company and customers in every stage of strategic development as well new service development. Value is defined by customer and based on the customer experiences and perceptions. Value is created in interactions between company and its customers.

1.4   Stucture of the report

After the introduction, the theoretical background is presented. It will start from the service business as a approach. The purpose is to clarify the development of the service business and change of customers' role in service process moving from being passive audience to involving the service process as an active participant. Second the paradigm service-dominant logic is presented. In this section the differences between the traditional goods-dominant logic and service-dominant logic are clarified. S-D logic has a strong emphasis to the value co-creation and this approach is also introduced. Last part in the theoretical framework is defining value co-creation in services as it is the locus of the research part. The roles of supplier and customer in value co-creation are defined and presented.

In the last section of the theoretical background the three key elements of value co-creation in this case study are presented. They are value co-creation in; "Strategic thinking and business model", "Customer interactions and relationships", and "Service design processes".

In the research part the case study and its theoretical background and interviews are presented. This section explains the initial phase with workshops. Each workshop is presented and the outcomes are defined. The interview themes and questions are presented and the process of interviewing and the data analyzing is defined. The tool of co-creation continuum as the foundation of data analysis is presented.

In results the interview data is analyzed and the results are presented. Results are divided under three different sections of pre-defined co-creation categories. Each section is analyzed and examples are given.

Lastly, conclusions are drawn, proposals for development areas based on the key findings are presented, and the benefits of the thesis are concluded.

2   Service business - from buying to co-creation

To understand the present the past has to be understood as well. The development of service business includes deviations, variations, and parallel events that make it complex and difficult to overview. Next the development is presented in brief.

In 1970s-1990s the emphasis of service research was on the differences between goods and services. The perspective began to shift over the years toward a model where goods and service were intertwined and service considered as a perspective for any offering. In 1980s to present, relational approaches were brought to marketing embracing both goods and services and both business-to-customer and business-to-business (B2B) marketing. (Gummesson et al. 2010)

From 1990s to present, the internet, e-mail, and mobile communication have offered a new infrastructure and platform for commercial and social relationships. Service research has found e-service as a new object for research. It was initially embraced as a definite solution (i.e. the dot.com boom around the year 2000) but it soon got a more balanced role in service research. (Gummesson et al. 2010)

There has been a drastic change in the way customers as seen and treated from the company's perspective (see the Table 1.). Earlier they were seen as passive audience and

nowadays more as active players in cooperation the company. When the different key dimensions and time frame are observed simultaneously it can be seen that customers have been mainly seen as passive buyers since the 1970's to as far as the beginning of the new millennium whereas currently the view is more on the active player and especially on the value creation side. In other words this means that customers are seen to have a significant role in developing the company's performance on many different levels.

In 1970's to 1980's the managerial mind set put customers into more homogenous group i.e. the customer was considered to be as statistical fact predetermined by the company. As the time frame is shifted towards the 1990's the view is also changing into seeing the customers more individually and even seen as a person than just a statistic. This change is also clearly seen in the way companies interact with the customers; if in the 1970's the interaction was mainly traditional market research inquiries the interaction has become more cooperative and mutual as customers are seen as co-developers and this again leads to more profound communication in the current period of time. This can also be considered as a shift from one-way communication to active dialogue from both parties.

	Customers as a passive audience		Customers as active players	
	Persuading predetermined groups of buyers	Transacting with individual buyers	Lifetime bonds with individual customers	Customer as co-creators of value
Time frame	1970s, early 1980s	Late 1980s and early 1990s	1990s	Beyond 2000
Nature of business exchange and role of customer	Customers are seen as passive buyers with predetermined role of consumption.		Customers are part of the enhanced network; they co-create and extract business value. They are collaborators, co-developers, and competitors.	
Managerial mind-set	The customer is an average statistic, groups of buyers are predetermined by the company.	The customer is an individual statistic in a transaction.	The customer is a person; cultivate trust and relationship.	The customer is not only an individual but also part of an emergent social and cultural fabric.
Company´s interaction with customers, and development of products and services	Traditional market research and inquiries; products and services are created without much feedback.	Shift from selling to helping customers vie help desks, call centers, and customer service programs; identify problems from customers, then redesign products and services based on that feedback.	Providing for customers through observation of users; identify solutions from lead users, and reconfigure products and services based on deep understanding of customers.	Customers are co-developers of personalized experiences. Companies and lead customers have joint roles in education, shaping expectations, and co-creating market acceptance for products and services.
Purpose and flow of communication	Gain access to and target predetermined groups of buyers. One-way communication.	Database marketing; two-way communication.	Relationship marketing; two-way communication and access.	Active dialogue with customers to shape expectations and create buzz. Multilevel access and communication.

Table 1. The change and evolution of service business over time (Prahalad & Ramaswamy 2000)

2.1   Service-Dominant logic

Service-dominant (S-D) logic is a service-centered alternative to the traditional goods-centered paradigm for understanding economic exchange and value creation. S-D logic proposes an alternative perspective for the study of economic exchange and value-in-use than the Goods-Dominant logic that grew out of his restricted work on national wealth creation. This service-centered view suggests that market exchange is the process of parties using their specialized knowledge for each other's benefit – that is, for mutual service provision. (Vargo & Lusch 2004)

In the table 2 the main differences between G-D logic and S-D logic are presented.

Goods-dominant (G-D) logic	Service-dominant (S-D) logic
Tangible product – services are considered as aid to the production of goods	Skills and knowledge
Products (units of outputs)= operant resources (static, usually tangible, resources that must be acted upon to be useful)	Service (a process)= operant resources (dynamic resources such competences as skills and knowledge that capable of acting and producing effects in resources for the benefit of another party)
Customers as a target group	- Collaborating with customers & partners - Customer is an operant resource, a partner who co-creates the value with the company and promotes a market with philosophy - Customer is treated as endogenous
4P´s Products Promotion Price Place	4C´S Co-create service offering Co-create conversation & dialogue Co-create value proposition Co-create value network & processes
Competitive advantage are goods	Competitive advantage is knowledge creation & application
Value is added to the products in the production process – value delivery	Value can be only determined by the user in the consumption process – value creation
The external environments are considered as largely uncontrollable and forces to which company needs to adapt	The external environments are considered as resources the company draws upon for support by overcoming resistances and proactively co-creates the environments

Table 2. Comparison of goods-dominant (G-D) logic to service-dominant (S-D) logic (e.g. Lusch et al. 2006; McCarthy 1960)

S-D logic emphasizes the importance of operant resources. These are resources that act upon other resources to create benefit, e.g. competences. The more traditional G-D logic controversially focuses on operand resources, i.e. those resources which must be acted on to be beneficial. These are e.g. natural resources, goods, and money. This means that operant resources, such as knowledge and skills, are the underlying source of value. In addition, S-D logic argues that value-creating resources are not confined to the company; customers, suppliers, and other stakeholders also constitute operant resources and contribute to value creation. (Vargo &Lusch 2004)

Operant resources are resources that produce effects and they are often invisible and intangible. Moreover they are often core competences or organizational processes. They are more dynamic and infinite and not static and finite, like operand resources usually are. Core competencies are intangible processes instead of physical assets. They can be defined as pack of skills and technologies, e.g. routines, actions, or operations. They are also often tacit, ambiguous, and typical for the particular group. (Vargo & Lusch 2004)

Next in Table 3 operand and operant resources are defined more deeply help to distinguish the logic of the goods- and service-centered views.

