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Managing Co-Creation of Value through Cooperative Marketing Efforts

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Abstract
Cooperative marketing efforts is one of the key-stone towards sustainable growth and development of the nation. In such a system, there is an interaction of two or more parties working in tandem with each other. This paper tries to examine the nature of relationship and flow of services through the value co-creation process which is one of the fundamental propositions of the service dominant logic. This paper also examines the role of the cooperative in harnessing the knowledge and skills of its members and also proposes a simple framework to enhance the exchange and creation of value within the system. The understanding of the cooperative marketing system under the value co-creation purview would create a better marketing-grounded understanding of value and exchange.
Key Words: Cooperative Marketing, Service Dominant Logic, Co-Creation, Customer Engagement

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I. INTRODUCTION

1.1. Cooperative Marketing

The idea of cooperative marketing is to enable two or more individuals, groups, firms, or organizations to build a relationship based on a mutual benefit to the parties (Smith, Carrol, & Ashford, 1995). These relationship may be based on the different aspect of the marketing functions such as product development, sales promotion, pricing arrangements, and place (or distribution) mechanisms— the usual 4 Ps of marketing mix components (Varadarajan, 1986). The members of the cooperation come together pledging to combine and utilize their resources (e.g., physical, labor, and capital) and to share associated costs to tackle the resource constraints and environmental uncertainty, as well as external pressures and challenges confronting them in a marketing system (Rosenbloom, 1999). Thus, this association enabled the smaller players to overcome their constraints and ensuring their survival. It further enhances their technical, managerial, marketing, financial, and purchasing economies of scale (Browning, Beyer, and Shetler, 1995).

A cooperative may be defined as "*an autonomous association of persons unitedvoluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise"* (Anbumani, 2007). Theyare business entities where people work together to solve common problems, seize exciting opportunities and provide themselves with goods and services. A cooperative is managed on the basis that the customers of a business are also the owners of the business. Each customer is entitled to become a member of the cooperative society, thereby receiving the benefit of success via a dividend pay-out.

Historically, cooperatives started off as a social movement to instil ethical and functional values such as self-help, self-responsibility, democracy, equality, equity and solidarity way back in the 1840s when a group of men known as the *'Rochdale Pioneers'* began trade in grocery produces in England, based on a 'new' principles of fair prices for reliable quality goods (Fairbairn, 1994; Holyoake, 1983).

1.2. Cooperative Marketing in India

To serve for national development and to provide security for the economically weaker workers engaged in many communities and trades, the planners of the country introduced cooperative marketing systems in India in 1904. The system was designed to protect the most vulnerable section of the population especially the farmers from certain social evils like agricultural backwardness, poverty and rural indebtness. Indian cooperatives are unique as they were initiated and supported by the government (Anbumani, 2007). Elsewhere it had always been organized only by volunteer members with least or no government intervention.

Initially, the cooperatives served only as credit institution to financially strengthen the farmers. But now, Indian cooperatives, tirelessly serve in endless areas of services. They serve in credit and non-credit areas. They deliver credits for agriculture as well as non-agriculture purposes. They operate their businesses in numerous non-credit phases too. They work for milk producers, agricultural producers, weavers, consumers, fishermen, coir makers, employees, students of universities and colleges, and for many others.

1.3. Importance of Cooperative Marketing

Cooperative marketing strategy structures organizations at different levels of the same vertical distribution channel to develop mutual gain in cooperative as well as competitive strategies (Nielsen, 1987). Cooperative strategy is essential for maintaining the inter-organization cooperation needed in a multi-organization vertical distribution system (Jaski, 1984). The extant literature discusses very sparsely the mutual gain cooperative marketing strategies among horizontally competing or potentially competing organizations.
Nielsen (1987) considers seven functional level cooperative marketing strategies

- Pool similar marketing resources and risks
- Trade different resources
- Expand total consumer market demand
- Increase cooperative marketing players
- De-escalate destructive competition
- Cross-subsidize markets; and
- Implement joint marketing contingency plans

Nielsen (1987) also iterates the importance of balancing cooperative marketing strategies with competitive strategies to enable a healthy development of skills and capabilities. Corporate strategists have argued that cooperation could stimulate synergy among the cooperating parties. Also, Anbumani (2007) has enlisted the various developmental roles that cooperatives have played in the Indian economy. The merits of such systems in the Indian context are

· **Utopian principles:** The principles themselves are the strength of cooperativebusiness. The open and voluntary membership and democratic member control (one member; one vote) concepts strives to ensure equal growth opportunities to all citizens of the state who have common business needs and aspirations. It also ensures their direct participation in the business.

