

A Conceptual Model of Customer - Company Dynamics in the Convergence Era

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Abstract

The Customer's role in the value chain was limited to that of a user and opinion leader. In the current era of convergence, customers are assuming roles beyond their conventional status. In the 21st century market place, the customer will play the role of a partner. He/she will no longer be a passive element in the marketing dynamics but will control many variables in the marketing decision-making. Existing literature discusses the role of customers as co-creator or co-developer along with the multilevel roles they play in product testing, company's decision on retailing platforms, personalization, brand building, and pricing by virtue of their competencies. Customer orientation and customer participation have already become key areas for value addition. Through an extensive literature review, the researchers establish the multilevel roles that the customer will play in futuristic marketing decision-making. This paper attempts to identify customer controlled variables in marketing mix. A conceptual model, which portrays customer-controlled variables in marketing decision making, is proposed.

Keywords: Customer characteristics, Co-creator, Co-developer, Customer Competence, Personalization.

Introduction

Customer will play an integral role in the changing marketing dynamics. Customer or consumer has been largely ignored by companies even though he/she is the agent who is causing the transformation of the industrial system (Prahalad and Ramaswamy, 2000). Shift of power in the market place from the marketer and channel to the consumer or customer is occurring primarily because of the shift in information technology and changing customer characteristics. Information and knowledge will flow both ways: from marketer to consumer and from consumer to marketer. Market place power is the result of access to and use of information technology- information about market place and technology to acquire or use that information (Schulz and Barnz,--). Information technology has resulted in the growth of customer power. Consumers can determine what they want to buy, search all available resources and compare prices and alternatives. It is the shift in information technology that is creating the new twenty-first-century marketplace (Schulz and

Barnz,--). Marketing and communication development in future will be based on who controls the market place and the variables that influence market place power. Major changes in the market place are primarily caused by technology. Changes in the market place are also caused by the changing expectations and demands from customers.

Identifying new opportunities and developing successful competitive strategies based on the creative application of leading edge technologies will also decide the success and failure of marketers in the future. Firms have to act in advance to tap this competitive advantage rather than reacting after the opportunity is lost. Focusing on consumers' changing views and changing trends in future buying plans will be necessary for survival. This research paper attempts to understand the role of customers in the marketing network and throws light on the customer characteristics, which influence the transition from passive consumer to an active co-creator.

Literature Survey

Successful firms believe that everything starts from the customer. McCracken in 1986 suggested "Cultural Meaning" production system. In this system, consumption meanings are co-created by consumers and marketers by an exchange of meaning regarding advertising and product design names. Seiler (2005) put forward the concept of creating and shaping demand based on deep insight into customer behaviour, efficient and effective ways to influence that behaviour and high impact customer interactions. According to Crosby and Johnson (2005), merging of customer loyalty management and brand management will build long-term profitable customer relationships. Firms should also have information about new technologies and anticipate demand for new products. The information firms collect on possible product extensions, new technology and customer expectations are no longer the monopoly of the companies alone but also will be available to customers because there is an information explosion on every possible construct available to anyone who is ready to browse, read, watch and listen. This information sensitivity from the customer requires certain competencies. Customers today are attribute-benefit conscious and prefer custom tailored products or services to generic offers. Competent customers can perform the roles of market mavens. Today's increasingly educated customers expect companies to do more than just delight them but be their advocates too (Urban 2004).

The preferred media of consumers in buying and comparing products is already in the changing mode. They can see the products online, compare prices, look for alternatives, bid and buy by clicking. The company can gain loyalty from participating customers who think of themselves as part of the organization family (Brown 2003). In B2B markets, customer co-production is seen as an increasing trend, which makes it a customer driven market place (Brown, 2003). Benchmark companies are looking to customers to define value and