Operand and operant resources help to distinguish the logic of the goods- and service-centered views		
	Traditional goods-centered dominant logic	**Emerging service-centered dominant logic**
Primary unit of exchange	People exchange for goods. These goods serve primarily as operand resources.	People exchange to acquire the benefits of specialized competencies (knowledge and skills), or services. Knowledge and skills are operant resources.
Role of goods	Goods are operand resources and end products. Marketers take matter and change its form, place, time, and possession.	Goods are transmitters of operant resources (embedded knowledge); they are intermediate "products" that are used by other operant resources (customers) as appliances in value-creation processes.
Role of customer	The customer is the recipient of goods. Marketers do things to customers; they segment them, penetrate them, distribute to them, and promote to them. The customer is an operand resource.	The customer is a co-producer of service. Marketing is a process of doing things in interaction with the customer. The customer primarily an operant resource, functioning only occasionally as an operand resource.
Determination and meaning of value	Value is determined by the producer. It is embedded in the operand resource (goods) and is defined in terms of "exchange value".	Value is perceived and determined by the customer on the basis of "value in use". Value results from the beneficial application of operant resources sometimes transmitted through operand resources. Companys can only make value propositions.
Company-customer interaction	The customer is an operand resource. Customers are acted on to create transactions with resources.	The customer is primarily an operant resource. Customers are active participants in relational exchanges and co-production.
Source of economic growth	Wealth is obtained from surplus tangible resources and goods. Wealth consists of owning, controlling, and producing operand resources.	Wealth is obtained through the application and exchange of specialized knowledge and skills. It represents the right to the future use of operant resources.

Table 3. Comparison of Operand and operant resources (Vargo & Lusch 2004)

2.2 Service-Dominant logic and value creation

There are two different views in business; the goods-centered view and service-centered view. In the goods-centered view the purpose of existence for a business is to make and distribute things that can be sold. In addition these goods need to have a clear benefit as well as utilization aspect and value that are created during the production and distribution process. All this must be done in a way that the goods offer a distinctively superior value to the potential consumer when any competitors' offerings are considered. All this is must be executed on such a level that the company can maximize its profits on the selling of the goods i.e. all variables in the process must be set on a profit generating levels as the outcome is taken into consideration. To achieve this kind of profit levels, maximized production control and especially efficiency, it is argued that the goods should be as standardized as possible and also produced outside the market. Here logically an inventory of the goods is necessary from where they can be delivered when demanded and with the best profit. (Vargo & Lusch 2004)

Where the goods-centered view focuses on the production and distribution of the goods at the best possible profit level and on a way that is superior from the competitors the service-centered view lies more on the immaterial side. In other words this view of marketing states, that marketing is an on-going series of social and economic processes that are concentrating on resources with which the company is heading to make a better value proposition than its competitors.

This service-centered view can also be clarified in more detail where it is stated that a company is trying to identify or develop its core competencies as well as its fundamental knowledge to create a true competitive advantage. It is also stated that the company should be able to find potential customers who could benefit from these core competencies and create relationships with these customers in a way that the specific needs of the customers are totally fulfilled with sincere involvement and compelling value propositions. Again all this is to be achieved without forgetting to monitor and analyze the financial performance from trading and the focus is to be put on improving both customer satisfaction and company's overall performance. (Vargo & Lusch 2004)

The service-centered view of marketing is customer-centric and market driven. This means more than simply being customer oriented. It means collaborating with and learning from customers and being adaptive to their individual needs. Service dominant logic implies that value is defined by and co-created with the customer rather than embedded in output (Vargo & Lusch 2004). Moreover S-D logic that the value creation process takes place and value is created when customer consumes or uses the service (Payne, Storbacka & Frow 2008).

Additionally S-D logic's conceptualization of value co-creation goes beyond inviting the customer to participate in production or design processes (Vargo 2008). It suggests that there can be no value without the customer incorporating the company offering into his or her own life (Vargo & Akaka 2009).

When service dominant logic is taken into closer inspection from the company's perspective it can be defined on several ways. This logic is to be seen e.g. how the company focuses on well-defined customer practices. This logic is also seen in the company's focus on assisting these customer practices and especially assisting them in a value supporting way. Where there is service dominant logic the company is likely to both modify and develop new goods and services towards the customers' everyday practices. If service dominant logic exists, the company is keen on including such interactions that occur between the company and its customers that help the company to engage itself with the customers' demands more thoroughly. In other words the company is more likely to influence customers' processes as it generates more value to the customer. This again leads to a situation where the service dominant logic in a company results as a value co-creation with its customers. When a company succeeds in this it is no longer restricted to making only value propositions but can profoundly tie itself in customers' value fulfillment as well. (Grönroos 2008)

2.3   Value co-creation in service

There are different perspectives to examine value creation in business relationships and networks. First customer´s own value creation depends on the perception how they experience the supplier´s service offering compared to that of available alternatives. From the supplier´s point of view the core task is to evaluate the customer´s value as key asset of the company. It also places emphasis on attracting, developing and retaining customers meaning the management of customer equity. The customer-supplier perspective, i.e. value creation through relationships, partnerships and alliances, can be defined as value co-creation. In this situation resources of both companies involved are combined and new combinations of capabilities are developed. In this way both parties can achieve something that they could not have achieved alone. This collaborative process demands both parties to develop their relational competencies and not focusing only to their existing internally-oriented capabilities. (Ngugi, Johnsen & Erdélyi 2010)

The target for service provider should be to support value creation for the customer and enable value creation by the supplier, i.e. the goal of business is reciprocal value creation. In this process the service is a mediating factor. Suppliers can support the value-generating

process by provide their customers resources that can be used by them, together with other available resources. Suppliers act as value facilitators of value creation. (Grönroos, 2010)

Suppliers can also actively take a role in the customers' value-generating processes and directly influence them instead of being as a value facilitator only. In this way the supplier becomes a co-creator of value with its customers. When adopting service logic (i.e. S-D logic) companies are able to get involved with their customers' value-generating processes and also to actively take part in value fulfillment for customers. The value fulfillment model is based on service logic, whereas the value facilitation model is based on goods logic. The differentiating thing here is the lacking company-customer interactions. (Grönroos 2008)

Value can be created in various ways. It can mean the access to valuable information or markets and technologies. Value can be created through enhanced transaction efficiency and improved coordination between companies. By increasing cooperation and communication between companies both parties can have access to information, resources, markets, and technologies and this can enable companies to achieve strategic objectives, such as sharing risks and outsourcing value-chain stages and organizational functions. (Ngugi, Johnsen & Erdélyi 2010)

According to Grönroos (2010) the core product as one resource does not alone bring value for a business customer, but it is the whole spectrum of supplier–customer interactions that support a successful use of this core resource. Furthermore service provider's market offering should include a core service package consisting of a core service and facilitating services enabling the value creation as well as supporting services to enhance the value creation (Grönroos 2008).

In the table 4 there is presented a framework of co-creation from Ojasalo (2011). It divides the business approach between traditional product business approach, the concept of co-production, and Value co-creation approach. The emphasis is in the value co-creation approach as it is the core philosophy of the research part of this study. In value co-creation approach, on the contrary to product business approach, the value is defined by the customer. The relationship between company and customer is more a set on interactions and dialogical process than moments of exchange between the parties. In this dialogical interaction customer experiences and perceptions are important to value determination. Customers take also a proactive role and involved at every stage of service development. (Ojasalo 2011)

TRADITIONAL PRODUCT BUSINESS APPROACH

- Customers are "passive audience"; value is created inside the company with no interference from the customers

- Delivering value means selling to customers; value is embedded in the product *(value-in-exchange)*

- Company-customer relationship is transaction based

- *Transactions* are the ultimate drivers of financial value

- *Products* (output) satisfy customer needs

- Systematic, structured methods are used to collect information on customer needs

- Value is promised by *selling* the benefits

- Interaction only once at the moment of exchange

- Focus of quality is on internal processes and on product features and functionalities

- "making and selling"

VALUE CO-CREATION APPROACH

- Value is defined by the customer; customer experiences and perceptions are essential to value determination; value is created in the consumption/usage stage (value-in-use)

- Company-customer relationship is a set of interactions focused on a series of co-creation experiences

- Building relationships drives financial value

- Solutions satisfy customer needs

CO-PRODUCTION IN SERVICES

- Customers are "active players"; as "partial employees" they participate in the service production within parameters defined by the service provider

- Service process and the outcome of the process satisfy customer needs

- Strategies focus on participating within one part of the value chain.