· **Non profit character:** Cooperatives are basically welfare driven rather than beingprofit driven. This doesn't mean they are charitable like, but protecting and promoting the economic and social well being of their members is the primary concern of cooperatives. The concept of 'member economic participation' insists economic benefits to members via dividend payout in proportion to their business involvement, 'the higher you participate in the business; higher will be your dividend'. This is an effective stimulus which encourages member's involvement in cooperative business.

· **Root level functioning:** They are root level organizations familiar to all, as theyeffectively operate public distribution system in each village of the country. Everywhere you go; there will be some cooperative society or bank. The point is they need no introduction and if they could offer attractive products which exactly meet their customer needs, cooperative businesses could be made successful and prosperous with their known customer band.

· **Governmental backing:** Cooperatives are legally recognized institutions supportedby governments. This legal backing is their main strength. They are exempted from taxes, stamp duties etc. further they are offered with technical, financial and administrative assistance by the governments. This enables the cooperative businesses to generate the sufficient capital investments for their business operations with least effort.

· **Internationally recognized:** The principle 'cooperation among cooperative' is re allyunique. It serves as the base to cooperatives to expand their business operation as far as possible.

2. Problems with Present Cooperative Marketing Strategies

However, cooperative marketing systems have their own glitches and problems. Firstly, a successful cooperative marketing system requires a long-term commitment, reflecting the need for the parties to set aside personal, individual or company self-interest. Secondly. There are also inter-organizational relationships between two or more firms. Each partner would like to have a voice in the management of the marketing system, which may lead to a slower, more complex decision-making process. Each partner may have different, and often conflicting plans and goals for their operation. Thirdly, the resource accessibility and technical know-how of the partners may not be the same, especially in case of vertical cooperatives. In a typical Indian cooperative, where the partners are usually smaller farmers and artisans, the imbalance of capabilities and resource accessibility may reduce the leverage that the partners enjoy through the cooperatives.

For example, the location of the cold-storage plant for an agriculture marketing cooperative may affect different partners differently. The cost and effort required to bring the produce to the plant may be intense for a particular farmer as compared to another. In such cases, conflict and dissonance may occur within the partnership.

Thus, to understand the value added by each of the partners or members of the cooperative, this paper tries to examine the nature of relationship and flow of services through the value co-creation process which is one of the fundamental propositions of the service dominant logic (Lusch and Vargo, 2004). This paper examines the role of the cooperative in harnessing the knowledge and skills of its members and also proposes a simple framework to enhance the exchange and creation of value within the system. The understanding of the cooperative marketing system under the value co-creation purview would create a better marketing-grounded understanding of value and exchange.

II. VALUE CO-CREATION AND SERVICE DOMINANT LOGIC

2.1. Service Dominant Logic

Service-Dominant Logic (Vargo & Lusch, 2004) has attracted a widespread and generally favourable response from marketing academics, prompting a number of refinements, developments, and amendments (Vargo & Lusch, 2008). S-D logic is concerned with how all parties, or actors, integrate their resources to co-create value. However, the*'logic'* remains in the early stages of development, with much academic debate regardingdefinitions of many of the underlying principles and terminology used. In particular, there is limited shared understanding of how customers engage in value co-creation (Payne, Storbacka, & Frow, 2008). A key element of the Vargo and Lusch proposition is the role of the customers in value creation process. Value is not embedded within goods by enterprises that generate value to be passed onto *'passive'* customers who destroy that value through the use or consumption process. S-D logic conceptualises the use or consumption process as key to achieving value – hence, the S-D logic emphasis on value in use and the active role of the customer in co-creating value.

Vargo and Lusch distinguish between two types of resources that have the potential to create value. Operand resources, such as raw materials, are *'. . . resources on which anoperation or act is performed to produce an effect*' (Vargo & Lusch 2004). These are usuallytangible, inert, and passive, and require input from an active agent in order to realise its value potential (Arnould, Price, & Malshe, 2006). Operant resources are those employed to act on operand resources and on other operant resources in order to create value. These resources are usually intangible, such as knowledge, skills, and labour (Arnould et al., 2006; Vargo & Lusch, 2004). Neither type of resource has inherent value, but both offer value potential that may be realised through integration with other resources. However, those operant resources, including the tacit knowledge of the service employees, may be codified and transformed into an operant resource.

