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# **Perceptions of Value Co-creation in the Recipe Delivery Service Industry**

An exploratory case study

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## ABSTRACT

This report presents a critical analysis of how recipe delivery service (RDS) companies perceive they are co-creating value with their customers and what the potential benefits to RDS firms may be. An analysis of the industry finds RDS firms lacking many sustainable sources of competitive advantage and proposes value co-creation could be a source of relational advantage. Since these companies are on-line subscription retailers, artificial experience environments need to be developed to facilitate firm-customer interaction. The concept of value co-creation is broken down into its key elements and a number of potentially beneficial co-creative activities are hypothesised. Then semi-structured interviews were conducted with nine RDS and related firms across six countries to observe how they believe they engage with the paradigm. What was found was that a number of these firms thought they lacked the capacity to engage in product customisation; this does not exclude them from co-creating abstract value propositions. Most companies were heavily reliant on social media as their main experience environment which can facilitate some degree of interactivity but is limited in its scope. The perception of the level on customer interaction on social media appears to be higher than what was observed during data validation. There was also evidence of companies starting to construct *value constellations* to develop an overall consumer experience.

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## 1 INTRODUCTION

This paper explores if and how recipe delivery service<sup>1</sup> (RDS) businesses believe they apply value co-creation practices to develop unique value with their customers. *Co-creation* is a term devised and defined by Prahalad and Ramaswamy in 2000. The understanding is that customers have heterogeneous needs that are not fully satisfied with standardised products or services. The challenge for businesses is to create unique, personalised value for the consumers and this is best achieved when the value is co-created between the consumer, firm and other potential stakeholders. The exact research questions this paper addresses are summarised below:

- (1) Exemplify the ways in which RDS and related businesses currently perceived their adoption of co-creative practices, and**
- (2) In what ways could small/new RDS firms in the Swedish context benefit from co-creation**

It is important to note that this report does not seek to answer *how* firms are actually co-creating. Such a question would likely require an in-depth ethnographic study of consumer behaviour to complement this paper's findings and this was beyond the resources afforded to this research. It instead answers how firms *perceive* they are engaging with co-creative practices with evidence from social media to see if such beliefs can be validated. A suggestion is presented in further research to use this paper as a foundation to conduct such a reality-based study.

The paper is designed for those with an academic interest in the application of value co-creation within an emerging industry, both from a theoretical and empirical perspective. It will also be of use to business strategists, particularly those in the RDS and related industries, for the discussion of a range of co-creation initiatives and their implications. The focus of this report will be on the European market, particularly Sweden; however its findings should also be applicable internationally.

This report first questions what the competitive dimensions of the RDS industry are and argues that customer engagement and auxiliary firm collaboration are the most promising sources of sustainable competitive advantage. However customer engagement needs to be artificially stimulated because of the lack of interaction in on-line subscription models (chapter two). This is followed by a literature review of the value co-creation concept in order to present an analytical framework with which to base the empirical study around (chapter three). Four hypothetical benefits of value co-creation to RDS companies are then considered to help provide a framework for the second research question (chapter four). The report next details the methodology for a case-study to understand how RDS and related firms perceive that they are currently co-creating value and what benefits it might bestow on their businesses (chapters five and six). The results from this study are then analysed and discussed to see which practices are believed to exist in the companies, in what ways they are impacting them and whether these perceptions are well-founded. What was found was that some respondents did not see the benefit in co-creating value, those that did questioned the practicality of its implementation. Other seemed to over-estimate the extent to which social media was facilitating dialogue (chapters seven and eight). Finally, recommendations are presented for how RDS and related businesses could benefit from value co-creation based upon these analyses (chapter nine).

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<sup>1</sup> Terms for this industry include *recipe bag*, *food bag*, and *food basket* and are used interchangeably. *Recipe delivery service* is the label two key British firms use to describe themselves and was selected for use in this report as it was more descriptive/less vague than the alternatives (Jessica's Recipe Bag, 2013; Gousto, 2012).

## 2 THE RECIPE DELIVERY SERVICE INDUSTRY

RDS firms deliver recipe bags (Swedish: *matkasse*) with a set number of preselected recipes and associated ingredients for a set number of people regularly to consumers on a subscription basis. The idea is that customers will cook one recipe per day for dinner that evening. Although there is a wealth of variety in speciality and niche bags, there is a tendency for them to have a number of practical similarities. After investigating the websites of forty-six RDS firms (listed in the appendix), this report concludes that a *typical* bag contains 3-5 meals for 2 or 4 people and is sent out weekly, primarily on a Monday. The target consumers are usually (but not always) families and couples who want to eat well but lack the time.

Recipe bags share similarities with other pre-selected food delivery concepts such as vegetable boxes. Where they differ is that they provide a complete walk-through solution that turns the assortment of food items into finished meals.

### 2.1 Industry growth

It is generally assumed that the first RDS company globally was Middagsfrid, which was established in Sweden in 2007 (Moskin, 2013). Since then the concept has become prevalent in Sweden; two main internet comparison sites list fifty-two companies as of April 2013 with the largest player reporting a 2011-12 turnover of 312M SEK (36.5M EUR<sup>2</sup>) (Allabolag.se, 2013; Matkasse.com, 2013; Matkaseguiden, 2013). The industry is little mentioned in marketing literature, however the increase in recipe bag sales has reportedly accelerated the growth in overall Swedish internet retail, which grew 13% in current value in 2012 to reach 2.15B SEK (252M EUR) (Euromonitor International, 2013). A conservative estimate of the Swedish market potential, extrapolated from sales, predicts that the market would reach 600M SEK (70.2M EUR)

in 2013 with projected turnover of 1B SEK (117.0M EUR) by 2015 (Þórarinsson, et al., 2013). The concept has internationalised throughout Europe, USA and Australia via foreign expansion of (primarily) Swedish and German firms as well as local start-ups in the new markets.

### 2.2 Recipe bags as a service

From a product perspective the firms provide only ingredients and recipes, both of which are readily and conveniently available to most consumers; the former at competitive prices and the latter online for free. Thinking of recipe bags as products does not explain customers' willingness to pay a price premium. If we instead look at the services RDS companies provide the value of the offering becomes much more evident.



Figure 1: European countries found to have RDS firms

<sup>2</sup> This and all further conversions were made at [www.xe.com](http://www.xe.com) on 19<sup>th</sup> April 2013.



Customer job-to-be-done	Customer pain	RDS service solution
<b>Deciding what to eat</b>	Browsing and evaluating for recipes	Taken care of by RDS firm
	Deciding and committing	Decision outsourced to food professionals
	Repetitive meals	Constant access to a variety of new recipes and ingredients
	Bland meals	Meal quality and taste becomes is given special attention by the RDS firms, many of which use employ chefs
	Ensuring nutritionally balanced meals/following a diet regime	Some RDS firms have a nutritionist on staff to ensure meals are balanced/in line with specific dietary guidelines
<b>Shopping</b>	Deciding what needs to be purchased in the right quantities	Taken care of by the RDS firm
	Shopping (journey, browsing, queue, return journey)	Home delivery
	Obtaining food from trustworthy sources	Some RDS firms advertise traceable and transparent links back to food producers and some specialise in organic/local produce
<b>Overall process</b>	Time consumed in the preparatory elements of cooking listed above	Preparatory elements are outsourced to RDS firm saving the consumer time

**Table 1: RDS service solutions**

As Table 1 illustrates, recipe bags provide a number of relieving services. The RDS firm takes care of the planning and shopping tasks so customers are enabled to cook without having to worry about the preparatory activities. What is interesting with this concept is that it relies upon changing consumer behaviour in two broad ways:

1. For customer who already cook daily, it represents an outsourcing of traditionally consumer-driven tasks
2. For those who do not cook regularly, it embodies a *redistribution of tasks* between firm and consumer; shopping and recipe decision are now the domain of the company while the onus of daily food preparation lies on the customer<sup>3</sup>.

This second point is of interest in that the obvious motives of time-saving and convenience do not adequately explain why consumers would take on new responsibilities, but imply rather that there must be some kind of value in the cooking process itself, or 'value-in-use'. This redistribution has been seen in other industries with IKEA being a much quoted example where the consumer becomes a co-producer. In this case, cost advantages and logistics are often assumed reasons that explain why

<sup>3</sup> Unfortunately, no figures were found to indicate how many people might fall into either category. However there is evidence that both kinds of experience occur from what has been written on social media platforms and from what respondents stated in the empirical study.

customers agree to spend their free time deciphering glyphs and self-assembling their Billy bookcases. However, researchers in the US discovered that self-satisfaction, pride and feelings of competence are additional outcomes of self-assembly of not just hedonic products (e.g. build-a-bear) but also utilitarian ones, something they dub 'the IKEA effect'. This suggests there are additional unintended consequences of customer co-production – a value facilitated by the firm but created by the customer (Norton, et al., 2012). The RDS consumer can also be seen as the co-producer.

Reasons why people cook in general are plentiful but they do not explain why consumers did not cook before. Some interview respondents' claimed that they have customers that fall into this category. Additionally, it is evident from a number of companies' webpages that they target reluctant cooks<sup>4</sup>. It would be logical to assume that the willingness to cook was held back by the 'pains' associated with the preparatory elements of cooking which are now outsourced by the RDS firm. A customer survey conducted by one of the companies interviewed in this report found the convenience<sup>5</sup> of a recipe bag to be the main reason to purchase, which strengthens this assumption.

The simultaneous relieving and enabling occurs in several service innovations with some authors suggesting that the enabling function may actually be more favourably in certain situations (Michel, 1995; Rubalcaba, et al., 2012). Enabling customers allows them to tailor the value to their unique circumstances and needs, while relieving customers of activities and control would mean that burden would have to fall upon the firm. Wikipedia is an example of an organisation that benefits from content and editing services at levels it would not be able to achieve in-house nor that many, if any, competitors could match; the results of which benefit the sites users as well in terms of the sheer amount of up-to-date information accessible at no charge. In general, in order for firms to personalise experiences when they have all the control would require very accurate, instant and intimate knowledge of each individual's circumstances and the in-house capacity to tailor the propositions accordingly. This is unlikely to be economically viable, which explains the proliferation of standardisation in mass market product offerings (Chesbrough, 2011; Prahalad & Ramaswamy, 2004a).

## 2.3 Sources of competitive advantage

This section will look at the ways RDS firms can gain competitive advantage over competitors. Grant (2010) suggests that firms achieve superior profitability through two mechanisms: (1) locate the firm in an attractive industry, or (2) establish sustainable competitive advantage over competitors (p. 210). Of these options he argues the latter is more important as external sources of advantage are subject to change which is occurring at an ever more rapid pace, a view shared by Chesbrough (2011).

### 2.3.1 Industry attractiveness

Industry attractiveness is hard to ascertain given that quantitative data is hard to find on this emerging industry. However, if one were to use Porter's five forces model as a guideline<sup>6</sup> it does not

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<sup>4</sup> E.g. Hello Fresh's UK site hosts a video entitled "*Cook delicious dinners at home*" and quotes a news critic with the following: "*If you're a 'can't cook, won't cook' type, this might persuade you to pull on your oven gloves*".

<sup>5</sup> Convenience of what (delivery, shopping, assortment etc.) was not established by the survey

<sup>6</sup> **Disclaimer:** Porter states that a common application pitfall of his model is to use it to list factors rather than to engage in 'rigorous analysis' (2008, p. 92). Without access to numerical data this is difficult to achieve. The use of his model is nonetheless a useful framing device to map various factors that *may* affect profitability.

seem to portray the RDS industry as particularly attractive from a profitability perspective. As Porter (2008) points out, fast growing industries do not necessarily imply they are attractive. Entry barriers in RDS are low with recipes containing little or no intellectual property rights in themselves, and there are low start-up costs due to cash-flow positive procurement and web-based market presence. There is a plethora of substitute products and services including internet groceries, vegetable boxes, restaurants, microwave meals, bricks-and-mortar supermarkets, convenience stores *et cetera*. As the product is essentially a bundled product/service combination it is also vulnerable to re-bundling into a future substitute product. This coupled with high competition from the large numbers of established and start-up firms ensure customers retain high bargaining power. The industry standard is a no-commitment, opt-out subscription model and so customers can leave or pause on a whim and there are no obvious lock-in mechanisms. Supplier bargaining power is subject to variables such as order quantities, supplier availability and the degree of product specification (e.g. organic).

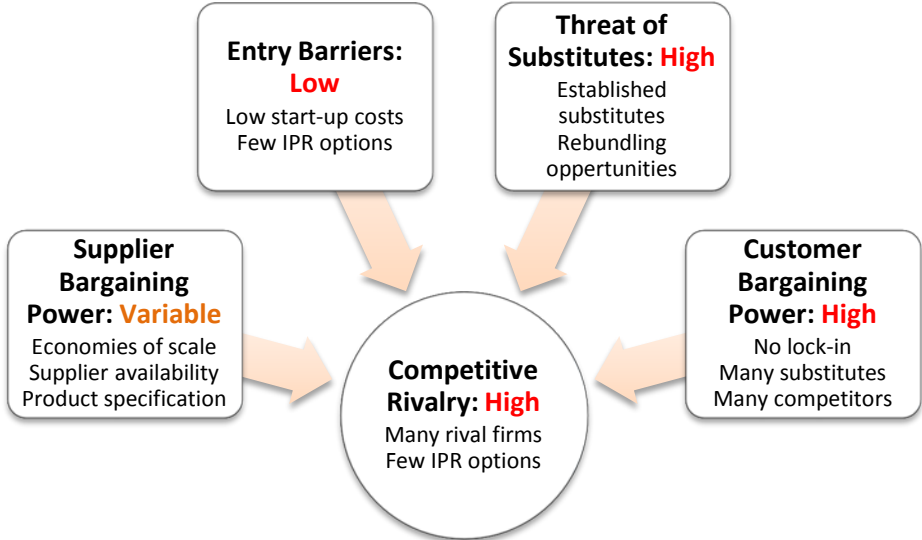


Figure 2: Porter's five forces model, adapted and applied to the RDS industry

**2.3.2 Resources and sustainable competitive advantage**

With apparently poor industry attractiveness, Grant would suggest that it is therefore essential for firms to possess some kind of internal or relational source of competitive advantage in order to achieve a sustainable presence. Resources within a firm provide it with organisational capabilities that, if utilised strategically, provide a company with competitive advantage.

In order to assess where RDS firms could find sources of sustainable competitive advantage it is first necessary to know what kinds of resources are present within the industry. Different businesses will, self-evidently, have different bundles of resources and competences and therefore any evaluation of resources present within an industry would have to be done on a firm-by-firm basis. The results from this search are listed in the table below with the resources broken up using Grant's resource typology<sup>7</sup>. This list is by no means a complete assessment.

<sup>7</sup> Culture and motivation were omitted from this study since they would require more in-depth study

	Resource type	Resource observed	Firms this resource is present in
Tangible	Financial	<ul style="list-style-type: none"> <li>• Backing by venture capitalists</li> <li>• Backing by other institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Kochzauber (Project A Ventures, 2012)</li> <li>• HelloFresh (Rocket Internet, 2013)</li> <li>• Kocken och jag (GU Holding, 2013)</li> </ul>
	Physical	<ul style="list-style-type: none"> <li>• Facility to manufacture sauces</li> <li>• Packing facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Kocken och jag (Kocken och jag, 2013)</li> <li>• All firms observed</li> </ul>
Intangible	Technology	<ul style="list-style-type: none"> <li>• Website</li> <li>• Ordering software</li> </ul>	<ul style="list-style-type: none"> <li>• All firms observed</li> <li>• All firms observed</li> </ul>
	Reputation	<ul style="list-style-type: none"> <li>• TV advertising</li> <li>• Ethical Certification</li> </ul>	<ul style="list-style-type: none"> <li>• Linas Matkasse (Youtube, 2013)</li> <li>• Ecoviva (Ecoviva, 2013)</li> <li>• Gröna Kassen (Gröna Kassen, 2013)</li> </ul>
Human	Skills/Know-how	<ul style="list-style-type: none"> <li>• Recipe making</li> <li>• Logistic skills</li> <li>• Marketing skills</li> </ul>	<ul style="list-style-type: none"> <li>• All firms observed</li> <li>• All firms observed</li> <li>• All firms observed (varying degrees)</li> </ul>
	Communication Capacity	<ul style="list-style-type: none"> <li>• Social media – Firm push</li> <li>• Newsletter</li> </ul>	<ul style="list-style-type: none"> <li>• All firms observed</li> <li>• All firms observed</li> </ul>
	Collaboration Capacity	<ul style="list-style-type: none"> <li>• Collaborations with auxiliary firms</li> </ul>	<ul style="list-style-type: none"> <li>• Turntable Kitchen (Turntable Kitchen, 2013)</li> <li>• Linas Matkasse (Linas Matkasse, 2013)</li> </ul>

Table 2: Resources observed in RDS industry

Grant continues and suggests that the ability of a firm to capitalise on its assets is related to how well they can provide sustainable competitive advantage. This is dependent on a number of qualities the assets should possess as listed below:

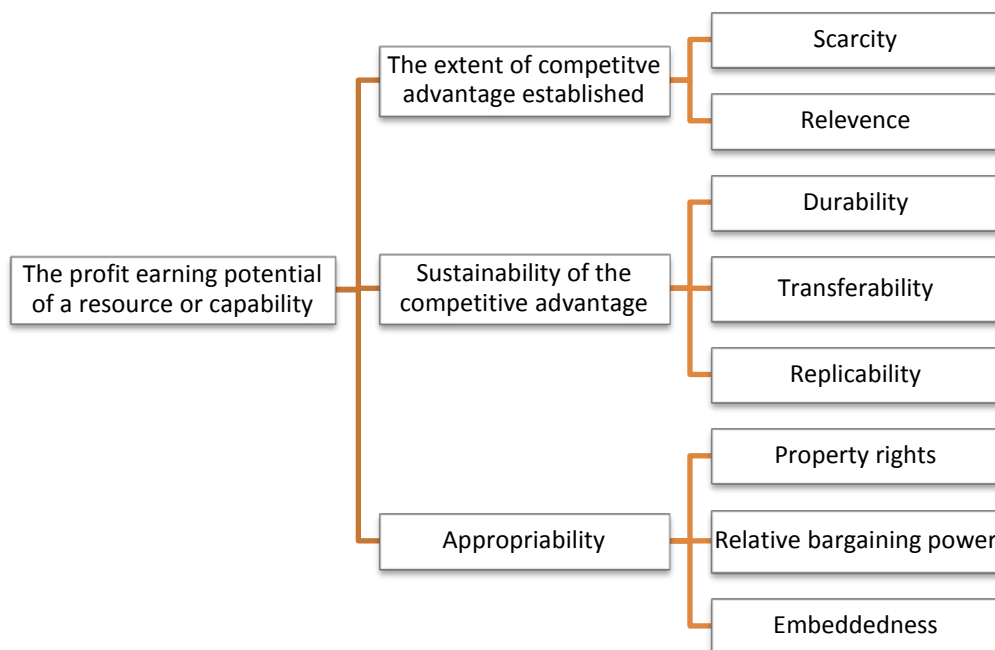


Figure 3: Appraising the strategic importance of resources and capabilities, adapted from Grant (2010, p. 136)

Of the resources observed in the table above, this report argues that only two of them have the potential to provide RDS firms with long-term competitive advantage. These are: customer interaction and auxiliary firm collaboration.

### ***2.3.2.1 Why the other resources do not provide advantage***

If we examine some of the other assets it becomes apparent that they do not possess attributes that will allow companies to appropriate profits from them in the long-term. Many of them, especially the physical assets, are not scarce but industry standards providing no one firm with the upper hand. Logistic solutions and packing facilities are readily available from third parties. Many features that have proven themselves successful can and have been readily imitated by rivals (with adequate funding); this includes product assortment extensions, advertising media and ethical certification.

The recipes themselves have virtually no intellectual property rights mechanisms which prevent rivals from imitating or customers from self-serving. Some firms provide own-brand ingredients to complement recipes but many of these can be readily substituted with supermarket alternatives. It could be argued that recipe-development skills within RDS companies are superfluous since companies could theoretically base their recipe bags on other people's recipes.

Recipe bags themselves are self-evidently low-tech. The companies are facilitated by websites and ordering software but these are readily available, even when companies lack internal technical competence, via IT consulting services.

### ***2.3.2.2 Customer interaction***

The relationship any firm builds with its customers fulfils many if not all of the criteria proposed by Grant to build long-term profitability (bar property rights). This is one of the main arguments made for firms to embrace customer relationship management, which theoretically and demonstrably leads to better capitalisation of existing customers (Strauss, et al., 2006). Furthermore, Hollebeek (2011), while pointing out the concept of customer engagement is complex, states there is evidence to suggest causation between levels of customer engagement and loyalty. Loyalty in turn can be perceived as a form of psychological lock-in. As recipe bags are consumer products that affect customer lifestyles frequently and obviously, engagement opportunities for RDS customers are numerous and this is an area where they have the potential to excel.

### ***2.3.2.3 Auxiliary firm collaboration***

RDS firms are neither rich in assets nor in property rights as they do not require them to function. Manufacturing, packing and logistics can all be outsourced. As one interviewee put it, RDS firms are essentially marketing departments (although this view was not explicitly shared by the other respondents). What they can do, however, is capitalise on the competitive advantages of auxiliary firms through collaboration. Strategic partnerships can allow RDS firms to benefit from the brand assets, scarcity and property rights present in industries that complement the recipe bag concept.

For instance, Middagsfrid recently began to offer Jamie Oliver branded cookware to attract new subscribers, which allowed the business to enjoy short-term brand association benefits (Matkassen.com, 2013). This in itself is not a source of long-term advantage since the promotion was temporary and open to replication by rivals. However, such initiatives can become a source of sustained advantage if they are developed in-line with Grant's qualities. Examples include signing exclusivity contracts with reputable brands/chefs (scarcity, transferability), exploring fusion branding opportunities (embeddedness) etc. RDS firms can be complemented by a number of related products and services including chef hire, personal trainers and even independent musicians (see chapter 4.1).

In order to take advantage of such schemes, a firm would need to possess capacity for collaboration as well as marketing competences.