- Value is co-produced by making and keeping promises

- Managing, educating and rewarding customers are needed to enhance customer participation

- Customers' access to information, people and other resources of the service provider is planned and carefully controlled

- Customer feedback on service quality dimensions affects service development

- "servicing"

- Business strategy starts by understanding customers' value creating processes and the points where company's value proposition can support customer's value customer's value creation

- Strategies focus on building or tapping into value networks

- Value is co-created in learning together; dialog operates as an interactive process of learning

- Results in unique value often started with spontaneous idea achieved through dialogical interaction

- Active interaction: repeatedly, anywhere, and any time in the system, initiated either by the customer or the company

- New levels of access and transparency are needed

- Customers are involved at every stage of service development in two ways: 1) Active dialog improves indentifying customers' latent needs and wants (proactive approach), 2) Customers may also be directly involved in co-design

- Focus of quality is on customer-company interactions and co-creation experiences

- "listening, learning together"

Table 4. Framework of co-pruduction and value co-creation (Ojasalo 2010; Vargo & Lusch 2004b; Prahalad & Ramaswamy 2004c; Zeithaml et al. 2006; Payne et al. 2008; Ballantyne & Varey 2008; The Future of Service Business Innovation 2010)

2.3.1 Value co-creation in business strategy

According to Ravald (2010), one of the challenges for the future will be to create business models that successfully integrate the service provider's processes with the customer's process of value creation. She concludes that the possibilities for service providers to engage in and contribute to customers' value creation are evident. In a service logic context, and following the guidelines of the marketing concept, the supplier should strive to find a way into the customer's arena for value creation rather than to try force the customer to fit into the service provider's processes. This is a true outside-in view. In this way, the supplier and its marketers can understand its customers' value creation and more efficiently and effectively provide resources and processes to support that value creation.

If companies better understand the customer's value chain and lean consumption process, they can improve their value propositions with positive effects on quality, productivity and profits (Gummesson 2008). Successful companys are moving from practicing a "make-and-sell" strategy to a "sense-and-respond" strategy (Vargo & Lusch 2004).

Traditionally companies are developing business strategy by making decisions and choices about which core business or product category they should be operating in. This approach indicates inside–out strategic thinking, as it is based on internal organizational competencies. In value co-creation approach business strategy starts by understanding the customer's value creating processes and selecting which of these processes the supplier wants to support. This also defines the scope of the value proposition. In value co-creation approach strategic thinking is outside–in and it starts from an understanding of the customer's value-creating processes, and aims at providing support for better co-creation of value. The shift is from making and selling to listening and learning together. (Ojasalo 2011; Payne, Storbacka & Frow 2008)

Strategy defines the goals based on the company's mission, vision and values. It also provides direction for growth and success and prioritizes investments. A new strategic mindset is aimed at changing the organization's attitudes and culture toward co-creation of value. This means that service companies must understand the value creation process of their customers and the value creation process of their customers' customers. In a traditional strategy model, value is embedded in products and services and their delivery, and value creation means selling the services to customers ("exchange value" of the service).(Ojasalo & Keränen 2011)

2.3.2 Value co-creation in customer interactions and relationships

Interaction is a "generator of service experience and value-in-use". Furthermore, interactions help companies gain and deepen their information about customers and their preferences (Grönroos 2008). If supplier is able to manage actively the interaction platform it will enable employees to engage better with the customers' value creation and therefore create more opportunities for co-creation of value (Grönroos, 2010).

Interaction is also the way to generate a primary form of service experience and the value is derived from the service experience of the particular actors in interaction (Ballantyne & Varey 2006). Value creation takes place in interaction between company and customer and during that process customer becomes better off (Grönroos & Ravald, 2011).

The customer service experience consists three value-creating activities. First, relationships give structural support for the creation and application of knowledge resources. Second, communicative interaction helps to develop these relationships. Last is the knowledge which is needed to improve the customer service experience, especially when co-created through dialogue and learning together. However, knowledge about customers' value-creating processes should not be based only on hard data such as customer satisfaction measures. It should also include a deep understanding of customer experiences and processes. (Ballantyne & Varey 2006; Payne, Storbacka & Frow 2008)

During interactions with customers, the supplier gets opportunities to influence the process of value creation of its customer. The supplier can actively and directly influence the customers' experiences and therefore also their value creation. This joint value co-creation necessarily requires interactions between the supplier and the customer as fundamentally the customer is the value creator and the supplier becomes a co-creator through interaction. (Grönroos & Ravald, 2011)

Moreover, in the co-creation approach, interaction between the company and the customer plays a central role in the formation of value. Both the company and the customer are active, adjusting their roles and increasing their capabilities, and both contribute their own share to the formation of value for both parties. Customers are in contact with the company through many different channels, which are related to facilities, people and processes (Ojasalo & Keränen 2011).

In order to succeed in customer relationships companies should try to engage their customers in an active, explicit, and ongoing dialogue. This includes the mobilizing communities of customers and managing customer diversity. Additionally the co-creation of personalized

experiences with customers becomes important aspect. It is very important for companies to understand the purpose, meaning, and quality of the dialogue from the customer´s perspective. Processing the customer information in order to learn from customers and to bring the dialogue forward becomes crucial for companies. (Prahalad & Ramaswamy 2000)

Interaction and joint value creation can take place throughout the value-generating process. Companies can involve their customers during development, design, manufacturing, deliveries and front-office processes. In this way the customer participates as co-developer, co-designer, co-producer in the company's processes. This enables the company to engage itself in value co-creation within the customer's value creating process. The joint value creation cannot exist and no co-creation of value can take place, unless interactions between the supplier and the customer occur. (Grönroos, 2010)

2.3.3 Value co-creation in service design

In contrast to everyday business practice, considerably many companies seem to think that structured, systematic, and method-based approach represents a success factor in terms of customer-oriented service design. It is important that methods which companies use correspond to the information and outcomes the companies seek. Different methods are useful if companies, for example, aim to develop a totally new service concept or make alterations to an almost developed service or understand how users might use an existing service. (Ojasalo 2009)

The promise of value and service processes are defined and developed through service design. The company must have a long-standing, deep customer relationship in order for companies to plan operational models (promises of value) that genuinely support value formation for customers. In the co-creation model the customers have an active role and participate in every aspect of service development. Two roles can be defined for the customer: the customer as a source of information and the customer as a designer as seen here below in the Table 5. (Ojasalo 2009)

CUSTOMER ROLES IN SERVICE DESIGN	USEFUL METHODS IN INDUSTRIAL SERVICES
1. Customer as informant	Observational research
	Ethnographic methods
	Interviews
	Customer visits, discussions, meetings
	Focus group discussions
	Brainstorming
	Diary methods
	Customer feedback
	Lab testing
	Surveys
2. Customer as co-designer	Joint development projects
	Lead user method
	Creative and participatory methods
	Design workshops, context mapping
	Experience prototyping
	Scenario-based design
	Storyboarding

Table 5. Customer roles in service design (Ojasalo 2009)

3 Research process and method

The research is based on the case study research method and it is conducted as qualitative research. In this part theoretical background of a case study is presented and the case company is introduced. The process of developing the case study interviews as well as interview questions is presented. Last the interview process, data collection and data analysis is described.

