



CUSTOMER-DRIVEN VALUE CO-CREATION IN SERVICE NETWORKS

Foundations of Service Science

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1. INTRODUCTION

- » If we talk about a service system from the Service Science perspective – dynamic configuration of resources which creates value
- » Resources:
 - > people
 - > Organizations
 - > shared information (language, laws, measures, models)
 - > technology

- » Service systems are value co-creation configurations of people, technology, internal and external service systems connected by value propositions
- » A value proposition is a promise of value to be delivered and a belief from the customer of value that will be experienced. A value proposition can apply to an entire organization, or parts of it, or customer accounts, or products or services

- » Service system
 - > Service providers
 - > Service clients

- » They are working together to co-create value in complex service network

- » Service system can be seen as a resource which may be composing, recomposing or decomposing over time

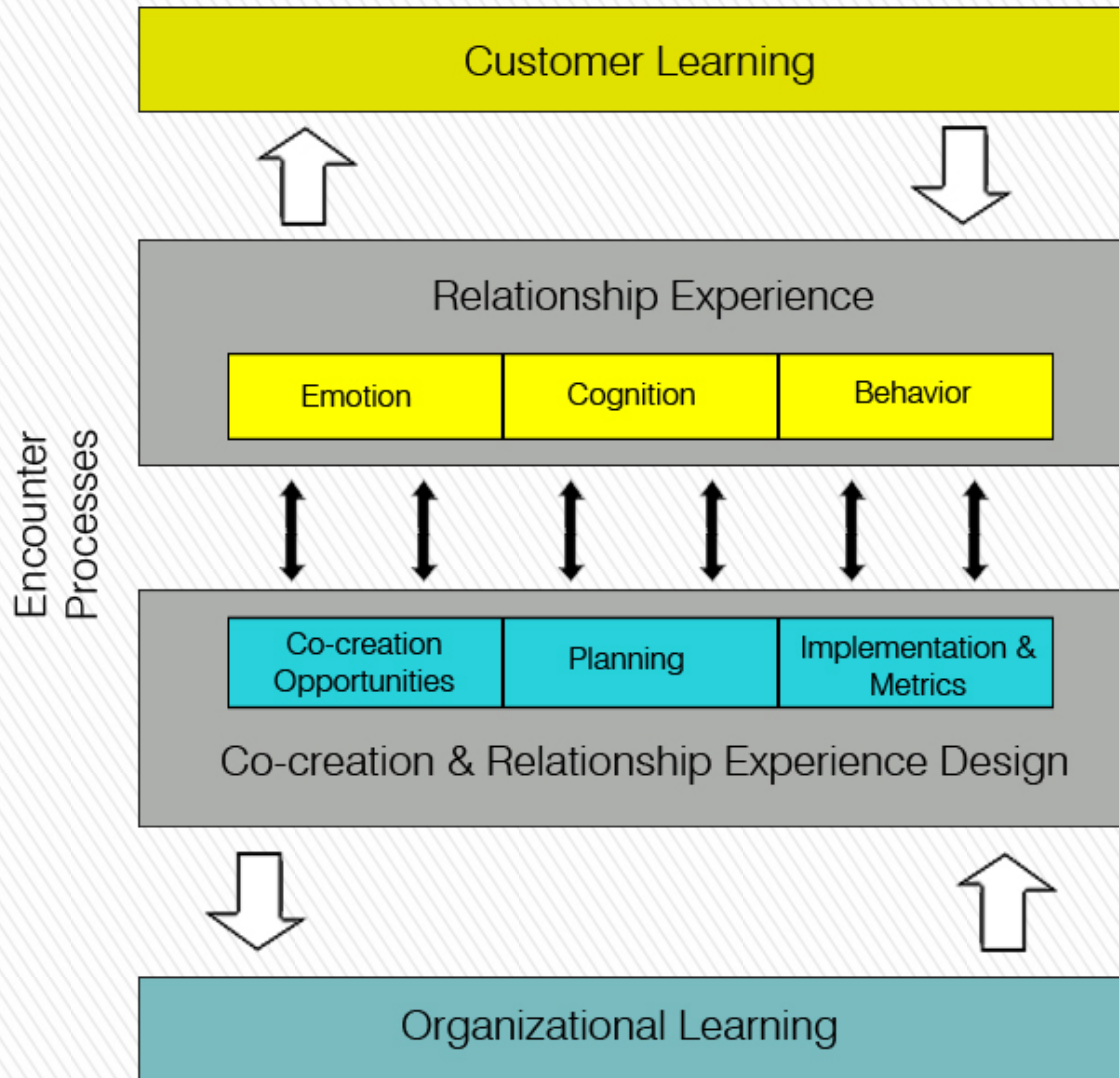
- » What are the determinants of value co-creation considering both the provider and the customer vs. the proposed customer driven value co-creation?
- » What are the determinants and elements of customer driven SVN-s?
- » How do we describe SVN-s?

