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Co-creating customization: collaborating with customers to deliver individualized value

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To produce innovations that customers find more useful and desirable, leading companies increasingly involve customers in product and service development – a process of value co-creation. For example, such co-creation is integral to the Agile process in which small teams working directly with customers learn from their input and refine product features or software functionality at each step in its development. In the newest approach, Clayton Christensen's "Jobs to Be Done" theory of innovation relies on insights from customers about the specific reasons they are "hiring" a product to do something for them. These approaches offer a radical alternative to the old push system of development–cloistered R&D, prototyping a new offering, secretly testing it, revising it, developing it – then introducing an offering to customers when the time came to market it. More and more companies realize that learning from customers early and often is the faster, smarter route to success in today's dynamic markets.

When companies co-create with current and potential customers a discovery process occurs – needs invite solutions, which are then refined into prototypes that customers can experiment with so they can discern quickly which innovations offer high value and which others only add complexity. The probability of successful offering development goes up because co-creation asks those most willing to buy the newly created offering whether it solves their needs or fulfills their desires.

The customization innovation model

But there is a totally different dimension to innovation co-creation with customers – customization. A company that has one or a few customers can produce customization by collaborating with each one to produce exactly what, when, where and how an offering is delivered. Mass market companies, however, need to take a scalable approach to involving customers in offering development, delivery and use. By first adopting a "mass customization" mindset and then developing the required operational strategy, they can design their offerings and interactions so that individual customers can have more choice and companies can offer innovations that increase customer value.

But is co-creation to achieve customization a niche strategy that applies only to certain types of offerings, business models and customer relationships, or is it one that can be adopted by a wide range of companies? And how can it be implemented effectively? Cases of companies that have successfully mass customized their offerings provide some of the answers to these questions. Such cases illustrate how these companies view their co-creation relationship with their customers, and how they view current and future ways of creating economic value for those customers. This value may occur in the

form of economic benefits for companies and customers, but it can also result from forging stronger relationships and achieving significant and lasting learning opportunities. So how exactly should companies involve and learn from customers? What processes work best?

Research shows that results from co-creation customization initiatives follow from the interaction between two stages in the process: first defining the opportunity to customize the offering and then identifying who will control what choices are available.

Defining the opportunity to customize offerings

In a *Harvard Business Review* article “The Four Faces of Mass Customization,”^[1] the authors define the two features of an offering that can be customized:

- Functionality.
- Representation.

Functionality is the core purpose customers want to put the offering to – for example, using a credit card to provide a substitute for cash or having an adventure in a videogame. Representation is everything other than functionality that customers value – how an offering looks and feels, its style, how it is packaged, how it is marketed, its branding and its terms and conditions.

Co-creation with customers can result in an offering with changed functionality, changed representation, or both changed functionality and representation. These three possibilities are arrayed on one axis of our co-creation model, the “Object of Change,” shown in [Exhibit 1](#).

Exhibit 1 Co-creating customization with customers



“By first adopting a ‘mass customization’ mindset and then developing the required operational strategy, companies can design their offerings and interactions so that individual customers can have more choice and companies can offer innovations that increase customer value.”

How customers and companies manage individual choice

The second axis of Exhibit 1, “Control of Choice,” indicates the three different ways a company can structure its co-creation customization process to manage what choices are available:

- Primarily done by the company.
- Primarily done by the customer.
- Through an interaction between the customer and the company.

With each possibility both the company and the customer play a role, but which of them predominates in this process and has the final say determines the customization features of the offering the co-creation process delivers.

Practitioners have three basic ways to deliver customized value to buyers:

1. **Offerings:** A customizable solution, which may be a product, service, experience or transformation.
2. **Platforms:** Customers interact with a market system run by the company to fulfill individual needs.
3. **Collaborations:** Between company and customer to achieve individual value.

Using the model as a guide, its three levels of participation – “Control of Choice”: customer, company or both – and three delivery modes – “Object of Change”: functionality, representation or both – yield nine distinct potential strategies.

The nine strategies

Three strategies where the power primarily lies with the company in creating its offerings:

1. **Adapted offering:** The company has the final say in changing the functionality of the offering, but individual customers can make selections according to their needs and preferences. Nespresso machines, for example, enable consumers to make their own individual cups of coffee whenever they desire, but Nespresso determines the assortment of coffee capsules consumers can choose from.
2. **Composed offering:** After working with potential customers to better understand what individuals want, the company curates a set of offerings, taking into account customer input about both the offering sets’ functionality and representation. When planning the Xavier building in the Zuidas district in Amsterdam, for example, the real estate developer and architect collected information about potential residents’ wishes, then designed floor plans for the range of apartments it offered in the building so the buyers could partly determine the layouts and finishes.
3. **Personalized offering:** The company changes only the representation of the offering and determines itself how best to do it. Joie de Vivre Hospitality in San Francisco, for instance, has created a collection of hotels that all offer the same core

functionality, but each one is themed around a different magazine—such as *Rolling Stone*, *Wired* and *National Geographic*—so guests can make a personalized choice.

Three strategies where it is the customer who primarily influences the use of the platform:

4. **Adaptive platform:** The company provides the means by which each customer can determine the individual offerings it receives from the platform. Netflix, for example, offers a wide assortment of movies and television series to choose from and also provides suggestions based on its recommendation algorithm.
5. **Community platform:** The company enables customers to decide both the functionality and representation of the offering they desire. San Francisco-based TechShop, for example, a 10-location national chain of do-it-yourself workshops provides members with industrial tools and equipment so they can come in and make whatever they want.
6. **Personalization platform:** The company permits customers to change only the representation of the offerings the platform provides, not its core functionality. NikeiD is a case in point; its consumers can design their own shoes—not features that would change how the shoes perform, but only in their outward representation—colors, logo placement and personal initials.