3.1 Case study as a research method

A case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context. It is especially useful when the boundaries between phenomenon and context are not clearly evident. In other words, the case study method is used when the target is to understand a real-life phenomenon in depth, but such understanding encompassed important contextual conditions. Phenomenon and context are not always distinguishable in real-life situations, so other technical characteristics, including

data collection and data-analysis strategies, become the part of case studies. Case study research comprises an all-encompassing method – covering the logic of design, data collection techniques, and specific approaches to data analysis. (Yin 2009)

The more questions seek to explain some present circumstance (e.g. how or why some social phenomenon works), the more the case study method will be relevant. In brief, the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events – such as individual life cycles, small group behaviour, organizational and managerial processes, neighbourhood change, school performance, international relations, and the maturation of industries. (Yin 2009)

3.2   The case company

The case company is a knowledge intensive business service (KIBS) company offering financial management services. Their mission statement is to produce and refine information for the success of customers' business operation. They state that companies providing financial administration services are facing new challenges. The success of their customers demands real-time information on cash flow from the financial management and a prediction of the future, which is as close as possible to the truth.

The case company is interested in its customers' business operations and branches and seeks continuously new methods to make its own activity more efficient by instructing, guiding and publishing information actively. They want to be service-oriented, easily approached and to react speedily to all requests. Their common goal with customers is to be successful together.

3.3   Developing interview themes

In the first workshop the co-creation framework (Table 4) was analyzed, and there was an assignment to construct a set of themes and questions before the workshop. Each student formed questions how to find out evidence on co-creation approach in case companies. Each student brought her/his themes and questions and they were then divided under certain themes. These themes and questions were combined and discussed during the workshop and interview themes and categories were formed.

The interview themes and the questions were evaluated and specified once more in the second workshop. During this work shop more specific themes were identified: (1) Company's strategy, vision, aims and business environment; (2) Developing service offering; (3)

Delivering the service offering and (4) Customers. Also the interview questions were built up (see Table 6).

1 Company's strategy, vision, aims and business environment
What is that you do here/responsibilities? What are your main tasks? How long have you been working here? What does your company do? What are the basic elements of your company's strategy? How the current strategy has been developed? (Goals, target) What are the most important resources in your company? What do you promise to your customers? (Competitive advantage) Who are your competitors? How do you define your market? (Market position)
2 Developing service offering
What do you offer to your customers? (Products, services, portfolio/package) What are the benefits that your customers get from your offering? Do you know why do they choose you? How do you get new customers? How is your service offering being built? (Partners involved) What kind of earning logic or pricing do you use? Where does the money come from? (Contract or transaction based) Could you describe these contracts in more detail?
3 Delivering the service offering
How is the service delivered? How much customer interactions do you have/ what kind of/ with whom? How long takes an average service process? Which actions are included? Which modules are standardized/ flexible/set? What is the role of the customer in the service process? Does the customer understands his/hers role in the service process? What is the employee's decision role during the service delivery? If something goes wrong/ if the customer complains?
4 Customers
Who are your customers? Are they segmented? How many customers do have in average in each segment? Which kinds of customers are most valuable for you? How do you interact with the customer? How often do you see them? Do you have any loyal customer activities? How do you collect or get customer data? And how the data is handled/ shared inside the company? Are you monitoring social media environment? How long are your customer relationships typically? Why do they usually end? Why do you prefer long-lasting or transactions relationships? How satisfied your customers are? How do you define your customer satisfaction? How do you measure your customer satisfaction?

Table 6. Interview themes and questions

In my part of the project, in the empirical research, the current state of business approach and development needs was analyzed in the case company. It included semi structured interviews consisting of 11 persons, in which there were 10 service providers and 1 business customer selected by the company. The design of the interviews was done by the group of Master´s students led by the project manager within several meetings and workshops between January 2011 and August 2011.

3.4   Interviews and data collection

The interviews are guided conversations rather than structured queries. Throughout the interviews process, there are two tasks. The first is to follow the line of inquiry, as reflected by the case study protocol, and the second is to ask actual, i.e. conversational questions in an unbiased manner that also serves the needs of the line of inquiry. (Yin 2009)

One type of case study interview is an in-depth-interview. In in-depth-interview there can be asked key respondents about the facts of a matter as well as their opinions about events. In some situations, the interviewees may even be asked to propose one´s own insights into certain occurrences. The interview may therefore take place over an extended period of time, not just a single sitting. (Yin 2009)

A second type of case study interview is a focused interview, in which person is interviewed for a short period of time – an hour, for example. In such cases, the interviews may still remain open-ended and assume a conversational manner, but you are more likely to be following a certain set of questions derived from the case study protocol. (Yin 2009) This was the way interviews in this case study were made.

Third type of interview entails more structured questions, along the lines of a normal survey. Such a survey could be designed as part of an embedded case study and produce quantitative data as part of the case study evidence. (Yin 2009)

After the second workshop preparation of the data collection took place. This included sharing the interviews among students and the project manager, deciding the common procedures during the interviews and finally setting up the actual interview dates, times and places. My responsibilities included five (5) interviews in the case company and altogether there were eleven (11) interviews set up. The first interview was held together with the project manager, so that the interview procedures and the working styles remained the same throughout the process. The interviewees were the CEO/Managing director and the Executive Vice President of the case company. Also after the first interviews, short meetings were held

to explore the experience gained and to specify the questions. All interviews lasted approximately one hour and took place in various locations mainly at the company offices.

I personally interviewed the Director of professional services, two Area Managers and the Quality Manager. The project manager interviewed the Development Manager, the Office manager, the Administration Manager, one Area Manager, and a Customer. All the interviewees were chosen by the case company and we divided the amount of interviews evenly with the project manager. After all interviews we shared all interview data between each other.

The interview data was collected between April 2011 and June 2011.The interviews were tape-recorded and transcribed. Altogether there were eleven (11) interviews held and the total length of the material was nine (9) hours and forty-one (41) minutes. As transcribed the total length of the interview material was one-hundred and sixty-four (164) pages.

3.5   Data analysis

During the third and fourth workshop in May 2011 based on the preliminary understanding of the data the focus was to identify more accurately categories and criteria to analyze the data (see Figure 2). Through discussion and brainstorming the first three categories were chosen. At this stage all the other students participating in the project had also interviewed people from other case companies.

The categories identified were (A) Value co creation in business strategy, (B) Value co-creation in customer interactions and (C) Value co-creation in service design. After the decision of the categories was made, five criteria were chosen under the each category. As a result of the identified categories and criteria, the design of the graphic tool took another step so that it would describe more accurately the current state of companies' business thinking using the categories and criteria chosen.

A) Strategic thinking and business model

Co-creation continuum

	Co-creation approach not evident in strategic thinking	Business strategy led by co-creation approach
A1. Strategy process	Top-down / Inside-out	Down-top / Outside-in
A2. Business goals	To make and sell services and products / Value-in-exchange	To jointly create comprehensive customer solutions / Value-in-use
A3. Value creation processes	Focus on own value creation processes	Focus on customers' and customers' customers value creation processes
A4. Resources	Focus on own competences and other resources, own processes and technologies	Focus on shared resources / customers' resources
A5. Position in value chain / value network	Focus on one part of the value chain, not in the business network	Focus on value networks

B) Customer interactions and relationships

Co-creation continuum

	Co-creation approach not evident in customer interactions and relationships	Customer interactions and relationships led by co-creation approach
B1. Company-customer relationship	Transaction oriented	Focus on long term customer relationships
B2. Customer insight	Segmented by size, industry and other demographic factors	Deep customer insight – knowing in person
B3. Nature of customer interactions	Passive / reactive (selling)	Proactive/ dialogue
B4. Amount of interactions	Only at the moment of exchange	Active/ two-way Anywhere / anytime
B5. Customer access to information and other resources	Very limited	Transparent