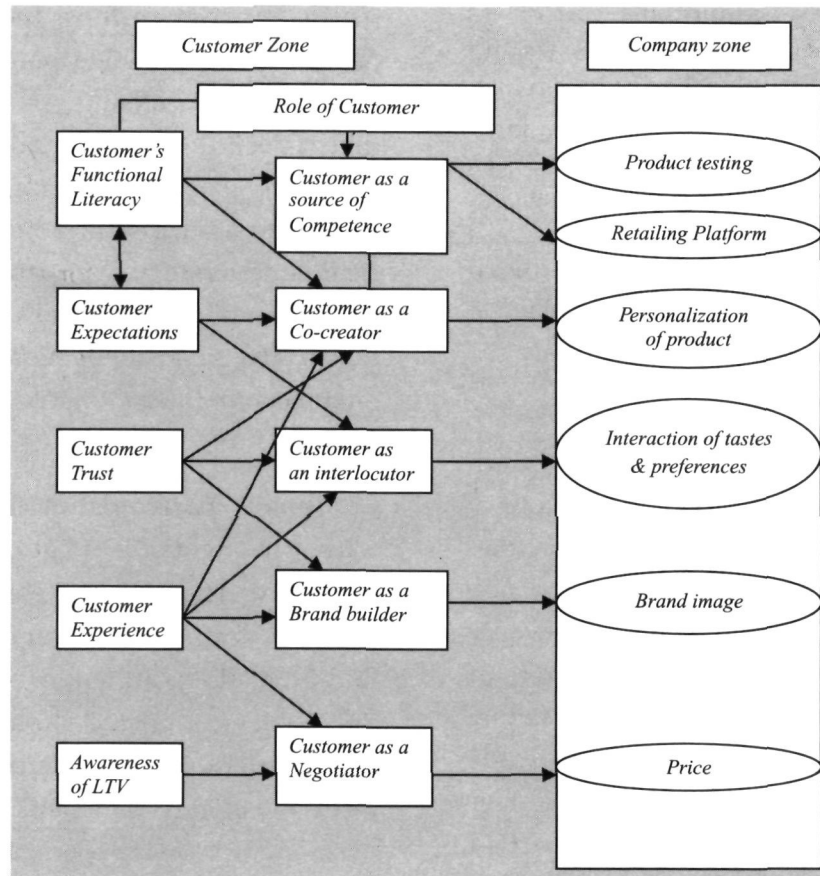
quality. General Electric Co. in a corporate-wide initiative is sharing its management experience with industrial customers in customized workshops and consulting engagements that teach six sigma and other methodologies "at the customer, for the customer," (Urban, 2004). Prahalad and Ramaswamy have conceptualized the role of customer as a co-creator. They discuss the role of customer as a source of competence, as a co creator, as an interlocutor, a brand builder and as a negotiator (Prahalad & Ramaswamy 2000). Customer characteristics that influence the role as a co-creator has not been researched in-depth. Literature shows that there is no comprehensive study on customers' role in the marketing decisions made by the company. We propose a model, which encompasses the different roles a customer will play in futuristic marketing dynamics (Prahalad & Ramaswamy, 2000) and its corresponding effect on the company dynamics and customer characteristics which enhance the transition of the customer from passive user to an active co-creator, in a highly customer driven marketplace.

In the proposed conceptual model of "Customer-Company Dynamics", we have incorporated the different roles customers will play in the convergence era, suggested by Prahalad and Ramaswamy. The Proposed model is more comprehensive because we have identified customer characteristics that enhance the competency of the co-creator and the cause and effect of customer controlled variables in the marketing mix decision making by the company.

Discussion of the proposed model

The model (refer fig.1) is developed to identify the consumer-controlled variables in marketing mix decision making. There are two zones in the model viz. customer and company. Customer zone consists of independent variables such as customer as a source of competence, customer as a co creator, customer as an interlocutor, customer as a brand builder, customer as a negotiator (Prahalad & Ramaswamy, 2000) and the customer

Fig. 1: Proposed Model for "Customer-Company Dynamics in the Convergence Era"



characteristics and beliefs such as customer's functional literacy, customer expectations, customer trust, customer experience and customers' awareness of Life Time Value. Customer characteristics and beliefs are the influencing variables to the independent variables. Each customer related variable corresponds to the control it exercises on the company's marketing decision-making. The dependent variables constitute the constructs in marketing decision making which customers will control.

Customer Zone

This section discusses the various roles customers will play in futuristic customer company dynamics along with the influencing variables which will qualify the customers to play the new roles.

Customer Competence

Customer competence is a function of the collective knowledge available to the whole system network of traditional suppliers, partners, investors and customers (Hamel &

Prahalad, 1990). The competency of customers is a function of the knowledge and skills they possess, their willingness to learn and experiment, and their ability to engage in an active dialogue. Many of the software companies co-develop their products by testing their products in customer environments initially and improving the product subsequently as a result of customer feed back. Competent customers are functionally literate—they are empowered with knowledge and skills and are familiar with most of the product attributes. The competent customers have language and numeric competencies required in the corresponding context, which enable them to technically suggest improvement and recognize performance gaps (Kirsch & Guthrie 1977; Scribner & Cole 1981). For e.g. online savvy customers will prefer online platforms for comparison of prices and shopping. Companies who are competent enough to provide these facilities will grow in the era of convergence. The online expertise and preference of consumers will direct, marketers

to offer products and services online in a much more efficient way. Potentially bit-based services such as banking, ticket, travel sales and for sales of tangible products like books, which can be easily delivered by mail, already, have preferential online buying (Hammond, 2001). With home penetration of online access technology, mobile, e-commerce (DSL and Cable modem), marketers will have to provide easier and consistently better technological buying platforms to consumers.

