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A Stakeholder-Unifying, Cocreation Philosophy for Marketing

Robert F. Lusch[1] and Frederick E. Webster Jr[1,2]

Abstract

Marketing thought and practice is continuing its evolution from a largely goods-dominant logic to a service-dominant (S-D) logic. The authors argue that an S-D grounded logic is especially useful in a highly networked world. In a network world and organization, it is critical for enterprises to realize and operate as if marketing is no longer simply a separate business function but also a general management responsibility within a broad network enterprise where the interests of many stakeholders need to be unified with the customer and the enterprise. Furthermore, a value cocreation concept of strategy becomes increasingly relevant because it views value as not created by the business but by customers as they integrate resources. Importantly this includes firm-supplied resources, as well as other resources at the customer's disposal in order to improve their well-being by helping them develop or codevelop solutions to problems. Consistent with the S-D logic of marketing, the firm has to think not about optimizing the sales and/or profit of the firm and its activities but how to support customers in their resource integration and value cocreation activities. All enterprises should strive to be an effective and efficient service support system for helping all stakeholders, beginning with the customer, become effective and efficient in value cocreation.

Keywords

cocreation, value proposition, stakeholder, strategy

Marketing has been often characterized as transitioning from a production orientation to a sales orientation to a customer orientation (Keith 1960; McKitterick 1957; Webster 2005). Unfortunately, this offers a limited perspective on how marketing thought has viewed marketing's value contribution to the firm, customer, and society and how it has changed over the last century. The authors begin their analysis with a review of the evolution of the concept of value as it relates to marketing activity (see Table 1). Briefly, the transition has been from (1) viewing marketing as a business function that produces utility or value through the performance of production, distribution, and selling functions, to (2) defining marketing as a business function that is customer and market oriented in order to help the enterprise offer more competitively compelling value propositions and enhance firm value, to (3) a realization that marketing is no longer simply a separate business function but also a general management responsibility within a broad network enterprise.

Era-One: Marketing as Utility Creating and Value Adding

Marketing as a distinct management function emerged in manufacturing firms during the early twentieth century and was typically identified as a separate department in a hierarchical, bureaucratic, multidivisional organization. Many innovations stimulated the rapid growth of manufacturing but of central importance were the railroad, the motor vehicle, the assembly line, standardized parts, mass media, and scientific management. Together, these technologies enabled production of large quantities of standardized products manufactured far from most customers and transported to wholesale and retail intermediaries and delivered to distant customers at attractive prices.

Utility embedded in the product form by the manufacturer was the dominant concept of value (Vargo and Lusch 2004). Marketing was often criticized as adding unnecessary costs. In defense, some observers viewed marketing as a production function where distribution (marketing) created time, place, and possession utility (Shaw 1912; Weld 1916). Using this perspective, marketing expenditures came to be viewed as creating value, not just adding cost (Hollander 1961).

The logic of the firm as a producer of value in manufacturing, distribution, and marketing established a mind-set that the firm and the customer were distinct and autonomous. The firm

[1] Eller College of Management, University of Arizona, Tucson, AZ, USA
[2] Tuck School of Business at Dartmouth, Hanover, NH, USA

Corresponding Author:
Robert F. Lusch, Eller College of Management, University of Arizona, Tucson, AZ, USA
Email: rlusch@eller.arizona.edu

Table 1. Marketing's Changing Contribution to Value

	Era One: Marketing as Utility Creating and Value Adding	Era Two: Marketing as Customer Oriented and Value Proposing	Era Three: Marketing as Stakeholder Unifying and Value Cocreating
Value creation	People and machines create value	The firm makes value propositions	Firms and customers and stakeholders cocreate value
Locus of value	Value in exchange	Value in use	Value in context (system)
Primary metaphor	Machine	Organization	Network
Primary focus	The firm and its production	The customer and the market	The customer and stakeholders
Fundamental goal	Profit maximization	Shareholder wealth	Total value for all stakeholders
Financial metric	Profits	Return on investment	Cash flow
Purpose of marketing	Create utility	Satisfy customers	Serve customer and stakeholders
Resources	Natural	Customer and market data	Knowledge
Key management concepts	Specialization Centralization Delegation Scheduling	Analysis Planning Implementation Control	Sensing vResourcing Responding Learning
Institutions	Private property Markets Corporation Labor union	Management Marketing Central planning	Human rights Ecological norms
Examples of key technologies	Steam engine Assembly line Railroad Telegraph Radio Television	Aviation Nuclear Computer Operations Management Logistics	Microprocessor Software Internet Satellite

and customer would meet in the marketplace to exchange value or extract value from each other. Value thus came to be largely identified with value-in-exchange or the price paid by the customer and received by the firm, a view consistent with the neoclassical economic model or a goods-dominant logic (Vargo and Lusch 2004).