C) Service design processes

Co-creation continuum

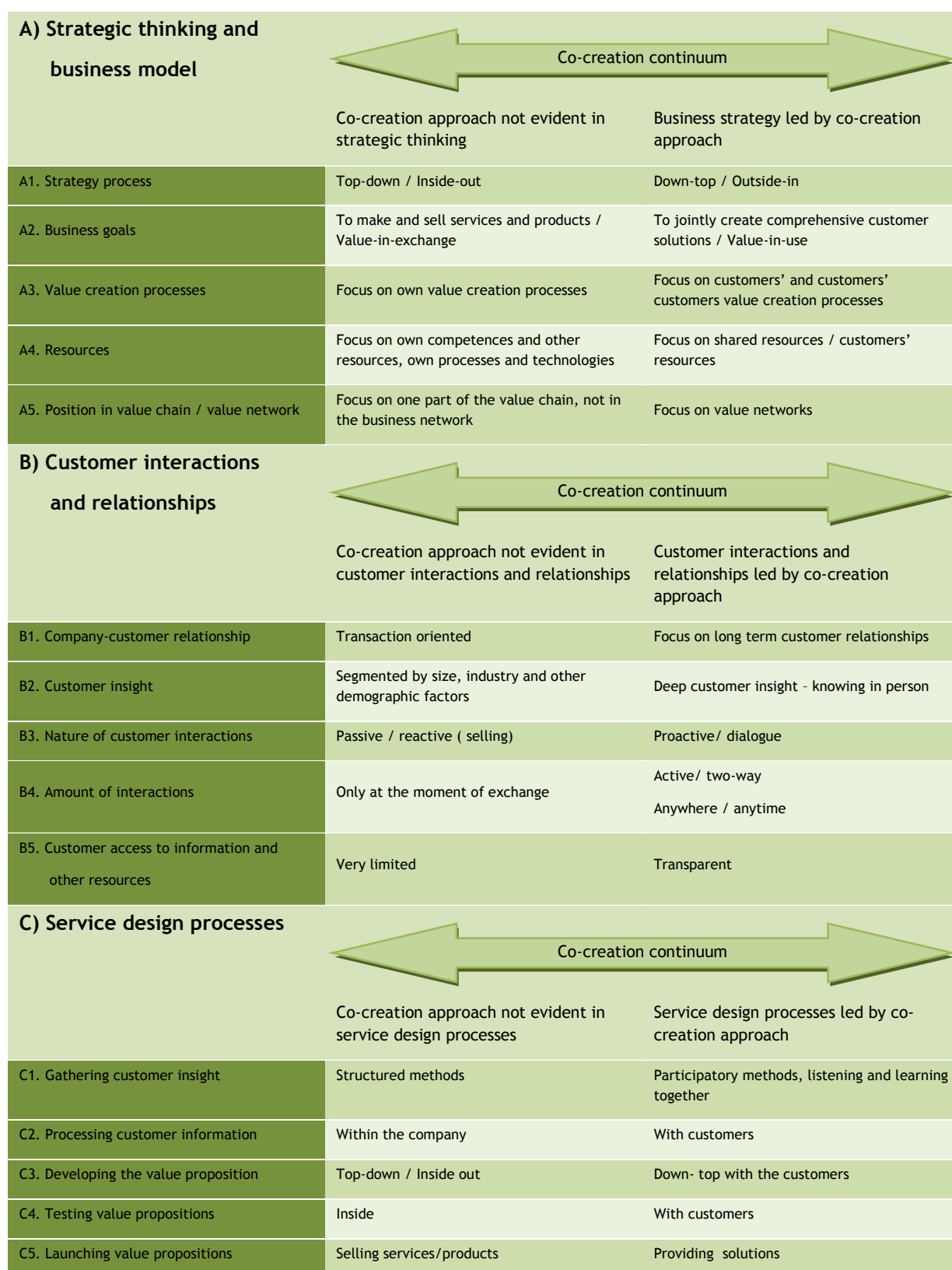|	Co-creation approach not evident in service design processes	Service design processes led by co-creation approach
C1. Gathering customer insight	Structured methods	Participatory methods, listening and learning together
C2. Processing customer information	Within the company	With customers
C3. Developing the value proposition	Top-down / Inside out	Down- top with the customers
C4. Testing value propositions	Inside	With customers
C5. Launching value propositions	Selling services/products	Providing solutions

Figure 3. Co-creation continuum (Ojasalo & Keränen, 2011)

After development of the criteria the data was analyzed in terms of systematic coding and categorization of description and statement given by the interviewees. I used a color-coding system where I gave all three categories, i.e. strategic thinking and business model, customer interactions and relationship, and service design process, different color codes. When reading through the transcribed interview material I coded each sentence that indicated (in my opinion) the particular category. After the first color-coding I combined all relevant material recognized under the categories accordingly. Next I analyzed the combined interview data per co-creation category and divided it under five different sub-categories under each main co-creation categories. Finally I analyzed all relevant information regarding the case study and the research.

In August, the final results of the study were presented in workshop with the case company. Based on the results, the companies will draw up a plan and a timetable for their future development. The next step of the research was to focus on the co-creation development needs identified in the case companies based on the current state analysis, but that phase is out of the scope of this case study.

4   Results

4.1   Strategic thinking and business model

If company´s strategy is developed at the managerial level without involving company empoyees or customers in the process the approach can be seen as a top-down and inside-out approach. In the co-creation approach employees and customers involve in the development process bringing inputs and insights to the process. The creation of a strategy begins when a company understands the customer's value creation processes and chooses which of these processes it wants to support and take part in.

Based on the interviews, the company's operational model clearly shows a strategy process that originates with top-level management and focuses strongly on improving internal operational models and the efficiency of work. There is no evidence of customer participation in strategy work, or even inner determination. Definitions of strategy, values and quality are not tangible for the organization implementing them. For the most part business activities are determined by existing models that have taken shape as a result of operations, and the influence of a strategy is not notably evident in daily work.

Inner determination shows that customers are important and that the company wants to be a partner for its customers, but it is not very clear what this partnership means to the customer

and the company. Defining the quality of work is also left somewhat less tangible. Therefore the company's strategy work strongly mirrors the traditional top-down/inside-out operational model.

Interviewees´ quotations to illustrate the interpretations:

> *"We actually can't move on before the owners define what is the mission and vision of this company."*

> *"…we have not included customers into our strategy planning group so far."*

> *"In the new strategy there will lot of new things but it based on the old strategy which is created by the owners of the company."*

> *"We have this strategy planning group and it is meant that the whole organization would be involved this time… we have decided that it would be handled like this… so that it would not be top-down process."*

In the traditional product business approach companies concentrate in selling products and services. In this approach value is embedded in the product and is actualized in exchange. In the value co-creation model, strategy focuses on integrated customer-specific solutions and value is formed as the service is used. This approach emphasizes the relationship between the company and the customer and a collaborative process for creating benefits.

Based on interviews, a customer's selection is strongly influenced by a well-known, large business as well as good service, but the benefit to the customer was not explained in much detail. The interviews also indicate that this is a rather subjective perception of customer's motives. Good, personal service was mentioned often, but what good and personal service means was not specified in more detail.

The interviews reveal that the company sells services from which customers select what they need on their own, but solutions are not necessarily thought out together from the standpoint of the customer's business. The customer does participate in defining and producing the services, but as a rule the framework for services is defined by the company. Customers choose what they want to buy.

This operational model represents co-production in which the customer participates in production of services but only within the framework established by the company. The

company and the customer do not necessarily consider together what would be the best possible solution for improving their business activities.

Interviewees´ quotations to illustrate the interpretations:

> ”..it is a good personal service and we produce right and accurate information.. we produce it quick at the right time.. we can create the atmosphere and culture.. it is culture of doing where we are good at.. but many companies can offer the same core product as we do.. so the differentiating factor is personal service.”

> ”Normally customers´ role is to tell their situation and what they would like us to do.. so what they want in that situation, and then we will tell them what are the possibilities according to the law.. so what we can do and then it is up to customer what to do.. they will then decide what we will do.”

> ”..well , in the traditional model the customer´s role is quite small (in the service production) so they take care of the paying the bill.. They do not participate the production of our service.”

> “In the contract it is defined what we will do and what customer will do. There is not much more to agree on..”