2.1 PROVIDER CENTRIC SDL

- » In SDL - the service provision and value co-creation are derived from an interactive process
- » The provider – determines the value proposition
- » Value is delivered from the collaboration of the provider and customer through their relationship



Managing the co-creation of value



2.2 PROVIDER CENTRIC SVN

- » Service providers can deliver value by resourcing through collaborative parties which unfolds into a value creation network
- » We consider this type of network as a provider centric SVN
- » The question now is why organizations prefer to act like this?
- » SVN variations

» *SVN as an entity flow model for offerings and revenues*

- > The SVN can be seen as a flow model with economic entities as the basic unit of value creation and offerings/revenues as the material flowing among economic entities
- > The Network – is the vehicle for broadcasting production coordination information

- > Each entity examine value derived from participating in the SVN vs. not participating in SVN (or participate in another SVN)
- > Entities estimates changes of the participation values
- > This SVN interpretation show the evolvement from the traditional value chain notion in manufacturing industries to the value-creating network notion in service industries

» *SVN as a mash-up network*

- > SVNs – goal oriented business networks
- > SVNs provide value through the agile and market-based
- > SVN works like a mash-up characterized with easy and fast integration
- > This SVN interpretation emphasis the process productivity in SVNs in terms of their composition

» *SVN as a living system with pattern, structure, process*

> SVN – living network of tangible and intangible value exchanges characterized with

+ Patterns

+ Structure

+ Process

> Patterns of exchanges describe how participants add/extend/convert value to produce the resulting impacts

» *SVN as a living system with pattern, structure, process (cont)*

- > Network – primary economic mechanism for value conversion
- > Value creation dynamics is described in both tangible or intangible forms
- > This interpretation establish the necessary elements to form a SVN

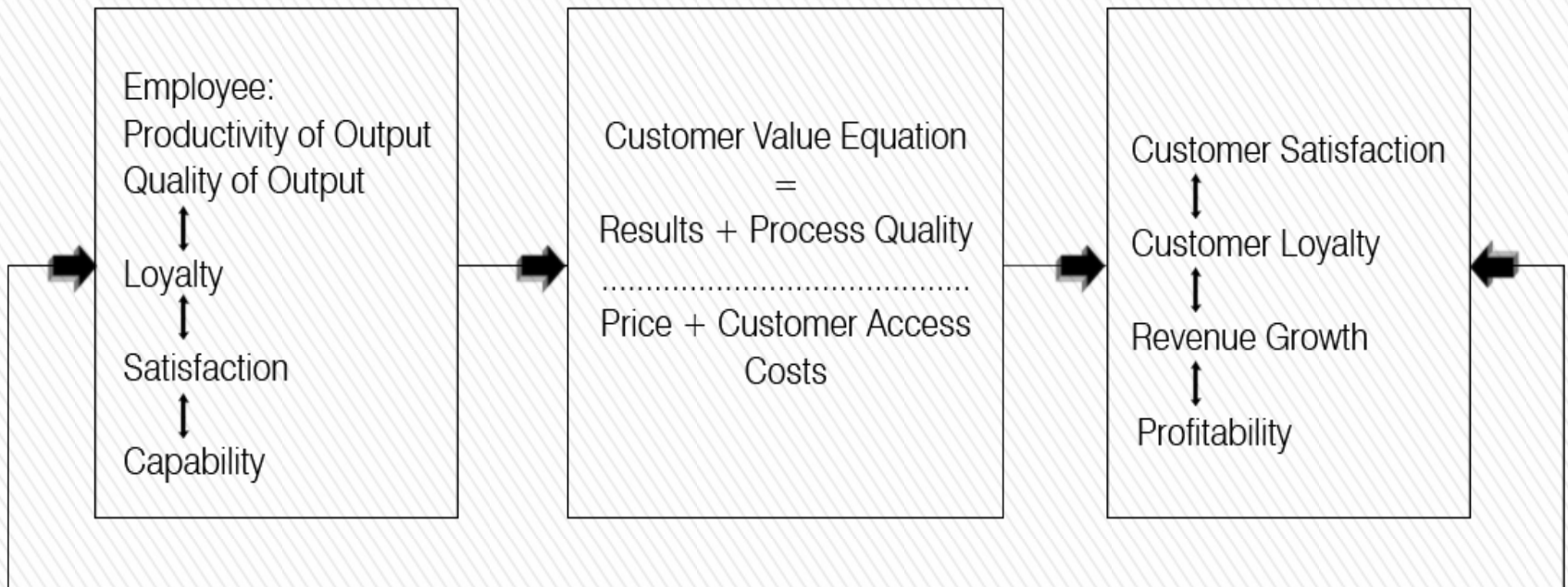
» *SVN as a mechanism for competitive innovation*