During this era, marketing's major responsibility was seen as that of filling and stimulating demand for the firm's productive resources through product, pricing, promotion, and distribution strategies (Davis 1961; McCarthy 1960). Customers were attracted to these standardized and less-than-ideal product offerings because: (1) prices were relatively low due to low production costs brought about by mass-production technologies, (2) products were available at the time and place needed as transportation infrastructure improved and increasingly efficient mass merchandising and chain store retailing grew in prominence, and (3) the mass media facilitated the development of brand images that further convinced customers that the standardized, mass-produced, attractively priced products would adequately satisfy their needs.

Era-Two: Marketing as Customer Oriented and Value Proposing

Peter F. Drucker (1954) can probably be credited as the creator of the so-called marketing concept. He envisioned marketing as the whole business seen from the customer's point of view and argued that the fundamental purpose of the business was to create a satisfied customer, with profit as a reward, not the goal itself. Drucker noted that every firm had only two basic functions—marketing and innovation, which he called the "entrepreneurial functions." Drucker attempted to focus the firm on how the customer, not the firm, views and values the firm's offerings: "What the business thinks it produces is not of first importance . . . . What the customer thinks he is buying, what he considers 'value,' is decisive—it determines what a business is, what it produces and whether it will prosper" (Drucker 1954, 37).

During this era, advertising began to move away from a focus on product attributes and features and toward customer benefits. The concept of a Unique Selling Proposition (USP; Reeves 1961), a term coined by the Ted Bates & Company advertising agency, reinforced this move. The concept of the USP emphasized what the firm could *uniquely* offer relative to its competition. Although it is relatively easy to copy or replicate competitors' functional benefits, it becomes more difficult to copy or replicate the nonfunctional or symbolic benefits a brand offers. The USP, once established in the customer's mind, becomes preemptive. As Levy (1959) persuasively argued, the customer was increasingly purchasing not only functional benefits but intangible benefits and the symbolic nature of a brand and its meaning for the customer. Products and brands increasingly become defined by these nonfunctional benefits, their symbolism and meaning as a new source of value for the customer.

McKinsey & Company began in the early 1980s to use the concept of a *value proposition* to help enterprises become more market focused (Frow and Payne 2008), as put forth in a

McKinsey Staff Paper (Lanning and Michaels 1988) for internal use, and further developed by Lanning and Phillips (1992) and Lanning (1998). The concept of a value proposition became central to Hunt and Morgan's (1994) resource advantage theory of competition and Webster's (1994) value delivery concept of strategy and the service-dominant (S-D) logic of marketing as developed by Vargo and Lusch (2004). However, it was not until recently that a detailed discussion of value propositions became available (Frow and Payne 2008). Recently Frow and Payne (Forthcoming) extend the value proposition concept to stakeholders and marketing systems or what have also been referred to as value networks or service ecosystems (Lusch, Vargo, and Tanniru 2010).

The Ascendance of Financial Management and Shareholders

While Peter Drucker was advocating putting the customer's interest first, with profit as a reward for doing so, others were arguing for a view of business strategy that focused on the central importance of shareholders. The fundamental argument was that financial control over the allocation of resources among business opportunities (products and markets) was the only meaningful way to direct businesses that had grown too large to be controlled by their owners. Consequently, various approaches to long-range strategic planning, with an emphasis on financial goals guiding individual business units and the overall organization, became popular. Financial management broadened into the more general practice of strategic planning, focusing on achieving objectives for external competitive market strength and internal efficiency with financial measures to support them (Ansoff 1965). Under the leadership of Alfred P. Sloan (Sloan 1964), General Motors (GM) developed a management approach in which return on investment (ROI) became the primary strategic goal of the enterprise. Many firms followed GM's lead, developing elaborate capital budgeting and formal strategic planning systems that emphasized market growth, market share, production volume, and low cost relative to competition. By the 1990s, it was widely agreed that management attention had become primarily focused on responsibility for increasing the value of the firm for shareholders as measured by ROI and quarterly earnings per share. Thus, as the marketing concept had struggled to shift management away from production orientation and become more customer focused, financial tools and controls encouraged a short-term performance focus, heavily oriented toward competitors, production volume, and low cost.