Value creation processes are central parts of the co-creation approach. When companies are focusing purely on their own value creation processes the co-creation approach is not evident. Co-creation of services originates with the customer and is directed toward the company, beginning when the company understands the customer's processes and makes effort to support those processes to create value for the customer. The focus is on customers' and customers' customers value creation processes.

Based on the interviews, the company's and customer's processes are separate. The answers also reveal that the company's activities are concentrated on improving their own processes and efficiency. Many answers reveal that customers are sold more and/or an attempt is made to charge them more with a view to creating value to the company.

Interviews showed some degree of inner determination, in which customers should be offered more tangible benefits in order for them to understand the value of the service. This means that the company should be familiar with the customer's processes so a value proposition could be made more concrete for the customer.

In the operational model the company focuses more on its internal processes and efficiency, even though inner determination is already leaning more toward supporting the customer's business.

Interviewees´ quotations to illustrate the interpretations:

> *"We have started to measure how much time our specialists use in order to follow how much we do these tasks.. so how the allocation of resources is now as now it is more based on the gut feeling."*

> *"We have concepted some of services and we have tried to develop such things in order to invoice them certain amount."*

> *"..but of course we would like to get bigger customer as there we would get the sales."*

> *"We have also fixed pricing.. but we have also pricing per hour.. but with that model we do not get more revenue.. so if we were able to move towards the fixed monthly pricing we would be able to get more revenues as customers are not interested if we have done the job in two hours or in twenty hours."*

In the traditional product business approach companies are focusing their own competencies and resources. In the co-creation approach companies are Instead of simply selling products and services and serving its customers, listening to its customers and learning from them. This can allow to offer solutions to their customers´ needs.

Based on the interviews, the company's operations are focused more on allocation and use of its own competencies and resources. Electronic services are actually the only way in which both the company and the customer use shared resources. Electronic services are also clearly a future area of development. The inner determination is conveyed in the answers clearly, although precise definition for future's electronic services does not form.

It is not conveyed in the operational model and development goals that the customer would be involved in developing mutual operational models and platforms. From the answers it can be interpreted that the company's operational model represents a more traditional approach, although from the standpoint of inner determination they are approaching the co-creation model, in which customers and companies use shared resources. This is reflected in the development of electronic services in this case.

Interviewees´ quotations to illustrate the interpretations:

> *"The most important resources are our own employees.."*

> *"..the knowledge and know-how, training, introduction, doing together.. they are the most important things in service delivery and quality."*

> *"We have so many different systems and in the future the goal is to reduce the amount of them.. and this would really benefit us if we will find the best way for us to do things."*

> *"The goal is that we could get in to the shared system with our customers."*

Companies can consider the value chain as two way process where a company has its own suppliers and customers and they are kept separate. In the co-creation approach companies are focusing the whole value network consisting own suppliers, customers´ suppliers as well as customers´ customers.

Interview responses reflect that third parties used by the company for producing services are suppliers of electronic services. The company does not affect in the operations of these service providers but buys the service from them. The company concentrates more on producing its own service for customers.

The operational model of the company concerning the value chain represents a more traditional model, in which the company concentrates on its own service process and does not pay strong attention to third parties, or to possible partners of customers in the value chain.

Interviewees´ quotations to illustrate the interpretations:

> *"There are not many third party involved in the service production.. It is probably less than two man-years."*

> *"..those electronic services are provided by third parties.. and we will focus our own competencies.. so we do not want expand to the software side.. we will deliver the full service after all."*

> *"No there is not any particular third party involved.. of course software providers.. but no there is not."*

"Co-creation continuum"

Co-creation approach
not evident in strategic thinking

Business strategy led
by co-creation approach

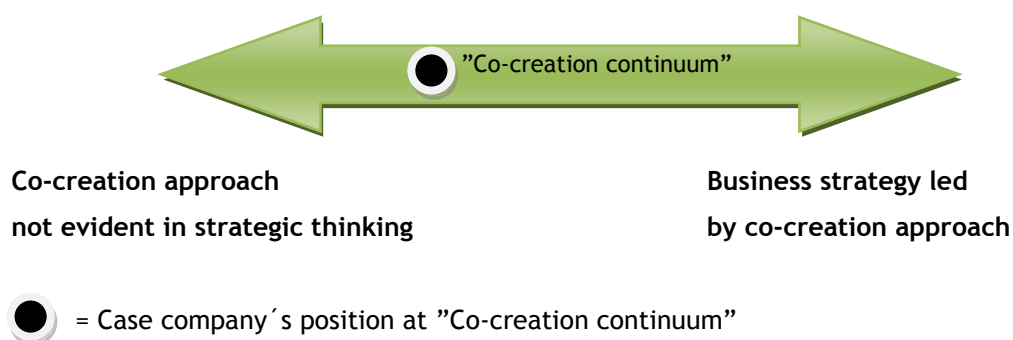= Case company´s position at "Co-creation continuum"

Figure 2. Co-creation continuum in strategic thinking and business model

In summary, it can be noted that the company's operational model is closer to traditional strategic thinking. In operations and inner determination there are indications of efforts to move closer to the customer and the co-creation operational model, but planning and actions are not yet concrete. The analysis clearly indicates that the case company develops its strategy and business model more top-down and inside-out without involving customers to the process.

4.2   Customer interactions and relationships

The type of company-customer relationship can vary from short, transaction oriented interaction to long term constant dialogical interaction. In the co-creation model, the aim is to achieve long-term customer relationships rather than considering only the service transaction a value producing activity.

Based on the interviews the company's customer relationships are mainly long-term. This is partly due to the competitive situation, which in practice does not even exist particularly in small localities, as well as to social factors. Long-term customer relationships evolve naturally, but the survey answers do not lead to the conclusion that steps are being taken in customer relations to ensure customer loyalty. Price issues stood out as the leading cause of termination of customer relationships.

Most of the services are produced over a relatively long period of time, which also in part explains long-term customer relationships. A portion of services are also one-time projects.

The answers indicate that the company's operating model is based on long customer relationships, but does not fully correspond to the co-creation operational model because

there are no indications that the company is capitalizing on long-term customer relationships in operational development.

Interviewees´ quotations to illustrate the interpretations:

> *"Customer relationships are long. They shorten constantly at this field of business."*

> *"Yes we do have long customer relationships, and this is of course.. it shows that services work."*

> *"Customers did not leave the local office.. it is different mindset in smaller towns.. it is not just the service but also social factors and personal relationships. But this has happened automatically and is not done in systematic way."*

> *"I have heard quite a lot that the price has affected the most when customers have left us.. but I would like to ask whether it was the price itself or the cost-effective price."*

Customer insight can give companies a competitive edge if it is done in a way that generates deep customer understanding. A simple way to categorize customer data is to divide it to segment it by size, industry and other demographic factors. In the co-creation approach deep customer insight is comprised by knowing customers in person.

Based on the interviews, the company is for the most part knowledgeable about its customers' operations, but customers are not segmented systematically. The company has no process or system for systematic collection of customer data that would enable customer segmentation.

Based on the answers, the company does not have a paradigm for the future with regard to the benefits of customer segmentation and how customer data could be utilized. There is also a lot of tacit knowledge about customers in the company, but it cannot be utilized on the level of entire organization.

From the standpoint of understanding customer relationships, the company has a lot of customer data available, but it is not available to everyone and is not utilized systematically in operational development. In the co-creation model, a deep understanding of customers is a prerequisite for co-creation of services and value creation.

Interviewees´ quotations to illustrate the interpretations:

"Some customers we know very well, but some none at all."

"There is not any customer segmentation done.. and I do not know where that information could be utilized."

"Of course it could be beneficial to have customer insight to be utilized in sales and marketing.. it would be good to know what type of customers we have at the moment.. now we have only sort of gut-feeling on that."

"In some extent every accountant has to learn things about their customers and they get to know their customers and their processes."