- > SVN – a set of relatively autonomous units that can be managed independently, but operate together following some common principles and SLAs

- > Value of the relationship:
 - + Customer intimacy
 - + Product service innovation
 - + Operational excellence

- > This interpretation considers the extensions of the network boundary to incorporate the opportunities for service innovation

3. EXTENDED VALUE CO-CREATION FRAMEWORK



Elements of profit supply chain

» The customer value equation extended:

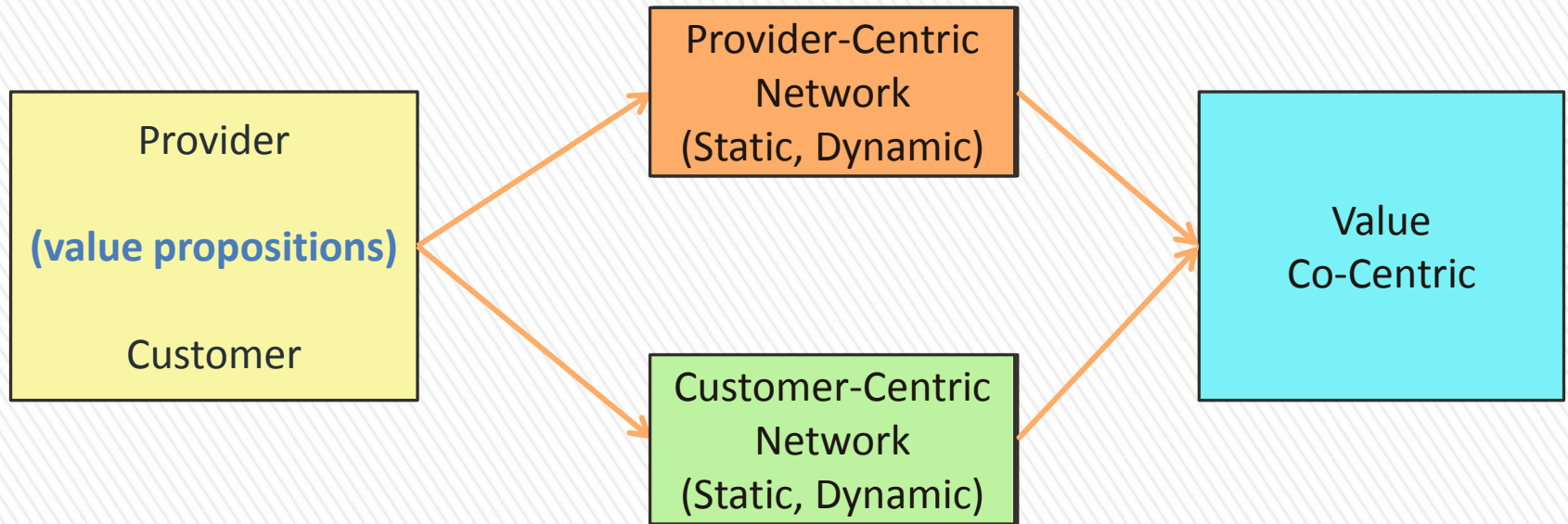
$$\text{Value} = \frac{\text{Results} + \text{Service Experience} + \text{SelfService Experience}}{\text{Overall Cost}}$$