Era Three: Marketing in Network Organizations

As the understanding of marketing evolves into era three, as stakeholder unifying and value cocreating, it is critically important to reconceptualize marketing as management practice in the new organizational forms that are dramatically different from the traditional, bureaucratic, functional, and self-contained corporate form. The firm must be understood as a complex network mechanism linking customer value and the value of the firm for all of its stakeholders. A central feature of a world where networks are more pervasive is the ascendance of information technology (IT) and the emphasis on knowledge (not land and labor) as the prime resource for competitive advantage (Drucker 1993; Achrol and Kotler 1999; Lusch, Vargo, and O'Brien 2007). Among the effects of IT most impacting on marketing have been (1) customers and suppliers spread over wide geographic areas interact directly via computers and the Internet; (2) customers have adopted more self-service technologies; (3) tangible goods become "smarter" as they become embedded with computers; (4) business models, customer relations, and financial performance of the enterprise can be more easily and widely analyzed on distributed (not centralized) computational machines; and (5) the costs of coordinating business functions (tasks and activities) are lowered. With the increased two-way and multi-way communication brought about by this information revolution, noncustomer and non-shareholder stakeholders of the enterprise can express more clearly their value "stake" in the enterprise. Not only can the enterprise more easily connect directly with customers but, even more importantly, customers can communicate directly with each other and more generally all stakeholders can communicate with the firm and other stakeholders. This is consistent with arguments developed by Merz, He, and Vargo (2009) that brands are cocreated by brand communities and other stakeholders as part of a "continuous, social, and highly dynamic and interactive process between the firm, the brand and all stakeholders" (p. 331).

Value in a Network Context

Marketing practice and thought in a network-centric world should recognize two central tenets about the value of the enterprise. First, the value of the enterprise is broader than value for shareholders or "market value," defined as the number of shares outstanding times the price of the firm's stock. Second, the value of the enterprise, the sum of the value derived from the firm by all of the stakeholders is rooted in value realized by customers as a result of market exchanges. All economic value traces back to value cocreation in customer/firm relationships. This occurs because only the customer brings the cash into the firm that is necessary to sustain relationships with all the other stakeholders. Recently there has been increased attention in the marketing literature to the importance of cash flow and volatility of cash flow as key marketing performance metrics (Ambler 2006; Srivastava, Shervani, and Fahey 1997, 1998; Rao and Bharadwaj 2008). Using cash flow as a measure of performance shifts attention away from ROI and its exclusive concern for the economic benefits the firm provides for its owners. Most of the stakeholders of the firm are either its resource providers or the government and thus share in the cash flows of the enterprise. The firm can be viewed as the customer's agent in negotiating with these resource providers for the

resources it needs to integrate to best serve the customer. The original marketing concept saw marketing as the advocate *within the firm* for customers; the new view in the third era sees marketing as an advocate for the customer with all resource providers *within the networked enterprise*, going beyond the boundaries of the firm as a legal entity.

Within the network world, stakeholders of all kinds are involved in an active search for better ways to cocreate value with customers and other stakeholders (Bhattacharya 2010; Christopher, Payne, and Ballantyne 2002; Frow and Payne Forthcoming). Firms are evolving from largely self-contained hierarchical bureaucracies into complex networks of relationships with resource providers of all kinds (Achrol and Kotler 1999; Lusch, Vargo, and Tanniru 2010). Firms seek to focus more clearly on their own distinctive competencies as sources of competitive advantage while relying more heavily for adaptive, collaborative advantage with strategic partners to provide their distinctive competencies as components of the tangible and/or intangible product offering.

Marketing's Role in Implementing a Stakeholder-Unifying Cocreation Philosophy

Marketing is emerging as performing a broader role in the management of the enterprise in guiding all business processes that are involved in the cocreation of value with customers. Customer orientation has once again emerged as a dominant business philosophy in the corporate cultures of successful firms as management comes to understand that the welfare of all of the firm's stakeholders, including but not limited to its owners, has its roots in customer need satisfaction. Consequently, the rewards to the enterprise for cocreating customer value must ultimately be shared among all of the stakeholders. Understanding customers and how the enterprise fits into their value-creating processes and communicating that understanding to the other resource-providing stakeholders becomes the primary role of marketing.

In the recent past, evidence suggests that marketing in many firms has been relegated to managing communications and branding activities (Verhoef and Leeflang 2009; Webster, Malter, and Ganesan 2005). The emerging third era of marketing requires that marketing must have clear organizational linkages to facilitate two-way information flow with all stakeholders. These organizational contacts would include operations (employees and customers), procurement (supplier partners), R&D (technology partners), human resources (employees and management), investor relations (shareholders), accounting and finance (shareholders, banks and other debt providers, and regulators), distribution management (resellers and user-customers), and field sales management. Marketing must be more than demand stimulation; it must also be a general management responsibility.

