

Managing the co-creation of value

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Abstract Central to service-dominant (S-D) logic is the proposition that the customer becomes a co-creator of value. This emphasizes the development of customer–supplier relationships through interaction and dialog. However, research to date suggests relatively little is known about how customers engage in the co-creation of value. In this article, the authors: explore the nature of value co-creation in the context of S-D logic; develop a conceptual framework for understanding and managing value co-creation; and utilize field-based research to illustrate practical application of the framework. This process-based framework provides a structure for customer involvement that takes account of key foundational propositions of S-D logic and places the customer explicitly at the same level of importance as the company as co-creators of value. Synthesis of diverse concepts from research on services, customer value and relationship marketing into a new

process-based framework for co-creation provide new insights into managing the process of value co-creation.

Keywords Co-creation · Co-production · Service-dominant logic · Value

Introduction

Vargo and Lusch (2004a) have developed a comprehensive and penetrating foundation for a service dominant (S-D) logic in marketing. Central to S-D logic is an increasingly acknowledged view that service is the common denominator in exchange and not some special form of exchange, i.e., “what goods are not” (Vargo and Lusch 2004b). Further, it highlights the value-creation process that occurs when a customer consumes, or uses, a product or service, rather than when the output is manufactured.

S-D logic attributes importance to the value-creating processes that involve the customer as a co-creator of value (Lusch and Vargo 2006, p. 181). While the subject of customer value has been addressed by a number of researchers (e.g., Holbrook 1996; Woodruff 1997), and more recently in the context of S-D logic (e.g., Berthon and John 2006; Holbrook 2006), we concur with the view of Woodruff and Flint (2006) that relatively little is known about how customers engage in co-creation. Co-creation can be viewed from different perspectives. Our focus is on how a supplier can seek to manage the co-creation of value, rather than exploring issues such as how social-cultural circumstances might be the impetus for customers’ participation in co-creation.

The purpose of this article is to develop a process-based conceptual framework for understanding and improving value co-creation within the context of S-D logic. The

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article is organized as follows. First, we provide an overview of research into co-creation. Second, we identify key components of value co-creation and explain how these can be integrated in a new conceptual framework. Third, we use field-based research to illustrate application of the framework. Finally, we discuss limitations of the study and some areas for further research.

The value co-creation process involves the supplier creating superior value propositions, with customers determining value when a good or service is consumed. Superior value propositions, that are relevant to the supplier's target customers, should result in greater opportunities for co-creation and result in benefits (or 'value') being received by the supplier by way of revenues, profits, referrals, etc. By successfully managing value co-creation and exchange, companies can seek to maximize the lifetime value of desirable customer segments (Payne and Frow 2005). However, this does not imply equality between the value that co-production provides to the customer and the 'value' that such activities provide to the supplier.

The co-creation of value

The notion of marketing as a facilitator and 'structuring' of the mutual creation and enjoyment of value is gaining credence. S-D logic is based on nine foundational propositions (FPs; Vargo and Lusch 2004a, 2006). These FPs are not a set of 'rules.' Instead they represent a developing and collaborative effort to create a better marketing-grounded understanding of value and exchange. In this article we focus on FP 6: "The customer is always a co-creator of value: There is no value until an offering is used—experience and perception are essential to value determination."

Traditionally, suppliers produced goods and services, and customers purchased goods and services. Today, customers can engage in dialog with suppliers during each stage of product design and product delivery. This form of dialog should be seen as an interactive process of learning together (Ballantyne 2004). Together, supplier and customer have the opportunity to create value through customized, co-produced offerings. The co-creation of value is a desirable goal as it can assist firms in highlighting the customer's or consumer's point of view and in improving the front-end process of identifying customers' needs and wants (Lusch and Vargo 2006).

Research in co-creation

The literature relating to co-production and co-creation has been reviewed by Bendapudi and Leone (2003). We make no distinction between these terms here, but generally use the term co-creation adopting Vargo and Lusch's (2006, p. 44)

view that the term 'co-producer' is somewhat tainted with connotations of a goods-dominant (G-D) logic. First, is the emotional engagement of customers through advertising and promotional activities (e.g., Club Med, the French package holiday company, creates a strong emotive appeal through highly distinctive advertising). Second, is self-service, where there is a transfer of labor to the customer (e.g., IKEA the Swedish retail giant, actively involves its customers in key activities such as transportation and assembly of flat pack furniture). Third, is where the supplier provides an experience and the customer is part of this context (e.g., Disney Theme Parks place great emphasis on the customer experience. Employees, known as 'cast members', follow carefully scripted roles to create a 'theatre' experience for their 'audience'). Fourth, is when the customer self-selects, using the supplier's prescribed processes, to solve a particular problem (e.g., Citibank, the global bank, provides interactive voice and keyboard response systems for customers contacting their call center). Fifth, the customer and supplier engage in the especially important activity of co-design of products (e.g., Intuit, the producers of 'Quicken' financial software, use every employee as a 'listening post' to gain profound customer insights which are utilized in helping customers co-design their products).

Earlier work on experiential marketing by consumer researchers (e.g., Holbrook and Hirschman 1982) emphasized emotions, contextual, symbolic and non-utilitarian aspects of consumption (Arnould and Thompson 2005). Holbrook (1996) defines consumer value as an 'interactive relativistic preference experience', i.e., the argument is that experience defines what is valuable to a customer. We draw on these concepts in this article.

From a managerial perspective, the work of Prahalad and Ramaswamy is of particular interest as their research on co-creation embraces a holistic perspective. Their characterization of the evolution and transformation of customers from 'passive audiences' to 'active players' (Prahalad and Ramaswamy 2000), has particular resonance to value co-creation. Significantly, they point to the emergence of a new logic for value creation where value is embedded in personalized experiences, noting, "early experimenters are moving away from the old industry model that sees value as created from goods and services to a new model where value is created by experiences" (Prahalad 2004, p. 172).