### 2.4 Firm-customer interaction

Having argued that interaction is a potential source of competitive advantage, the following section will now address the nature of firm-customer interaction in the industry. RDS companies do not necessarily need to interact with their customers face-to-face beyond the point of delivery, and even this interaction is predominantly outsourced. Some firms that deliver during work hours do not even achieve this interaction, relying on the customers to suggest a place for the recipe bags to be kept safe while they are away (Gousto, 2013; Hello Fresh, 2013). Corporate homepages serve as the main information source and point-of-sale. As RDS firms operate on a subscription basis the customers are not incentivised to revisit the homepage unless they wish to alter the terms of their subscription or to search for information. This then presents a problem for RDS companies who want to establish on-going dialogue with their consumers.

A visual representation of these factors is presented in the service blueprint below, based upon the minimum interactive requirements of RDS firms to function. Service blueprints were originally proposed as a way of allowing a company “to explore all the issues inherent in creating and managing a service” (Shostack, 1984, p. 135). Since then the model has evolved to become more comprehensive and structured. Using guidelines set out by Bitner *et al.* (2008), a basic overview of routine Swedish RDS consumer experiences is exhibited in order to capture the dynamic process. The blueprint shows that after the subscription process, the customer experience is limited to the recurring events on the right-hand side of the dotted line. The empty space on the bottom right indicates the lack of firm-customer interaction beyond the point of delivery.

<b>Physical evidence</b>	Websites & social media	Corporate website	Text, email, app etc.	Recipe bag	Ingredients	Menu & ingredients	Finished meal	Dirty cook-ware	Rubbish
<b>Customer actions</b>	Browse	Subscribe	Receive confirmation	Collect delivery	Unpack food	Prep/cook food	Eat meal	Tidy	Dispose of waste
<b>Visible company<sup>8</sup> actions</b>		Website interaction		(Third party) delivery					
<b>Invisible employee actions</b>		Subscription set-up		Design, buy, P&P					
<b>Support processes</b>	Website, ordering & payment software			Logistics site & vehicles					

Figure 4: Service blueprint of the base level of activity required by an RDS firm

Before the point of subscription the customer interacts with the firm online in a visible manner, backed up by support processes. They can browse social media and comparison sites, interact in real-time with the corporate site and receive confirmations from the firm. However after the point of

<sup>8</sup> This is adapted from ‘Visible *employee* actions’ since that the firm is web-based. This is in accordance with point three: Modify the Blueprinting Technique as Appropriate (Bitner, et al., 2008, p. 80)

subscription the customer goes through a number of value-creating experiences without any meaningful communication. Beyond delivery the other actions – unpacking the food, cooking, eating, tidying and finally disposing of waste – are all customer experiences that happen in isolation.

Having established this point, it is important to mention that in practice channels of interaction are commonly kept open between firm and consumer. Social media is one of the more prevalent tactics used by RDS companies to ensure on-going dialogue. Out of forty-six RDS companies researched, all of them were active on Facebook, twenty-eight had a presence on Twitter and a further fifteen used some other form of social media. Social media in itself, however, is not immediately relevant to consumers' product utilisation experience. It may serve a brand communication, promotion and awareness function but presence on social media in itself does not build value for the individual subscriber in an obvious way. Activities that are used online to enhance the customer experience and build value include how-to and 'cooking tips' videos which guide the consumers to enjoy more the preparation and consumption of the meals. Such videos are an example of firm-push innovations to build value for a consumer who acts as a passive receiver; these initiatives are not dialogue but monologue. The value generated (i.e. the knowledge) is generic and its low appropriability means it provides little in the way of sustainable competitive advantage.

Conversely, social media can encourage interactivity amongst consumers and stakeholders with the company acting as a nodal firm (Normann, 2001). This interaction can facilitate the development of unique value for consumers in a number of ways. Questions can be answered by fellow users' comments with additional tips allowing customers to become more aware of how they can personalise the value proposition around their circumstances. Such dialogue can also facilitate ideation. Additional value can come about from the sense of belonging and motivation that can come through community interaction as well as any pride or status benefits from sharing pictures of customers meals.

## 2.5 Chapter summary

The purpose of this chapter was to provide the context in which the empirical study will take place with particular attention on attributes that would affect RDS firms co-creative abilities (such as the value of a recipe bag and how RDS firms interact with consumers). It has covered the rise of the emerging RDS industry and suggested that it provides value from the services it offers in addition to the goods it delivers. The concept also inherently implies that customers want to participate in the co-production of their meals. Despite not being located in an 'attractive industry' (as Porter defines it) and lacking many sources of sustainable competitive advantage, it has been argued RDS firms can benefit from customer engagement and auxiliary firm collaboration. However since necessary interaction ceases after subscription, firms must be proactive if they want to ensure they maintain a relationship with their customers.

One solution to ensuring on-going dialogue and customer engagement *beyond* transaction is the adoption of a co-creative business model, the framework for which will be presented in the next chapter.

### 3 THE CONCEPT OF VALUE CO-CREATION

Value co-creation was a term coined by Prahalad and Ramaswamy (2000) which is a paradigm that proposes firms should seek to create on-going mutual firm-customer benefit beyond simple exchange. Since these authors developed the concept (albeit on the shoulders of other authors, some of whom are mentioned below) their depiction of the concept has tended to be the basis for other contributions and critiques in co-creation literature and so these authors will be mentioned frequently in this paper. In brief co-creation recognises that, in some sectors, customers are increasingly 'co-creating' value with companies by interacting with businesses, customer communities and stakeholders. Although value can be facilitated by products or services the terms are not synonymous and value can arise without ownership or transaction. For instance, value can result from answering a customer's questions or from a sense of belonging. Therefore what co-creation is not is merely another term for mass customisation.

The concept is customer-centric (or, perhaps more accurately, interaction-centric) and emphasises individuals rather than markets. Customers have unique circumstances and needs; by allowing them to co-create their own value, companies facilitate the tailoring of *unique* value suited to *individuals*. Traditionally, customers are presented with a two-option choice – buy a product or don't buy it. This is replaced in the co-creation concept, through interactivity and personalisation, allowing many different experiences to be co-developed between the firm and customer. In order to facilitate this interaction firms should create *experience environments* where unique value can be experienced. These conceptual environments can be physical (e.g. Ducati Riders Club meet-ups), virtual (e.g. Android Marketplace) or a combination of both and are about enabling customers to create value beyond the control or limits of the company.

Co-creation relates to a number of other business concepts and phenomena related to openness and outsider involvement. It shares similarities with Chebrough's (2011) *open innovation* model in that it recommends transparency and access to community members outside of the firm's sphere of influence. Co-creation also mirrors von Hippel's (2012) numerous works on *lead-user innovation* in that it recognises the potential and competences inherent in customer communities and their ability to tailor offerings to their own circumstances with or without the company's involvement. What the co-creation concept suggests is that more than just recognising that this phenomenon occurs and learning from it, companies could actively facilitate the emergence of such consumer initiatives. Co-creation's suggestion that companies act as intermediaries, or *nodes*, between firms, stakeholders and customer communities is reminiscent of Normann and Ramírez's *value constellation* (1993) – the idea that instead of occupying a position in a linear value chain, companies should network with a myriad of suppliers, allies, customers and other agents to reinvent value based upon the recombination of competences. Value co-creation though places more emphasis on networking with consumers rather than businesses. It also shares similarities with *crowdsourcing* through its reliance on customers to provide useful contributions to the value proposition. Yet the two differ in that crowdsourcing tends to be commissioned work designed to provide an ultimately standardised product or service, whereas co-creation emphasises that customers contribute value on the individual level to tailor value propositions to their unique circumstances.

This chapter serves two functions that are (1) to educate the reader about the concept of co-creation in order to aid their comprehension of the findings, and (2) to provide the theoretical foundation for



the empirical study. It will start by exploring **why** companies co-create and weigh up the benefits and risks (chapter 3.1). Next it will ask **who** is capable of co-creating and argues that the main prerequisite is the adoption of a service dominant logic (chapter 3.2). Then it will follow with **how** co-creation is achieved (chapters 3.3 to 3.5). Co-creation is fundamentally about enabling customers to create unique value tailored for them. This customisation is an interactive process that takes place on an experience platform, facilitated by the adoption of technology. All experience platforms can be described as being based upon the combination of four 'elements'. Therefore the 'how' section will start by discussing the foundation elements and work its way up to the crux – personalised value creation (see Figure 5).

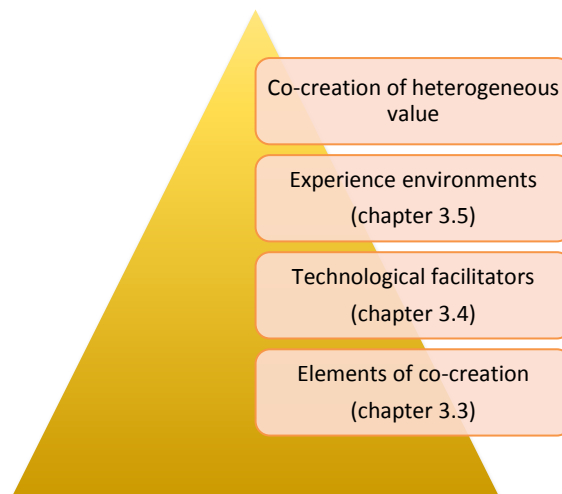


Figure 5: How to co-create

### 3.1 The potential benefits of co-creation

This section will critically discuss the arguments for why firms could benefit from co-creation. The purpose of doing so is to provide a foundation for the development of hypothesis of ways the RDS industry can theoretically benefit from the adoption of co-creation practices (chapter four). These hypotheses help to answer the second research question. After having conducted a literature review, this paper proposes there are four main reasons why co-creation could potentially benefit companies: (1) escaping commoditisation, (2) access to external competences, (3) catering for heterogeneous needs, and (4) innovation.

#### 3.1.1 Finding advantage in commoditised industries through customer experience

Chesbrough (2011) proposes that when business process knowledge and insights are accessible and are imitable at low cost as they are in the RDS industry, the firms within that industry become victims of what he refers to as the 'commodity trap'. Commoditisation of an industry, he argues, results in a perpetual arms race of incremental innovations where "one must run as fast as one can simply to stay in place" (p. 10) The solution he proposes is for the company to change their business logic from goods-dominant (G-D) to service-dominant (S-D) and to focus on delivering customer experiences rather than imitable, substitutable products (the distinction between the logics is discussed further in section 3.2). Experiences and relationships are tacit and hard to understand or emulate and nurture a psychological bond between firm and consumer. Quelch (2007), initially suggests a G-D logic approach to tackle commoditisation (innovate, bundle, segment) but later concedes that when marketing products with low innovation potential one should adopt a service-oriented approach.

An example Chesbrough provides of the failure of product innovation in a commodity market is the short-lived dominance of Nokia on the mobile phone market compared to the longer-term advantage enjoyed by Apple. Nokia focused on product innovations which were quickly imitated by competitors and enjoyed short product life-cycles before becoming obsolete. Apple on the other hand developed an experience platform of apps, music and software that was extendable and interactive and could be tailored to the individual, precisely what co-creation theoretically delivers.

The belief that it is beneficial to develop personalised customer experiences in commoditized industries is shared by business leaders as well as academics. A review of large speciality chemical manufacturers found that senior management believed closer customer relationships were effective in combating product commoditization (Valk, 2012). BASF chairman Kurt Bock, when describing how to find advantage, is quoted as saying “the focus of innovation is shifting from individual chemicals to customized products” (p. 23). Customization allows firms to deliver additional value beyond commodity and co-creation is all about facilitating the customisation of value. This is echoed by Ray Will, Director of IHS Chemical, who claims “the only way to differentiate is to give more than just a product” (*ibid.*) demonstrating his belief that the adoption of S-D logic is a route to competitive advantage.

A contrasting view is that the notion of the eventual commoditisation of products is neither inevitable nor permanent. There are many examples of firm-centric innovations that allow previously price-driven industries to return to a pre-commoditised state: Dyson vacuum cleaners, Starbucks coffee and Evian water all demonstrate this phenomenon (Schrage, 2007). This does not imply that companies cannot find advantage through developing experiences; what it does so is challenge Chesbrough’s assertion that companies cannot find competitive advantage in seemingly commoditised industries through traditional product innovations as well.

### **3.1.2 Access to customer competence**

Customers are sources of competence that go beyond the capabilities of the firm. They can encourage active dialogue, mobilise customer communities, manage customer diversity and co-create personalised experiences in ways that firms would struggle to imitate (Prahalad & Ramaswamy, 2000).

Active dialogue such as customer book reviews on Amazon help guide new customers through their sales experience as well as giving engaged customers a platform to express their opinions. Consumers rarely have a complete overview of information and their subjective assessments of firms or value propositions maybe ‘miscalibrated’ with reality (Alba & Hutchinson, 2000). The encouragement of information-sharing between consumers could be beneficial to increasing their understanding. Rackham (1989) discovered that a major barrier to sales commitment was the presence of concerns in the clients mind, usually founded in ignorance, and that dialogue can help resolve these concerns. It should be noted however that free dialogue is not without risk and can be a source of misinformation when members of the consumer community over-estimate their true level of expertise (Alba & Hutchinson, 1987). For this reason, Prahalad and Ramaswamy (2004a) suggest that companies should have a presence and some degree of influence over such communities without becoming too controlling and losing the benefits that come from their open autonomous nature.

User communities are facilitated by the growth of Web 2.0 and the dialogue within these communities develop value that is attractive for consumers (advice, belonging), firms (consumer research) and stakeholders. These communities can be encouraged or facilitated by the firm or may evolve independent from it. In one empirical study, user-to-user interaction on firm-hosted communities was found to be beneficial to companies since (1) customers would share and inform others of product features and innovations making the company's product assortment more attractive to potential buyers, and (2) firms were able to learn from lead user innovations to develop more appealing products (Jeppesen & Frederiksen, 2006). The benefits of communities go beyond simple communication and have also been shown to provide firms access to the technical expertise of lead users. However the benefits of this were found to be more suited for the development of new product functionalities rather than developing design and usability improvements (Mahra & Lievens, 2012).

### 3.1.3 Catering for customer heterogeneity

Traditional marketing techniques place emphasis on treating customers as groups rather than individuals, as demonstrated by the segment-target-position philosophy taught in much marketing literature. The benefits of this model are easy ascertain from the firm's perspective; economies of scale, standardised production and marketing etc. However this approach forces customers to adapt to the products rather than the products to the individual customers. It also ignores those with minority needs (Chesbrough, 2011). By facilitating co-creation, firms empower users to tailor value propositions around them. The customer is therefore enabled not just to benefit from a value proposition in their present circumstances but also as their circumstances change. The buy/don't buy dichotomy of straightforward retailing would force a customer to cease being a customer when there circumstances changed in such a way as to make them incompatible with the product.

A simple analogy can be provided comparing a car to a bus. A bus service from A to B will suit a consumer so long and they need to keep travelling between those two points. They may need to walk a little distance to reach the bus stop too, thereby adapting themselves around the service. If the consumer moves house to somewhere with no bus service they are no longer in a position to purchase further service. Conversely, a customer who owns a car can drive from A to B also, at a time of their choosing and park the car as close to those two points as they wish, so long as the customer provides their own driving services. If the car owner were to then move house they could still cater to their own needs by adjusting their behaviour without any additional input from the car manufacture. In co-creation terminology, the car manufacturer has *co-created a driving experience* with the consumer by *enabling them to develop their own value*. The bus company represents a business that attempts to control and provide all of the value whereas a car manufacturer empowers a customer to co-create their own unique value.

Although concepts such as mass customisation can be viewed as a form of co-creation, they are limited in their ability to be tailored beyond a firm's capability. If the firm is to action the personalisation of value they need to have in-built capacity to cope with the additional activities. Increasing complexity becomes 'value-draining' as firms make the trade-off between the economic and efficiency benefits of standardisation and benefits of customisation. Anderson *et al.* (2006) argue that in order for firms to redress this balance customisation should be reflected in higher retailing costs. This suggestion is comparable to what Prahalad and Ramaswamy (2004a) refer to as the *price-experience relationship* in which they argue as the value increases through interaction, firms need to

be prepared to re-negotiate corresponding prices. Anderson *et al.* continue to claim that, despite the challenges, complex customisation options may have a positive impact on revenue, profit and loyalty if managed well.

### **3.1.4 Co-creation innovation**

Co-creation is much more than simply a forum to enable innovation, although facilitating interaction, idea exchange and debate can be a beneficial side effect of its adoption. Co-creation can also empower customers to actively develop their own *lead-user innovations* utilising their own capacity and means rather than have the company rely on users providing suggestions that the firm will then need to find the time and resources to develop. By creating experience platforms and enabling customers to develop their own value, businesses will facilitate these lead-user innovations as the intended uses, extensions and re-imaginings of the original value proposition leave the control and limited foresight of the firm and are in the domain of consumers. These consumers are not only more numerous but are not bound by organisational structures and they have a variety of differing interests, needs and perspectives.

Three reasons why co-creation may help innovation emerged from the literature review and are discussed below. These reasons are (1) facilitating lead-user innovation, (2) letting the innovation take place outside of the organisational structure, and (3) working outside management biases.

#### **3.1.4.1 Working with lead users**

Lead-user innovations occur whether a firm knowingly facilitates them or not. Customers who adapt a firm's products to suit their needs (*customer-innovators*) make up an estimated 6.1% and 5.2% of British and American adults respectively and produce 'massive' amounts of innovation (von Hippel, et al., 2011). In the UK, customer-innovator R&D expenditure is estimated to be 144% that of related business expenditure; in other words customers are collectively spending more on innovation research than companies are (*ibid.*). An investigation into 47 important banking innovations found that 85% of these were originally 'self-provided' amongst customer communities before any bank provided them (Oliveira & von Hippel, 2011). The banking example has two implications; that companies can learn from their customers-innovators and, perhaps a more insightful inference, that firms are in competition *with* their customers. This point is self-evidently true for recipe bags as well; customers can simply and cost-effectively self-provide all the services an RDS firm provides.

The first implication can be exploited by constant dialogue between firms and their lead users so that companies can pick up on novel applications as they occur. Experience environments are forums for such dialogue where the company can learn about its customer habits by interacting with customers as well as facilitating following community thread dialogues.

Prahalad and Ramaswamy (2004a) also recognise this competition between firm and customer. They state that co-creation encourages those who would 'self-provide' to instead create the value with the company by making such customer-firm engagements possible.

#### **3.1.4.2 Organisational rigidity**

Firms go through life cycles and can die off if they do not adapt to emerging circumstances. As businesses become older organisational rigidities may become prevalent and prevent them from adapting (Beinhocker, 2006; Loderer, et al., 2009). Organisational rigidities can affect the ability of firms to see, pursue or adequately adapt to opportunities and risks that emerge. Christensen (1997)

refers to one such rigidity as the *Innovator's Dilemma* whereby firms essentially become lock-in to the networks that made them successful in the first place. These networks incentivise established firms to work on incremental rather than disruptive innovations and to overlook the importance of changing circumstances until it is too late. Small start-ups who were not bound by such rigidities become the new dominant players in the industry, only to find themselves later susceptible to the same rigidities of their predecessors. Christensen's suggestion is that firms should have autonomous departments that operate outside the business network – sometimes known as *skunk works* – to bypass such rigidities.

This paper proposes that customers also should not be bound by the same network rigidities as a firm. Therefore allowing them to influence, define and tailor the experiences co-created with firm on an evolvable experience platform should mean that the firm's value propositions would adapt with the market rather than have to chase it.

### 3.1.4.3 Mental biases

Feser (2012) suggests that firms go through lifecycles and can fail as they develop a number of cultural rigidities also. A number of authors theorise this is because they are unable to adapt to a changing dynamic market since these rigidities bring about a slowdown in development, cause internal skills and knowledge to become obsolete and a ultimately lead to a decline in profitability (Beinhocker, 2006; Loderer, et al., 2009). These rigidities emerge when employees become locked into mental modes, or *biases*. Management perspectives and control mechanism based upon trying to impose continuity prevent the firm from embracing necessary *creative destruction* (Foster & Kaplan, 2001). Of these biases two are of particular interest to the topic of co-creation. Behavioural psychologists refer to these as *optimism bias*, and *status quo bias*.

*Optimism bias* is a mental rigidity that desensitizes people within an organization from recognizing the need for change as well as causing them to ignore the unfamiliar. Lovallo and Kahneman (2003) advocate the use of external opinions and information in order to address this barrier to innovation. Their research specifically refers to sourcing input from industry rather than customers; however there is no implication that involving the latter would be less effective in tackling optimism bias. One could speculate that, since optimism bias is prevalent in uncertainty, industry experts will be better at eliminating it in decisions regarding industrial complexity. That same line of reasoning could then be used to argue in favour of customer driven co-creation when it comes to reducing market demand uncertainty.

*Status quo bias* is, as its name suggests, a tendency for people to stick with what they know and understand when faced with choices. It is thought to be an unconscious process that is born from lack of attention, which leads people to select the easier and already known solutions (Thaler & Sunstein, 2008). By taking the standard practice option 'off the table' when making decisions people are forced to be more engaged mentally. This paper suggests that this can be taken one step further by taking the firm out of the decision all together and by 'democratising' value proposition, allowing customers to create value in whichever forms they please. Any status quo bias within the decision making population would be negligible due to the diversity of pre-existing 'default options' in the minds of potential thousands of voters/buyers across different walks of life. This is assuming that the decision-making population is not too homogenous, as may be the case with the customers of niche or localised firms.

An interesting counterpoint to the use of customers in the innovation process was developed by Plé and Cáceres (2010). They argue that intentionally co-creative practices have the potential to ironically bring about the *co-destruction* of value. For instance, letting customers guide the innovation process limits its potential to the vision, knowledge and competences of those engaged individuals. What can occur is that firms focus on customer demand for incremental innovations and imitation products when they should be focusing on bringing about disruptive innovations to improve their market positioning. The co-innovation process thus could destroy value for the firm in terms of the competitive standing and for the customer who may feel they have wasted their time and effort. This paper therefore argues that involving customers in the innovation process in an unstructured or ill-thought-out manner could be harmful to all concerned. Companies must instead realise *which* customers can provide *what* value to the innovation process and exercise some influence over the direction of their access and contributions.