» There is another type of customer: self-aware who are more selective in their information acquisition and are more likely to search for alternatives

» Intentional manipulations of customers' self-awareness could prove beneficial by enabling customers to make choices that better match their personal preferences to achieve higher choice satisfaction

$$\text{Value} = \frac{\text{Customer Choices} + \text{Results} + (\text{Self})\text{Service Experience}}{\text{Overall Cost}}$$

3.1 THE FRAMEWORK



Determinants of value co-creation

- » Framework to analyze the scopes of delimiting variations in SDL and SVN
- » This framework is based on the determinants of value co-creation

» The determinants of value co-creation are based on the following:

1. Network – primary economic mechanism for value conversion and for describing the value creation dynamics
2. The value proposition offered by a provider centric network may not fulfill the needs of customers in terms of their own value determination
3. Customer might need to expend extra efforts to fulfill the gap
4. This extension could be a simple labor effort to driving another network which result in dynamic value co-creation to fill the gap

5. The combined network could enhance customer's value as long as the increase in overall cost does not offset the magnitude of the increase in value in (2).

» Scenario of service network (SN) creation:

Provider Static: SN is determined by the provider, the end points are known

Customer Static: Customer can not alter the end points of the network, they have to select for the predetermined end points

Provider Dynamic: SN is created dynamically by the provider

Customer Dynamic: The end points of the network are not known ahead of time.

- » Outcomes are very much predictable when:
 - > The static cases of value co-creation in which the provider's value proposition is well defined
 - > The customer accepts.

- » The value co-creation in the dynamic cases is less predictable

Framework of extended value co-creation in SVN

Customer	Dynamic	<p>Improved Value Chain II</p> <p>Two-sided value propositions static customer choice set provider-centric metrics customer added value effort</p>	<p>Customer-Driven SVN IV</p> <p>Two sided value proposition dynamic customer choice set dual metrics</p>	
	Static	<p>Value Chain I</p> <p>One sided value proposition static customer choice set provider-centric metrics</p>	<p>Traditional SVN III</p> <p>One-sided value proposition static customer choice set provider-centric metrics provider network optimization effort</p>	
		Static	Provider	Dynamic

» Value Chain

- > Characterized by one-sided value proposition
- > Value varieties for customer and the metric of service quality are predetermined

» Improved Value Chain

- > Characterized by two-sided value proposition
- > Customer side has to expanded extra efforts in order to increase their own value beyond the provider's service quality an metrics

» Traditional SVN

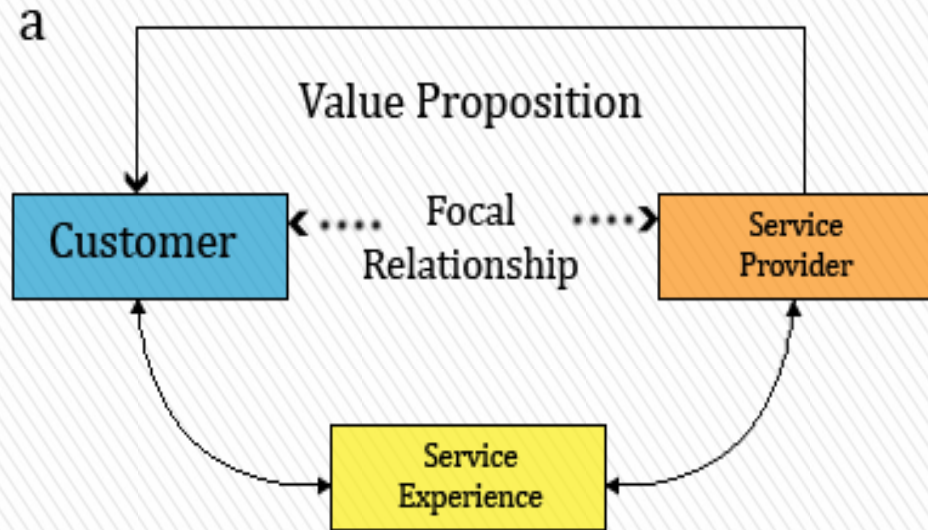
- > Characterized by one-sided value proposition
- > Value varieties for customer and the metric of service quality are predetermined
- > Provider side has to expanded extra efforts in optimizing the network for the service delivery