In the specific context of S-D logic, recent research on co-creation has focused on: co-creating the voice of the customer (Jaworski and Kohli 2006); satisfying expectations (Oliver 2006); a cost-function model for co-production (Etgar 2006); supply chain issues and value chain management (Flint and Mentzer 2006); cross-functional processes (Lambert and Garcia-Dastugue 2006); and marketing strategy effectiveness and operations efficiency (Kalaiganam and Varadarajan 2006). Such research pro-

vides considerable insight into a number of specific aspects of the value co-creation process. However, with the exception of Prahalad's and Ramaswamy's (2004) 'DART' model, our review of the literature revealed a surprising lack of work directed at providing frameworks to help organizations manage the co-creation process. While the extant literature gives examples of firms that have adopted co-creation and useful insights into *what* needs to be addressed; there is relatively little direction on *how* this process should be undertaken.

Developing a process-based framework

Schrage (1995) identifies the need for "creating tools for co-creation" and, in the context of S-D logic, Bolton (2006) points to the need for theoretical approaches that help identify business best practice. Such calls provided motivation for our research into how a firm can create competitive advantage by developing improved approaches to managing co-creation.

We began by developing an initial framework for managing the co-creation of value from literatures on value, value chains, co-creation, S-D logic, relationship marketing and consumer behavior. We then reviewed and developed the framework through field-based research. This field-based research utilized 'interaction research' (Gummesson 2002). The framework we developed was progressively refined as a result of insights during a series of three workshops and from individual interviews with senior managers.

Study participants were drawn from 18 large organizations operating in the business-to-consumer and business-to-business sectors. We sought representation from organizations in a number of different industry contexts that were interested in exploring how to engage with their customers in the co-creation of value. The organizations included service providers (travel, energy, retail), payment infrastructure (financial services), fulfillment organizations (logistics companies), internet and mobile service access (telecommunication companies), and manufacturing and network providers (mobile phone companies). Six of the 18 organizations were large global companies; the remaining 12 were major regional or national firms. All were substantial players within their sector. The fieldwork was carried out over a 9-month period in Northern Europe, the UK and the USA. Each participant understood that the research objective of the study was to develop a framework for value co-creation.

The managers involved in the research were senior level executive vice presidents and their direct reports. We placed considerable effort on gaining the involvement of 'reflective practitioners' (Schön 1983) who had expressed keen interest in being involved in the conceptual development of the framework. The executives who participated in the

research were intellectually interested in co-creation (as 'reflective practitioners'), wanted to improve their company's offering to customers and were keen to obtain commercial benefits from co-creation.

Each executive participated in three full-day workshops. The first workshop focused on finding new insights into the companies' customer-supplier relationships in the context of value co-creation and included discussion of the initial framework components. The second workshop centered on the evaluation and critique of potential new frameworks for improving co-creation and involved detailed discussions on encounter mapping (e.g., Shostack 1984; Kingman-Brundage 1989), described later in this article. The final workshop involved detailed discussions refining the framework. Subsequently, further extensions were made to the framework as a result of field-based work with managers on co-creation initiatives within their firms.

A conceptual framework for co-creation of value

The conceptual framework we develop starts with recognition of the centrality of processes in co-creation. There is now an increasing recognition of the important role of processes (e.g., Webster 2002). S-D logic (Vargo and Lusch 2004a) emphasizes that marketing should be viewed as a set of processes and resources with which the company seeks to create value propositions. Processes include the procedures, tasks, mechanisms, activities and interactions which support the co-creation of value. This process view accentuates the need to view the relationship between the provider and the customer as a longitudinal, dynamic, interactive set of experiences and activities performed by the provider and the customer, within a context, using tools and practices that are partly overt and deliberate, and partly based on routine and unconscious behavior.

The literature, our initial research and our later field-based research confirmed the need for a practical and robust process-based value co-creation framework consisting of three main components:

- *Customer value-creating processes*—in a business-to-consumer relationship, the processes, resources and practices which customers use to manage their activities. In a business-to-business relationship, the processes are ones which the customer organization uses to manage its business and its relationships with suppliers.
- *Supplier value-creating processes*—the processes, resources and practices which the supplier uses to manage its business and its relationships with customer and other relevant stakeholders.
- *Encounter processes*—the processes and practices of interaction and exchange that take place within customer and supplier relationships and which need to be

managed in order to develop successful co-creation opportunities.

These three main processes (customer, supplier, encounter) form the basis of the framework for co-creation presented in Fig. 1. We now provide an overview of the structure of the framework and then illustrate the application of its use.

This framework illustrates an interconnected set of processes and the recursive nature of co-creation. The arrows in the middle of Fig. 1 represent different encounters between the customer and the supplier which occur as a result of their respective value-creating processes. These arrows point in both directions highlighting the interactive nature of encounters. The arrows between the *customer processes* and *customer learning* indicate that the customer engages in a learning process based on the experience that the customer has during the relationship. This customer learning, in turn, has an impact on how the customer will engage in future value co-creation activities with the supplier. Similarly, the arrows between *supplier processes* and *organizational learning* indicate that as the supplier learns more about the customer, more opportunities become available for the supplier to further improve the design of the relationship experience and enhance co-creation with customers.