Nature of customer interactions can be scaled from passive and reactive selling to proactive and dialogical interaction. Customer encounters are situations where the company and the customer have dealings with each other's processes, providing an opportunity to influence one other. Formation of value is realized through learning together in an active dialog.

Based on the interviews the predominant operational model varies depending of the customer. It is affected by what has been agreed to with the customer. Actively engaging customers is quite rare, which is dictated in part by circumstances, for example reminders and other issues related to work. Some customers also do not want to engage in conversations except to handle their responsibilities.

However, the answers convey a fairly clear and strong inner determination for customer service to be more proactive towards the customer. There are, however, no indications of plans to activate customers to engage in discussions. Based on the responses, the major reason seems to be lack of resources, meaning that employees do not have time for proactive conversations with customers.

There are very few customer activities and they are informative occasions where the customer is not activated in conversation. It is also difficult to get customers to take part in evening events for customers organized by the company.

Based on the interviews, the majority of new customers are gained through referrals, and the company does not have an opportunity to directly, pro-actively influence them. Influencing happens mainly vicariously through existing customers.

The co-creation model is based on continuous, proactive dialog between customers and the company shaped by the nature of the customer relationship. There were no indications of this kind of activity based on the interviews; rather, the operational model is more representative of the other end of the scale, where the customer relationship is based on reactive activity.

Interviewees´ quotations to illustrate the interpretations:

> ”Mainly our customers come through referrals so that they have heard our service from someone they know..”

> “No we do not have any proactive customer contacting model.”

> “..the service.. it should be proactive, and at least active. We should be able to work more proactively towards our customers.. our customers want that someone shows they are interested in customer´s work”

> ”It is core value that our staff would be proactive, but it happens too rarely. Our staff should be able to interpret things to our customers and point out the relevant details and so on.”

There are many different issues in interaction between the company and the customer that can be important in value formation. The amount of interactions can increase company´s value co-creation opportunities if the company-customer interaction develops from interaction during the moment of exchange, i.e. service encounters, to active two-way communication that happens anywhere and anytime.

Based on the interviews, the interaction between the company and the customers is focused on service transactions, in which the customer contacts the company. Matters described in the service agreement are then reviewed. The number of interaction situations varies greatly depending on the customer. Some customers may only be met with once a year.

The interviews indicate that the operational model focuses on a traditional interaction model where the interaction happens during service transactions. In the co-creation model, interaction between the company and the customer is active and continuous.

Interviewees´ quotations to illustrate the interpretations:

> “I would say that half of our customers we do not meet even once a year.. if ever.. and it is a challenge that who is responsible of the customer.. but I

think there are some twenty percent of customers that we meet twice or more in year.."

"If we would be able to visit every customer at least every third year, it would not be bad goal at all."

"It might be that we see our customers too rarely.. the reason is mostly that we have very long customer relationships."

"Traditional service is that we see/contact customer maximum twice a month.. it can even be that we meet the customer personally only once a month. Mainly we see the customer personally four to five times a year."

Companies can offer customers different options for interaction and sharing experiences. These include for example shared electronic platforms that allow the use of shared resources. Customers might have limited very limited access to information and other resources and this is not support the value co-creation. In co-creation approach access to information and resources is transparent and possible.

The interviews show that the company utilizes the electronic systems of some customers, which serve as a shared resource between the company and the customer.

Customers' business activities are fairly transparent because the company has financial information about its customers' companies. On the other hand, customers do not see the progress of the company's service process. In the co-creation model both the company's and the customer's actions are transparent to the other, which enables participation and better, more effective sharing of experiences and information.

Interviewees´ quotations to illustrate the interpretations:

"We have these electronic systems where customers have access to."

"In these electronic platforms customers can share information with our staff.. so they do share some resources."

"Traditionally we do our job in our own systems where customers do not have access to.. so if me some errors we can correct them later so that customers are not aware of this, but if we would operate in open system customers could

see everything we do and we could see if customer does something where we could comment and correct them.”

"Co-creation continuum"

Co-creation approach
not evident in customer relationships

Customer relationships led
by co-creation approach
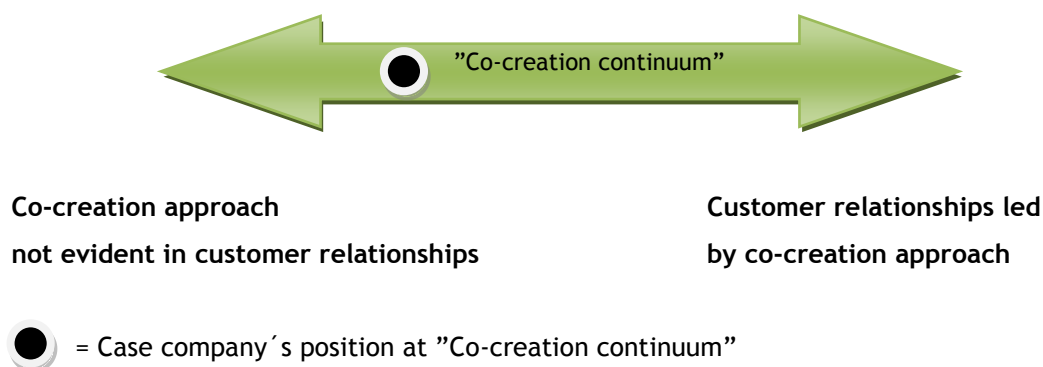
● = Case company´s position at "Co-creation continuum"

Figure 3. Co-creation continuum in customer interactions and relationships

In summary, it can be noted that the company's operational model is closer to traditional strategic thinking. In operations and inner determination there are indications of efforts to move closer to the customer and the co-creation operational model, but planning and actions are not yet concrete. Customers are seen more on utility where company can benefit from rather that seeing them as partners in developing the business.

4.3   Service design processes

Customer insights can be gathered in different ways. Structured methods like surveys and questionnaires can give companies information about their customers, but only participatory methods, and listening and learning together are moving companies towards the co-creation approach.

The customers have a central role regarding information, innovations and creativity. Only by spending time with customers can sufficiently deep customer information be gathered. It is of primary importance to create as diverse and deep an understanding as possible of what creates value for the customer. In this way, the customer's hidden needs can also be discovered, which enables the company to stand out and gives it a competitive advantage.

Based on the interviews, the company systematically collects customer feedback only through a customer satisfaction survey conducted externally by the Financial Management Association. This method is very structured and does not provide customer-specific

information. Based on the answers, results of the customer satisfaction survey cannot be utilized in development of business operations. Another method to obtain customer feedback is through reclamations.

Based on the answers from the interviews it can be concluded that the company has an inner determination to gather customer feedback through conversations with the customer, but concrete plans for this do not yet exist. The answers reflect that the interactive and systematic gathering of customer feedback characteristic of the co-creation model has not been done in company's business sector.

The company's model for gathering customer feedback is based on a structured model and is therefore fairly far from the ideal situation for a co-creation model, where the company and the customer discuss, share feedback and learn together.

Interviewees´ quotations to illustrate the interpretations:

> *"We have got feedback in customer interaction and we have done customer satisfaction survey, but we do not have any systematic way to gather customer feedback"*

> *"We have done customer satisfaction survey every other year, but we just noticed that it has been quite ok, but it does not quite measure right things"*

> *"The customer satisfaction survey is made by financial administration union so that customers send their answers to them and they will combine answers for us."*

> *"We have gone through the customer satisfaction survey and the results with staff but the results have never been showed to customers."*

Company can process the gathered customer information either within the company or they can invite their customer to dialogue where the information can be processed together. When customers share information and feedback about their service experiences in a continuous dialog, the company has better possibilities to discover and understand the hidden needs of customers. Customers do not always recognize their own hidden needs, so finding them can help the company improve its service offerings.