» Customer-driven SVN

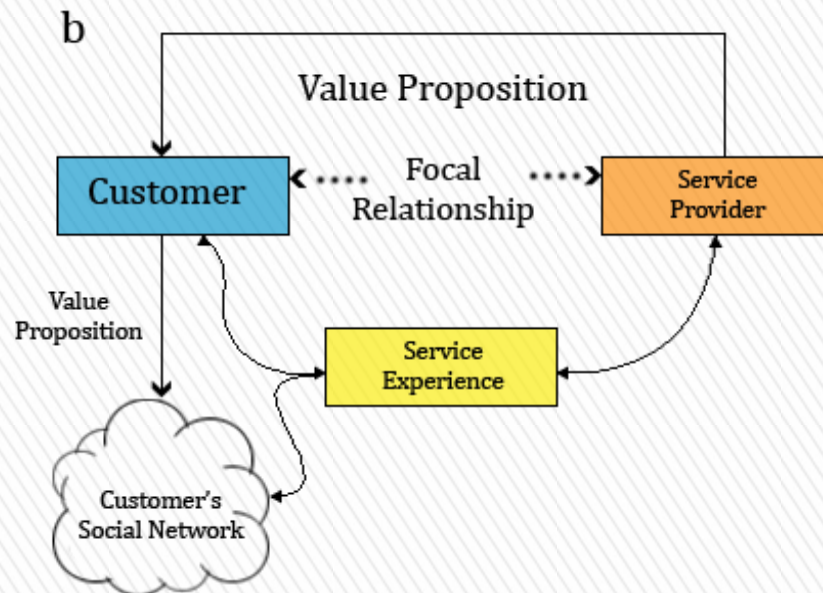
- > Characterized by two-sided value proposition
- > Customer side's network will be involved to co-create the value with the provider's network