Customer value-creating processes

A G-D logic viewpoint sees the product as the ‘organizer’ of new opportunities for the firm. S-D logic suggests relevant meanings are created by the *experiences* a customer has over time. Evolving to an S-D logic for marketing represents a shift in marketing focus from

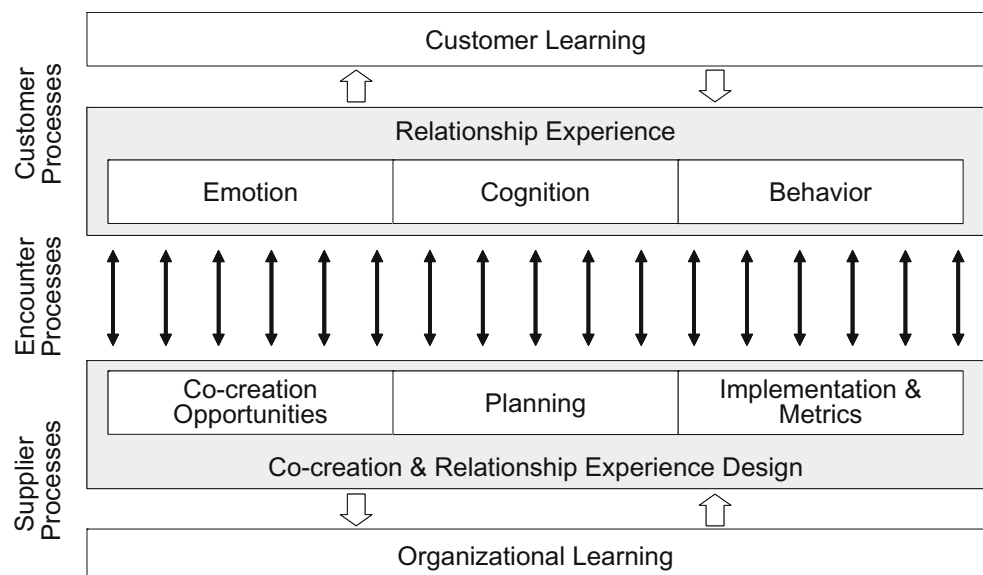
designing relevant products to understanding the potential for co-creating relationship experiences. Normann and Ramirez (1993, p. 69) suggest “the key to creating value is to co-produce offerings that mobilize customers”. S-D logic regards customers as active players who can co-develop and personalize their relationships with suppliers, and adopt a multitude of different roles. The customer can be a customer (payer), a consumer, a competence provider, a controller of quality, a co-producer, and/or a co-marketer (Storbacka and Lehtinen 2001). Customers must, however, learn to use, maintain, repair, and adapt the offering to their individual needs, usage situations and behaviors (Vargo and Lusch 2004a).

The customer’s value creation process can be defined as a series of activities performed by the customer to achieve a particular goal. One key aspect of the customer’s ability to create value is the amount of information, knowledge, skills and other operant resources that they can access and use (Normann 2001). If a supplier wants to improve its competitiveness, it has to develop its capacity to either add to the customer’s total pool of resources in terms of competence and capabilities (relevant to the customer’s mission and values), or to influence the customer’s process in such a way that the customer is able to utilize available resources more efficiently and effectively.

An important concept is that the value proposition exists in order to facilitate the co-creation of experiences. Creating customer experiences is less about products and more about relationships which the customer has vis-à-vis the total offering. It involves focusing on “value-in-use” instead of mere product features.

Customer value creating processes should not be viewed in the traditional ‘engineering’ sense, but as dynamic, interactive, non-linear, and often unconscious processes.

Figure 1 A conceptual framework for value co-creation.



Korkman (2006, p. 27) suggests that the customer engages in *practices*. Building on the ideas of Reckwitz (2002) and Schatzki (2001), he defines a practice as a set of routinized actions which consist of tools, know-how, images, physical space, and an active player who is willing to carry out and carry on the practice. Korkman argues that value is embedded in customers' practices and that this value can be enhanced through positive interventions or further development. The supplier's motivation should be to improve these customer practices in order to build value for the customer and a more valuable role for itself in the customer's activities.

The importance of recognizing customer processes rests with the need to develop a full understanding of where a supplier's offering fits within the customer's overall activities. For example, a leading international airline usefully 'mapped' how the travel experience on their plane fitted within the total consumption system of their premium business customers. They used a 'shadowing' technique where, with the customer's prior permission, highly personable employees of the airline arrived at the customer's home as they were preparing to travel. The airline employee then accompanied the business customer to the airport, traveled with them to their destination, remained with them throughout the day, flew back with them, and returned with them to their home. The insights gained were used to inform future service development.

The relationship experience

The relationship experience in Fig. 1 can be considered from the perspective of two streams of consumer research—the information-processing approach and the experiential approach. The information-processing consumer research stream views customers as being involved in a cognitive process of making a judgment on the basis of whether past, present or imagined future experiences are valuable for them (Oliver 1999). In this approach the customer is expected to be willing and be knowledgeable enough to assess the benefits and the sacrifices of a product (e.g., Zeithaml 1988) or a relationship (e.g., Grönroos 1997, 2000). According to this cognitive view, the customer is engaged primarily in goal-directed activities such as searching for information, evaluating available options, and deciding whether or not to buy a particular product or service.

However, as Fournier (1991) observed, the concept of consumer behavior has broadened considerably through the contributions of the experiential view of consumption (e.g., Hirschman and Holbrook 1982; Holbrook and Hirschman 1982). Experiential consumption research and consumer culture theory (Arnould and Thompson 2005) emphasize emotions and contextual, symbolic and non-utilitarian aspects of consumption. Here value is considered to reside

not in the object of consumption but in the experience of consumption. Consumption includes the flow of fantasies, feelings, and fun (Holbrook and Hirschman 1982). Experiential consumption can be analyzed not only as a rational act, but also from contextual and symbolic viewpoints (Addis and Holbrook 2001). Customers can therefore be regarded as 'feelers' and 'doers', as well as 'thinkers'. Here such behavior may not necessarily be goal-directed.