Three strategies where both company and customer influence their joint collaboration:

7. **Adapting collaboration:** The company works directly with customers to empower them to customize the core offerings to individual needs. Lutron Controls, based in Coopersburg, Pennsylvania, mass customizes its lighting controls to be connected into individual homes, offices, and other buildings. Users can then program their own lighting effects to match their needs or mood.
8. **Creating collaboration:** The company and customer are both fully involved in creating offerings unique to each individual. Mosaic Life Care, a relatively new brand from Heartland Health of St. Joseph, Missouri, develops “life plans” for each patient or community member with goals and milestones that he or she then works to achieve in concert with the hospital system.
9. **Personalizing collaboration:** The company works directly with customers on changing non-functional, representational aspects of the offering. Another hospital, Mid-Columbia Medical Center of The Dalles, Oregon, trains its caregivers to let patients choose amenities such as the color and style of their hospital robe, paintings that go on the wall and also to set their preferred visiting hours.

Multiple strategies

Some companies may employ different strategies at different times or in different situations, and other implementations may incorporate multiple strategies. Customization strategies implemented by Carnival Corp. with its new Ocean Medallion class, for example, include:

“Mass market companies need to take a scalable approach to involving customers in offering development, delivery and use.”

- **Creating collaboration:** To enable crew and guest to work together to identify and fulfill unique guest needs, Carnival devised the Ocean Medallion, a wearable device with each guest's name, muster point, cruise ship and trip dates,. The device enables Carnival to identify and then customize its ship and shore experiences to each individual guest.
- **Personalizing platform:** Guests can use a personalized digital concierge app, Ocean Compass, on their phone, tablet, stateroom TV or ship monitors to make any request, review experience itineraries and order memorabilia.
- **Personalized collaboration:** Carnival makes Personal Experience Invitations based on each guest's profiles, which it constantly updates based on what choices guests have made.
- **Community platform:** Guests can connect with social media platforms to share experiences, photographs and memories with other guests and also with friends and family members not on the cruise.

Peak collaboration, peak value

Our research suggests that the Creating Collaboration strategy provides customers with the strongest reasons to buy. Our quantitative research among 2,568 respondents[2] (see [box "The Research"](#)) demonstrates that companies that co-create customization in a truly collaborative process enjoy significantly more sustainable competitive advantages. Their business models and economic offerings become less susceptible to imitation and raise more obstacles to substitution.

Given the opportunity to collaborate, customers can get more of what they truly need, want and desire and less of what they don't want but would have to settle for in any mass-produced offering.[3] Customers also gain added value from the emotional involvement of participating in the creation of meaningful experiences.

For the company, co-creating leads to better offerings – including new capabilities that can be used with different customers in differing combinations – and also a more complete and clear picture of what its customers want. Customization also enables a company to efficiently allocate specific resources to specific customers. Co-creating customization at scale requires companies to cultivate learning relationships with customers in order to design and modify their business systems to drive innovations in delivery, terms and specifications of products and services. Translating the insights gained from these learning relationships into customizable offerings delivered at scale increases demand and customer lifetime value.[4]

How to choose the right strategy?

The answer to the question, "What's the best strategy?" must take into account the company's strategic ambition – the position a company wants or needs to be at in the future – and how its current business plan needs to change to achieve its new objectives: creating a new value proposition, finding the right customers and developing a sustainable relationship with those customers.[5] Without an explicit and stimulating strategic ambition, it will be difficult to choose or implement a specific collaborative approach. Companies also

The research

To collect qualitative insights we performed in-depth interviews with 19 leisure industry practitioners with experience creating value by co-creation customization. We then analyzed the compiled data through a narrative analysis that was complemented with a grounded theory analysis. The quantitative study surveyed members of Movie Moments, collecting data from 2,568 respondents within the target group, ages 16-35. We then analyzed the data by means of multiple regression analysis, analysis of variance and structural equation modeling.

need to identify their customer's ambition. Understanding what a customer wants to achieve is an essential insight for designing a co-creation customization strategy that effectively creates mutual value.

Notes

1. James H. Gilmore and B. Joseph Pine II, "The Four Faces of Mass Customization", *Harvard Business Review*, Vol. 75, No. 1, January/February 1997, pp. 91-101.
2. Jordi Loef and Vincent Loffeld, "Creating Experiences with Co-creation Pixie Dust", Unpublished master's thesis for The Walt Disney Company, Nyenrode Business Universiteit, Breukelen, The Netherlands.
3. B. Joseph Pine II and James H. Gilmore, "Satisfaction, Sacrifice, Surprise: three small steps create one giant leap into the experience economy", *Strategy & Leadership*, Vol. 28, No. 1, 2000, pp. 18-23.
4. B. Joseph Pine II, Don Peppers, and Martha Rogers, "Do You Want to Keep Your Customers Forever?", *Harvard Business Review*, Vol. 73, No. 2, March-April 1995, pp. 103-114.
5. Rudy Moenaert and Henry Robben, with Peter Gouw, *Marketing Strategy and Organisation: Building Sustainable Business* (Tielt, Belgium: LannooCampus, 2011).

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