### 3.2 Who can co-create: a matter of perspective

Sections 3.2 to will now outline who can co-create and how so as to form a framework to answer the first research question. It can easily be assumed that co-creation is a business practice best left to firms with hedonic value propositions while utilitarian products such as utilities are consumed quietly until there is a problem. However a product or service is neither inherently hedonistic nor utilitarian in itself and its value is dependent on its context (army rations *vis-à-vis* desserts). Additionally, evidence has been found that utilitarian companies can and do co-create with customers, it is just a matter of finding an appropriate value proposition to co-create. If we look at electricity, it may appear that given its commodity status people just want it to be reliable and cheap. This is until the bigger picture is taken into account and then other issues begin to emerge which may concern consumers, environmental issues for instance, as is demonstrated in the following case<sup>9</sup>.

#### Co-creation in practice: Eon energy monitors

Energy companies such as Eon have developed home energy monitors that show real-time household electricity consumption, providing their customers with transparency of information in real-time. These aid customers in monitoring their energy use and facilitate potential changes in behaviour to reduce that consumption, enabling consumers to co-create their own value. This value could include feelings of accomplishment, greater awareness, monetary savings or a combination of these and others.

Eon (2013) states the purpose of the energy monitor is to *reduce* consumption of electricity, one of its key product lines. This would be a counter-intuitive practice if the company were to have a dominant logic that was goods focused. For Eon to have come up with this innovation, they would have required a service-dominant logic in which saw themselves not merely as retailers of electricity but as solution providers.

**Similar examples:** Cheapest flight function on airline websites

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<sup>9</sup> 'Co-creation in practice' boxes provide real-life applications of co-creation to aid comprehension. They will not be used to answer the research questions but should help the reader visualise an otherwise abstract concept.

It has been proposed that the ideas, views and perspectives shared by management – their ‘dominant logic’ – have significant influence on the strategy, structure and activities of a company (Prahalad & Bettis, 1986). This report argues that it is a firm’s dominant logic rather than the industry it finds itself in that determines whether it can actively and knowingly co-create value with its customers or not.

### 3.2.1 Goods-dominant logic

The traditional logic with which businesses have been run has been heavily influenced by economic theory leading it to become Goods-Dominant (G-D); that is the perspective that companies take tangibles goods and imbue value (utility) *within* them in order for them to then capture value for the firm via monetary transaction. Co-creation theory, on the other hand, states value is not inherent but is perceived by a customer and that it is not dependent upon ownership. Furthermore, the goal of firms using G-D logic is to offer superior product utility rather than superior experiences, the latter being core tenant of value co-creation (Chesbrough, 2011; Prahalad & Ramaswamy, 2004a).

In G-D logic, the firm is the active player and the customer is passive receiver. Vargo and Lusch (2004) even go so far as to suggest that the customer becomes objectified as an *operand* resource that is acted upon through targeting and promotion to change their behaviour. Collective, anonymous references to target groups, demographics and percentiles in the marketing lexicon reflect the dehumanisation of the individual. In order to increase control and efficiency, products are designed to fulfil the generalised needs of a collective group (Vargo & Lusch, 2004). This ignores the heterogeneity of actual needs, desires and circumstances of individuals which plays a central role in co-creation theory (Chesbrough, 2011; Prahalad & Ramaswamy, 2004a).

To summarise, G-D logic assumes value is inherent in goods, that firms manufacture and distribute value to passive consumers, and that consumer circumstances adapt around standardised products. Each of these points is counter to the co-creation paradigm and so the prevalence of such an attitude in a company’s management should hinder their ability to engage meaningfully with their consumers. This is not to say the co-creation is impossible with the value-propositions of G-D firms, as lead-user innovations demonstrate, but that the firm’s management would overlook the value of such engagement and would unlikely promote it. Therefore this paper argues that the alternative perspective – Service-Dominant logic – is a prerequisite to the *conscious* adoption of co-creation.

### 3.2.2 Service-Dominant logic

Since the 1980’s there have been a number of challenges to this approach leading to the development of a new kind of perspective known as Service-Dominant (S-D) logic. The foundation of S-D logic recognises that firms have core competences that can be used to cultivate relationships with others who could benefit from these competences (Vargo & Lusch, 2004). In 2009, Vargo and Lusch proposed four ‘core’ foundational premises of S-D logic from a list of ten (Baron, et al., 2010). These are:

- FP1: *Service is the fundamental basis of exchange*
- FP6: *The customer is always the co-creator of value*
- FP9: *All social and economic actors are resource integrators*
- FP10: *Value is always uniquely and phenomenologically determined by the beneficiary.*

The explanation behind FP1 is that goods act as a medium through which service travels and therefore service is the basis of all exchange. The complexity of modern society has clouded the self-evident nature of this principle but it can be easily demonstrated with the analogy of a drill. A customer does not buy the drill for the drill itself but instead for the service it provides (placing holes in walls where needed). In return money is essentially a promise for the exchange of more services (a close inspection of any Bank of England banknote demonstrates this with the phrase “I promise to pay the bearer the sum of...”). The paper in itself has no embedded value as can be attested to during periods of hyperinflation. Additionally the value is easily dematerialised from the good in such forms as internet-based monetary transfers or, more contemporarily, the Bitcoin virtual currency (Lynam, 2013; Normann, 2001).

The 6<sup>th</sup> Foundational Premise – that *the customer is always the co-creator of value* – contrasts Prahalad and Ramaswamy’s 2004 work in that this is a positive rather than normative statement (Vargo & Lusch, 2007). The implication is that value is inherently interactional and the consumers’ actions and relationship with the company or other stakeholders will affect the value perceived. These two interpretations do not necessarily contradict each other but rather one forms the foundation for the other. Prahalad and Ramaswamy recognise the value is found in experience implying that all value is merely a customer perception – the customer is always co-creating value via interpretation. This report argues that they acknowledge Vargo and Lusch’s perspective but suggest that the degree with which firms can allow customers to provide their own additional value lies on a spectrum. Having recognised this they then can make normative statements about where on this spectrum firms should place themselves.

The 10<sup>th</sup> and final premise is that value is not determined by the firm but can only be perceived by the beneficiary. This has a number of implications. Firstly, customers are heterogeneous in terms of needs, circumstances and experiences and so the value perceived of a standard product will vary from person to person; ergo standardised products will not provide standardised value. Releasing products that appeal to the average needs of a target group will provide more value to some consumers than others which could have implications on sales and customer retention (Chesbrough, 2011). Viewing target groups as collectives causes marketers to overlook the subtle idiosyncrasies of the individuals who comprise them. Ideally, a product that can be personalised around individual’s circumstances will ultimately provide more value to the consumer. It is easy to fall into the assumption that personalisation means product customisation FP1 reminds us that it is service that is exchanged and service can be personalised beyond the physical.

The second point is that value is phenomenological and embedded in events and experiences as opposed to physical artefacts. Prahalad and Ramaswamy (2004a) concur with this ascertain and suggest that a company’s goal focus should be on creating experiences with consumers. Vargo and Lusch are wary of the word experience because of the connotations of specialness associated with it arguing that the experience of value is also to be found in the mundane. In addition to this, experiences are perceived on both an emotional and rational level and companies wanting to influence the incidence of positive experience should take both factors into account (Honebein, et al., 2009).

Thirdly, because value is not determined by the firm but proposed instead, the term *value offering* is replaced with *value proposal* in Vargo and Lusch’s later work (2007). Intended value can be



misinterpreted by the consumer or it may not manifest itself due to some oversight or fault. Additionally, the value can be re-defined altogether as is evident in lead-user innovation where consumers innovate with goods and services outside of a company's sphere of influence.

Grönroos (2011) challenges the exacting nature of the FP10 and suggests that no author has provided a universally-accepted definition of what value is. The definition he provides is that value occurs when the recipient of value is made *better off*. Value can be perceived, he continues, as being created through consumer use (value-in-use) or as part of an all-encompassing process (Figure 6).

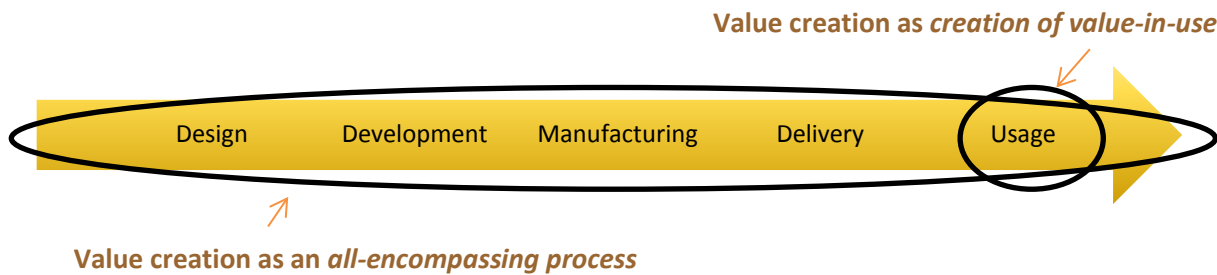


Figure 6: Alternative value creation perspectives, adapted from Grönroos (2011)

Eventually though Grönroos does concede that the value-in-use argument used by Vargo and Lusch is more fitting, based upon his definition of value being a perceptual quality. While firm activities can influence the perception of value, they cannot control the process or intensity of benefit experience; these emerge from consumer use. This perspective has become overwhelmingly accepted by the academic community over the earlier perspective of value-in-exchange where value is reduced to mere transaction and value is *destroyed*, rather than created, when consumed (Grönroos, 2011; Plé & Cáceres, 2010; Vandermerwe, 1996).

### 3.3 Elements of co-creation

Prahalad and Ramaswamy (2004a) identified four basic elements of co-creation: dialogue, access, risk management and transparency (DART). The elements are the fundamental components that make up the more complex platforms which customers can personalise their experiences (see *Co-creation in practice: Wikipedia* in section 3.5). This section will list each of these elements and suggest discuss their potential and their limitations. The findings from this section were used as a guide to analyse respondents' answers concerning how they perceive that they engage in each of these elements.

#### 3.3.1 Dialogue

Dialogue is not merely communication. It must be reciprocal with messages moving interchangeably between all parties and facilitate the action on all sides. Firms can encourage dialogue through tools and policies that encourage interactive conversation in areas of interest (Spena, et al., 2012).

It is common for companies to use the term dialogue when what they really mean is monologue. Firm-to-customer monologues achieved via mass media tend to be non-addressable and non-interactive and therefore provide little incentive for the audience to pay attention. TV advertising is a good example of a monologue that tends to be ignored by its viewers. Because of erroneous overuse of the term dialogue, Peppers and Rogers (2011, p. 187) have devised six defining characteristics to true dialogue:

- (1) All participants must be clearly identified (taking into account characteristics and history)
- (2) Everyone must be able to participate
- (3) Everyone in the dialogue must freely choose to participate
- (4) Dialogues can be directed and influenced by anyone in the exchange (i.e. it is mutual)
- (5) True dialogue should result in some kind of change of behaviour between participants
- (6) A dialogue should pick up where it last left off

If we examine points two, four, five and six the importance of engaging in true dialogue becomes evident to those wanting to co-create with customers. If a customer is unable to provide input when interacting with a firm they are not *co-creating* anything. Instead they return to the passive receiver for firm-centric expertise reminiscent of traditional G-D logic. This same point holds true with point four. Point five is important because it addresses the *creation* aspect of co-creation. If no change of behaviour occurs as from interaction than nothing has been created as a result of it. Point six is of interest from a customer relationship perspective. The authors argue that continuity between episodes of interaction provides the context necessary for strengthening loyalty. Conversations should follow on from each other seamlessly.

Dialogue makes possible the evolution of ideas and standards in a self-governing process as is evidenced in the successful open source operations such as Linux (Prahalad & Ramaswamy, 2004a), as well as in more recent examples including Android and Wikipedia. The failure to engage in dialogue with consumers makes missed opportunities all the more likely. To quote a sporting example, the United States Golfing Association's (USGA) rules against spring-like golf clubs went against the wishes of both manufacturers and consumers. Club manufacturer Callaway took a gamble and launched such a product anyway to appeal to the non-professional golfers whose views were unknown since they were excluded from the inner-circle forums of the golfing elite (*ibid.*)

Although dialogue provide many benefits it is not inherently beneficial in itself. Sometimes contact is not necessary and can actually damage the relationship with the customer. This can be true of subscription industries such as utility providers with whom customers just want on-going reliable service. Some conversations, particularly to technical helpdesks, signify a fault has occurred and ideally customers would not need to make contact at all to these departments (Peppers & Rogers, 2011, pp. 206-207). Plé and Cáceres' (2010) concept of *co-destruction* can be applied here also. The authors use the analogy of a customer conversation with an employee to demonstrate this point. If the company wishes to keep customer-employee conversations to a minimum for efficiency reasons, and yet a customer wants to talk longer to benefit from the employee's knowledge than the interaction brings about the destruction of value from the perspective of the firm. It is an interest side note that co-creation and co-destruction can happen simultaneously for different actors as a customer would perceive the longer conversation as adding value to their experience. With these arguments in mind it is important for firms who which to encourage dialogue to ensure it has the value-adding potential and that there is a clear and mutual expectation on both sides how resources should be employed.

### 3.3.2 Access

It has becoming more and more frequent that customers no longer need to own something to extract value from it.; access to goods and services has become a viable substitute to ownership (Prahalad & Ramaswamy, 2004a). Rental services such as car hire are straightforward examples of

physical access from which a consumer can extract value from. There is also the emergence of new access-based business models, such as Spotify and Amazon Kindle, which demonstrate that the concept is just as transferable, perhaps even more well suited, to digital content.

Customer can also have access to a firm's internal resources. This is achieved when the company facilitates varying degrees of customer control and influence over operations. This control is not limited to product design, delivery options and the like; co-creation is not merely mass-customisation (although mass-customisation can be included under the co-creation umbrella). Instead access can provide value *independent* of the product of service being provided, for example being able to leave upload photos on a corporate website. The customer has been allowed access but not ownership of the site and extracts value for self-satisfaction which arises from the IKEA effect.

S-D logic already establishes that value is not found in things but in services and services do not necessitate ownership. By allowing customers degrees of access they can provide themselves or others in the customer community with non-physical value propositions. For instance, customers can pose and respond to each other's questions providing value in information, engagement and the self-satisfaction that comes from helping or imparting knowledge.

An example of the value created through customer access demonstrated in a comparative study by Buffington (2011) of *mass customisation* versus *generative customisation* in US and Swedish mass markets (the former being facilitated through computerised back operations while the latter requires customer co-production in the customisation process). Buffington found that customers tended to be ambivalent towards mass customisation while the companies simultaneously lost manufacturing efficiency. Conversely generative customisation not only allowed for greater scope of design conceptualisation but also led to greater fulfilment. The benefits of customer involvement appear then to provide value to both firm and consumer.

### **3.3.3 Risk assessment**

When co-creating with customers there maybe elements of a value proposition that are developed in some way so that they pose a risk to some actor in the value constellation since the firm gives up an element of control and supervision. Prahalad and Ramaswamy (2004a) use the analogy of co-designing of a houseboat. If given total, unrestricted freedom of design a customer could make the boat top-heavy and liable to tip over; if there are no supervisory aspects to the co-design or if the customer is not made aware of the risks the firm could be liable for customer mistakes. Therefore tools, data and actions must be in place to ensure there is some kind of assessment or risk management in place (Spena, et al., 2012). There are also the examples of co-destructive behaviour outlined in customer innovation (section 3.1.4) and dialogue (3.3.1).

A case study of Spar's co-design initiative to design a new carrier bag found that social interaction in itself can pose a risk. Gebauer *et al* (2013) describe how perceived unfairness in the jury's selection of a winning entry led to negative reactions from other co-designers. Those who disagreed with the decision expressed their disbelief and frustration not only on Spar's design platform but likewise spread negative word-of-mouth across other channels including Facebook. They also engaged in value destroying behaviour by uploading protest designs criticising the company. The authors argue that the perception of unfairness could have been avoided if Spar had engaged in risk management activities such as open communication, transparency and setting clear guidelines with regards to the

selection criteria. What is important to take away from this case is that a seemingly low-impact engagement project has the potential to snowball into something more serious if the perceptions and emotions of value co-creators are not taken into account.

On the basis of these examples, this paper recommends that firms allow customers to engage in business activities and interaction but in defined and moderated roles. Completely customer-driven involvement that is unchecked by the firm has the potential for value destruction for the company and/or customers. Equally, a firm wanting to co-create must simultaneously restrain the extent of control they exercise over their customers. If not they make unwittingly block or interfere with the emergence of value that theoretically comes from allowing freedom of access and dialogue. One alternative for firms-centric control is the concept of community co-moderation as is evidenced in the Duolingo case study below.

## Co-creation in practice: Duolingo

Duolingo is a free language learning website where the students are encouraged to translate websites. While from the students' perspective they are merely putting their language skills to practice, the site is simultaneously crowdsourcing translation services (Duolingo, 2013; Mims, 2011). The latter function is not made explicit to users at the point of translation\* indicating that not all co-creative elements need to be present in order to co-create value, in this case overt transparency is lacking. This concept allows the users and the firm co-create value with each other; the users experience the value of learning a language while contributing value to the firm in translation services.

There are obvious risks regarding accuracy if a company builds its business model upon allowing beginners to translate documents, some of whom may only have started learning the language that day. If the firm were to actively vet the translations the time and effort that would be required would negate the benefits of crowdsourcing in the first place. What Duolingo does is it crowdsources its risk management function too. The same sentence must be translated multiple times by multiple users and then the most frequent suggestions need to be voted on until some kind of clear majority is reached. Although this approach is not without its problems, it does help decrease the risk presented by mistaken individuals or prospective vandals.

**Similar examples:** Wikipedia

*\* Although it is stated on the site's 'About' page*

### 3.3.4 Transparency

Transparency comes by allowing customers access to correct, easy-to-follow information that can help guide the customer. In the past businesses could derive power from 'information asymmetry' between firm and customers. Nowadays the rapid advancement in information technologies has made such asymmetries no longer sustainable. In fact, transparency can be a source of advantage for both firm and consumer such as with online securities trading. By automating and allowing customer access to real-time trading information the customer is better informed to make decision while simultaneously bringing in more business for the trading company (Prahalad & Ramaswamy, 2004a).

The investors effectively become empowered to trade by themselves freeing up man hours on the firm's end also. In other words the firm has enabled the customer to create his own value (i.e. to trade alone) by allowing him access to the necessary information.

On the other hand transparency is not a panacea. Welch and Rotberg suggest that the concept tends to be perceived as something fundamentally good and democratic and that to consider concealing information is deemed by some as 'inappropriate' (2006, p. 937). However there are numerous negative implications to firm and consumer that arise from a poor transparency strategy. First there are complexities with regards to how the information will be communicated; too much information is likely to confuse and overwhelm the reader, particularly when providing quantitative data. One paper on international relations argued that inter-governmental transparency actually had a causal connection on aggravating conflicts partly due to superfluous signals ('noise') which confuse official policy (Finel & Lord, 1999). Additionally perceptions of subjectivity in transparent reporting can lead to suspicion. Dutch railway operator NS, realising the complexity involved in measuring service performance, highlighted positive results when communicating with customer communities. This selective coverage led to a distrust of company communications and heightened criticism of their results, straining relations between firm and consumers (Galetzka, et al., 2008). A third argument is that transparency can harm stakeholders as well as the firm. Full disclosure of business practices to shareholders may seem the ethical thing to do, but if that disclosure harms the prospects of the company then it has value destroying implications for share value (Welch & Rotberg, 2006). This same logic can be applied with a customer perspective; if a business's transparency with their consumers harms that firm's competitive standing, then the company may have to initiate value destroying activities (e.g. reducing quality) to stay competitive. What these examples demonstrate is that transparency is not a benefit in itself but should serve some strategic function. It should also identify who the transparency is providing value for. If the value benefits the firm but has a neutral/value destroying effect on the consumer then it may backfire as with the NS case. Alternatively firms should not implement transparency at the expense of their competitive standing if the value destruction is likely to be passed on to the consumer indirectly.

### 3.4 Technological facilitators

This section will discuss the ways technology has influenced co-creative experiences. The findings here will be used in the same way as the previous section; analysing respondents' perceptions of technology use to co-create value.

Co-creation has been greater facilitated by the emergence of more sophisticated technology over recent years. Prahalad and Ramaswamy identify five trends of emerging technological capabilities that enable the phenomenon:

1. **Miniaturisation** – Devices are becoming smaller, lighter and more portable without sacrificing quality. Example: Sony Walkman → iPod Mini
2. **Environmental sensing** – Devices that monitor their surroundings. Examples: car fault sensors, home energy monitors and even in Nike+ shoes
3. **Embedded intelligence** – Devices with in-built instructions to complete certain tasks. Examples: Pre-programmed microwaves and RFID tags
4. **Networked communication** – Interconnectivity and data sharing between devices. Examples: The emergence of cloud computing and online banking

5. **Adaptive learning systems** – Devices that track and adapt to emerging situations. Examples: Google using user history to tailor searches

This typology is not mutually exclusive and many innovations embody more than one of these features. Kindles for example are miniaturised portable computers that learn from previous purchases behaviour and adapt new book suggestions accordingly. They are also networked to the Amazon cloud allowing users to access to their literature even without the kindle device.

However, as S-D logic suggests, the technology is not of inherent value in itself but in the service it dispense (Vargo & Lusch 2004; 2007). The co-creation paradigm goes a little further to suggest that *the value of technology is in the experiences it provides*. Prahalad and Ramaswamy suggest a typology of five kinds of customer experiences than can be enabled by technology: (1) self and remote diagnostics, (2) tracking and monitoring, (3) connectivity and interactivity, (4) mobility and seamlessness, and (5) continuity and transformability. These enabling features can then form a matrix with capabilities so that managers and academics can map out the qualities of devices as shown below. The Kindle example has been applied in this report to demonstrate the matrix in use.