Within the customer processes component of the co-creation framework, we outline three elements of the relationship experience: cognition, emotion and behavior. The traditional information-processing stream of consumer research emphasizes cognition, affect and behavior in a narrow sense. When considering the relationship experience, these elements need to be seen in the broader context. Thus, based on Holbrook and Hirschman (1982), cognition needs to be seen from both an information-processing approach that focuses on memory-based activities and on processes that are "more sub-conscious and private in nature". Emotion and feelings extend beyond 'affect' which emphasizes attitudes and preferences. Following Beckman (1989), we use emotion as an umbrella term "for feelings, moods and affect-based personality characteristics." Behavior is the actions that stem from and result in experiences. Behavior analysis should therefore move beyond choice processes that lead to purchase decisions and include experiences that customers have as a result of using a product or service.

Holbrook and Hirschman (1982) conclude that while much buyer behavior can be explained by the information processing approach, supplementing it with an experiential perspective can be greatly enriching. This also suggests that the 'emotional peak' experiences proposed by popular authors (e.g., Pine and Gilmore 1999; Schmitt 2003) are just a subset of the total range of opportunities available to suppliers.

Customer learning

The customer's experience of a supplier and its products is a culmination of the customer's cognitions, emotions and behavior during the relationship. These elements are interdependent and involve the customer in thinking, feeling and doing as an integral part of their role in value co-creation. Importantly, the relationship experience leads to customer learning. Customer satisfaction and the degree of customer involvement help determine whether the relationship is ongoing. The supplier's role is, therefore, one of providing experiential interactions and encounters which customers perceive as helping them utilize their resources.

By understanding the customer cognition, emotion and behavior in this broader experiential sense, the supplier can

shift the focus of marketing communications from attention seeking to dialog with customers in support of their experiences and learning processes. The supplier can support customer learning by developing processes which take into account the customer's capability to learn. The results of the customer learning process are manifested in changes within the customer's attitudes and preferences. For example, if a supplier's superior value proposition leads to its acquisition of a customer, and as a result of 'value-in-use' the customer has better experiences than with other suppliers, the customer will typically develop a preference for that supplier and engage in repeat purchase.

Customer learning can take place at differing levels of process complexity. We distinguish between three types of customer learning: remembering, internalization and proportioning. Traditionally, marketing communication has focused on *remembering*. This is a simple form of learning and it is about customer attention rather than a competence to process emotions and information. The second level of customer learning is *internalization*. During this process customers interpret and assimilate messages and experiences. The customer is usually prompted to take some kind of stand, which is often based on the emotions they experience in relation to the message. Internalization is common in traditional brand-building activities which aim to build consistent and memorable customer associations with a product or brand identity. We term the third and more complex form of customer learning '*proportioning*'. Proportioning is a form of 'double-loop learning' (Argyris and Schön 1978). It involves the customer taking 'one step backward' to reflect on their own processes and how they engage in practices involving a supplier. Such reflection may cause them to change their behavior by performing new activities or disengaging from existing practices, and to use resources in new ways. This usually results in customers not only fully understanding the supplier's value proposition and being attracted to it, but also engaging in new types of behavior in terms of how the value proposition relates to their lives, objectives and aspirations.

Supplier value-creating processes

From the supplier's perspective, creating value for the customer begins with an understanding of the customer's value-creating processes. Storbacka and Lehtinen (2001) argue that customers produce value independently, but with the support of the supplier. Figure 1 shows the supplier processes that assist co-creation through the design and delivery of relevant customer experiences and the facilitation of organizational learning. This involves: a review of co-creation opportunities; planning, testing and prototyping value co-creation opportunities with customers; implement-

ing customer solutions and managing customer encounters; and developing metrics to assess whether the enterprise is making appropriate value propositions. A recursive process of organizational learning and knowledge management places continual emphasis on knowledge as the fundamental source of competitive advantage. In other words, by starting with the customer's processes, a supplier can design its own processes to align with those of its customers. We consider that this represents a substantial advance on the traditional perspective of customer orientation, at least as practiced by many large organizations. Our field-based work with companies indicates that adoption of this process view can yield superior insights and opportunities for co-creating value.

Co-creation opportunities

Co-creation opportunities are strategic options for creating value. The types of opportunity available to a supplier are largely contingent on the nature of their industry, their customer offerings and their customer base. While customer research and innovation within the supplying organization should drive opportunity analysis, we suggest that suppliers consider at least three significant types of value co-creation opportunity:

Opportunities provided by technological breakthroughs As new technology solutions develop (e.g., broadband, digital TV and third generation mobile services), they create new ways for suppliers to engage with customers to co-create innovative goods, services and experiences. For example, technological solutions such as the iPod instigated a dramatic change in how consumers relate to buying, storing and enjoying music, audio and literary content.

Opportunities provided by changes in industry logics The transformation of industries is partly driven by the development of new channels for reaching customers. Electronic channels, for example, make activities performed by different suppliers more 'liquid' and 'movable' in time and space. The blurring of industry borders and convergence of different types of industry represent opportunities to combine competences, capabilities and knowledge, and initiate new ways of co-creating value. Traditional industries can also effect such changes. IKEA has changed the logic in the furniture business by re-distributing activities in the traditional value chain. IKEA designs the furniture, controls the logistics and retails the product, while manufacturers undertake the production and the customer does most of the assembly.

Opportunities provided by changes in customer preferences and lifestyles Based on their learning and knowledge of the

customer, suppliers should be constantly looking for opportunities based on changes in customers' preferences and lifestyles. For example, the last decade has seen a trend toward greater individuality (e.g., Lewis and Bridger 2001; Windham and Orton 2001). This trend suggests customers will wish to co-create more individualized, experiential and differentiated goods and services. Red Letter Days, a UK company offering tailored, extreme experiences, is just one of many businesses profiting from customer experimentation. This trend also provides suppliers with an increased opportunity to utilize one-to-one marketing and mass-customization opening up new opportunities for individualized and differentiated products.