2.2. The Value Co-Creation Process

The notion of developing relationships with the customers for a profitable and meaningful outcome have been the outcry of many researchers (Storbacka, Strandvik & Grönroos 1994, Berry 2002, Parvatiyar and Sheth 200 1) and has changed the role of marketers from customer acquisition to customer retention (Winer 2001). The perspective of relationships and service management has been studied by many researchers including Gronroos (2000) and Gumesson (1994). The concept of co-creation of value has taken a dominant role in late research about value configuration and relationship building. Different authors have highlighted the customer's active role in configuring their own value (Holbrook, 1994; Prahalad and Ramaswamy, 2000; Vargo and Lusch, 2004). Co-creation of value is the concept that reflects the premise that value is not created exclusively by the firm but by the interaction of different actors including the customer. Different researchers (Holbrook, 1994) and practitioners (Pine and Gilmore 1999) had previously acknowledged the experiential nature of value. As value is experiential it cannot be determined by the firm but by the customer using the product or service and the Service-Dominant Logic considers value in use and the customer as a co-creator of value (Vargo and Lusch 2008). This perspective on value creation challenges the idea of production as a value creation activity and consumption as a value destruction activity. In fact, different authors following a postmodernist approach to the matter have positioned both symbolic production and consumption as major areas of community participation considering consumption as a value-creating activity (Firat and Venkatesh 1993, 1995).

Prahalad and Ramaswamy (2004) define co-creation in the context of experiential marketing as "the *process that allows the individual consumer to determine the design offuture products and services, the marketing messages and distribution channels where the products will be available"* . Lusch and Vargo (2006) have defined coproduction as customerparticipation in the development of the core offering (product or service), considering it as a component of value co-creation. Van Doorm et al. (2010) also stated that *"co-creation occurswhen the customer participates through spontaneous, discretionary behaviors that uniquely customize the consumer-to-brand experience".* These authors highlight the importance ofinteractions as the determinant of value and the importance of the personalization of the co-creation experience to determine value. Other authors have characterized the co-creation of value as an interactional concept (Vargo and Lusch, 2008), highlighting its dialogical focus and collaborative essence (Ballantyne and Varey, 2006).

The foundational premises of the *"service-dominant logic (S-D) logic"* defined marketing relationships as a process of co-production where the consumer is always involved in the production of value and is a continuous-process (Lusch and Vargo 2004, 2008). Groonroos (2000) identified that value is created through the interactions between the customers and the supplier or service provider. He stresses further on marketing as a value-creation process where customers play the role of being co-creators.

According to the S-D Logic, the customer is a coproducer of service and primarily acts as an "operant *resource"*, only functioning occasionally as an operand resource. Moreover, it states that *"value results from the beneficial application of o perant resourcessometimes transmitted through operand resources."* (Lucsh and Vargo 2004). It defines theactive role of customers as participants in relational exchanges and coproduction. Thus thevalue coproduction process is highly experiential, inherently subjective and contextual in nature (Brodie, Hollebeek, Jurić & Ilić, 2011).

The concept of Service Dominant Logic focuses on the relative importance of interactivity and relational process of creating value for the customers. This interactivity and cocreation process is the foundation premise of *"Customer Engagement"*. Prahalad and Ramaswamy (2004, p254) states

"Companies can no longer act autonomously, designing products, developing production processes, crafting marketing messages and controlling sales channels with little or no interference from consumers..... Armed with new tools and dissatisfied with available choices, consumer want to interact with firms and there-by co-create value. The use of interaction as a basis for co-creation is at the crux of our emerging reality."

Vargo (2008) suggested that the term *"value-in-use"* should be substituted with a wider terminology *"value-in –context"* to accommodate this interactive process. Vargo further suggested that this value co-creation process is relativistic and different meanings can be constructed depending on the social context of the situation. Edvardsson et al (2011) further suggests that "context" includes much more than the resources (operant and operand) that have been the focus of much of the literature on S-D Logic. The authors further define that the operand resources can also be understood as social constructions, since the actors involved in a service exchange use these resources within a social system. Thus, social forces or social constructions defined the value-creation process and on how this value is defined and perceived.

III. VALUE CO-CREATION PROCESS IN COOPERATIVE MARKETING SYSTEMS

The cooperative marketing system can also be viewed as a microcosm of a service network with its own system of producers and customers. But the uniqueness of this system is that the production or creation of the marketing offering is a joint action between the members of the society members. In the SD-Logic proposed by Vargo and Lusch, the consumers may act as 'operant resource' only functioning occasionally as an operand resource. However, in case of cooperatives, both the producers (partners/members) and the customer (Cooperative Society) have several intertwining roles as operant and operand resources. Thus, the process of co-creating value is much more significant in this context. The consumer acts as 'prosumer' (Toffler, 1980) because they produce some of the goods and services entering their own consumption.