A Value Cocreation Concept of Strategy and Organization

The preceding sets the stage for offering a value cocreation concept of strategy that is consistent with S-D logic and that is integrated with an expanded concept of marketing organization. Value is not created by the business but is cocreated by customers as they integrate resources (Vargo and Lusch 2008) that not only include firm-supplied resources but other resources at their disposal in order to improve their well-being by helping them develop or codevelop solutions to problems. To be truly customer centric, the firm has to think not about optimizing the firm and its activities but how to support customers in their resource integration and value cocreation activities. Stated alternatively, the organization should be an effective and efficient service support system for helping all stakeholders, beginning with the customer, become effective and efficient in value cocreation.

The key concepts in the value cocreation concept of strategy and organization are core competencies and dynamic capabilities used to cocreate value and the relationships with all stakeholders that help to accomplish this. Value is created when a customer interacts with the resources and capabilities provided by a relationship with their firm/supplier and other providers of resources. Thus, the value can only be cocreated by sellers and customers together. A "good" relationship is one that creates value for both parties and leaves each wanting to continue the relationship in some form. "Good" customers are loyal; "good" suppliers are trusted and reliable and have strong "brands" or reputations.

Value Propositions Communicate Intention Throughout the Network

Intention and capability to offer value of a particular kind in a particular way is communicated to potential buyers and resource-provider partners with a *value proposition*, an invitation to participate in the process of cocreating value that is superior to competitor offerings (Vargo and Lusch 2004, 2008). Or, as Stephen Haeckel (1999) has suggested with his concepts of the "sense-and-respond" organization, a value proposition is how the enterprise proposes to positively affect the customer; it defines desired *outcomes* (customer experiences), *not outputs* (products). Also the firm's value proposition must have appeal for all stakeholders who must see the potential value for themselves in value propositions being realized and their role in value cocreation with customers. It is a marketing responsibility to assure that the firm's value proposition is communicated to, and understood by, the entire network of resource-providing stakeholders.

Customers as a Strategic Choice

The ability to actually provide the promised value depends upon carefully choosing appropriate potential customers, those with needs and preferences that are understood to be a good

match for the resources and capabilities of the firm and its stakeholders. Strategy formulation is essentially a process of matching the networked firm's competencies and capabilities with customer needs and preferences, identifying latent customer demand that is relatively underserved by competitors' value propositions. "Bad" potential customers are those who will not value the firm's resources and capabilities and will therefore be unwilling to provide reciprocal resources or service in their interactions with the marketer enterprise.

Value Definition is Dynamic and Learning is Critical

It is a fundamental premise of the value cocreation concept of marketing strategy and organization that the customer's definition of value changes continuously. Marketing must be a learning process for both the supplier network organization and the customer (Lusch, Vargo, and Tanniru 2010). All organizational actors with responsibility for any part of a customer-linking or customer-relationship management activity must also be informed about and use knowledge relating to the customer's changing definition of value. Such knowledge includes the customer's definition of the problem they are trying to solve with their buying activity, the nature of personal intra-customer (household or organizational) relationships, the customer's operations relating to use of resources, and so on. As in era two marketing, customer and market information are the central management responsibility of marketing in era three, but the scope of this responsibility now extends beyond the core firm through the networked enterprise with much more two-way communication.

Concluding Comment

Research shows that, in many firms, the traditional marketing management function has not been very successful in providing the kind of influence within the firm and leadership necessitated by an intense network environment. Many observers believe that this is due in part to marketing management's limited ability to understand and manage the cash flow and other financial implications of marketing expenditures and activities. However, it will increasingly also be due to a lack of understanding of all of the stakeholders (not only customers and shareholders) and how to cocreate value with them. For these reasons, responsibility for marketing effectiveness, customer advocacy, and stakeholder relations must increasingly be assumed by top management while the firm continues to develop the management competence, including the financial knowledge, of its marketing specialists.

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Bios

Robert F. Lusch is an executive director of the McGuire Center for Entrepreneurship and the Muzzy Chair in Entrepreneurship in the Eller College of Management at the University of Arizona. His work is primarily in the area of interorganizational behavior, marketing strategy, and service-dominant logic. He is the recipient of the *Journal of Marketing* Maynard Award (1996 and 2004) for scholarship contributing to the advancement of theory in marketing and the Sheth Foundation/*Journal of Marketing* Award (2010) for long-term impact on marketing practice and theory.

Frederick E. Webster, Jr. is a professor of management, emeritus, at the Tuck School of Business at Dartmouth College and distinguished research fellow in marketing at the Eller College of Management, University of Arizona. His work on marketing strategy and organization has received the American Marketing Association Vijay Mahajan Award for outstanding career contributions to the field of marketing strategy, was recognized by the Marketing Science Institute with Best Paper Awards in 1993 and 2005, and by *Journal of Marketing* Alpha Kappa Psi Awards (1981 and 1993) for articles "contributing most to the advancement of science in marketing."