Planning, implementation and metrics

In traditional business strategy models, suppliers make decisions and choices about which core business or product category they should be operating in. The view is clearly *inside-out*, as it is based largely on the understanding of current organizational competencies. In S-D logic, business strategy starts by understanding the customer's value-creating processes and selecting which of these processes the supplier wishes to support. The positioning within the customer's processes defines the support and thus the scope of the value proposition. Planning for co-creation is *outside-in* as it starts from an understanding of the customer's value-creating processes, and aims at providing support for better co-creation of value. Value co-creation demands a change in the dominant logic for marketing from 'making, selling and servicing' to 'listening, customizing and co-creating'. It is also *cross-functional*: It assumes and requires alignment between those organizational functions which make the customer promise and those which deliver the customer promise. As Bolton (2006) observes, many business leaders believe 'enterprise integration'—connecting and utilizing business processes that cut across traditional organizational functions or silos—is the key to business success. Customer process mapping takes this idea one step further by dismissing the 'silo mentality' and challenging the boundaries between supplier and customer. As different customer encounters are often delivered by different organizational functions (e.g., marketing communicates the promise, operations deliver the promise, and finance issues the invoice), planning should emphasize a cross-functional view.

The concept of prototyping can be an important tool in implementing co-creation strategy. Several of the companies in our study stated the number of options they had to review had increased significantly and that they were finding it increasingly difficult to conduct sufficient systematic research on consumer preferences. Based on

these companies' experiences, prototype decisions were typically being made on how to develop existing options, implement future ones and close down those that do not work, within a three to six months' period. By designing prototypes, in the form of environments, encounters and content, co-creation options can be tested or put into operation faster. For example, the movie 'Sky Captain and the World of Tomorrow' was initially shot in front of a 'bluescreen' with all backgrounds and props computer generated. It used a proof of concept prototype film to demonstrate how the finished product would look and the technical capabilities of the medium.

The development of appropriate metrics is another key issue for the supplier. Despite the call for more customer-centricity within business, there is a general concern that the metrics which companies use to measure and monitor the performance of their customer relationships are not well developed or well communicated (Payne and Frow 2005). Improved ways of measuring the delivery of customer value are required. Marketing metrics and measures should meaningfully assess the value co-creation potential of customer relationships. The relationship itself can also have a major impact on the total value received by the customer (Ravald and Grönroos 1996) as value is created and delivered over time as the relationship develops' (Grönroos 1997).

Given that value co-creation and S-D logic emphasize cross-functional activity, the measurement of relationship performance should encompass a range of metrics which span the processes, functions and channels used to engage and interact with customers. The notion of 'return on relationships' (Gummesson 2004) is helpful in identifying metrics relevant to both customer and supplier. More research is needed to identify key measures of co-creation and how these measures can be organized into systems to monitor, track and improve performance.

Organizational learning

S-D logic emphasizes knowledge as a key operant resource. Moky (2002) has suggested that knowledge is composed of two parts: *propositional knowledge*, which is abstract and generalized; and *prescriptive knowledge*, "...which is often referred to as techniques." These 'techniques' "...are the skills and competences that entities can use to gain competitive advantage" (Vargo and Lusch 2004a, p. 9). Knowledge about customers' value-creating processes should not be based solely on hard data such as customer satisfaction measures, but should incorporate a deep understanding of customer experiences and processes. Knowledge management is especially important in complex businesses such as large multi-product or multi-divisional organizations. The use of anthropological research methods

can assist with this dimension of organizational learning. Knowledge may also be thought of as ‘tacit’ and ‘explicit’ (Nonaka and Takeuchi 1995). From our interviews with managers, we learned that the organizations in our study had considerable tacit knowledge about their customers. However, a key issue was how to ensure the diverse elements of customer knowledge that existed, were captured and utilized effectively to improve knowledge management and its impact on co-creation.

Organizations might be well advised to design their knowledge management activities and infrastructure around identified value co-creation processes, rather than around information technology (IT) capabilities. By defining co-creation processes and identifying the knowledge required to engage in these processes, marketers could prevent potentially costly and unnecessary investments in IT. We suggest a restructuring of knowledge management architecture with systems built around customer processes and experiences rather than products.

The encounter process

The encounter process involves a series of two-way interactions and transactions occurring between the customer and the supplier. Encounters, sometimes referred to in the popular literature as ‘touchpoints’ and ‘contacts’, can occur either on the initiative of the company (e.g., through direct mailings, telephone calls, and invoicing); or on the initiative of the customer (e.g., via inquiries, orders and complaints); or on the initiative of both (e.g., meeting at a trade fair). In Fig. 1 we represent these encounters with a series of two-way arrows linking the customer processes with the supplier processes. Encounter processes involve various functional departments and are cross-functional by nature. For example, marketing may initiate a marketing campaign; sales may engage in a sales interaction; logistics may deliver goods and other components; a product unit may require customers to fill in warranty forms; accounts may send an invoice; and the contact center may handle a call from a customer seeking product support.

While we recognize that some communications appear to be predominantly one-way, such as when a supplier sends a direct mail promotion to a customer, both parties have some involvement in the encounter process. We emphasize the S-D logic perspective of increasing dialog in the relationship.

Customers or their suppliers may sometimes wish to have single transactions rather than relationships. However, as Vargo and Lusch (2004a) have observed, “even in the cases when the firm does not want extended interaction or repeat patronage, it is not freed from the normative goal of viewing the customer relationally. Even relatively discrete transactions come with social, if not legal, contracts (often

relatively extended) and implied, if not expressed, warranties. Customers also might not desire multiple discrete transactions; however, a customer is similarly not freed of relational participation” (p.12).

Encounter types

Encounters between customers and suppliers can be considered exchange practices in which the parties exchange resources (e.g., money, products, work, information, time), as well as collaborative practices in which the parties jointly perform activities. Organizational learning necessarily involves a deep understanding of the content and form of these interactions (Grönroos 2006).