The value co-creation process in cooperative marketing systems can be illustrated by the milk-marketing channels in India. India has the largest cattle and buffalo population in the world. More than 67 percent of dairy animals are owned by marginal and small farmers, which constitute the core milk-production sector in the country. Many of these farmers own dairy animals primarily to supply milk for their own consumption. Slightly more than 30 percent of the milk produced in the country is retained in producer households (NNSO, 1992). Eighty percent of milk is marketed through the highly fragmented unorganized sector, which includes local milk vendors, wholesalers, retailers, and producers themselves. On the other hand, the organized dairy industry, which accounts for about 20 percent of total milk production, comprises two sectors: government and co-operatives.

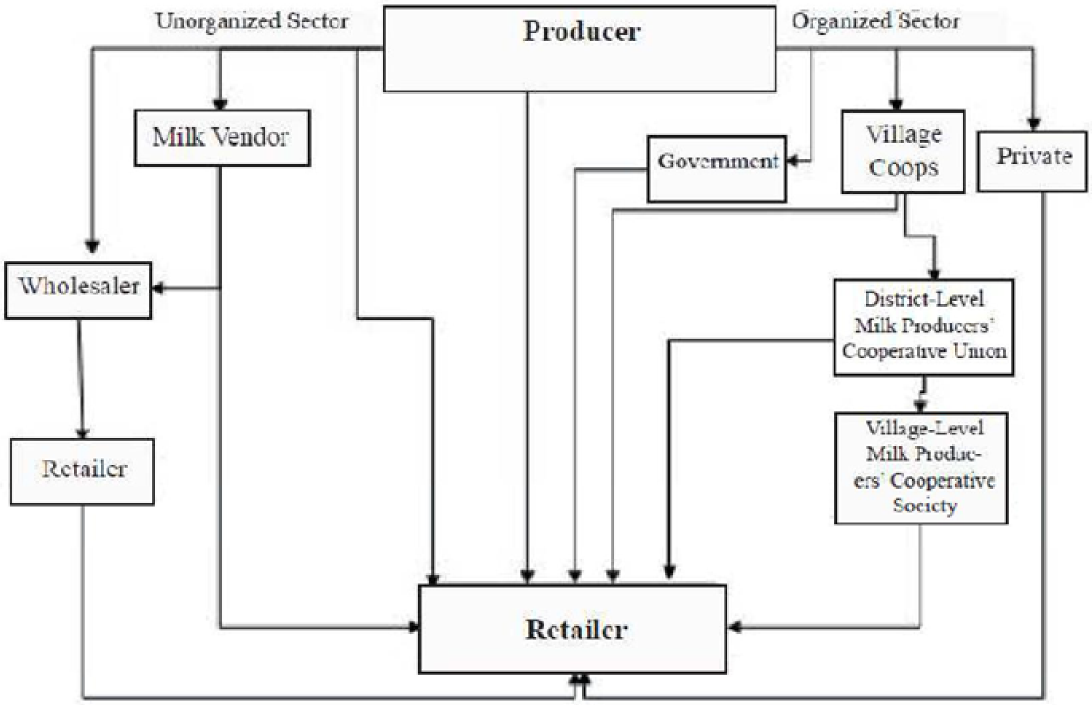

Figure 1: Milk-Marketing Channels in India (Ravindra, Maheswari & Rao, 2001)

The co-creation process in the milk marketing system can be diagrammatically represented as below