		Potential customer experience enablers				
		Self & Remote Diagnostics	Tracking & Monitoring	Connectivity & Interactivity	Mobility & Seamlessness	Continuity & Transformab.
Emerging technological capabilities	Miniaturisation				<i>1,000s of books made portable</i>	
	Environmental Sensing			<i>Find and connect to Wi-Fi</i>		
	Embedded Intelligence				<i>Can convert PDFs</i>	
	Networked Communication			<i>Browse Amazon collection</i>	<i>DL instantly And wirelessly</i>	<i>Access to new books</i>
	Adaptive Learning System		<i>Book suggestions</i>			

Figure 7: Amazon Kindle’s technological capabilities as experience enablers, based upon table provided by Prahalad and Ramaswamy (2004a, p. 58)

Technology can also provide the platform for experience environments as will be discussed further under the next sub-heading (section 3.5). By providing a technological platform for customers and stakeholders to interact, value can emerge as is demonstrated in the case below.

## Co-creation in practice: Lego Mindstorms

Lego is already an inherently co-creative product. It is not the individual bricks that are valuable but consumers’ interaction with them. The value can only emerge when a customer co-creates it through play. A more recent development by Lego was to introduce a product extension called Mindstorms Robotic Invention System, which consisted of gears, wheels, sensors and software. These extensions enabled the consumers to develop products outside of the company in ways Lego had not imagined such as intruder alarms, sorting machines and so on. The added complexity even allowed them to tap into a new market of adult users. Already we can see the products catering for varying customer preferences and needs. [Continued on next page...]

[...] The experience environment evolved into online customer communities beyond the firms control or knowledge. One individual in these fan communities, Markus Noga, then developed an unauthorised version of Lego-compatible software called LegOS and disseminated it across the internet. Lego had a number of options: it could sue Noga, it could advise customers not to use the new software or it could adopt LegOS as an 'official' extension. In the end Lego chose none of these options but simply allowed this new community-driven innovation to evolve by itself.

Lego's decision has a number of implications. One positive outcome is that it allows consumers to multiply the R&D efforts of their products, even adapting them to appeal to untapped Blue Ocean markets. Conversely, there may be negative repercussions involving liability and risk. (Prahalad & Ramaswamy, 2004a)

**Similar examples:** Android Marketplace; Linux

The use of technology may facilitate but does not necessarily guarantee co-creation. Füller *et al* (2009) studied the effect of internet-based co-creative platforms on consumers' perceptions of empowerment. They found that this was dependent on four determinants which this paper has broken down into three levels of firm control. Two of these determinants are directly controllable by the firm; the virtual interaction tools itself and the type of task and product involvement. Another was customer enjoyment which can be influenced through user-friendly design and elements of play but not concretely ensured. The forth factor however is the creativity and competence of the lead-users. This is self-evidently beyond the influence of the firm (except perhaps through consumer targeting or selective access). The implication is that consumers who lack the competences or skills to provide complementary value will not necessarily be compensated via technological enablers.

### 3.5 Experience environments and unique value

Experience environments are the platforms on which customer experiences occur. They are characterised as robust and having the capacity to deal with the range of heterogeneous experiences. According to the co-creation concept, experience environments must fulfil the following criteria:

- Enable customers to co-create their own experience on demand
- Accommodate heterogeneous customers
- Recognise that not everyone wants to co-create; some just want to consume
- Develop alongside technological opportunities
- Accommodate customer communities
- Engage the customers on the emotional and intellectual level
- Recognise the social and technical elements of co-creation experiences.

They can be real (community centres) or virtual (YouTube). Prahalad and Ramaswamy claim that they facilitate value co-creation and emerge through a combined use of some or all of the DART elements described in section 3.3; an example of how the elements can be combined to build such an environment is given below in *Co-creation in practice: Wikipedia*. However, whether these elements need to be present to create an experience environment, whether they need to be combined with each other or whether the four listed are a comprehensive assessment appears to present a problem

of induction (a *black swan problem*). The literature review found no counter claims or proposed 'fifth elements'. Perhaps customer competence, community and enthusiasm are potential fifth elements to be considered in future research. What is evident is that not all of them *have to* be clearly present to co-create value (as demonstrated by the restrictive dialogue in the Wikipedia case below). Also the elements lack mutual exclusivity; is free information from a knowledge provider transparency or access without ownership? Criteria for deciding when certain elements are more appropriate than others was also absent from the literature review.

## Co-creation in practice: Wikipedia

Wikipedia is a free, web-based encyclopaedia that is collaboratively contributed to and edited by its many users; a concept referred to as a *wiki-site* (or just a *wiki*). It is an internet platform that not only allows worldwide access to its content but also contains a user interface. This **technologically facilitates** external contributors and editors to co-create value with both the Wikimedia Foundation and other users (Wikipedia, 2013). As such it functions as an experience environment.

The company provides contributors/editors **access** to modify the site's content. It allows them to interact through a process of 'flagging' (**dialogue**) where dubious or poorly constructed entries can be alerted to other readers, contributors or editors, allowing them to either read with caution or to improve the section. This is not a very open form of dialogue, but it does allow users to communicate with each other when they want in order to bring about a change in behaviour. The company is **transparent** in that not only is its contents free but it also provides information and guidance on how to edit and contribute and encourages users to provide external links and references to demonstrate the sources of its content. Given its fundamentally open nature, Wikipedia is subject to risks of poor content or outright vandalism. In order to **manage risks** such as these Wikipedia takes a 'soft-security' approach which encourages the user community to scrutinise text, references and to undo damage quickly. It also provides a 'good writing guide' to help prevent mistakes happening in the first place. In cases where the community cannot agree the company reserves the right to ensure quality and accuracy of the sites content (*ibid.*). Is this risk management effective? Evidence in favour comes from a 2005 study published in Nature which found that the accuracy of Wikipedia's science-based entries was comparable to that of Encyclopædia Britannica (Giles, 2005).

**Similar examples:** Ganfyd.org ('Get a note from your doctor', a medical wiki-site)

Value does not merely arise from a products main use but wider experiences that can be developed with the value propositions (Prahalad & Ramaswamy, 2004a; Vargo & Lusch, 2007). Therefore this paper argues that an inherently physical value proposition such as clothing can benefit from virtual experience environment where like-minded customers share photos, suggest customisations of a company's products. The value being developed in the environment is not the warmth or self-expression that comes from physically wearing the goods but additional values such as community, inspiration and achievement.



While technology helps to enable experience environments, the theoretical framework suggests that experience innovations can be fostered further through embedding four 'levers': namely granularity, extensibility, linkage and evolvability. *Granularity* is about recognising that different customers will want interact with such environments with differing levels of engagement. Some will want to not even interact at all; they want to consume rather than co-create. Therefore accommodating for customers with different levels of aggregation allows firms to appeal to a wider spectrum of customers. *Extensibility* refers to how customers can experience value propositions in new ways and create 'new functionalities'. Take for example the digitalisation of the publishing industry, where technology has revolutionised the way we read (on screen or Kindle) and how we access (web search and download) literature. Experience environments should look for and develop such innovative uses to open new possibilities for customers to tailor their experiences around their needs. *Linkage* is based upon the realisation that customers perceived events as connected to each other in the co-creation experience and that the quality of one will affect the others. Ensuring the experience environment caters for all events and eventualities helps ensure the perceived quality of the overall experience. Cloud technology is presenting opportunities for devices and firms to coordinate better to ensure that the individual events in an overall experience run seamlessly; anticipating and solving problems through connectivity. *Evolvability* refers to the ability to learn from co-creative experiences in order to develop and enable future co-creation. Evolvability can be demonstrated by Amazon's book recommendations, which are based upon previous page visits and purchases. These suggestions are further enriched by customer reviews and fan communities (Prahalad & Ramaswamy, 2004a).

### 3.6 Chapter Summary

While acknowledging that the topic of value co-creation is too large and complex to be summarised in a few pages, this chapter has attempted to lay out the foundational elements of co-creation theory. It first examined the proposed benefits of co-creation including escaping the commodity trap, co-opting customer competence, catering for heterogeneous needs and facilitating innovation. It then went on to argue that co-creative practices should not theoretically be limited to certain industries but instead rely on businesses possessing S-D logic. Then the elements of co-creation were discussed and examples given to demonstrate how the enable customers to co-create. Technological features were discussed as facilitators to modern day co-creative practices and finally the topic to building and leveraging experience environments was reviewed.

As Table 3 illustrates below, the information provided in this chapter will be used in two broad ways. Firstly the benefits of co-creation outlined in section 3.1 are used to justify why the potentially beneficial co-creative activities should hypothetically be advantageous. Sections 3.2 to 3.5 are used to form a framework of variables to measure in the empirical study.

<b>Section</b>	<b>Topic</b>	<b>How it will be used in the empirical study</b>
<b>3.1</b>	Potential benefits of co-creation	<ul style="list-style-type: none"> <li>• To hypothesise co-creative activities that could be beneficial to RDS firms</li> <li>• To use those hypotheses to look for evidence of such activities and probe further</li> <li>• To use the findings to answer RQ2</li> </ul>
<b>3.2</b>	Dominant logic	<ul style="list-style-type: none"> <li>• To create questions and analyse answers which are suggestive of a firms dominant logic</li> <li>• To use the findings to answer RQ1, and</li> <li>• To test this papers proposal that only companies with S-D logic can knowingly co-create value</li> </ul>
<b>3.3</b>	Elements of co-creation	<ul style="list-style-type: none"> <li>• To create questions and analyse answers which indicate if firms believe they are engaging with the basic elements of co-creative practices</li> <li>• To use the findings to answer RQ1</li> </ul>
<b>3.4</b>	Technological facilitators	<ul style="list-style-type: none"> <li>• To create questions and analyse answers which show how firms believe they are using technology to enable customer experiences</li> <li>• To use the findings to answer RQ1</li> </ul>
<b>3.5</b>	Experience environments/unique value	<ul style="list-style-type: none"> <li>• To create questions and analyse answers which indicate if firms perceive that they are facilitating, empowering or promoting the tailoring of unique value, which is the ultimate purpose of co-creation</li> <li>• To use the findings to answer RQ1</li> </ul>

**Table 3: Co-creation chapter summary**

## 4 POTENTIALLY BENEFICIAL ACTIVITIES

Having summarised both the characteristics of the RDS industry and explored value co-creation, this section will then examine potential ways co-creation can be beneficially applied to RDS firms. The aim of this section is to provide a framework to answer the second research question: *in what ways can small/new RDS firms in the Swedish context benefit from co-creation*. By devising hypothetically beneficial activities before the empirical study, the researcher has cues to search for to see if such phenomena occur. If such activities become evident then the respondents can be probed further to see if anything can be learnt from such applications – practicalities, trade-offs, results, implications etc.

Four theoretically beneficial activities are presented<sup>10</sup>: (1) identify and develop the experience, (2) ensure true dialogue via social media, (3) embed granularity into the offering, and (4) enable the customer to tailor their own solutions. A brief overview of each activity is given below, each concluding with the benefits it should provide the firm with (based upon the findings in chapter 3.1).

### 4.1 Identify and develop the experience

The Co-creation concept describes value as being embedded in the perception of experiences or events that are enabled by the use of a value proposition. RDS companies inherently provide two main consumer experiences, cooking and eating, and it is not immediately evident which of these are a company's main focus or even if they are given equal weight. Under these umbrella events, experiences can be sub-divided in many ways. For instance, what aspects about cooking does the company want to emphasise: discovery, education, enjoyment or time management? If the eating experience is the main focus is it the taste, the socialising, the health aspects or some other factor which are the company is trying to accentuate?

In order for a company to facilitate the development the consumer experience, it must first know which experience(s) it wants to primarily facilitate. Once a company has a clear picture of what value it wants to co-create with customers it can then decide on how it wants to develop the experience to its full potential. By acting as a nodal firm it can connect the resources and competences of partner firms to help create a well-rounded personalised experience for customers. A list of potential ways this can be achieved is presented in Table 3 .

Evidence of the current application of experience development in RDS firms can be seen in several examples:

- Turntable Kitchen's addition of a limited edition vinyl record with every delivery that compliments the meal and creates atmosphere (Turntable Kitchen, 2013)
- Linas Matkasse's workout programme (Linas Matkasse, 2013)
- Middagsfrid offering a Jamie Oliver frying pan as a promotion (Matkassen.com, 2013)

In each of the examples above the company conducted business outside of their traditional supplier base and utilised competences they did not have. By working as a go-between linking other firms (music producers, personal trainers, cookware wholesalers) to customers, the RDS business is able to

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<sup>10</sup> These were determined by a discussion of each component of co-creation described in sections 3.1 to 3.5 amongst Masters Students at the University of Gothenburg who are also researching RDS firms. They brainstormed and assessed ways co-creation could be *beneficially* employed by RDS companies.

capitalise on new value propositions and develop the consumer experience. What is not known is whether such activities result in any significant outcomes or if such outcomes are beneficial to the companies involved. This consequently justifies this paper’s second research question which is designed to answer that very question through empirical observation and analysis.

The experience the firm wants to co-create	Ways this experience can be developed	Partner firms that can complement the experience
<b>Learning cooking skills</b>	<ul style="list-style-type: none"> <li>Teach the customers techniques beyond what is required to make meals</li> </ul>	<ul style="list-style-type: none"> <li>Chef school/cookery classes</li> <li>Cookware companies</li> <li>Social organisations encouraging cooking (e.g. Food Revolution)</li> </ul>
<b>Discovering new foods</b>	<ul style="list-style-type: none"> <li>Educate customers on variety, sourcing and what can be done with new foods</li> <li>Encourage them to discovery food in real life</li> </ul>	<ul style="list-style-type: none"> <li>Local farmers</li> <li>Traditional markets</li> <li>Travel firms</li> </ul>
<b>Enjoy cooking</b>	<ul style="list-style-type: none"> <li>Make cooking social – cook together, compete with others, create ambiance, share experience</li> </ul>	<ul style="list-style-type: none"> <li>Quirky cookware retailers</li> <li>App developers</li> <li>Music firms</li> <li>Photo sharing sites</li> </ul>
<b>Save time</b>	<ul style="list-style-type: none"> <li>Eliminate the cooking aspect with home help</li> <li>Provide ready-made meals</li> </ul>	<ul style="list-style-type: none"> <li>Home help firms</li> </ul>
<b>Taste</b>	<ul style="list-style-type: none"> <li>Recommend complements to food</li> <li>Addition of appetizers, particularly <i>amuse-gueules</i></li> </ul>	<ul style="list-style-type: none"> <li>Wine providers</li> </ul>
<b>Socialising with food</b>	<ul style="list-style-type: none"> <li>Encourage dinner parties</li> <li>Provide starters, desserts, beverages</li> <li>Create atmosphere</li> </ul>	<ul style="list-style-type: none"> <li>Create atmosphere with interior design and home ware firms, music providers etc.</li> </ul>
<b>Resolve health concerns</b>	<ul style="list-style-type: none"> <li>Create well planned, nutritionally balanced meals</li> <li>Allow customers to monitor their nutritional intake (e.g. app preprogramed with recipe bag meal information)</li> </ul>	<ul style="list-style-type: none"> <li>Health organisations</li> <li>Nutritionists</li> <li>Gyms</li> </ul>

**Table 4: Potential ways to develop the recipe bag experience**

Experience developments could be facilitated through the utilisation of technology. Linas Matkasse provides its training programme via embedded videos on its homepage; a similar mechanism could be used to develop a chef school with video lessons. As suggested in Table 4, apps could be developed that calculate the nutritional intake of customers with the recipe bag meals nutrient contents pre-programmed into the software. In true co-creative fashion, customers can be encouraged to use social media as a platform to enable community dialogue where they provide tips and suggestions to help customers develop their own experiences.

Swedish RDS firms have previously taken a product-centric approach to innovation with particular attention to Quelch’s rebundling and segmenting as is evidenced in the emergence of child-friendly, vegetarian, lactose- and gluten-free alternatives. As the theory suggests, this approach has

been widely imitated across the industry and presents no single firm with competitive advantage<sup>11</sup>. Linas matkasse (English: *Lina's food bag*) has demonstrated a move towards S-D logic with the twelve-week exercise programme. Although the innovation here is not ground breaking it represents a move away from selling a product to providing the customer with an experience. Although imitable, such a programme can provide an element of lock-in with consumers feeling they have to stay with Linas matkasse for the three-month duration to reap the benefits of the programme. Identifying and developing the experience should help companies to escape Chesbrough's commodity trap. Rather than focusing on producing better, cheaper products companies can develop competitive advantage through developing superior experiences as outlined in 3.1.1.

## **4.2 Ensure true dialogue via social networks**

Since the industry is internet-based, dialogue needs to be embedded in communication technologies. All companies researched utilised social media and these make great platforms for the interchange of ideas and opinions within communities; however activity on social media is not synonymous with true dialogue. If the company merely publishes information but does not read the comments, or reads them but does not act upon them, it cannot be said that both parties are engaged in dialogue.

Facilitating firm-customer dialogue can just be brought about with a diligent customer service team for smaller companies and effective CRM software for larger ones (Strauss, et al., 2006). Inter-customer dialogue however would rely on the creation of an appropriate platform, whether real or virtual, where customers are enabled and encouraged to converse. Dialogue between parties in the wider value network could also be encouraged to engage on these platforms. Such facilitation would relieve the RDS firm of any bottlenecks that could form as a result of their trying to control and coordinate the conversation. As co-creation theory suggests, no one party should attempt to control the dialogue; there should instead be mutual influence exerted by all involved.

Ensuring true dialogue allows firms access to customer competence in situations where customers can provide added value to the firm such as ideation or when customers are enabled to form their self-assisting customer communities. It would also facilitate co-creative innovation via collaboration with lead users and challenging organisational rigidities and mental biases with outside input.

## **4.3 Embed granularity in the offering**

From one perspective recipe bags are essentially a response to customers wanting to outsource the choice. There is a danger in expecting customers to want exercise freedom or control when what they really want is the benefit of someone else taking care of the details. However, amongst the customer base there are also those who want to engage more as illustrated in the following example. Kocken och jag provides pre-made sauces which are both convenient and time-saving to the consumer. Despite this their Facebook page lists a number of requests by customers for the recipes so that they can prepare the sauces themselves. In essence, the company has a number of unsatisfied customers because it is not letting them co-create. Conversely, if it were to start requiring all customers to create their own sauces, some of which taking several hours to prepare, it would lose its time-conscious customer base. Prahalad and Ramaswamy's (2004a) solution is to embed granularity in the co-creative experience so that customers could become as much or as little

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<sup>11</sup> This does not mean such innovations are worthless as they can allow firms to meet the minimum threshold requirements needed to access niche market segments. It is not a source of competitive advantage because that access is not exclusive.

involved in value creation as they prefer. This can help to prevent customers wanting to engage more from becoming dissatisfied and cancelling their subscriptions.

In the RDS industry there a number of levels of engagement a company can offer its customers. In the model below, step one (ready-made meals) requires manufacturing competence on the firm’s side but would complement the product assortment to appeal to customers who want the benefits of variation and delivery food but lack time to cook. This is already offered by some food subscription services such as GI-boxen and Kitchenwiz (GI-boxen, 2013; Kitchenwiz, 2013). Levels of engagement in steps two-four can all be achieved using the original recipe bag as a core product and providing additional elements into the offering such as sauce recipes and instructional videos. The final level of engagement would be an exemplary application of co-creation in practice where engaged customers provide the recipes, ingredient list, instruction videos etc. and the firm acts as a facilitating organisation (providing delivery, sourcing, marketing material, virtual platform etc.) allowing the community to serve itself. Analogues of such business models can be seen in wiki sites (Wikipedia being the most notable) and the Android Marketplace.

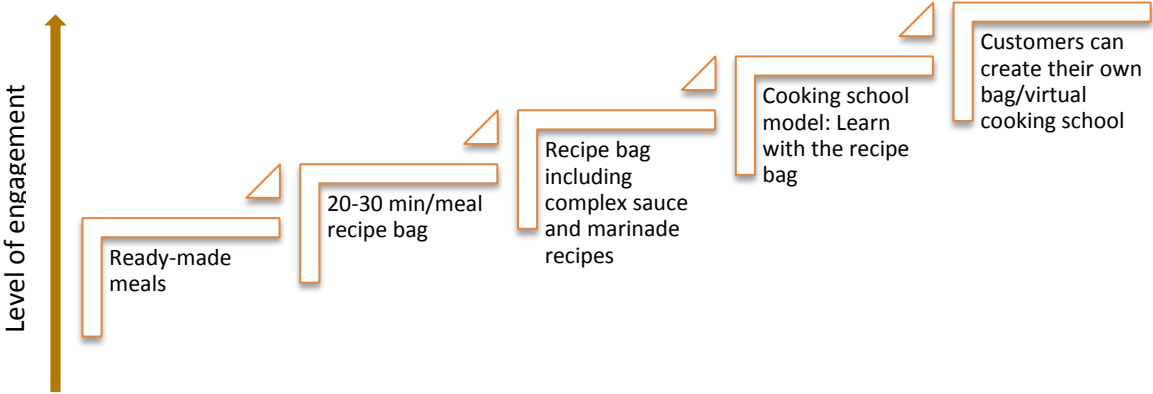


Figure 8: Granular levels of engagement in the value propositions

The concept of granularity in the value proposition allows the firm to benefit from catering to customer heterogeneity. By allowing customers to choose their level of engagement in the value creating process, the firm is able both to appeal to a wider audience as well as accommodate for those with changing circumstances. The products that require higher levels of engagement from the customers can also provide additional values and promote customer loyalty (linked to engagement) and promotion (via word of mouth).

**4.4 Enable the customer to tailor their own solutions**

Recipe bags are already essentially co-creative products; the firm enables the customer to make their own meals with the ability to tailor them in several ways:

- What ingredients from the bag to use or not
- The quantity of such things such as spices
- When to eat (dinner or lunch, freeze or eat immediately)
- Where to eat it
- How many people to share it with

There is evidence of customisation in action today, with singles buying two-person bags and having them for both dinner and lunch or spreading meals out over two weeks. However, customisation becomes harder when it is the product itself that presents a complication rather than its intended use. A vegetarian is unlikely to buy a recipe bag that contains meat products in it even if they could omit or substitute them.