We suggest that three broad forms of encounter facilitate value co-creation: *communication encounters*, *usage encounters* and *service encounters*. By communication encounters we mean activities which are primarily carried out in order to connect with customers, and promote and enact dialog (e.g., through advertisements, brochures, internet home-pages and manuals). Usage encounters refer to customer practices in using a product or service and include the services which support such usage (e.g., using an internet banking service). Service encounters comprise customer interactions with customer service personnel or service applications (e.g., via a contact center). Managing encounter value-creating processes includes setting goals for both customer and supplier, and evaluating whether current encounters are achieving these goals.

Managing the co-creation of value in customer experiences involves determining which channels might be used by customers and the types of encounter inherent within them, for different types of encounter will impact customers differently. Encounters can be categorized as: *emotion-supporting encounters*—themes, metaphors, stories, analogies, recognition, new possibilities, surprise, design; *cognition-supporting encounters*—scripts, customer promises, value-explaining messages, outcomes, references, testimonials, functionality; and *behavior*—and *action-supporting encounters*—trial, know-how communication, and usage of the product.

Not all encounters are equally important for value co-creation. Some encounters are necessary for building customer experiences, while others may be more pivotal for value co-creation. The latter are sometimes called *critical encounters* (e.g., Gremler 2004). Such encounters can be positively critical or negatively critical. For instance, in a retail context, the usage of an automatic teller machine (ATM) constitutes a regular encounter which supports the co-creation of mutual value. A fault in the ATM’s functionality may turn a quick customer errand into a frustrating search for a working cash dispenser, but it is unlikely to cause the customer to change banks. On the

other hand, a negotiation for a mortgage for a new home might be a very important and emotional encounter for a customer. It is important that suppliers identify opportunities for positive critical encounters and focus their resources on ensuring such encounters are delivered in a reliable manner.

S-D logic also changes our view of communication. The common denominator of G-D logic has been to view the customer as an operand resource (Vargo and Lusch 2004a)—to view the customer as a recipient of the stimulus sent by the communicating firm and analyze the behavioral response. Ballantyne and Varey (2006) persuasively argue for a dialogical orientation so that value is co-created via dialog and learning. Communications should aim to influence customer and supplier practices in a way that helps customers to utilize resources better—both their own resources and those of the supplier. Marketing messages should be based on a clear articulation of the value proposition. Schemas or ‘scripts’ on how to use or interact with a product or service can be useful tools in enhancing customer learning.

Co-creating value by encounter design

Our experience of using the co-creation framework in field-based work with companies suggests that one particular aspect requires further amplification—the mapping of customer, supplier and encounter processes to identify co-creation opportunities. We focus on this aspect for several reasons. First, the companies used in our research experienced considerable initial difficulty in undertaking this activity. Second, it subsequently proved instrumental in delivering substantial benefits for the companies in planning their value co-creation agendas. Third, it provides a mechanism to identify and organize “micro-specialized competences into complex services that are demanded in the marketplace” (Vargo and Lusch 2006, p. 53)—the basis of FP 9.

Several techniques for mapping customer processes have been suggested by researchers; these draw on concepts from industrial engineering, flowcharting and business process re-engineering. They include: process mapping, customer activity cycles, service-blueprinting, activity mapping, and customer–firm touch point analysis (e.g., Shostack 1984; Kingman-Brundage 1989; Grönroos 2003; Sawhney et al. 2004). The purpose of these techniques is to highlight opportunities, identify failure points, improve service enhancement, re-engineer processes, and support differentiation. Our approach draws on these concepts but concentrates attention on the detailed integrative mapping of *customer*, *supplier* and *encounter processes*, rather than placing emphasis on customer or on internal supplier processes. We find support for this approach in recent work by Lusch et al. (2006, p. 10).

Drawing on field-based research we now illustrate how encounter mapping can be used in identifying co-creation opportunities by applying some of the key constructs developed in the research on one of the participating companies. Figure 2 illustrates the mapping of customer, supplier and encounter processes for a European travel company, in its charter travel division, catering to the general public. This travel company decided to base their value co-creation activities on the encounter processes relating to tour travel with a view to building stronger customer relationships over time. This figure outlines the customer, supplier and encounter processes that were identified as important.

Figure 2 was developed in a facilitated workshop process with managers and front line employees at the travel company. The process involved 18 employees in a series of two one-day workshops. All the participants involved had long experience in this industry, and came from a broad cross-functional range of positions including marketing, sales, customer service, finance/business control, operations and product development. They were also selected to represent multiple organizational levels; both front line operational experience and management insight was used. In an iterative process, participants were asked to map the processes for a specific customer type. Customers’ needs and concerns were analyzed for each process and encounters were designed, based on this learning.

Different categories of encounter were also explored. The customer processes entitled, ‘goals in life’ and ‘travel plans’ in Fig. 2 place marketing emphasis on *communication* encounters (e.g., advertisements and brochures) and on *service* encounters (e.g., customer consultations and contact requests). Further along in the customer process, the marketing emphasis shifts to supporting the customer during *usage* encounters (e.g., with ‘good-to-know’ information, check lists and maps—giving the customer “instructions for use,” similar to those used in usage encounters with consumer durables).

These distinctions help in the planning of encounters as the type of goal will vary according to whether the encounter involves communication, usage or service. The supplier processes in Fig. 2 involve activities carried out by many different functions within the travel company, reinforcing the need for cross-functional alignment.