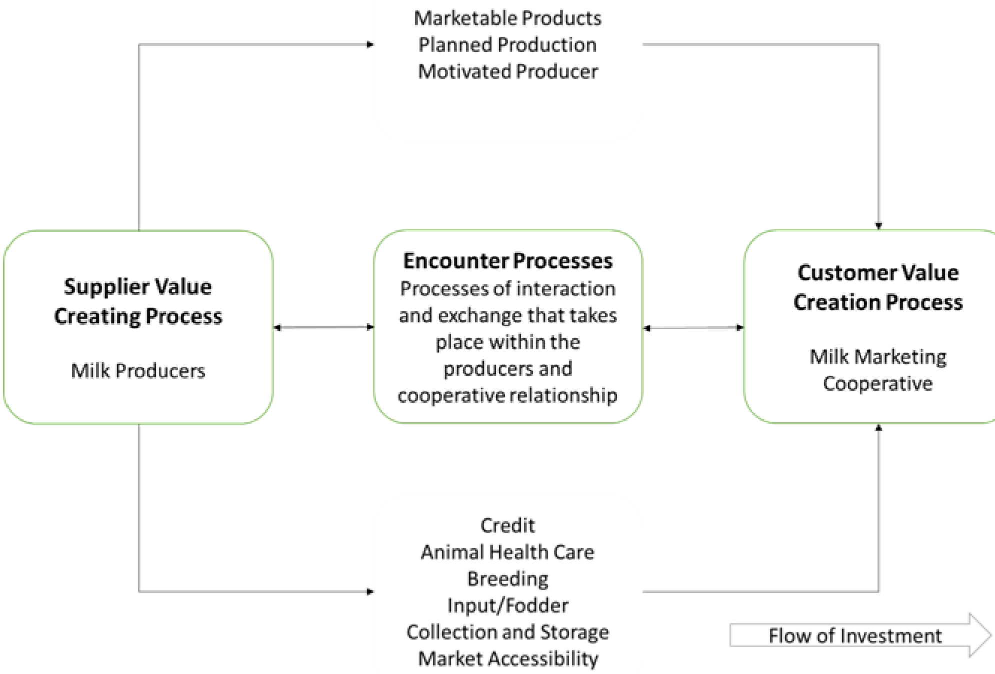

Figure 2: Value Co-Creation - Milk Marketing Cooperative

In this model, the process of value co-creation is a process where resources are used and activities are performed by the supplier, the customer independently as well as in interaction of both parties in interaction (supplier–customer). In fig. 2 , both milk producer and the milk marketing cooperative manage and integrate their resources and activities during their value-creating process. During the encounter process, they jointly manage the processes of interaction and exchange. They rely on their own resources and the capacity to share and integrate certain of these consistent with their own objectives. Both the parties must match up all resources and practices to properly manage their activities and co-create value.

2.3. Customer and Supplier Engagement

The nature of interaction between the producers and customers (in this case, the cooperatives) allows them to engage in dialog 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).

In "*relational exchange*" (Morgan and Hunt, 1994), the cooperative relationships amongst marketing actors allows them to *"share resources and engage in joint valuecreation, such as co-production, research and development partnering, co-marketing, etc"*

The primary activity relates to value creation through joint action by participants in a relational engagement (Heide and John 1990). However, the nature of the relationship between the producers and their cooperative is much more complex as compared to a more traditional supplier-customer relationship because of the greater overlapping of the roles and responsibility and the fact that the cooperative is collectively owned by the supplier themselves. Therefore, it calls for a more systems-level interactive multi-dimensional engagement and learning process of engaging customers in the process of interaction and co-creation. Vivek, Beatty, and Morgan (2010) has conceptualized Customer Engagement as " *the intensity of an individual's participation & connection with the organization's offerings& activities initiated by either the customer or the organization"* and hence has included thecognitive, emotional and behavioural dimensions of the cocreation process and hence does not include only sharing of resources and participation in the value creation process.

Patterson, Yu, and de Ruyter (cf. 2006) propose four specific Customer Engagement components, including (a) *absorption:* the level of customer concentration on a focal engagement object, such as a brand/organization, thus reflecting the cognitive dimension of engagement; (b) *dedication:* a customer's sense of belonging to the organization/brand, which corresponds to the emotional dimension of engagement; (c) *vigor:* a customer's level of energy and mental resilience in interacting with a focal engagement object; and (d) *interaction:* the two-way communications between a focal engagement subject and object.Bowden (2009) conceptualized Customer Engagement as the process of engagement tracing the *"temporal development of loyalty by mapping the relationships between the constructs ofcalculative commitment, affective commitment, involvement, and trust."* The author furtherdescribes Customer Engagement as a *"sequential psychological process"* leading to a state of enduring brand loyalty.

A well-grounded engagement outlook would help cooperatives to understand the role it has to play as well as the role that the suppliers play in the production process. Understanding the importance of the co-creating role of the producers would help the cooperative in designing and enabling them to remain competitive as well as giving a hand in developing the capability of the producers.

IV. CONCLUSION

This paper explores the exchange and interaction between suppliers and their customers under the cooperative marketing system using the SD-Logic and value co-creation viewpoint. More analysis could be done in order to understand the real nature of the transaction between these two players.

Every transaction between the cooperative and its members consist of an exchange of resources which may be operant or operand. The active engagement of the cooperative is essential to the survival of the system.

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