Customer needs when it comes to food are very personal and there is so much variety in dietary regimes it would be near impossible for anyone RDS firm, providing finished meal solutions, to cater to them all. For instance:

- 10% of Italians and 9% of Germans consider themselves vegetarians and 23% of Britons claimed they were meat-reducers ('flexitarians'). Euromonitor predicts numbers to increase internationally in response to growing consumer awareness and food scares (2011).
- Since 2011, the low carb-high fat diet (LCHF) has boomed across Scandinavia and there is debate on the longevity or stability of this phenomenon (Euromonitor International, 2012).
- Organic packaged food grew 17% in Sweden in 2010 (Euromonitor International, 2011)

<i>Flexitarian</i>	<i>Local sourcing</i>	<i>Halal</i>	<i>Nut allergy</i>
<i>Pescetarian</i>	<i>Seasonal sourcing</i>	<i>Kosher</i>	<i>Lactose allergy</i>
<i>Free range</i>	<i>Organic</i>	<i>LCHF</i>	<i>Gluten allergy</i>
<i>Vegetarian</i>	<i>Non-processed</i>	<i>LFHC</i>	<i>Body-builder</i>
<i>Vegan</i>	<i>GMO-free</i>	<i>Balanced plate model</i>	<i>Carbo-loader</i>
<i>Fruitarian/80-10-10</i>	<i>Raw</i>	<i>Paleo</i>	<i>Tee-total</i>
<i>Dukan</i>	<i>Calorie restrictive</i>	<i>GI</i>	<i>South Beach</i>

Figure 9: A by no means exhaustive sample of modern dietary regimes

Traditional food retailers have less of an issue since customers can pick and select individual ingredients and combine them in ways that suit their lifestyles. The issue for RDS companies is one of capacity – the RDS business model is built upon standardisation, developing a few recipes a week followed by ordering and packing standardised bags *en masse*. Although some companies do try to accommodate diverse needs through use of specialist bags (e.g. lactose-free) there are only so many customisations a firm can make. Some companies specialise in serving the needs of a specific dietary niche such as PaleoPax, LCHF Matkasse and so on. This strategy however leaves them vulnerable if dietary attitudes are to change. In order for them to cater to all the needs listed here would require a radically new business model and a move back towards traditional online retailing. The solution here then may rely on enabling customers to co-create their own personalised solutions. Two potential solutions are considered: (1) build capacity into the business model to deal with requests, and (2) offer the bare-basics.

Firms could allow customers to select from a host of recipes created by the firm, other customers or even upload their own to custom-build their own recipe bags. Customers then are able to actively tailor their recipe bag to their unique requirements. In order for such a model to be viable companies must either have internal capacity or access to it. For example, Mat.se is a regular online grocer as well as a recipe bag provider. It therefore has the products, storage and logistics solutions already in place to allow for such customisation. Smaller 'born-RDS' firms (firms that were RDS companies from inception) may need to instead act as a nodal firm and rely on the assortment and delivery solutions of others. A middle-way solution observed in British RDS firm Gousto is to offer to pick three meals

from a limited selection, allowing people to choose options that fall into their preferences. The company still retains much of the standardisation benefits but can now appeal to a larger demographic due to the modularity of recipe selection. However, whether the Gousto model represents true value co-creation is questionable since the products are still firm-determined.

The simplest and most open option is to omit the inclusion of most of the ingredients altogether and provide a bare-basics option. In this model the RDS firm would just provide recipes and some unique element to justify subscription (just as a spice blend, sauces or complementary element). The customer could then purchase the ingredients themselves and tailor their selection to their circumstances. Some of the customer pains mentioned in Table 1 would still be relieved with this value proposition (deciding what to cook, ensuring variation, avoiding bland meals). It would also be an easy addition to the product assortment since recipes are developed anyway and its addition embeds granularity into the offering. This concept is currently adopted by Turntable Kitchen.

This theoretical application is self-evidently linked to the benefit of catering for customer heterogeneity, allowing the firm to gain from the benefits of doing so as outlines in 3.1.3.



## 5 METHODOLOGY

### 5.1 Empirical problem

After having presented two frameworks – co-creation in general (chapter 3) and the way it could be beneficially applied to RDS firms (chapter 4) – it is necessary to look empirically at firms within the industry to discern firms' perceived characteristics. The purpose of the empirical research will be to observe how corporations believe they engage in activities that may bring about the co-creation of value. In observing, the paper will discover if there are any perceived examples of the successful application of co-creative initiatives and whether they are in-line with some of the potentially beneficial activities hypothesised. It may also bring to light any discrepancies between what co-creation authors have argued and practical application. Additionally it can be used to spot opportunities that have not been explored by the interviewed companies that should theoretically benefit the firms.

The empirical study will answer the first research question – *Exemplify the ways in which RDS and related businesses currently perceive their co-creative practices* – through direct questioning. This question uses Prahalad and Ramaswamy's definition of co-creation as a good business practice as opposed to Vargo and Lusch's ontological and universal application of the term. Since co-creation is an indistinct and abstract concept a number of proxy variables are used to assess the extent to which companies potentially co-create value. These variables are:

- What business logic is evident in the firm? (based upon qualities outlined in chapter 3.2)
- Do RDS firms show any evidence of having the basic elements (i.e. DART) of co-creation? (chapter 3.3)
- What technological facilitators are used? (chapter 3.4)
- How unique and customisable is the customer experience? (chapter 3.5)

Companies that go by G-D logic are, according to theory, unlikely to be purposely co-creating value since the perspective implies value is embedded in objects completely within the sphere of the firm. Prahalad and Ramaswamy (2004a) recognise that the elements of co-creation are necessary for the realisation of co-creative platform; companies that do not engage in these elements are unlikely to be enabling customers to interact and personalise value. Asking about technological facilitators helps to understand how co-creative activity may be being achieved in reality – for instance, engaging in two-way dialogue through social media. Finally, and maybe the most relevant, is how customisable the value is to individual consumers. The degree to which value can be tailored to needs and whether this tailoring is interactive is a defining hallmark of value co-creation.

In order to answer the second research question – *In what ways could small/new RDS firms in the Swedish context benefit from co-creation* – the answers from the interviews outlined above were used to extrapolate if firms engage in any of the potentially beneficial activities outlined in chapter 4. For example, the answers that companies provide regarding dialogue and technology-use make it possible to assess if they are engaging in 'true dialogue via social networks' (the second proposed co-creative activity). When any indication is given that firms might be engaging in any of the four outlined co-creative activities, or in another, respondents were probed further to establish (1) the perceived outcomes and whether they are beneficial, harmful, neutral or mixed, and (2) the practicalities, feasibility, trade-offs and implications of such activities.

## 5.2 Pre-study of the RDS industry

Since there was an absence of information and analysis on the emerging RDS industry it became necessary to conduct a pre-study to know more about the case in question. A general overview of the industry was conducted through a survey of 46 RDS firms across the world (but primarily in Europe). This survey sought to find out a number of qualities of the industry:

- Characteristics of the observed companies
  - Are they active on social media and on which sites (defined in this study as having posted a status, tweet, photo or other message in last two weeks)
  - How many people are their recipe bags designed to cater for
  - How many different recipes are included per bag
  - Alternative products offered
  - When do they deliver
  - The customer experience from pre-subscription to post-consumption
- Industry characteristics, based on Porter's five forces (2008)
  - Evidence of entry barriers (e.g. legal barriers)
  - Evidence of supplier power (e.g. low value orders)
  - Evidence of customer power (e.g. subscription lock-in)
  - Evidence of competitive rivalry (e.g. number of competitors in selected markets)
  - Evidence of substitute products (e.g. similar concepts)
- Sources of potential competitive advantage, based on Grant's typology (2010)
  - Financial assets (e.g. backing by venture capitalists)
  - Physical assets
  - Technological assets
  - Reputational assets
  - Skills/know-how
  - Communication capability
  - Collaboration capability

Given time and resource restrictions, this survey looked at the companies' corporate sites and social media pages to answer these questions. When answers were not found at these locations then a wider general search was conducted via search engines and the answers relied upon news articles, government financial websites, consumer comparison websites and information provided on partner company corporate webpages. The author's awareness of a number of Swedish-based recipe bag providers, in addition to having sampled a number of recipe bags previously, helped to corroborate these findings. Further verification was sought during the main empirical study through direct questioning (e.g. "*describe a typical customer experience*"). This would not of course verify the characteristics of companies not interviewed. The results of this pre-study is used to back up the claims made in the preceding chapters (company characteristics are also listed in the appendix)

## 5.3 Research design of the main study

The empirical research was conducted as a multi-case exploratory case study. Since the research is concerned with observing how a present phenomenon (co-creation) functions in the specific context out of the researcher's control (the RDS industry) a case study approach is appropriate (Yin, 2009). In order to help separate the phenomenon from its context the study examined a number of

converging variables, triangulated data from different sources and benefited from a strong theoretical foundation as detailed in chapter 3.

Despite concerns that case studies lack the rigor of experimental designs, they can still provide value in research that seeks to develop theory rather than 'enumerate frequency'. It should be made clear that this paper does not seek to produce statistical generalisations about the RDS or other industries, nor does it intend to find explanation or causation (despite probing for possible outcomes to answer the second research question, establishing direct causation is beyond the remit of the research. The findings could be used as the basis for future research). It instead endeavours to provide analytical generalisations that can help contribute to the understanding of co-creation. Analytical generalisations use previous theory as a template through which empirical findings can be compared and contrasted. Such generalisations are strengthened by a multi-case approach and can be strengthened further if future researchers conduct similar investigations on other industries (Yin, 2009).

The case-study approach was selected upon evaluation of the options available. Alternative research designs that can be conducted in the absence of control tend to concern themselves more with the prevalence of a phenomenon while this report is more interested in the mechanisms behind it (Yin, 2009). The alternatives also proved themselves less feasible for other reasons. Archival analysis is hard to conduct given the scarcity of literature on the emerging RDS industry. Surveys would also not be appropriate since the units of analysis, RDS companies, are not numerous enough to provide statistically significant data. A non-obtrusive survey was conducted in chapter 2 to gain an overview of the industry; however, this data yielded little insight into the complexities and human factors at play.

## 5.4 Data collection

In order to better understand how the case companies believed they engaged in co-creation, semi-structured interviews were conducted addressing the building blocks of the co-creation framework (see interview guide in appendix). Since the research design is explorative open, qualitative questions were used to probe what they do and why they do it. In particular, companies were asked:

- *How do they describe their company?* This question was designed to probe how the firms see their role in the value creation process and to determine what kind of business logic they are using
- *Questions regarding interaction:* So as to assess the nature of interaction between parties and determine if they are engaged in true dialogue. Three types of interaction were considered relevant: firm-customer, customer-customer, and stakeholder-stakeholder. Questions were asked to probe how firms deal with the problem of interaction after subscription.
- *Question to probe customer access.* In order to co-create customers need have access to experience platforms. They may additionally benefit from access to other products or services and so this area needs to be explored.
- *Questions regarding risk-management:* Another important co-creation element. By asking respondents to describe how they manage risk insight can be gained on the perceived limitations and risks of co-creation in the industry. It can additionally illuminate a firm's attitude to control.

- *Questions regarding transparency:* Transparency educates and provides customers with the know-how to co-create. Therefore a firm's attitude to information-sharing is of interest.
- *What kinds of technology are used to facilitate co-creation?* Theory suggests that technology is the main facilitator of modern day co-creative activities. How it is used by companies is therefore essential to understanding the practice of co-creation.
- *Questions to understand the customer experience:* The goal of co-creation is to bring about the personalised unique value. A company that adopts the elements of co-creation but does not bring about the emergence of unique value would not be benefiting from the intended goal of such activities. It is therefore important to assess whether customers in the RDS market are enjoying personalised experiences to assess the effectiveness of any co-creative endeavours.

#### **5.4.1 Evaluation of data collection method**

Interviews were chosen as the preferred source of data since they could provide targeted relevant answers as well as insights into the assumed nature of human relationships. They do however leave open the possibility of response biases, bad questioning technique, poor recall of the respondent and reflexivity in the respondents' answers (saying what they think the interviewer wants to hear). Response biases and reflexivity were moderated by the triangulation of data with observable online activity (see chapter 5.6.1). Questioning technique was tested beforehand using mock-interviews with other researchers of the RDS industry and adapted based upon comments and outcomes of interviewees. Respondents were informed of the topic of the research in their invitation emails and so they had time to prepare themselves to answer the related questions or suggest those within the company who would be better suited to answer them.

Other alternatives were considered and rejected on grounds of relevance and feasibility. Documentation and archival evidence would have been difficult to locate or gain access to given the infancy of the industry. Since the intent was to study relationships the relevance documentation would also have been questionable. Direct or participant observation was deemed impractical given that RDS firms operate mainly online and deliver across a sparse geographical area.

### **5.5 Case company selection**

Interviewees consisted of RDS and related companies. Three criteria are listed below that were used when selecting which non-RDS companies could be included in the study. They needed to:

- Be internet based (i.e. online sales channel)
- Operate with subscription ordering
- Deliver food products

These criteria were chosen since they are characteristics shared by RDS firms. Being internet and subscription based is a quality of RDS firms that affect their ability to interact with the customers and so is related to the topic of co-creation. By only looking for food retailers, the way that customers interact with, customise and consume the product will be similar to that of an RDS customer. The criteria were not too restrictive so as to exclude companies of varying sizes, ages and locations. This is because the first research question seeks to exemplify the myriad of ways firms believe they co-create and so variation in such characteristics could provide more diverse responses.

Eight to ten companies were sought after to take part in the study; enough to provide respondent variation in-line with the paper's exploratory nature but not so many so as to put strain on the time and resources available. Since the paper does not seek to make statistical generalisations, a small sample size should not raise concerns regarding validity (Yin, 2009), however it does mean that relationships cannot be determined between the data and characteristics of the firm (e.g. it cannot be determined if large companies respond differently from small ones). The small data set may also mean that any potential novel responses from companies not interviewed will go unobserved.

Email invitations were sent out to seventy-one firms and interviews were conducted with all who agreed to take part, nine in total. Every company that was discovered to have the criteria listed above was sent an invitation in order to increase the level of representativeness. That is not to say that the entire population of such firms was contacted as the search was limited to a few hours of web-based searching. This searching method was conducted out of necessity rather than design since the author found no collective catalogues or databases listing multiple RDS companies, with the exception of the Swedish consumer comparison sites.

There may be three main selection biases in my method. Firstly, invitations were only sent out to companies found via conventional internet search engines and may have excluded firms from the sample that were overlooked. This may exclude companies with poor search engine optimisation or those who may interact on other channels. However, since one of my selection criteria was that the company be internet-based the target population should be easily found using search engines. Secondly, the interviewees were not randomised but interviewed on the basis that they agreed to take part in the research. These companies may have different characteristics from those who did not want to take part. They could have more available man-hours or be generally less closed off/secretive; both of which could affect their approaches to co-creation and customer interaction. Thirdly, the interview was conducted in English and may have neglected firms who lack English ability. The extent of this last point is believed to be minimal since many of the interviewees came from non-English speaking countries including Japan, Belgium, Germany and Sweden. Additionally, email invitations that were originally sent out in English were resent to firms who had not responded but this time in their native language. Despite such biases, this paper serves as an explorative case study and its findings are not intended to be statistically generalised, but rather to better understand the reality of co-creation.

## **5.6 How the data will be analysed**

Questions were phrased in a way to identify key variables in line with theory. The transcripts and notes were coded using axial coding so as to identify specific patterns for thematic analysis. Coding themes were based upon what theory suggests should transpire (deductive coding) and other patterns that emerged from the data (inductive coding) (Lewins, et al., 2010). The data was then checked by an academic third-party see if additional patterns and groups were to be found in the data and to reduce risk of personal bias.

The data was compared and contrasted against each other and with the literature to identify a number of insights; a summary of which is provided in the analysis (chapter 7). Primarily, the report set out to determine whether and how the companies actually engage in co-creation activities at all and to discern why or why not. Secondly it was of interest to know how co-creative activities have been adapted to the idiosyncrasies of the RDS and related industries. Examples of co-creation

activities were then contrasted to what is discussed in the literature; for instance, whether the purported benefits of co-created value are perceived by firms. The second research question is discussed in chapter 8 based upon the analysis of the variables used to answer the first.

## **5.7 Discussion of validity and reliability**

Yin (2009) proposes that non-explanatory case studies, such as this report, face three challenges – they must ensure construct validity, external validity and reliability<sup>12</sup>.

### **5.7.1 Ensuring construct validity**

To ensure construct validity, this study has taken measures to ensure it has identified the correct operational measures of the concepts being studied. An explanation of how the concept of co-creation can be broken down into variables is given in chapter 5.2 and in the appendix. These pre-determined explanations should counter most concerns of subjectivity entering the report.

In addition to this, multiple sources of evidence converge to help ensure the measurements are valid representations of what they are trying to measure. The interaction that firms believe they have may not be being experienced by the customers. As there were difficulties in finding customers from each firm to validate the data (language barriers, data protection, low anticipated response rates etc.) a different approach was taken. The companies' dialogue platforms were examined to look for evidence to back-up claims. For instance, a firm that says its customers interact with each other by sharing tips on the company's Facebook page can be easily verified by examining the news feed. Social media sites were deemed a better validation tool compared to corporate sites given the freedom with which customers can interact openly and visibly and with less company influence.

This validation technique could suffer from selection bias however as only engaged customers will interact with such pages. Therefore the opinions and comments of those who do not want to engage would not be represented. Such opinions would have provided an excellent contrast given the study is interested in customer engagement.

This validation does not just have implications for the validity of the study but can also alert firms to any potential misapprehensions that may exist. Perceptual gaps between firm and consumer can lead to customer disenfranchisement and the continuance of organisational rigidities (Feser, 2012).

### **5.7.2 Ensuring external validity**

As mentioned before, this case study does not intend to make statistical generalisations across the industry or any other group. It instead provides insight into the application of the concept and therefore it may be possible for analytical generalisations to be made. The case study did not follow iterative replication logic as outlined by Yin and so the strength of such generalisations is potentially not as robust. Additionally, a strong theoretical framework has been used to guide the construct of the methodology suggesting that result from the study can be compared and contrasted against the theory.

### **5.7.3 Ensuring reliability**

In order to ensure reliability I have attached an interview guide to appendix II so that similar interviews can be replicated. Given that this was a small multi-case analysis on firms with hidden

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<sup>12</sup> Yin identifies a fourth issue, internal validity, which only concerns case studies seeking to establish causation

identities it is unlikely the results obtained from replication would provide the same answers. In order to minimise biases and errors theoretical principles have been used in the formation of the question guide and in deductive coding. Inductive coding of emergent themes presents a challenge to the papers reliability; however, as mentioned, those themes were checked and agreed with by a third-party.

Since operational procedures in this study were straightforward (conduct interviews then validate findings with observations on social networks) the logistics of replication should be easily achieved. Furthermore, a chain of evidence has been kept in the form of recordings, notes and a research database.

## **5.8 Research Ethics**

Bryman and Bell (2007) identify four main ethical considerations when conducting business research, each of which are addressed below.

The research was conducted in such a way as to avoid harm. Where participants were concerned, the most relevant threat identified was that the research could harm the firms' competitive standing by revealing sensitive information. To counter this, strict informed consent and privacy measures were used and are discussed below. The questions were also phrased in such a way so as to probe only for information significant to the research aims. There were incidences where sensitive information was provided voluntarily but was irrelevant. These comments were omitted from the report to prevent any unintentional damage they might cause. The potential harm to non-participants was deemed to be a minor concern since the research appears to have no direct or indirect negative implications for them.

In order to ensure each participant had informed consent they were all made aware of the research aims before agreeing to be interviewed. Additionally, companies were given the opportunity to examine and veto any references made to their firm before the papers submission. Although minor corrections were made, no information has been censored from this report

To ensure privacy, all companies are referred to by a randomly assigned letter in all incidences, including in notes and transcripts. Paper references were kept away from outsiders to the investigation and computer records were password protected. All information on firms came either from informed, voluntary interviewing with key personnel or via the examination of publically-assessable secondary sources (e.g. corporate websites and comparison blogs).

In order not to deceive companies, all communications were truthful and no information requested was held back unnecessarily. The only time that information was asked for but was not provided occurred when some companies asked about other participants. This information could not obviously be provided without breaching other participants' privacy. Some companies were particularly keen to know of any similar firms that were affiliated with the university and that information was provided openly and extensively.

## 6 CASE COMPANIES

Nine companies agreed to take part in the study; six RDS companies and three home delivery subscription (HDS) companies. HDS companies send customers packages containing a variety of predetermined goods of a specific nature on a subscription basis. There are HDS companies in a number of industries including beauty, clothing and gifts. Since we are only interested in those who share close similarities with RDS firms, only food-based HDS businesses have been sampled.

The locations of the case companies span six countries: Sweden, UK, Germany, Belgium, USA and Japan.

### 6.1 Company A

Company A is a US based HDS business that specialises in delivering a monthly selection of 5-6 items of artisan foods from across the US. The co-founder says that the firm's purpose is to connect consumers with independent food producers. Sample products include Virginian peanut butter, Georgia pork jerky and Texan chocolate. Each product comes with a short story about where it comes from, how it is made, and tips on how it can be used. It primarily targets a male audience and ships its products throughout the US and Canada.

### 6.2 Company B

Company B is a Belgian partner of a Swedish RDS firm. Primarily catering for families, it offers recipe bags for two or four people with four people given the option of a three or five meal bag. Although possessing a different brand name from its partner company, it uses the same branding, marketing materials and recipes. All ingredients are fresh and without additives and they list detailed ethical sourcing practices on their website. The firm caters to people living in the Flanders area. The recipes are nutritionally balanced and emphasis variation.

### 6.3 Company C

Company C is a Swedish RDS business based in Stockholm. It offers recipe bags designed for two or four people and also has a child-friendly alternative (Swedish: *Barnkasse*). It works with fresh, organic, additive-free ingredients and works to ensure its recipes are nutritionally balanced. It delivers to most urban locations within Sweden as well as having partner operations throughout five other European countries. Primarily delivering on Monday evenings, it also offers Sunday delivery in the larger cities at a premium. In addition to producing recipe bags, the company is also active in advocacy working to improve the food quality in the food industry.