Schematics of framework of extended value co-creation in SVN

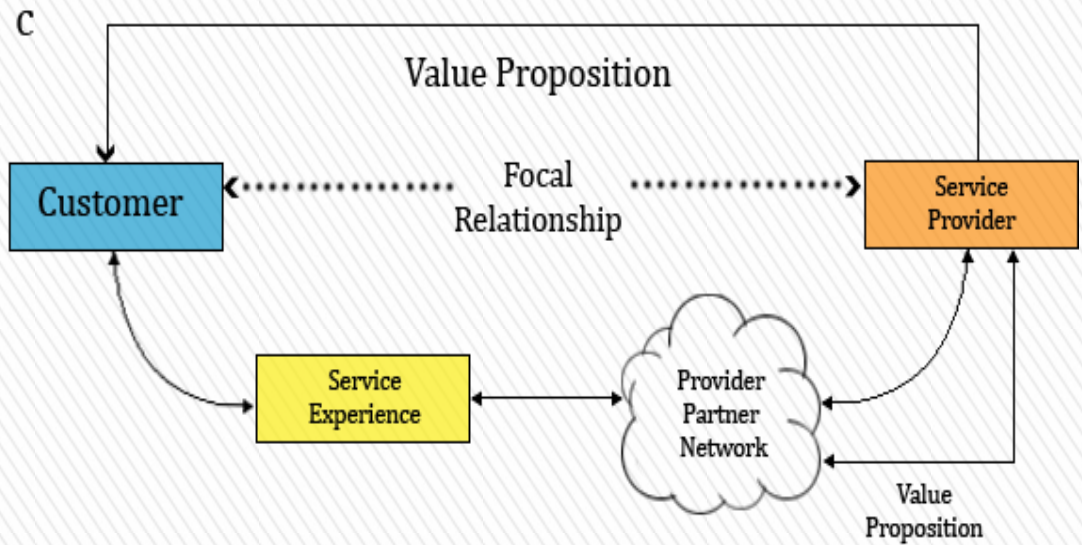
Value Chain



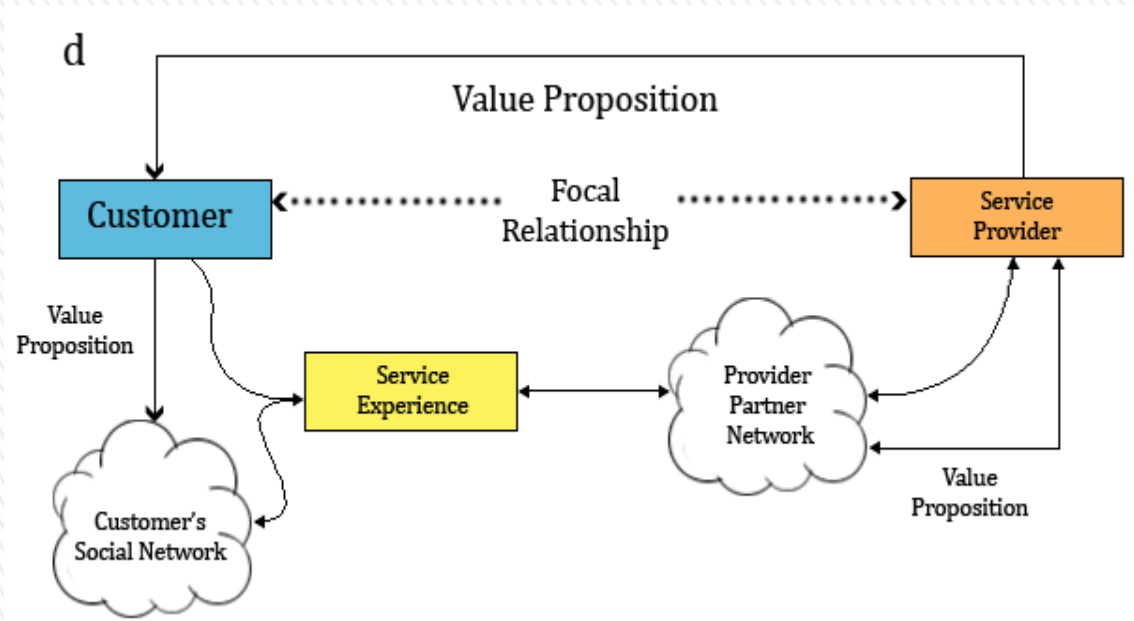
Improved Value Chain



Traditional Service Value Network



Customer Driven Service Value Network



3.2 CASE SCENARIO

» Scenario

- > Value proposition(VP) from a cable/satellite television service provider to a customer – programmed entertainment from multiple channels for a subscription fee
- > VP is static – do not change when the customer is receiving the entertainment value.
- > In case of the “tripled-play-package” – internet connection provide a parallel channel of communication

- > Customer can share the entertainment value within his social network – can invite virtual friends
- > This sharing increases the customer's value by increase it's social capital.
- > This transform a traditional value chain proposition to a customer-driven SVN

4. CUSTOMER-DRIVEN VALUE CO-CREATION IN SVN

» The most important properties of a customer-driven SVN:

Property	Shared reality of value co-creation
Goals	Service productivity, customer satisfaction, service innovation
Problem solving strategy	Networked collaborative services
Solution requirements	Minimized costs, maximized satisfaction, maximized opportunities for service innovation
Theories	Inter-disciplinary
Tacit knowledge	Information, knowledge and decision of people involved
Design method	Synthesized artifact

- » Goals of a customer-driven SVN include:
 - > Service productivity
 - > Customer satisfaction
 - > Service innovation

- » Customer-driven SVN has to maximize customer's value

- » Customer's value function = benefits - costs

5. CONCLUSION

- » Nowadays, business ecosystem is increasing more competitive and complex
- » Customers are becoming more savvy, demanding more information, access and choices
- » This article presented a framework that showed the different variations of service value networks
- » The customer-driven value network concepts extends the contemporary Service Science and SDL propositions to provide the customer a more prominent role in value co-creation