Co-creator

Co-creating products and services with customers will result in personalization of products and services, and can develop market acceptance of products and services and shape customer expectations (Prahalad & Ramaswamy 2000). Loyal Customers who think of themselves as a part of the organization family will be active co-creators. Simultaneously, the company can build an active loyal customer base by offering customers to be a part of product development (Brown, Stephen, 2003). The company's ability to improve personalized service over time is crucial in keeping with the changing environment (Adomavicius, Tuzhilin 2005). Consumer characteristics such as functional literacy, customer expectations, customer trust and customer experience will influence customer's role as a co creator. In order to become a co creator, the customer should be functionally competent. Based on his collective experiences, a customer will form expectations, which can be converted into personalized offering. To create long-term customer relationship, firms need to build customer trust (e.g. Doney & Canon 1997; Dwyer, Schurr & Oh 1987; Ganesan 1994). Customer trust is particularly important in the convergence era because customers increasingly rely on the internet for information and purchases and can be more loyal online (Shankar, Smith & Rangaswamy 2003). Consumers who are the end-users or will be the

end-users are a key node in the company's key marketing relationships, thereby making the consumer an exchange partner. Here trust is defined as an exchange partner's expectation that a firm is dependable and can be relied on to deliver on its promises (Singh et al , 2005). To formulate a successful e-business or Internet marketing strategy, companies need a deeper understanding of how trust is developed and how it affects consumer behavioral intent in the online context (Bart, Shankar, Sultan & Urban 2005).

Consumer characteristics such as familiarity with the website (Yoon, 2002), online savvy/expertise, internet shopping experience (Novak, Hoffman & Yung 2000), online trust (Bart, Shankar, Sultan & Urban 2005) will influence e-commerce strategies.. Benchmark organizations look to customers for defining value and quality, they think and act in terms of the entire customer experience. Customers buy a brand experience when they buy a product. Brand has to create an experience around product or service and study what improvements the customer wants. Improvements based on customer feedback can bring higher levels of customer retention (Brown, Stephen 2003). The customer will be ready to be a co creator only if he trusts the company and the benefits of co-creatorship. Convergence of customer loyalty management and brand management will build long-term profitable customer relationships.

Interlocutor

Customer expectations, experiences and trust influences his brand choices and hence become the influencing factors for consumer as an interlocutor. When customer plays the role of an interlocutor, the company benefits by understanding the tastes and preferences of his customer base. The company will be able to provide the customer with choices not only on

his preference but also on the choices of other customers who had similar requirements (Prahalad & Ramaswamy, 2000).

Brand Builder

Customers popularized search engines like Google and Yahoo. Customer trust and the collective experiences of the customer will influence customer's role as a brand builder. Brand building by the customer will have deep positive impact on the brand image of the company. When customer becomes the brand builder, company gets more credibility.

Price Negotiator

Customer Expectations are difficult to manage but are often the cause of dissonance, which results in loss of existing customer base (Panda, 2003). Managing customer relationship has become an effective tool in remaining competitive and companies have realized the pertinence of lifetime value of customer (Jain et al, 2003). A customer, who knows how important he is to the company (LTV), may negotiate in prices. Long distance call makers, frequent fliers and regular customers of hotels bargain in rates and get the deal done. The company will have to compromise on the prices when customer understands that he/she can negotiate.

Based on the model, we suggest a few propositions that can be converted into hypotheses later.

Propositions

P1 : Customer competency is a function of customer's functional literacy and his/her expectations from the product or service offerings.

P2 : There is a significant relationship between the customer's competency and the customer's ability to be a co-creator.

P3 : Customer trust has a significant influence on the extent to which the customer will be a co-creator, interlocutor and brand builder.

P4 : Customer Experience has a significant influence on the extent to which the customer will be a co-creator, interlocutor, brand builder and a negotiator.

P5 : The customer's awareness of Life Time Value directly influences his role as a negotiator.

P6 : A competent customer will expect easy availability of the products and can suggest alternate retailing platforms.

P7 : Co-creation has significant impact on personalization of the product.

P8 : Customer's role as an interlocutor will enable the company in understanding the preferences and tastes of its target audience.

P9 : When a customer becomes a brand builder, the brand image of the company becomes more credible.

P10 : There is a significant relationship between the negotiating skills of the customer and company's price policy.

Future Research Potential

The conceptual model can be empirically tested. The model can be developed further by including the other elements of marketing dynamics like collaborators, suppliers and distributors and thereby studying the paradigm shift in marketing dynamics. Managing life time value and its related research, competency of customer, trust and commitment issues are future research challenges. The extent to which the customer will be a co-creator and the exact value mapping of the co-creatorship are also research challenges in this field.

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