### 6.4 Company D

Company D is based in Sweden and differs from the other interviewees in that it is primarily a supermarket-based grocer that added recipe bags to its web-store product assortment. It provides recipe bags for two, four or six people and has lactose-free and organic alternatives. It also sells a starter pack (Swedish: *Startpaketet*) that includes all the basic ingredients not normally included in recipes bags (olive oil, balsamic vinegar etc.)

In addition to recipe bags it also engages in standard internet grocery retailing and provides customers with options to search for and add recipes on their member profiles. Therefore, the recipe bag concept is less well defined here as customers can in effect create their own recipe bags using the recipe database and purchase functions and selecting delivery dates most convenient for them.



## 6.5 Company E

Company E is a British online retailer of cheeses and related products. Although most of its business comes from one-off sales, it also offers a HDS assortment of five contrasting cheeses from once a month. Based in Devon its mission is to promote artisan West Country cheeses from small-scale producers to consumers across the UK. It also specially prepares 'cheese wedding cakes' of stacked and decorated cheeses for special occasions and includes an interactive 'cake builder'. In addition to cheeses it also provides West Country beverages, chutneys and crackers to complement the cheeses. In 2011 it was the winner of the Observer food monthly award for being the 'Best Independent' and was particularly praised for supporting small local businesses by acting as a nodal firm.

## 6.6 Company F

Company F is a HDS company run by a Finnish entrepreneur living in Tokushima, Japan. The business delivers a 'surprise' assortment of local sweets not commonly found outside of Japan to customers anywhere in the world (although its website is only available in English). The sweets are sent by envelop on a subscription basis twice a month to for personal consumption or as a gift.

## 6.7 Company G

Company G is a German RDS firm delivering to all major German urban areas. Delivery is either Monday or Tuesday evening dependant on location. Their branding and product assortment is similar to mainstream Swedish RDS firms, emphasising freshness and variety. What is novel is the addition of recipe bags tailored for singles which is uncommon amongst RDS firms. They also give customers the option to choose the number of meals in a box (three, four or five) as well as providing a vegetarian alternative. In addition to recipe bags it also provide fruit boxes.

## 6.8 Company H

Company H is a Swedish RDS based in Gothenburg specialising in premium positioned world cuisine, including gluten-free alternatives. The company offers four meals designed for two or four people on a weekly or fortnightly basis. The bags contain chef-prepared sauces to complement the meals meaning that it is one of the few companies that manufacture their own products. In addition to recipe bags it also provides chef-hire and a 'cosy Friday' (Swedish: *Fredagsmys*) assortment of Italian meats, cheese, almond cake and chocolate.

## 6.9 Company I

German RDS and another partner firm to Company C. Like Company B, it also shares a lot of the same branding and food philosophy of its partner firm. It endeavours to have a high percentage of organic ingredients and claims to have no unnecessary additives (German: *keine unnötigen Zusätze*) and to only use fish from sustainable sources. Bags are designed for four people and include three meals, five meals or a child-friendly alternative with four meals. All meals are designed to be ready in 25-40 minutes.

## 7 ANALYSIS

This chapter analyses the findings of the semi-structured interviews. Respondents' answers will be compared and contrasted against each other so the emerging themes can be discussed later. The sections below will also bring in findings from the data validation task to critically assess whether respondents' perceptions appear to be grounded in reality. This chapter will be broken down into sections provided in sections 3.2 to 3.5, by first analysing the dominant logic at the companies, the elements of co-creation, the technological facilitators and finally assess whether there is evidence of the co-creation of unique value.

### 7.1 Dominant Logic

All of the companies identified themselves as providing a service provider either explicitly or implicitly. Of all the companies interviewed, only G said the company made a product without referencing a service in the same sentence. While many used the term 'service' itself (Companies B, D, F and I), others went into more details about their value propositions with a heavy emphasis on non-physical value. Companies A and G expressed themselves as nodal firms acting as intermediaries between producers and customers:

***“We connect people in the US to small... regional craft food makers...”***

**Company A**

Company G compared themselves to Nike in that they outsource all non-essential activities and focus their efforts on *“marketing and bundling”*. In addition to this, other firms identified themselves as the purveyors of other services:

- Companies C, G, H and I when asked what they provided to their customer emphasised the delivery function they perform
- Others emphasised the convenience their value propositions provide. Companies G and I said they cater recipes for families while H was quoted as saying *“we want to make the week easier”*
- Companies C and E saw themselves as purveyors of information. C said that they wanted to educate their customers with extra information on recipes and ingredients while E said that they provide knowledge and expertise to their consumers.
- H said that their aim was to provide customers with *“experiences”* which suggests the food itself is merely a means to a more abstract value proposition
- Finally, some firms emphasised the value in community and engagement. Company C said that the company encouraged customers to engage with their meals by sharing their photos on-line. Company E said that the firm was *“based on enthusiasm”* and that responding to customer requests is a part of the service side of the company. H stated they were more interested in retention rather than sales. When this was followed up to check to see if the motivation was financial, the business owner stress the importance of the relationship between business and consumer

All of these comments imply that all of the companies interviewed perceived their businesses, at least in part, with S-D logic. Although the recipe bags were mentioned by most of the respondent it was always in reference to some other service provision and the details of the bags themselves were scarcely mentioned.

However, the respondents did not always identify themselves as being solely a service provider and firm E claiming that there was not any real distinction between a product and a service (although this point in itself can be interpreted as an indication of S-D logic as, according to the logic, products are merely the physical manifestations for the services they provide). This is echoed by G who said they saw themselves as somewhere in between a product or service provider depending on the context – a product provider officially but a service provider as far as society was concerned.

What is important to take away from this analysis is that, although the respondents could be placed at differing positions on the spectrum between G-D and S-D logic, the way they view their business does not appear to be so product focused so as to exclude the possibility for active, knowing co-creative activities. The references to community and engagement are very much in-line with good application of value co-creation. Other references however, for instance to catering and to convenience, may imply a firm-centric mentality which may instead hinder real two-way interaction and value creation.

## **7.2 Elements of co-creation**

### **7.2.1 Dialogue**

There are three main interactions that are of interest when observing how a company co-creates value: that between firm and customer, between customer themselves and interaction amongst stakeholders. As these all possess differing characteristics they have been analysed separately below.

#### **7.2.1.1 Dialogue between firm and customer**

When asked how firms interact with their customers three key themes emerged: the firms either engaged in monologue, they listened or they actively tried to engage their customers.

One example of one-way interaction was given by company D who brought up that they communicate with their customers via in-store promotions such as announcements and posters. This would fail Pepper's and Roger's characteristics of dialogue since promotion does not clearly identify the individual recipient, allow for response, it happens regardless of the recipients wishes, nor can it be controlled or influenced by the recipient. Another example of monologue from firm to consumer comes in perhaps a more altruistic guise; some companies want to educate their customers. This category of responses can be broken down into two groups: those who want to inform customers about the business operations, and those who inform on matters beyond the business. Examples of the former category include giving customers menus in advance (company C) and SMS services that provide customers with automated delivery times (companies G, H and I). These activities are no more interactive than promotion, perhaps with the exception that the automated SMSs clearly identify and individual customers and tailor the message accordingly. Of the companies that want to educate the customers beyond business operations, the mechanisms they use to do so are still mono-directional. Companies D, E, F and G all provide newsletters; A, C and H include additional tips and recommendations to help develop their customers skills; A and E include stories about their suppliers and products to develop the experience. While these attributes may provide additional value to the customer, they are still nonetheless firm monologue.

The second theme that emerged from the respondents' answers was that some companies actively tried to listen and learn from their customers. C and G track and survey customers regularly, allowing them to grade recipes and other attributes. G and H make personal phone calls to all new customers.

C even conducts house visits to observe how customers prepare the products and to learn things they did not expect to learn. These pursuits bring about changes in behaviour too. G stated that they brought it a vegetarian bag in response to what they learnt from these surveys. H also states that they would be ready to make changes in response to “big problems”. These forms of interaction are much closer to the dialogue criteria than promotion and education; they identify individuals, allow both parties to participate and the results can lead to changes in firm behaviour. However they still are lacking a number of qualities which prevent them from becoming true dialogue and from bring about value co-creation. The surveys are structured and controlled by the firms implying that the interaction with the customer is neither open nor mutual. The house visits would be an less affected by this as the face-to-face interaction and observation in customers’ homes would be a lot less subject to company control. This is also true with the phone calls to a lesser extent. Where surveys, phone calls and house-visits are all lacking is that they fail to bring about changes of behaviour that are specific to individual cases. The responses given instead tend to suggest these interactions lead to the adoption general changes of behaviour to appeal to segments.

The third theme that emerged was that some companies actively tried to engage customers. It was evident that most of the respondents were using social media, especially Facebook, as a key platform for two-way communication. These assertions were later verified through analysing the corporate pages. Evidence was found of firms encouraging customers to comment and discuss issues and to share their photos. Encouragement was either in the form of simple suggestion or via other mechanisms such as competitions or implying shared involvement.

***“New homepage in place! Not only the chef, but also... you!” [Translated from Swedish]***  
**Company H, advertising the new customer photo sharing function on its revamped homepage**

Although recommendations for the topic of discussions were posted by firms it was also evident that customers showed a degree of autonomy in starting their own conversations, including customers commenting for the recipes to company H’s firm-manufactured products. This meets Pepper’s and Roger’s third and fourth criteria that all parties must want to participate, and that the dialogue is open to control by either party in the exchange. Evidence to suggest whether or not this meets their sixth criteria – a dialogue should pick up where it last left off – was not discovered.

Social media platforms could become a ‘dumping ground’ for comments and photos that go unnoticed by anyone other than the poster. If this is the case there would only the illusion of interaction. However, the report found the many (but not all) of the queries on the company Facebook pages were answered by a company employee. Company G claimed that they have a goal to ensure queries are answered within 20 minutes of being posted.

#### **7.2.1.2 Dialogue between customers**

Inter-customer dialogue varied between firms with some companies not being aware of it (company F) to some crediting the interaction between customers as an important part of their business model (companies E, H and G).

At one end of the spectrum some respondents were either not aware of inter-customer dialogue or saw little strategic importance in customers interacting amongst each other. Company D said that they believed their customers interacted no more than customers in other industries, company I said they do little to encourage interaction, and company A said that networks already exist and so any

encouragement would be redundant. Additionally A also claimed the “verdict was out” other whether inter-customer dialogue was beneficial.

Companies B, C, D, E, G, H and I all recognised that customers do interact on-line using social media as a communication platform, just as with firm-customer dialogue. The perceived extent of this interaction varied between firms. What is interesting is that companies B, C, and I, despite being partners and sharing similar branding, products and web-interfaces, all had differing perceptions of the degree of dialogue between customers. Company B claim it occurred “very much” online while company I recognised it occurred, but “not much”. There may cultural reasons behind these factors or it may just be a case of differing management perceptions of an abstract variable. Further research is needed to truly know why this perception exists and whether it is grounding in objective reality.

At the other end of the spectrum, other companies took a more positive approach to the subject and actively encouraged it. Three main reasons were given: word-of-mouth (WOM) promotion, customer assistance and community. WOM promotion was mentioned often when discussing the benefits of customer interaction with company B going so far as to claim it was the *only* benefit. E recognised the importance of WOM and allowing customers to become the company’s unofficial promoters. The firm’s owner estimated that WOM accounted for a 40% growth in turnover in the space of a year reaching sales of £300K; this happening during a period when the company engaged in “virtually” no other kind of marketing activity. Company H’s website automatically asks customers where they heard about the firm before subscription. The results suggest that 70% of new customers claim the learnt of the business from a personal recommendation. G actively encourages this kind of promotion by offering present customers incentives to convert their friends and family – 20% of new custom comes through this mechanism. On the other hand company D, although recognising that customers tell their friends of family about the recipe bags, they were not aware of any direct WOM sales although they could not refute it occurred either.

Customer assistance was another phenomenon observed by some of the respondents that happens on social media. Customer queries that are posted on-line are answered by other members in the community. Although companies C and I both claimed this occurs it became difficult to find many examples as the query was usually resolved by the firm. This topic will be discussed further below.

Some companies referred to their customers as communities and there is some evidence that such social constructs may exist, including comments amongst users on social networks and on recipe bag comparison sites. The motivation to post pictures of meals implies a desire to be acknowledged by members in the network. However, observations made during verification did not provide any strong indication of familiarity between members. What was not assessed and could provide further evidence of the existence of such communities would be to research whether customers interact communally *offline* – whether the meals are discussed at offices or cooked communally for instance. Whether inter-customer dialogue contributes to the development of communal value is therefore inconclusive.

Regardless if inter-customer interaction is beneficial to firms, the fact remains that some companies believe it is and actively encourage it, such as company G’s financial incentives or B’s Facebook status prompts. However two counterarguments were given against such encouragement. Company A

suggests that interaction between customers cannot be forced and that it emerges naturally. Company H on the other hand does not want to “push” people into becoming promoters. These views differ in that the first is a statement of what can be done (encouragement is futile) while the latter was a normative statement (encouragement is not advised). The reason company H gives for this view, despite recognising 70% of its customers come from recommendation, is spawned from the owner’s business philosophy:

***“I am not trying to sell; I am trying to have a relationship with my customers”***

**Business owner, Company H**

Here the owner explained that attempts to coerce customers would have potential negative consequences to the relationship between firm and customer. Additionally, there was a fear that customer interaction would lead to a weakening of the brand concept.

### **7.2.1.3 Dialogue between stakeholders**

Dialogue between stakeholders (stakeholder-customer and stakeholder-stakeholder interaction) was described as rare by all of the respondents except in special circumstances. In most companies, interaction happens indirectly via the firm which acts as a nodal company (companies C, E, H, I). Some even make a willing effort to deny the existence of stakeholders. Company H, for example, has a partnership homeless charity donating surplus food which it believes if publicised will be criticised as a marketing ploy.

Then there are also practical issues which act as deterrents. Company C acknowledges that customers could interact with suppliers but they are too busy. E and H say that the lack of motivation to interact exists on the suppliers-side too with E saying that many of his suppliers work within a “cheese-making bubble” and are disinterested in the consumer-facing aspect.

Nevertheless interaction does occur. Company A credits its background supplier stories for linking up interested consumers with food artisans across North America. In such interactions, though, the company ceases to be involved in the value network. Company E recognises that some supplier firms will try to do direct selling to consumers and that, when meeting people who are unlikely to become a customer through his company (if they want to bulk purchase for example) then he provides the contact details of the suppliers – again allowing stakeholder interaction to take place while simultaneously leaving the value network.

Of all the respondents, only company C mentioned non-supplier stakeholders when probed. The firm has political and social beliefs centred on encouraging healthy eating. Therefore they are actively engaging with journalists and politicians and publish stories of these interactions on the company owner’s blog. According to the company, recipe bag customers have been known to follow these personalities on Twitter. It is not known though whether any dialogue takes place between them.

### **7.2.2 Access**

Access without ownership did not present itself in any significant form from any of the respondents’ answers. The closest thing to access as it is defined in co-creation theory came was evident in company D who possesses all the features online to help customers theoretically design their own recipe bag, although this feature is not marketed as such perhaps representing a missed opportunity. If customers were only able to select from a range of pre-selected recipes it could be argued as

merely another level of product selection but the website also allows customers to design their own recipes and ingredient lists and add them to their baskets. This added modularity and extendibility provides customers with the creative freedom to start co-creating their own value in terms of the physical make-up of their products. Company E's cake builder offers similar opportunities.

In spite of this feature, most of the respondent answered that providing customers with freedom to customise the product assortment was not always beneficial. The first reason given is one of capacity. Companies F, G and H expressed that their business models lacked the capacity for such a venture. Standardisation allows for bulk purchases which provide economies of scale in purchasing and identical bags speeds up the packing process. It is worth noting that it is the companies which began as RDS claim to lack the capacity. This is unlike company D who was originally and still is primarily a traditional nationwide grocery retail business which the associated product assortment and storage that would allow such customisation.

The second reason respondents said customer choice may not be beneficial is that it misses the point of the concept. Company I said that it was part of the service they provide to relive customers of having to make choices and B states that to allow choice goes against the purpose of the recipe bag concept. Company A echoed these points adding that customers relied on the expertise of the firm. While these are rational motivations they also show a tendency to generalise the customer base. Co-creation theory stresses the importance of granularity; that is the recognition that despite some customers not wanting to contribute, there will still be those that do and that varying levels of engagement can be facilitated by a truly co-creative business model. Company A's point cannot be rationalised away so easily though. One of the main benefits customers received from A's value proposition is the connection to food manufacturers they did not know existed; in other words, how can a customer utilise know-how they do not have. This is not to say company A's product is incapable of customisation – company E allows customers to select their own assortment from small food manufactures – but it can be argued the value may be *lost* in not letting the firm guide the consumer with their expertise.

### **7.2.3 Risk assessment**

Since access and customisation was so limited in the companies interviewed, most of the comments regarding risk assessment were based around the dangers of transparency. All respondents said that there were benefits to transparency for a number of reasons but recognised that there were circumstances where information is best omitted or kept secret.

The most frequently mentioned risk was that the firm would suffer competitively if it provided information on finances and operations. Company C provided an anecdote of a former interviewee who was privy to operational secrets, who then used that information to start a rival company. Companies G and I expressed similar concerns.

The second risk identified was that transparency could or has led to complaints and customer loss, with company B stating that with greater transparency came greater exposure to complaint. While no company said they would deliberately withhold information on food sourcing, two firms said they would omit information that could be sensitive. Company C said that, although the fact is not hidden, it is not made expressly evident by the firm that certain products in the recipe bag such as mozzarella may contain additives. Company H also spoke of an incident regarding a customer's objection to their

Israeli-grown potatoes which led to the company changing suppliers. Recognising that people have strong opinions about the issue on both sides, it was decided that the best course of action was to action the change discretely so as not to offend Israelis while simultaneously preventing the issue from reoccurring in the future. The respondent concluded the people will always have opinions about food and that it is easier not to share sensitive information. What both of these cases show is that although both recognise that transparency is a beneficial in most cases, they have also considered the risks involved with complete openness. Additionally, it is important to point out here that the risks of disclosure in both these cases were to the firms, not the consumers.

Other companies argue that transparency *is* a form of risk management. A, D and F claimed that negative information has a habit of getting out nowadays anyway

***“It is better to get the news out from your channels than others”***

#### **Company A**

Companies A, B, F and I expressed that they believed transparency brought about higher level or trust and loyalty if conducted well. Company B noted that there is a high level of suspicion in Belgium related to food sourcing and that such openness helps quell doubts customers might be having. Company E states they like to deal with complaints visibly and transparently as it displays a commitment on the firm’s side to rectify problems and that it even acts as a form of promotion. This is facilitated by the firm’s policy of not doing business with suppliers they are not comfortable defending. Using this logic, complaint prevention by omission may actually represent a missed opportunity and leave companies more susceptible to future negative public relations. It is unknown from this study whether omission or full disclosure is a better mechanism for risk management, if any advantage is provided at all.

#### **7.2.4 Transparency**

Generally all respondents claimed to be transparent except when the data was deemed to be sensitive or when the information was not deemed relevant. If we first examine one end of the scale, companies C, G and I strive *actively* to be as transparent as possible with G even going so far to suggest they have *no* secrets (although they later stress that financials and customer data are expectations).

On the middle ground, companies A and F said they do not provide much additional information, not because it is hidden but because there is not much to say. Company H on the other hand recognises there they are in possession of relevant information which is not made instantly available. However they believe themselves to be transparent in the sense that customers can request information by phone or email. There are perhaps time or psychological barriers which prevent people from contacting a firm to ask questions so whether this is full disclosure or not is debateable. For example, how can someone ask a question when are not aware that they do not know something?

At the other end of the scale are those who actively prevent the transparency of certain kinds of information. The most frequently cited reason was that it was harm the competitive prospects or the integrity of the firm. For that reason company C refuses to provide details on packing operations and G stated they cannot divulge financial nor customer details. Since such information is not particularly relevant to enabling customers to co-create value, their exclusion should not hinder the process in any meaningful way. Company D stated that they are unable to provide their customers which



certain details regarding sourcing, ingredients and brands. However they also mention that it is rare for customers request such information and that the firm does provide complementary information on request (the source of meat cannot be verified by D but they can claim that it is 100% Swedish).

Seven of the respondents found that their customers were very interested in the source of their products. Six of these go on to say that they because of this interest they actively promote who supplies their products. Companies A and E go into more details than most and highlight additional facts such as the firms’ philosophies and origins (This can probably be explained due to both A and E being HDS firms specialising in artisan products). Company G also pointed out that the ability for RDS companies to track the sources their products (thanks to close connection with their suppliers) gives them an advantage over their larger supermarket competitors. This rings especially true given the recent concern in food sourcing sparked by the European horsemeat scandal. Although such transparency in the food chain is commendable, it does not seem to empower or enable customers to tailor unique experiences. While theory suggests transparency facilitates co-creation, this example shows that the former does not guarantee the latter.

**7.3 Use of technology**

Table 4 below summarises the kinds of technologies the respondents claimed to utilise. These have been divided up along the guidelines provided for Prahalad and Ramaswamy’s technological-facilitator matrix outlined in section 3.4.

		Potential customer experience enablers				
		Self & Remote Diagnostics	Tracking & Monitoring	Connectivity & Interactivity	Mobility & Seamlessness	Continuity & Transformab.
Emerging technological capabilities	Miniaturisation				<i>M-commerce (surf &amp; sales)</i>	
	Environmental Sensing		<i>GPS delivery van tracking</i>			
	Embedded Intelligence			<i>SMS: estimated delivery time</i>		
	Networked Communication		<i>FB community monitoring</i>	<i>Social media/ corp. site</i>	<i>Instagram photo sharing</i>	
	Adaptive Learning System					

Table 5: Technological facilitators observed in respondents' answers

The table demonstrates that evidence was only found for three kinds of experience-enabling technologies. These technologies enabled (1) tracking and monitoring, (2) connectivity and interactivity, and (3) mobility and seamlessness; each of which will now be discussed below.