The customer’s total travel experience will be the result of the fit between the content and execution of different encounters and resulting customer experiences. The promises given to customers in the early stages of the relationship process (i.e., in the communication encounters produced by marketing and sales departments) need to be met in the later stages (i.e., in the usage and service encounters produced by the service operations department). The customers’ travel experience will also be influenced by

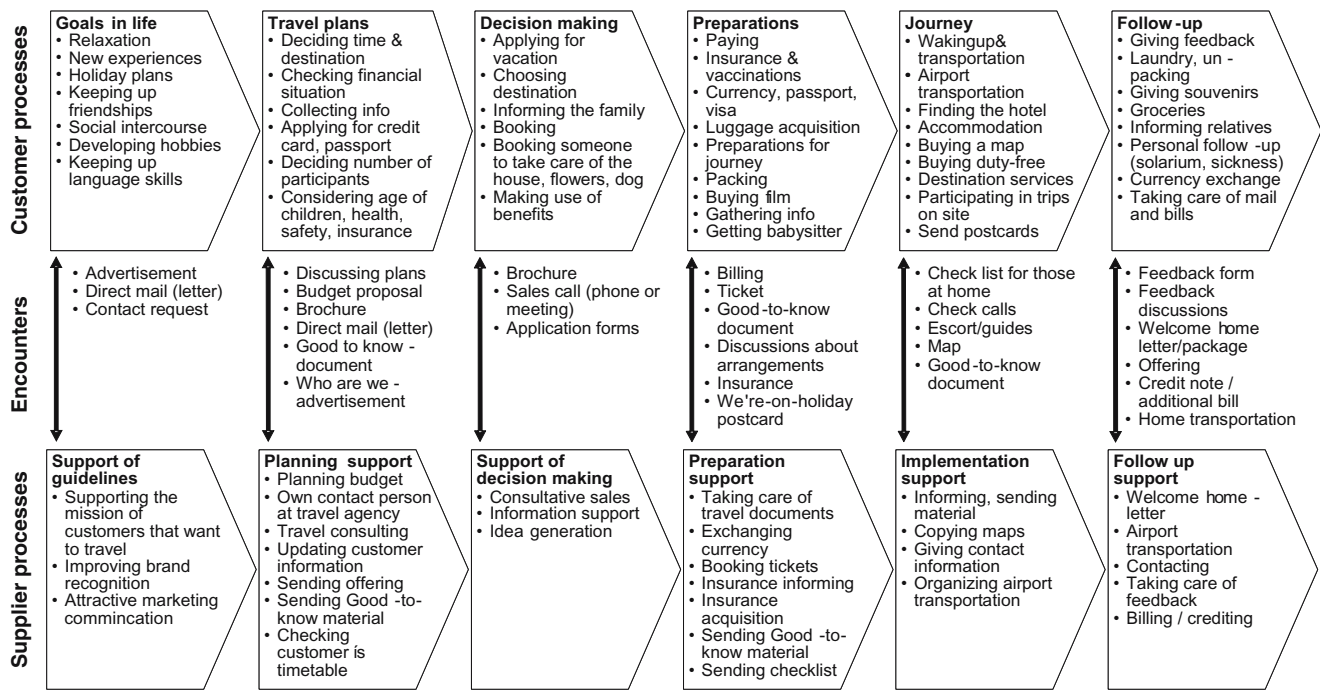


Figure 2 Mapping of customer, supplier and encounter processes.

the individual's ability to be self-sufficient and proactive throughout the journey. The different functions can be involved in all phases of the travel experience. Communication encounters in the form of advertising can play an important role both before the customer has made his purchasing decision (explaining the service, giving the promise, creating the expectations) and during and after the travel (sustaining and enhancing the experience and securing the delivery of the promise).

The more the customer understands about the opportunities available, the greater the value that can be created. The goal and meanings of each encounter should therefore be defined from a customer learning perspective. 'Cognitive' goals include educating the customer about the destination, and providing useful briefing documents and relevant packing advice. 'Emotive' goals include provoking travel interest by sending the customer brochures of desirable destinations and reinforcing responsible travel by including safety 'check lists' to avoid potential calamities. 'Action-based', or behavioral, goals include triggering customer responses by issuing discounts for sight-seeing tours and special promotions for future travel.

The importance of customers' participation in the co-design and creation of the core values package must be emphasized. Opportunities exist to break away from traditional concepts in travel services (and in most other co-creation contexts) by allowing customers to build and co-design their own package of elements including: locations to be visited, time spent at each location, classes of travel used, facilities required, payment terms, etc. Many

Internet travel agencies offer so called "value added" services, which allow the consumer to, in addition to the airline ticket, select hotels, car rentals, insurances and other services related to the planned trip. Companies need to avoid offering services which are of minor importance to consumers and diverting customers' attention to marginal benefits rather than to the core value creating elements. Whilst highly experienced executives *should* have a good understanding of customers' needs, any findings need to be treated with considerable caution without substantiation from customer surveys and other customer insight activities such as those used by Intuit in their software design.

An examination of the processes shown in Fig. 2 suggests that effectiveness of the co-creation is partly dependent on achieving an appropriate division of activities. Suppliers can, by enabling the customer's active participation in some processes, reduce their resource investments. Most importantly, successful value co-creation requires the ability to manage expectations, communications and promises between both parties throughout the co-creation process.

In utilizing this approach it is easy to place over-emphasis on the rational elements visible in Fig. 2. However, tour travel, like most other customer situations, involves non-rational, emotional and experiential elements. For many customers, recreational travel is about 'making their dreams come true.' This aspect may not always be visible in a process description. Suppliers should therefore be extra vigilant about ensuring this experiential dimension is captured in planning both the offering and the encounter

processes. Encounters need to be designed that fulfill the advertised promises such as beautiful scenery, meeting people, good food and a relaxed environment. As process descriptions tend to depict a linear sequence, the interactive and non-sequential nature of experiences needs to be taken into account in process and experience design.

Discussion

Our framework has conceptualized the key processes in managing value co-creation and examined their implications for product and service development, customer relationship development, cross-functional alignment and knowledge management. Our contribution to the S-D debate is both theoretical and practical.