Based on the interviews, the company usually handles feedback internally. Feedback is received mainly through two sources: reclamations and a survey conducted by the Financial

Management Association. Reclamations are handled primarily with the customer and in the management team of the company if necessary. The results of the customer satisfaction survey are handled internally in the organization. Based on the answers it can be concluded that the company is aware that the customer satisfaction survey does not necessarily provide the best possible and most useful information regarding customer satisfaction.

In addition, the company is not currently able to process customer feedback at the organizational level. However, the answers reflect that inner determination to adopt a customer management system does exist.

According to the co-creation model, the best type of collaboration with the customer is achieved when feedback is handled together with the customer. In this model, the company represents the other end, where feedback is handled internally in the company.

Interviewees´ quotations to illustrate the interpretations:

> *"The way of handling customer complaints depends every time on the situation.. we try to solve them as quick as possible. The goal is reply in twenty four hours.. but we do neither have any systematic model nor any system where we could see if some case is still open."*

> *"The customer satisfaction survey is made by financial administration union so that customers send their answers to them and they will combine answers for us and we will go it through."*

> *"We go through the customer satisfaction survey at the offices together with staff.*

> *"When we have got the results from the customer satisfaction survey we have not taken any particular actions based on the results."*

When customers share information and feedback about their service experiences in a continuous dialog, companies and customers can learn together about new issues, which can then be used to develop new services. Developing a value proposition can be formed inside the company in a top-down process, but the co-creation approach emphasizes a down-top process where company´s employees and customers are invited to the development process.

Based on interviews, the company's development methods are largely management-driven internal operational models that aim to facilitate its own operations and increase its own

business. The answers also reflect that the company may not currently have the capability to process customers' development ideas even if the customer brings them up. Development policies are therefore one-way; from the company to the customer or from the customer to the company.

In the co-creation model, development policies are created together with customers and the development work itself takes place through deep collaboration between the company and the customer. In this respect the company represents the other end, in which internally created, management-driven development policies direct operations.

Interviewees´ quotations to illustrate the interpretations:

> *"We have now collected the critical mass (of customers) and now we should take advantage on that mass.. so we could sell more to existing customers."*

> *"..if we could automate and would rethink some working models we could add some more services to the basic offering and customer might pay more for them."*

> *"I think we should be able to hire the best accountants for us because like I said it is the most important thing to the customer." (when asking what would be most important thing to develop)*

> *"Unfortunately I have to say that all development ideas come from inside and are more like improvements for current work and tasks"*

Testing of value proposition can be done either inside the company or with customers. Unfortunately we could not get any evidence about testing new value propositions based on the interviews.

Launching of value proposition may lead to selling services and products, but in the co-creation approach companies concentrate on providing solutions to their customers. Unfortunately we could not get any evidence about launching new value propositions based on the interviews.

"Co-creation continuum"

Co-creation approach   **Service design process led**
not evident in service design process   **by co-creation approach**

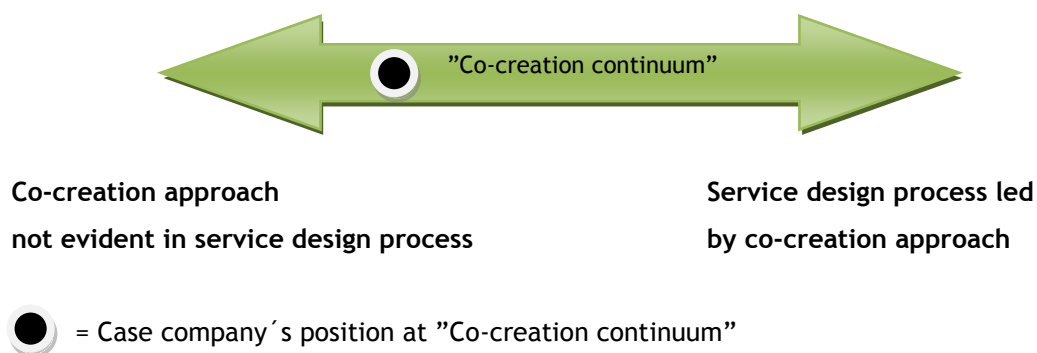● = Case company´s position at "Co-creation continuum"

Figure 4. Co-creation continuum in service design process

In summary, it can be concluded that the company's operational model is closer to a traditional process for development of services. In operations and inner determination there are indications of efforts to move closer to the customer and the co-creation operational model, but planning and actions are not yet concrete.

5   Conclusions

There are several recognized challenges to be developed in the case company. They are divided under every co-creation categories in the context of this case study. The concrete actions and further planning are out of scope of this case study.

In strategic thinking the case company represents the other end of the co-creation model where strategy is planned and executed top-down and inside-out. In order to turn this around the company needs to see forces of changes that are defining the future of their business environment and they need to build their future strategy based on these. They also need to clarify their mission and vision and clearly communicate these to their staff so that everyone could live up to these. Mission and vision as well as the strategy should be built on company values. Values need to be clear and concrete to staff.

After the company is aware of the forces of change they will know what they need to do in order to succeed. Then they need a good reason to start the journey of change. In this case the good reason is this analysis which shows that that there is much to do in order to gain business in the market. The company also needs to define goals where they are heading and the timeline for getting there. This analysis can work for inspiration for those goals as it will be later presented. After defining the goals the company needs to have a map for their journey. This map will tell them what to do and when. This map has to be built based on this

analysis and the areas of development. Finally the organizational culture based on values, mission and vision will work as a catalyst on the way.

Based on the interviews and the analysis one development area for the company is to re-think their strategic approach and business model more towards involving customers at the early stage of development projects. This can be done through mutual discussion and brainstorming session, interactive feedback gathering and for example just getting in touch with customers more often. There are lots of different service design methods that can be used on understanding customers better, e.g. interviews, focus groups, and storytelling.

Service Design would be excellent approach for the case company as it leads to better customer experience, better adaption, reduced costs, and increased return of investment, great new opportunities, and faster results. As a starting point the company could first define service moments which mean that every service is made of phases or episodes which together constitute the service entity. Episodes are called service moments. Secondly they could define the service journey where customer experiences the service as a service string made of individual, succeeding service moments. Service string is formed both by explicit service development actions as well as by customer's choices. Finally there are service touch points to de defined. Each service moment is made of a number of touch-points, through which the service is seen, heard, smelled and so on. Touch points are divided into environments, objects, processes and people.

Through understanding their customer and customers´ service journey and experiences from it the case company can come up with ideas and plans to participatory methods. They will also better understand the importance of joint-created solutions. Finally they will understand their customers´ value creation processes and their use of resources.

The recognized challenges in customer interactions and relationships are in creation of the business model that would target intentionally long term relationships, challenges really knowing the company´s customers, challenges to change the organizational culture and business model to have proactive discussion with customers, challenges to activate customers to act proactively towards the company, and challenges as seeing risks in sharing resources.

Companies cannot consider customers only as the passive recipients of the service provider´s outputs, but they should be seen as an integrated part of the organization. When customers are used as integrated part of the organization it may result innovative thinking and breakthrough services. If customers are seen only as a source of information it may lead only in minor improvements. Dialogue as an advanced form of marketing communication is noticed because it supports co-creation of value and sustainable competitive advantage. Value co-

creation necessarily requires interactions between the supplier and the customer. Co-creation opportunities that suppliers have are strategic options for creating value.

The recognized challenges in service design processes are the lack of the knowledge how to get insights directly from customers, the lack of the knowledge how to handle the customer insights with customers, and the lack of knowledge how to participate customers in new service development. This all requires a holistic approach towards service design methods as well as new tools to gather, save, and process the customer insights.

This research has been very beneficial to the company to understand the current state of their business in terms of value co-creation and co-developing business and services with their customers. After reporting this case study to the company the owners initiated the development process which started with brainstorming and listing the most crucial points to be developed based on these results presented in this case study.

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Figures and Tables

Figures

Tables