**7.3.1 Tracking and monitoring**

The use of software and GPS technology by some firms allowed customers to stay informed of their estimated delivery times via a firm-sent SMS. This use of technology is basic and does not enable much value co-creation from the customer’s side. It is inherently a one-directional information service that it sent at the company’s discretion. Although some companies such as G and H try to accommodate requests for delivery times where possible, it is generally the case amongst the respondents that customers are told when the product will be delivered. Another application of tracking technology is the use of social media as a market analysis tool, although by their own admission neither company F nor H have learnt anything for great import yet. Again this is another

firm-centric use of technology to monitor groups of people rather than individuals without their involvement and as such falls short of achieving value co-creation.

### **7.3.2 Connectivity and interactivity**

Perhaps unsurprisingly when asked how respondents maintain connectivity and interactivity with their customers, the most prevalent answers were social media, e-mail and corporate websites. Three key functions of social media technology were given by respondents: to inform/promote, to interact, and to allow customisation.

F and I claim that the main purpose of social media is promotion which is evidently not a co-creative endeavour, as described in the analysis of firm-customer dialogue above. In contrast company B expressly claims the main purpose of all social media interaction between firm and customer is to inform. Such informing has the potential to enable the customer to co-create value if the information helps the recipient learn how to do something such as a skill or technique. It may also provide the transparency to bring awareness to the customer of the possibilities open to them. As with promotion, informing/educating customers was argued to be inherently a form of monologue and does little to enable the meaningful interaction between parties. In the absence of any of two-way dialogue platforms, the ability for company B to meaningfully co-creative value with its customers would be greatly limited.

The analysis of interaction has already been described previously, however analysing the nature of online interaction is something of interest.

#### ***“Social media is not a sales tool but an interaction tool”***

##### **Company H**

Most respondents mention that social media technology was a facilitator of interaction. Yet, the benefits of the platform appear to have been exaggerated. For instance, although some companies believed that inter-customer interaction was facilitated by social media there was no strong evidence of any meaningful community active on the neither companies Facebook nor Twitter accounts. Despite claims that customers will routinely help answer each other’s cooking queries examples of this in practice were sparse. One explanation of this may be down to a quirk of web-design. Fan comments are relatively well hidden in comparison to those that come for the business and replies to customer queries require at least one click to access them. The company however receives a notification as soon as a comment is made allowing them to answer questions appropriately before a customer is aware of the question. It is unknown if this is a contributing factor but it would be an interesting piece of future research to anyone interested in encourage the formation of online customer communities.

Companies B, D, E, G and H all stated that web-technology helps to facilitate the customization of orders. Company E’s interactive Cake Builder provides a customer-friendly interface with which final products can be designed and visualised. Given the thousands of possible combinations available from the 100+ cheeses on offer it would be a difficult task to achieve with the same visual impact and instant access to product information without some kind of interactive software. The Cake Builder webpage, although not essential to the selling of the product, is nonetheless a facilitating factor in enabling customisation. Similar customisation can be achieved using the ‘My Account’ function on some corporate websites. According to the companies interviewed, these webpages allowed for the

individual tailoring of specific customers' orders with regards to delivery weeks, the kind of bags being ordered and the purchase of add-ons. These activities move the order process in the direction of value co-creation, however as stated in the literature review, co-creation theory is not merely a synonym for mass customisation. 'My Account' order customisation is still an example of firm-determined products being sold and delivered by the firm at times that suit the firm. Using this perspective, 'My Account' order customisation still provides less choice than a bricks-and-mortar grocer. The fact still remains that the customer is not contributing much in terms of value in this model.

### 7.3.3 Mobility and seamlessness

The use of a specifically tailored mobile platform was only found to be present in company D who currently uses a mobile-friendly website, the same as it uses for its traditional retail service. Company C has also mentioned that they are currently on the way to an m-commerce application and companies H and I are considering the prospect of some sort of app. The use of m-commerce application would theoretically allow them the access to engage in order customisation when away from fixed internet-sources.

Conversely, company A questioned the appropriateness of an app for his company rhetorically asking 'what would it do?' Since most of the data an app can provide a customer with is readily available online, and since most smartphones are capable of accessing that information, the development of such an app would add little additional value. Interestingly, the respondent went on to mention that apps are not appropriate for all industries and gave the example of banking. The advancement of m-banking, contactless payments and mobile balance transfers using apps such as Swish and Ping provide a counterpoint that suggests we may not yet have seen the full potential of mobile technology application.

In addition to payment systems, the use and encouragement of mobile photo-sharing sites such as Instagram has enabled customers to co-create their own value from whatever sense of satisfaction or pride compels them to share their creations with the customer network.

## 7.4 Unique value

The development of unique value tailored to the individual consumers is the goal of value co-creation. It is important to remember that value is not just embedded in products and so tailoring value goes beyond product customisation. What was found was that in some of the case companies' customers were tailoring their experiences with the value propositions in ways that suited them best.

According to companies C and F, the nature of recipe bags allows customers to do whatever they want with the ingredients. They might ignore the recipe cards but in doing so miss out on the value they provide. Company G claims to have known this to occur and is aware of disabled customers who are more interested in the delivery function rather than the recipes. Lead-user innovations were observed by some of the firms with company H claimed only 80% of their customers are using the bag in its intended manner. The most frequently quoted innovation was the concept of ordering bags intended for more people so that the left overs could be saved for lunch the next day. This innovation provides customers with *additional* value beyond the bags intended use (not having to think about what to have for lunch, having a nice cooked meal for lunch etc.) as well as opening up the possibility for single consumers to order from companies that only offer couple and family size

meals. Another innovation observed by company I was that some customers were using recipe bags to cater for small business lunches. This experience personalisation yet again provides additional value tailored to the circumstances and it is possible the cooking for co-workers may provide communal value. To be able to study these innovations more closely to see what, if any, additional value they provide would be a fascinating area of further research.

The promotion of such lead-user innovations could be perceived as a co-creative endeavour for it would provide customers with the inspiration to tailor the value to their circumstances. It would be even better if the firm were to provide a platform where customers could advertise their innovations freely. What was observed however was that such tailoring of the value proposition around the customer's circumstances is made possible by the product design but it is not necessarily encouraged. On the contrary, company H ensures that they do not promote the lunch innovation since it would have potentially damaging consequences to the firm's branding – how could they promote daily cooking and fresh ingredients while simultaneously suggesting customers freeze and microwave their meals? Prahalad and Ramaswamy would argue that the experience *is* the brand and that brand perception is heterogeneous. They would continue that brand is developed by the interplay of all parties in the value network with no one party in total control. By trying to manage the brand by deliberately attempting to limit the potential of a firm's value proposition, company H is showing signs of firm-centric thinking which is evidently hindering value co-creation.

## 7.5 Summary

The above analysis looked at how the respondents perceived themselves to be engaged in co-creative activities. It found that they were neither strongly exhibiting G-D logic nor S-D logic when describing their activities but appeared to show signs of both kinds of perspective. They also seemed to overestimate the success of social media in facilitating firm-customer and inter-customer dialogue and seemed to see little value in stakeholder interaction. Few examples of access were perceived. Even though the data validation found an example of customer access in company D, the respondent did not perceive the function as a tool for access. Risk management was perceived as an internal concern to be controlled within the company; the main risks expressed being risks to the firm's competitive standing rather than the consumers' well-being. Transparency was deemed to be a positive thing by all respondents but it appeared to be a firm-centric approach to transparency; letting the customer know about the company rather than being open with information they could use to co-create value with such as lead-user innovations. Technology was used to provide assist operations and to facilitate interaction. Some respondents believed mobile technology could provide customers with future value if developed. Finally, the respondents concede that they knew of lead-user innovations occur (with customers tailoring the value propositions around their own circumstances) but that they did little to encourage or promote them.

## 8 DISCUSSION

The previous chapter analysed the companies' perceptions of value creation (i.e. dominant logic), how they employ co-creative elements, use technology and facilitate the creation of unique value. This discussion chapter will now relate these findings to answer the research questions presented in the introduction:

- (1) Exemplify the ways in which RDS and related businesses currently perceived their adoption of co-creative practices, and*
- (2) In what ways could small/new RDS firms in the Swedish context benefit from co-creation*

### *8.1 RQ1: Exemplify the ways in which RDS and related businesses currently perceive their co-creative activities*

The analysis found that the respondents' perceptions of their co-creative activities did not seem to differ too greatly from each other. Firstly there was the acknowledgement that transparency was generally a good thing but posed risks to the business's competitive standing. What is interesting to take from this is that both the benefits of transparency and risk management stated by the respondents tended to be firm-centric<sup>13</sup>; transparency made customers loyal and confidential information was in place to prevent new entrants or from giving competitors an edge. Despite companies adopting the elements of co-creation, these elements do not appear to be overtly facilitating it. Being transparent about the source of produce may aid a company's reputation but it does little to enable the customer to provide and tailor their own value. Furthermore if this openness did happen to bring about value co-creation it is clear from the respondents' answers that this was not their original intention.

Secondly, some firms' perceptions of dialogue appeared to have misjudged its true extent. While it is true that this paper cannot know the level of interaction that goes on via email or telephone conversation, most respondents claimed that they engaged in moderate levels of dialogue on Facebook. Data validation however revealed that there was little evidence to suggest much true dialogue between firm and consumer. Additionally, firms claimed that customers interacted often with each other on the medium and again this was found not to be the case. What this suggests is that firms in question overestimate the interaction that they engage in and facilitate for others. It is possible that this can lead to companies achieving lower levels of interaction than they would like to without realising this is the case. Any problems that arise from poor communication may then be overlooked. Companies willing to co-create through dialogue could then be hindered by their own ignorance.

There were other co-creative activities that the respondents saw little value in concerning themselves with, most notably stakeholder interaction. The literature provides examples of the benefits afforded to companies that enable stakeholders to interact with each other including preventing bottlenecks, increasing overall capacity and widening the possibilities for value co-creation (more actors leads to more competences, skills and combinations of value propositions). There are also demonstrable benefits in other industries such as wiki networks and online gaming. However the respondents appeared to want to control the interaction with the consumer (i.e. firm-centric thinking) and saw little added value in enabling an open forum. Conversely, just because the

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<sup>13</sup> With a few exceptions such as company C's political campaigning

respondents do not facilitate stakeholder interaction it does not necessarily imply they are missing out on or destroying value in anyway. It is not known if the respondents are correct in this assessment since no truly open forums in RDS or related industries have been encountered in this research.

There also appeared to be a view among some that co-creation could have potentially damaging consequences. In other words, by trying to involve the customers more in the value creation process the firms would actually be bringing about the *co-destruction of value*. This became evident when respondents spoke about customer access and the overall tailoring of unique value. These respondents claimed that the value of the recipe bag came in its *relieving* rather than in its *enabling* function. With this perspective it becomes understandable why providing customers with access and encouraging them to interact more would seem a self-defeating task. If a customer just wants to consume they would not appreciate numerous attempts by the firm to encourage them to provide additional time and effort. However, if one were to look at the recipe bag as an enabling value proposition these concerns become unfounded. It is not known which perspective the majority of RDS customers have or whether it is a combination of both. What is likely through is that there will be numbers that fall into both camps and both can theoretically be appealed to if the RDS firms took a granular approach. Exact dimensions with which to measure the likelihood that a co-creative practice would be beneficial was not found in the literature so this paper can only speculate about the potential benefits that adding granularity would bring.

Some respondents also perceived dangers in co-creating with novel concepts. These respondents perceive the recipe bag to be novel; lacking a dominant design as well as widespread recognition by the populous. Therefore there are concerns that allowing customers too much access and freedom to reimagine recipe bags before they have been established as a recognisable, standardised concept could lead to confusion over what the value proposition provides and bring about a failure for customers to comprehend its value. This is discussed further under the sub-heading 'Enabling customers to tailor their own value' (section 8.2.4).

There is also evidence that one firm is overlooking the potential they have to co-create. Company D appears to have the physical capacity and sales platform to make customisable recipe bags, deliverable on certain days possible. This function is not marketed as such but can be achieved through an extension of their already functioning internet grocery business. Yet when asked the representative for the firm claimed that such customisation was not yet possible. Given that this is an isolated case there may be reasons why this answer was given; perhaps the interviewee misunderstood the question. This does not explain why the ability to select and add recipes into a shopping basket is not marketed as a customisable recipe bag as it is for some UK RDS firms. Alternatively it may be that the possibility has been overlooked. This latter explanation may stem from the perception that the RDS concept is all about relieving customers. If so the company may be operating under a firm-centric paradigm where they attempt to provide all the value rather than burden the customer with choice. This is speculation but if true it could have implications on an RDS companies' ability to co-create value; if they see themselves as relief-providers rather than enablers, and their customers as passive consumers rather than partners, they will not be seeking ways to co-create value.

In chapter three this paper proposed that S-D logic was necessary for firms to knowingly co-create value with their customers. The analysis found that the respondents appeared to demonstrate qualities of both G-D and S-D logic; they recognised that their products were in fact artefacts for service provision but also often demonstrated a firm-centric approach to the creation of that value. The belief that the company provided value was evident in the frequent references to control – whether acting as a middleman between stakeholders or in the belief that giving customers a choice would be value-destroying (it was argued instead that the customers find value in not having to make choices). It would appear that firm centrism is preventing firms from co-creating as was predicted. For instance, when asked if recipe bags could be customised most firms assumed the customisation had to take place within the firm and suggested the capacity was not there. Also company H's refusal to promote lead-user innovations for fear they would harm the firm's belief of what the concept should be. Whether these fears or well-founded or not is unknown. The proposal was not that G-D logic was in some way inferior or that co-creation is always beneficial, but that S-D logic should be a prerequisite of conscious co-creation. Since no respondent appeared to exclusively possess one perspective or the other no conclusive assessment can be made from this sample. All that can be said is that comments related to the risks of co-creation or the failure to see its value tended to be given from the firm's perspective (thus through a G-D logic lens).

In summary, the respondents perceived their co-creative activities in a number of ways. They saw the benefit in and promoted some activities although whether these activities are sufficient enough to empower customers to co-create value is debatable. They tended to overestimate the dialogue they had and facilitated with consumers on social media also. Activities such as stakeholder interaction were perceived to provide little to no value but it was unclear if the respondents were referring to the consumers or themselves. Other activities meanwhile were perceived to be potentially value-destroying and avoided, particularly if they appeared to damage the company's idea of what a recipe bag should be. Finally the potential for co-creation appeared to be overlooked in one incidence. This paper argued that a firm-centric perspective maybe the cause of it and of other incidences when respondents failed to see the benefit in empowering their customers to interact and become engaged in the value creation process.

## ***8.2 RQ2: In what ways can small/new RDS firms in the Swedish context benefit from co-creation?***

This section will discuss the implications of the analysis with regards to the second research question. Four potentially beneficial co-creative activities in the RDS industry where proposed in chapter four. The following sections will discuss the implications of the empirical study with regards to each.

### **8.2.1 Identify and develop the experience**

In chapter four the report claimed that there is a level of ambiguity over the exact experience(s) that RDS firms are trying to foster. Once known, firms could then start to strategically build value constellations that complement such an experience. The RDS respondents answers did not hint still at any particular experience that any one firm was hoping to develop. Conversely, the HDS firms appeared to have a much clearer impression that their products where providing a discovery experience. Three companies are far too small a sample to suggest any generalisations; however one can theorise why features of HDS companies may make identifying the experience more straight-forward than in the RDS concept. The HDS concept is built around the delivery of a seemingly chaotic

selection of products around a well-defined certain theme in order to expose customers to new experiences (in the case companies this included cheese-tasting and Japanese snack culture). The HDS value constellations differ from that of RDS firms in that they reflect this *discovery* value proposition by buying from many small suppliers that will differ from one delivery package to the next. Through strategic selection of the suppliers they can also benefit from association with local, artisan/quirky foreign brands while they themselves need not manufacture a single item. This may explain why it is that companies A and E (the artisan HDS providers) provide much more details than the other respondents regarding supplier information including histories, product stories and details of visits.

### **8.2.2 Ensure true dialogue via social networks**

The analysis of the interaction between parties in the value network showed that a number of the respondents mistakenly consider promotion and informing to be dialogue. For reference, Peppers and Rogers' (2011) six criteria of true dialogue are reprinted below:

- (1) All participants must be clearly identified (taking into account characteristics and history)
- (2) Everyone must be able to participate
- (3) Everyone in the dialogue must freely choose to participate
- (4) Dialogues can be directed and influenced by anyone in the exchange (i.e. it is mutual)
- (5) True dialogue should result in some kind of change of behaviour between participants
- (6) A dialogue should pick up where it last left off

Of these six, the ability for the consumers to influence the direction of the conversation and having the dialogue bring about some kind of meaningful change in behaviour where two qualities that appeared underdeveloped. Additionally inter-customer and stakeholder interaction appeared underdeveloped in the cases examined.

The encouragement of inter-customer dialogue appears to have made a positive impact on sales. Company E claims WOM accounted for a 40% rise in turnover in one year. This has been accounted for by a number of initiatives taken by the firm including catering for social events such as weddings which inherently creates exposure with groups of potentially like-minded people. It could be argued that social events have the potential to become non-virtual experience environments for the cheese company. In eating the product together other consumers a dialogue may be initiated about the social and sensory experiences. Consumers may start sharing their opinions of the product or providing suggestions (e.g. *"I think you'd like the Cornish Yarg with that chutney"*). If such incidences do occur they are still rather limited in the value-creating potential; customers have little opportunity for lead user innovations, no access to anything beyond the product and little transparency. However, with the proliferation of QR codes and mainstream adoption of smartphones there may be potential for new value creating possibilities at such events in the future.

Company G noted a similar financial benefit with 20% of their new business coming from their customer recommendation program. Conversely this report has not been able to prove direct causality. It is still unknown if E's business grew organically thanks to its national publicised award, or if G's 20% would not have become customers regardless of the recommendations. In fact, when probed further very few companies were able to provide much details on the impact of any business practice in concrete terms. They tended instead to rely on abstract immeasurable concepts. For



example, it was frequently claimed that transparency increased customer trust. However no company was able to answer what impact that increase on trust had on sales, retention or any other measurable variable when probed further.

With regards to inter-customer interaction, one could question the importance of allowing customers to interact with other customers if the company is able to respond with an adequate answer. This report argues that the benefits are four-fold: (1) it facilitates the diffusion of lead-user innovations; (2) it provides customers with the opportunity to co-create new sources of value; (3) it may increase familiarity between members and bring about the emergence of customer communities; and (4) it could help to prevent bottlenecks in responses.

Social networking sites, particularly Facebook, were the prevalent community platform of choice across all respondents. Despite the relative ease with which customers can assess and interact on this platform there is sparse evidence that they do so in any significant way. Although it would be possible to try to cox customers to engage on new platforms such as a firm-built customer community site the likelihood of customers switching platforms is as yet unknown. Therefore it is important to understand if there are some idiosyncrasies of Facebook which hinder community formation.

It was conjectured in the analysis that perhaps the layout and architecture of Facebook may in some way hamper the emergence of inter-customer communication. Since customer comments are essentially hidden in comparison to firm-statuses customers may overlook them. Additionally, since the page administrator is notified of any comments instantly they are better poised to respond to customer comments and queries first before customers can provide input. A screen shot of a corporate Facebook page is provided below to illustrate this point. No more than three customer posts are shown at a time and all responding comments are not visible until the appropriate hyperlink is clicked on.



Figure 10: Screenshot of a Facebook corporate page (names and photos blacked out by author for privacy)

Further research would have to be conducted to prove it this was in the case. Regardless of whether it is or not, companies can encourage the customer interaction by posting customer queries as their more prominent statuses, by prompting customers to provide suggestions to open ended queries and the like.

### 8.2.3 Embed granularity

While granularity was argued to be a relatively straight-forward structure to put in place there was scarce evidence of its use in the respondent firms. Evidence of customer demand for granularity was

found across social media with customers requesting for firms to provide them with value propositions that require both more and less engagement. Examples include customers of Kocken och jag who constantly request the recipes for certain sauces while on the other hand complaints about the complexity of sauce-making are evidence on other RDS firms' social media. As theory suggests individual customers willingness to engage in experience environments are based upon their personal circumstances and levels of interest. By only catering to one customer at one point on the spectrum of desired engagement, firms are likely missing out on an opportunity as well as hindering value co-creation prospects.

The closet example to a company embedding granularity into its value proposition seems to have emerged be accident in company D. Since this company was already an online grocer it already had the modularity to enable customers to browse, edit and instantly purchase the ingredients for recipes. This represents a value proposition that caters for high customer engagement. A lower engagement value proposition, the companies recipe bag, also exists but on another part of the website. The two features are *not* integrated and appear separate. In addition, when asked if the firm's recipe bags were customisable or if customers could select their own recipes, the respondent replied negatively. This is despite having the function that makes such customisation theoretically possible.

#### **8.2.4 Enable customers to tailor their own solutions**

The last potentially beneficial activity proposed was to enable customers to tailor their own solutions. Firstly this section will discuss the problems with customisation and capacity. Secondly it will address how lead-user innovations are enabled.

Born-RDS firms suggested there were problems regarding the businesses in-built capacity to deal with customisation. The recipes are determined by the business and are therefore limited by available manpower. Economies of scale arise from bulk purchases that result from the standardised recipes. Logistics costs are kept down by single day delivery, optimised by logistics software. Each of these factors appears to limit the degree with which companies can profitably cater to the potential customisation demands of consumers. These concerns are based upon the condition of standard-pricing.

The co-creation concept states that as the customer co-creates value with the firm the pricing dynamics change and firm must assess the *price-experience relationship* (discussed in section 3.1.3). Traditional internet grocers such as Tesco.com illustrate this in practice with a dynamic-pricing model related to delivery times, with more favourable delivery hours being charged at premium rates. Using the principle of granularity it may therefore be feasible for RDS companies to continue to offer their no-extra-charge delivery services on the condition that customers are told when to expect their orders, while concurrently offering preferable delivery slots at a premium. This would allow the customers to tailor the delivery experiences around them if the additional value is perceived by the customers to be worth the expense. A cost-benefit analysis would need to be conducted to assess such a project's feasibility.