From a theoretical perspective, our framework integrates several streams of work within the evolving S-D logic literature. These include the customer as a co-creator of value; marketing as a ‘structurer’ of relationships, encounters and dialog; knowledge as a fundamental source of competitive advantage; and the focus on operant resources as the key unit of exchange. Our research highlights the roles of customer and supplier; how, together, they create value, and the importance of core competences such as learning and knowledge. More specifically, our research develops a new frame for considering value, customer experiences, consumer behavior, business processes and relationship marketing. Further, it emphasizes a view of the relationship experience that is interactive, longitudinal, individual and contextual. It also demonstrates how both customer learning and organizational learning form key components of co-creation, and how they relate to customer and supplier processes. This conceptual model is grounded in field-based research with leading global and national organizations. Finally, the use of the framework in mapping customer, supplier and encounter processes provides a mechanism for identifying and organizing micro-specialized competences—the basis of FP 9.

From a practical perspective, our research aims at providing managers with a framework and tools for managing the process of value co-creation and developing relationship experiences. The model can be used by marketers to help design and structure relationships. In our research we developed process maps of how customers and suppliers interact to determine the best use of their resources. We identified several ways in which this approach can be used. First, it can assist a supplier’s product or service development efforts, helping them to focus their offering on specific processes. It can enhance understanding of how encounters should be designed in order to support customer learning and enhance co-creation of value. It can also assist in designing offerings placing emphasis on the usage, or ‘value-in-use’, situation.

Managerial implications

Our conceptual framework and study have a number of managerial implications. First, the interactive and interdependent nature of value co-creation processes challenges traditional management practices when managing across supplier value chain processes. Value co-creation requires an ability to engage ‘the extended enterprise’ by managing *across* and *within* customer and supplier value creation processes.

Second, the framework illustrates why goods and services should be viewed from a flexible process perspective rather than as static entities. Hence product design and development activities should consider intangible (customer experience) as well as tangible (product features) elements. The framework also highlights the benefit of customer involvement at *every stage* of product or service development. Managers and customers should be encouraged to consider innovative co-development of new offerings. The use of prototyping may become more widespread as it involves observing how customers relate to products and services, and to the ‘meanings’ embedded in them. Prototyping can be viewed as part of both customer learning and organizational learning, and it can be carried out on an ongoing basis.

Third, our research stresses the importance of each and every encounter between customer and supplier, and how together these encounters make a cumulative contribution to co-created value. This suggests that organizations require a long-term view of customer relationships, which does not fit well with the short-term financial goals that tend to drive Western capital markets. It also implies a revision of the traditional planning cycle to take account of differing relationships. Communication and value propositions should also be adapted to reflect the length and history of the relationship and the needs of different customer segments. Long-term customers who are familiar with the supplier may be better able to build their learning whereas new customers may need a totally different type of communication scheme.

Fourth, a further implication of our framework is the heightened importance of marketing communication and dialog in co-creation. Communications need to be focused on all relevant channels and careful thought as to which types of encounters support cognition, emotion and action-based learning within them.

Finally, value co-creation opportunities can be identified by the supplier ‘teaching’ the customer certain co-creation behaviors. Managers need to seek new ways of involving the customer in co-creation behaviors. For example, suppliers can create clear ‘scripts’ to communicate expectations to the customer on how they can actively participate in the co-creation of value. The supplier can then support

the customer's ongoing learning about offerings and processes by taking into account different customer segments' capabilities and willingness to learn.

Limitations and future research directions

The research reported here has focused mainly on examples of companies operating in the business-to-consumer market. Although this study illustrates the applicability and advantages of value co-creation, our sample of companies included mainly service providers and few product manufacturers. It is limited in terms of the degree to which industry and relationship-specific inferences can be drawn. Further research is therefore required to test this framework in other markets and sectors, and we offer the following suggestions for future research.

To achieve a more comprehensive view of value co-creation, future research should examine the consumption situations of traditional manufacturing industries which supply tangibles such as cars, computers or beer. For example, BMW's Mini car, manufactured in the UK, is made to order. Most Mini owners have opted to co-create a car to their own unique specification. Today, only two out of every 100 Mini cars are the same. Co-creation opportunities based on ownership issues (e.g., purchase versus leasing or hire of a car) also present an area where research is needed. For example, industrial manufacturing companies, such as Rolls-Royce, are shifting from selling airplane turbines to selling 'power by the hour,' representing a shift from selling products to offering co-created service-oriented packages.

The proposed model has considerable potential to be applied in traditional consumer goods industries. Many brand owners are building a relational view with their end-users and using a broad array of channels to communicate directly with them, both pre and post purchase. By mapping the end-users' processes and practices, brand owners can identify opportunities for communication, service and usage encounters that support the co-creation of value. Examples of this development can be found in customer contact centers, consumer clubs (e.g., Nokia Club), loyalty programs (e.g. mycokerewards.com), support facilities designed to enhance the usage (e.g. 24 h flagship store by Apple), and product bundling to enhance end use practices (e.g. combination of iPod and Nike running shoes). Similar opportunities can also be identified for companies in consumer durables, such as motor cars. Many of the leading brands have invested in enhancing both the purchasing and the after-sales experience. Mercedes-Benz has, for example, built "experience centers" throughout the world, in order to better connect to their buyers and help them learn more about how Mercedes-Benz can support the consumer in the co-creation of value.

Initial investigations into value-co-creation in business-to-business contexts suggest that mapping customer processes is more complex in such markets—although customers here may be more knowledgeable about their own value-creating processes. Suppliers serving large business customers may have well-developed key account management structures that contain high levels of 'prescriptive' knowledge on customers which could be used to enhance co-creation initiatives. Testing out the framework within professional services markets, such as consulting, legal and technical services, might generate useful insights into this knowledge-intensive sector of business-to-business marketing.

Finally, our focus has primarily been on the supplier in managing the co-creation of value. An area worthy of further investigation is business concepts based on consumer-created content such as "You-Tube", or 'blogs' and the role of non-supplier partners and intermediaries in co-creation.

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