Product customisation is also hampered by business model capacity of born-RDS companies. Unlike RDS departments that developed inside nationwide grocery chains, born-RDS business does not have the buying power or storage opportunities afforded to their larger counterparts. While value

constellation theory would suggest that firms could access such capacity from partner firms, the ideal candidates from an operational perspective would be online grocers with existing logistics capabilities; the same grocers who unfortunately happen to be competitors. Some are even now direct competitors given the recent adoption of the recipe bag concept by some leading retail chains in Sweden.

When capacity problems are mentioned, it is arguably the result of a G-D logic approach to perceiving value. The customisation issues mentioned here are related to product and delivery and ignore the abstract values that can be developed without the need for warehouses and trucks. In fact, co-creation theory suggests that customers can provide much of this value themselves. If so it would be favourable for companies to enable such activities. One way of doing so is addressed in the next section.

As observed in the analysis, customers are engaging in lead-user innovations. They are tailoring the value propositions around their own circumstances to provide them with additional and unique value. However, what was not observed was any encouragement or promotion of such activity. Instead evidence was found of respondents consciously ignoring such uses in fear that such use will have potentially harmful consequences to the concept or brand. Co-creation theory suggests that the both are created from the customers' perception of the experience and should not (Vargo and Lusch would argue cannot) be managed by the firm. Nonetheless we must consider the unique characteristics of young firms in developing industries. The industry concept may not yet be fully understood by the populous nor have the start-ups had much opportunity to communicate their values. Any ambiguity on the side of the firm may present customer confusion and harm market establishment and development. Similar miscommunications have damaged customer relationships in the past (Davidson, 2004).

Alternatively, since the concept is novel it may still be in need of development to meet its full potential. Therefore trying to define and fix the concept in the early stages may negatively impact either the business concept as a whole or prevent companies from keeping up with their more innovative counterparts.

### **8.3 Topics for future research**

Throughout this report a number of questions have arisen which may prove interesting subjects for further study.

The empirical study conducted placed a great deal of emphasis on online experience environments and perhaps neglected co-creation and lead-user innovations in practice. A study of co-creation from a customer perspective and on a real world level would therefore provide an intriguing topic for further analysis. Questions that would be interesting to ask include how customers were inspired and developed innovations, what value they perceive from them and whether they thought the firm enabled or hindered them. Additionally, ethnographic research observing how customers interacted with artefacts could help answer how co-creation actually occurs in practice rather than how it is perceived to occur

In this paper it was argued that value co-creation would provide firms in unattractive industries (as defined by Porter) with a relational advantage over their competitors. To test this it would be useful to examine what impact the adoption on the rate of churn. If this report's hypothesis is correct the

community value and relationships that emerge in co-creative firms should reduce rates of churn and increase retention.

This paper has focused on a single industry in non-technical field. Many co-creation examples in the literature come from industries with higher degree of embedded technology. Normann, Prahalad and Ramaswamy all argue that technology is a catalyst for the development of interactive value constellations and so the embeddedness of technology within an industry's operations or value proposition may influence the potential with which that industry can benefit from co-creative practices. Can the food industry, for example, learn anything from the success of massively multiplayer online role-playing games (MMORPGs) or is there something inherent in the dematerialisation of gaming that cannot be transferred to an unescapably physical product (you cannot digitalise food). Similar comparative studies could compare firms offering commodities versus luxuries (as with the Eon case study), or emerging versus established industries.

Additional follow-up questions from the analysis and discussion could prove interesting for future research including the effect of website design on customer interaction and value co-creation, and establishing causation between the adoption of a co-creative practice and measurable outcomes on turnover, retention or some other variables.

## 9 RECOMMENDATIONS

This report will now present three recommendations to RDS firms interested in adopting value co-creation. These recommendations are based upon what has been learnt from the empirical study and what should be theoretically possible if not yet observed.

### 9.1 Build the community

From what has been observed there are no ideal examples of RDS firms successfully fostering customer communities. This is despite the theoretical benefits of their formation including engagement (the IKEA effect), communal value, a sense of belonging, ideation and additional capacity through co-opting customer competences. Word-of-mouth promotion was perceived to occur by respondents and it was claimed to provide significant new business and turnover.

To build communities firms must first objectively assess the true extent of the interaction between them and their customers as well as between customers, being careful not to mistake monologue for dialogue. Then they should facilitate an appropriate platform for customers and stakeholders to congregate. Problems with Facebook have been detailed in the discussion however additional efforts by the firm to encourage discussion in the comments section of their statuses could present one way around this. Asking open questions with no one right answer will encourage opinions and idea formation and regular prompting could lead to familiarity among members who frequently comment.

Furthermore the real world aspect of food should not be ignored. Although social media presents a great facilitator for long-distance, multiple customer interaction, firms should remember that food is fundamentally a physical product. The formation of non-virtual communities who engage in dinner parties, business lunches or cooking classes represent a potential opportunity. The encouragement of such activities can either be catered for with new especially tailor product assortments. Alternatively it can merely be suggested, allowing the customer to tailor the original bags as appropriate, perhaps with the input of customer ideas, tips and stories (we know, for instance, that some customers already do tailor the recipe bag for business lunches).

### 9.2 Develop the *experience*, not the product

In the discussion it was noted that the RDS respondents did not appear to communicate a focused experience that they were hoping to create from their value propositions. It can be a risky strategy to build a value proposition around convenient cooking and eating with the plethora of substitute readily available. This becomes especially true now with the entry of supermarkets into the RDS market. Picking and developing a niche experience to develop would give firms much more apparent differentiation. It would also allow them to cultivate value constellations in unique ways that become harder for the competition to imitate. Co-creation theory tells us that the value is in the *experience*, not in the product or service. Therefore the traditional industrial boundaries of food and non-food should become blurred. Most RDS firms have yet to take advantage of this (with some notable exceptions, including Turntable Kitchen).

In summary, companies should define the *experience* they hope to co-create, not the product they hope to sell. Then they should work out what value they need to provide, what their customers should provide (taking into account granularity), and what other organisations should provide and build a value constellation accordingly.

### 9.3 Relinquish control and enable customers

It was argued in chapter two that RDS customers have implicitly shown a desire to participate and engage in co-production. Some customers have asked for additional recipes on social networking sites. Some companies even pointed out that a number of customers have sent in their own recipes as suggestions for future recipe bags. Although, as many of the respondents pointed out, the concept of the recipe bag is that it relieves customers we have evidence of those who want more engagement. Tailoring to these more engaged consumers does not have to come at the expense of the relief afforded to the less engaged ones; they both can be catered for with granular value propositions.

Enabling the customers to create their own value can be as simple as informing them of the possibilities available to them, or in true co-creative fashion allowing customers to spread such innovations across the community on an appropriate platform. It could involve allowing them to provide recipes themselves, providing customers with a sense of acknowledgment while simultaneously relieving the burden of recipe development from the firm.

If capacity for ingredient assortment can be secured, either internally or via a network, then the possibilities increase. Enabling customers to tailor make their own recipe bags, save them online and suggest them to friends or the wider community would allow RDS firms to assess the recipe making competences of the populous in ways that are limited by single firm department. Access to Tuscan recipes, Jewish cookery, and traditional Mexican street food can be provided by customers who possess such heritages. They can be accompanied by stories and backgrounds much in the same way the artisan HDS firms did to improve the authenticity of the experience and allow customers to appreciate the cultural nuances that will not be found in a cook book.

## 10 CONCLUSION

This report set out to discover the ways with which RDS and related firms believe they co-create value with their customers and in what ways could they possibly benefit from such activities. In analysing the industry it argued the best potential RDS firms had of securing sustainable competitive advantage was in developing relationships with customers and auxiliary firms. However, the online subscription-based business model meant that customer interaction needed to be proactively pursued. One method suggested that could potentially facilitate the building and value extraction from customer relationships was for the firm to co-create value with its customers, co-opting their competences and allowing them to tailor their own unique value adapted to their circumstances.

Four co-creative activities that could potentially benefit RDS firms were discussed before conducting an empirical case study of how nine RDS and related businesses adopt co-creative practices. The study found that some of the respondents adopted elements of co-creation however, no single firm appears to be utilising the framework to its full potential. One of the problems, particularly with born-RDS firms, was that they lack the in-house capacity for product personalisation. However value co-creation is neither limited to nor synonymous with mass-customisation and there still exists many opportunities for customers to contribute value to others and to tailor their own unique experiences. Despite repeated assertions that social media was a platform for interaction there was little evidence of meaningful, two-way dialogue between parties on such sites. The report consequently suggested recommendations for how firms can encourage the formation of communities. The final key conclusion this report finds is that the RDS respondents tended to be vague on the exact experience they were hoping to develop with their customers. Therefore the report recommends that companies should identify what they want the experience to be more precisely so that they can then begin strategically building associated value constellations to deliver appropriate value propositions.

The framework used to assess the how companies perceive co-creation provided some useful insight. In breaking down the otherwise broad and abstract concept into elements it became much easier to analyse the components that make it up. However this approach may have overlooked the way in which the elements combine and complement each other to form whole experience environments, as well as any potential synergies that may emerge. A potential gap in the theory is that it does not explain how to assess when certain co-creative activities are beneficial or when they may be co-destroying value. For instance, the respondents' saw little value in facilitating shareholder interaction; it is not known from the framework whether such interaction will inherently facilitate the co-creation of value or if it may have potentially negative impact on the firm (e.g. in lost revenue) or on the consumer (e.g. exposure to some kind of risk).

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## 12 APPENDIX I: CHARACTERISTICS OF RDS FIRMS OBSERVED

Country	Company	Official Social Media			People catered for			Number of meals			Alternative recipe bag options			
		Facebook	Twitter	Other	Two	Four	Other	Three	Four	Five	Child-friendly	Vegetarian	Allergen-Free <sup>14</sup>	Other
Australia	Hello Fresh AU	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓
Austria	Hello Fresh AT	✓	✓		✓	✓		✓		✓		✓		
Belgium	Smartmat	✓			✓	✓		✓	✓	✓				
Denmark	Middagsfred	✓	✓			✓		✓		✓	✓			
France	Hello Fresh FR	✓	✓	✓	✓	✓	✓	✓		✓				
Germany	Hello Fresh DE	✓	✓	✓	✓	✓		✓		✓		✓		✓
	Kochzauber	✓	✓	✓	✓	✓		✓	✓		✓	✓	✓	
	Uns. Schlemmertüte	✓				✓	✓	✓			✓			
Netherlands	Hello Fresh NL	✓	✓		✓	✓	✓	✓		✓		✓		✓
Norway	Middagshjepen	✓	✓	✓	✓	✓		✓		✓				
Sweden	Anderssons Matkasse	✓				✓				✓			✓	
	Bra Mat Hemma	✓	✓		✓	✓	✓		✓	✓	✓		✓	✓
	Coop Matkasse	✓	✓		✓	✓	✓		✓				✓	✓
	Dalakassen	✓				✓		✓		✓				
	Ecoviva	✓				✓			✓			✓		
	Family Food	✓	✓		✓	✓			✓	✓				✓
	Framtidens Mat	✓				✓			✓	✓		✓		
	Gomiddag	✓			✓	✓	✓		✓	✓	✓			✓
	Gröna Kassen	✓				✓			✓	✓	✓	✓		
	Hemkört.net	✓				✓			✓	✓	✓			
	Hemmamålet	✓				✓				✓				
	Kocken och Jag	✓	✓		✓	✓				✓			✓	✓
	LCHF Matkasse	✓			✓	✓				✓		✓		✓
	Linäs Matkasse	✓	✓	✓		✓			✓		✓	✓		✓
	Mathem	✓			✓	✓			✓		✓	✓		✓
	Matkassen.se	✓				✓					✓		✓	
	Matkomfort	✓	✓		✓	✓	✓			✓				✓
	Mat.se	✓		✓		✓					✓			✓
	Middagsfrid	✓	✓	✓	✓	✓			✓	✓	✓	✓		
	Middagskorgen	✓				✓					✓			✓
	Middagsplan.se	✓				✓			✓		✓			✓
Middax.se	✓				✓			✓		✓			✓	
Nätlivs.se	✓	✓			✓					✓				
Saras Matkasse	✓	✓		✓	✓	✓			✓		✓		✓	
Tasteline	✓	✓			✓			✓		✓				
Årstiderna	✓	✓		✓	✓			✓	✓		✓	✓		
Switzerland	Salito	✓			✓	✓			✓	✓				
UK	Gousto	✓	✓		✓	✓		✓			✓	✓		
	Hello Fresh UK	✓	✓	✓	✓	✓	✓	✓		✓		✓		
	Jessica's Recipe Bag	✓	✓	✓	✓	✓		✓	✓					
USA	Blue Apron	✓	✓	✓	✓	✓	✓	✓		✓		✓		
	Chefday!	✓	✓	✓	✓	✓	✓	✓	✓	✓				
	Dream Dinners	✓	✓	✓		✓	✓	✓	✓	✓				
	Hello Fresh US	✓	✓	✓	✓	✓	✓	✓				✓		
	Plated	✓	✓	✓	✓	✓				✓				
Supper Sack	✓	✓			✓			✓						
<b>Total</b>	<b>46</b>	<b>46</b>	<b>28</b>	<b>15</b>	<b>26</b>	<b>44</b>	<b>14</b>	<b>28</b>	<b>19</b>	<b>32</b>	<b>13</b>	<b>13</b>	<b>10</b>	<b>14</b>

Sources: Corporate websites and/or official social media

<sup>14</sup> Gluten-, lactose-, or nut-free

## 13 APPENDIX II: INTERVIEW GUIDE

Presented below is the template that was used to guide the semi-structured interviews. The numbered questions start by addressing the key themes and the sub-points represent suggested prompts and probes to help develop respondents' answers when necessary.

- 1) **Question to assess dominant logic:** Can you briefly in one or two sentences describe what your company does?
  - a) Is it product, service or experience orientated?
  
- 2) **Question to assess firm-customer dialogue:** In what ways do you interact with your subscribers?
  - a) Where does this interaction take place? (online/physical/other)
  - b) Can customers initiate and direct the dialogue?
  - c) In what ways can the customers contribute to the discussion?
  - d) Does the dialogue lead to a change of behaviour for either party?
  - e) Does a customer's past interaction with the firm change the context of the dialogue?
  
- 3) **Question to assess inter-customer dialogue:** Do your customers interact with other customers?
  - a) Is this with or without your involvement?
  - b) Where do they do this? (forum/online/offline)
  - c) What do they talk about? (help each other/share photos/ideas)
  - d) Why do you think they do this?
  - e) What does this result in?
  - f) Do you encourage this?
  
- 4) **Question to assess stakeholder interaction:** What kinds of organisations and individuals do you work together with?
  - a) Do you use them to help improve the customer experience?
  - b) Are they beyond the traditional value chain?
  - c) Do they interact with each other and/or with customers?
  - d) Do you encourage interaction?
  - e) What is the outcome?
  
- 5) **Question to assess transparency:** What kinds of information do your customers have access too?
  - a) (Product specific/production/photos/Can customers share or modify information)
  - b) Do you encourage information sharing?
  - c) How do you share this information?
  - d) Why do you share this information?
  - e) Are there any observable benefits?
  
- 6) **Question to assess risk assessment:** Is there any information that you do not give out. Why not?
  - a) Do you see any risks?
  - b) Why do you think so?
  - c) What do you do about them?

- 7) **Question to assess access:** Can customers do following:
- Can they add their own information (e.g. tips, recipes, photos)?
  - Can they share your/their information with others freely?
  - Can they use it for their own purposes?
  - Can they rate, critique or comment on anything you do?
  - What are the consequences of these?
- 8) **Question to assess access:** Do you consumers contribute anything to the product/service you offer?
- Do they have direct access to any business process? Moderated access?
  - Can they suggest multiple delivery points, change dates and time of delivery?
  - Do they help with the design, selection, production, promotion?
  - Why do you think customers want to do this?
  - Do they have the ability to change things without your control?
  - What is the impact of this customisation? (Happier customers/confused customers/community/pride/etc.)
- 9) **Question to assess technological facilitators:** What kinds of technology do you use to interact with customers?
- Could you explain in detail what it is, what it achieves and why you do it? (Go through the technology typologies)
  - E.g. Social media, apps, networks, other software, my page
  - Sensors, trackers etc.
  - Databases – can customer interact?
- 10) **Question to assess lead-user innovations:** Are you aware of customers using the offering in ways you didn't intend (different experience with the same product)?
- Did they do this by themselves?
  - Did you encourage or discourage this activity?
  - Do you promote these novel uses? Or allow users to share them?
  - Are these people in demographics you didn't initially target?
  - What is the consequence of this (sales increase/new market penetration/dilution of brand/strengthening of brand/etc.)
- 11) **Question to assess uniqueness of value:** Is your company's offering customisable in anyway?
- Do you make the change in-house, work collaboratively or enable the customer?
  - Are the customisation options pre-determined by the firm or negotiable
  - Is it customisable on based upon people's desired level of engagement (i.e. granular)?
  - Is the customisation evolvable, extensible or linked?
- 12) **Question to assess uniqueness of value:** Have your customers ever asked for something unusual (a personalised service or product)?
- What was your response?
  - Is it possible for you to manage requests (do you have the capacity to?)
  - Do you enable customers to satisfy their own requests?

## **14 APPENDIX III: IMPLICATIONS FOR KOCKEN OCH JAG**

Three main implications of this thesis for *Kocken och jag* (abbreviated henceforth to 'KOJ') are presented below, based upon the author's analysis of and experiences at the company. These are in-line with the recommendations given in chapter nine but have been tailor to the company's circumstances.

### **14.1 Develop the 'och' and 'jag' in KOJ**

Unlike RDS companies that focus on the relieving aspect of the recipe bag concept, KOJ is rare among the Swedish market in that it positions itself as an enabling company and in doing so appeals to a different demographic and has the potential to co-create different kinds of value. This has been proposed by marketing consultants Cordovan to be a potential source of uniqueness. To take advantage of this the company needs to emphasise the 'jag' (Swedish: 'I'; i.e. the customer involvement and engagement in the value creation process) as well as the 'och' (Swedish: 'and'; i.e. the interaction and relationship between firm and consumers)

As was identified in the empirical study, KOJ is also guilty of having overestimated the extent and nature of its dialogue, with employees mistaking monologue communication (advertising and informing) for true dialogue. The same is true for inter-customer interaction; there is no evidence of familiarity or customer community formation on any of KOJ's social media platforms (Facebook, Twitter and Instagram). The company does lack a full time marketer to monitor and respond to online messages, posts and tweets and so it would be more advantageous to allow the community to serve itself, at least for the time being. Therefore, to build up the customer involvement (the 'jag') the company should facilitate community formation through encouragement (open questioning, referrals, collaborative competitions etc.) and perhaps find a more appropriate platform that better facilitates user dialogue, such as a web forum. The interaction (the 'och') will be discussed further under the sub-heading below.

### **14.2 Develop a guidance experience**

KOJ has a guidance principle which, unlike its other principles of convenience and experience, is a differentiating aspect in the Swedish market. Therefore it is argued that this is a value proposition the firm should develop further. It can do this by deciding to focus on co-creating a learning experience with its customers; that is the learning aspect of food knowledge, cooking skills and attractive presentation (which can be developed further into social values).

If that is the value the company chooses to co-create then it needs to work out how to develop that experience and build an appropriate value constellation with professional cookware suppliers, cookbook suppliers, regional food shows, interactive learning platforms, culinary schools, cookery channels and political campaigns such as *Food Revolution* etc. Also, the service blueprint should be re-designed to map the learning experiences of the consumers as the key value proposition rather than recipe bag consumption. This would also require the company to 'pivot' its business model on its food-knowledge competences to develop new products, services and platforms that facilitate customer skill development. One such product development is described below.

### **14.3 Provide the essentials and let customers tailor their own solutions**

KOJ, being a micro-company holding virtually no inventory, does not have the capacity for mass customisation. It can however facilitate generative customisation by providing minimalist product



assortments that provide customers with the essentials in-line with the firms competences (it unique homemade sauces, spice mixes and associated recipes) while excluding the bulk of the grocery assortment which can be easily be sourced by the consumer. It also allows unprecedented levels of customisation (at least on the Swedish market) since customers can now shop for the bulk of the ingredients themselves that meet their own dietary requirements, whether they are vegan, kosher or LCHF (provided the sauces do not cause an issue). Also, as no fresh ingredients are provided (sauces can be frozen) customers can cook and eat their products whenever they choose without worrying about perishable goods allowing them to customise the setting of the experience too.

Having this in the product assortment alongside the traditional recipe bag will add granularity to the offering and encourage more active engagement rather than passive recipe following. Allowing the customer to self-source allows them to experiment more with more opportunities for self-development. This in turn can facilitate pride in customer’s creations; the firm can then encourage them to post pictures of their food and discuss what they did. This will further develop customer community interaction, going full circle back to the first point (see Figure 11).

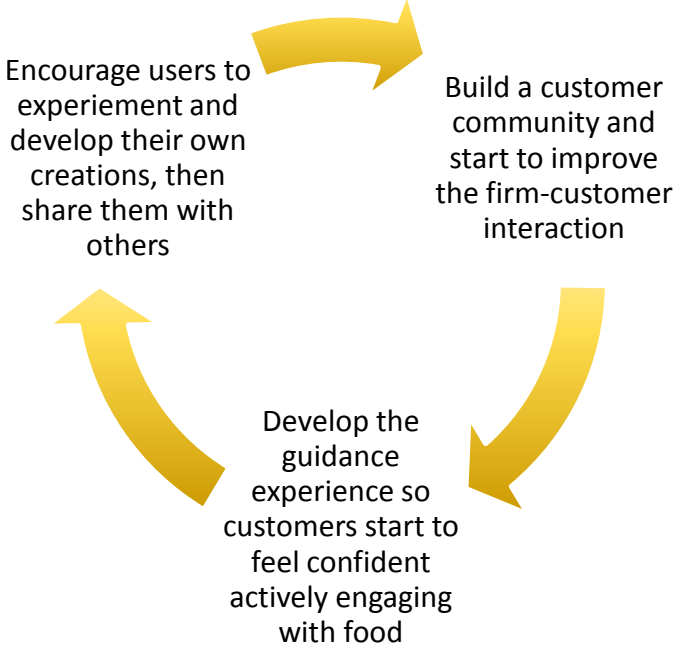


Figure 11: Suggestions for KOJ