Vol. 10 Issue 05, May 2020

ISSN: 2249-0558 Impact Factor: 7.119

Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com

Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed

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# CUSTOMER RETENTION THROUGH CO-CREATION OF PRODUCTS AND SERVICES-THE MODEST NON PRICE STRATEGY

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#### Abstract

The Research investigates Co-creation of products and services as a new way to create value, both for customers and for businesses. Data collected was presented qualitatively and quantitatively using tables, and graphs and also descriptive presentations. The sample comprised 15 respondents out of the total population of 33. Participating customers were chosen based on judgmental nonprobability sampling method because it was necessary to judge on the type of customers who could provide more sufficient and reliable information. The questionnaire as a research instrument was used in collecting data, this is a sheet of paper consisting of a series questions in a format which the respondents answers, and it was used for gathering information. The questionnaire was composed of both structured questions which were simple and relatively easy to administer and unstructured questions, which assessed the views of the respondents without guiding them. The findings revealed that changing customer needs; customers' willingness to co-create; reducing product failure; and increasing customer loyalty are the major factors driving co-creation of tourism and hospitality offerings at Zimbabwe's prime tourist destination. These factors can therefore be concluded to be the general rationale behind co-creation. It is recommended that organisations should not concentrate on employee empowerment and creating a customer responsive culture but rather should move towards the virgin lands of co-creation.

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#### 1.0 INTRODUCTION

Co-creation of products and services is a new way to create value, both for customers and for businesses, as it enables customers to co-construct the service or tourist experience to suit their purposes and needs (Prahalad and Ramaswamy, 2004). Even the most ingenious invention will be a market failure if it does not meet the needs of the customers. To ensure that customer needs are met and that such market failures are avoided, companies are seeking market-oriented methods of developing new products and services. In challenging times new rules apply; companies and organisations are searching for tools that can help them win competition battles daily challenges to be faced discover where have to future growth (http://fronteerstrategy.blogspot.com). An increasingly popular means of doing so is to involve users in the early stages of the new product development (NPD) process by inviting them to suggest ideas for innovative products and services.

According to Wayne D. Hoyer et al (2017), involving users as co-creators during NPD produces ideas that are more creative, more highly valued by customers, and more easily implemented. Such co-creation during innovation processes appears to have become increasingly popular in recent years (Vargo and Lusch, 2004); however, there is a paucity of implementation on the theory and practice of co-creation during both new product and service development in the tourism industry particularly in developing countries. In particular, there is a lack of a firm theoretical foundation on which to base an understanding of the strategies which are required for success during the co-creation of tourism and hospitality services (Francesca Cabiddu et al(2013). With the development of the internet's communication channels; customers are able to communicate their desires not only with fellow consumers, but also with the product and service providers. What was true for mass customization also applies to co-created products; companies that can better satisfy their customers will have a better competitive advantage.

Co-creation was arguably born much earlier, in the 19th century on the French countryside, to be precise. The start-up of the French bank Credit Agricole at the end of the 19th century, for example, was arguably co-creation in action. A bunch of local farmers in the French provinces did not have enough of a regular cash flow to warrant the attention of banks so they decided to

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lend money to each other. The French also invented mutual insurance in the 1930s. The most legendary of the mutual insurance firms in France, MAIF (French people love acronyms that puzzle foreigners), was started by high school teachers on their cars as they used to drive slowly and wash their cars every Sunday. Some skeptics point out that wine growers on the banks of the Rhine in Germany were doing exactly the same thing at roughly the same time, creating a German version of Credit Agricole called Raiffeisenbank, also a very large bank today. So maybe co-creation was not invented by the French after all. Perhaps the concept was also "co-created" (<a href="http://francisgouillart.com">http://francisgouillart.com</a>).

Lusch (2007:261) emphasised that; "the greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic". Co-creation is a topic much talked about, but perhaps little understood. Nonetheless, it is of increasing importance. The key to creating value is to coproduce offerings that mobilise customer base; and if a company doesn't capture the intelligence to create more fulfilling experiences by co-creation of activities, its competitors will. There has been a multiplicity of tourism and hospitality products and services offered at Zimbabwe's prime tourist destination but the extent of collaborative crafting; designing and production of these products and services; that is; co-creation is yet to be uncovered.

Zimbabwe prides in a sundry assortment of tourism and hospitality offerings including some of global repute. Of note is the country's prime tourist destination which is part of the seven natural wonders of the world partnering only the Egyptian Great Pyramid of Giza in the African continent (<a href="http://en.wikipedia.org">http://en.wikipedia.org</a>). The small resort town located at the country's border with Zambia has an incredible mélange of natural and man-made attractions including biodiversity and comfy infra- and superstructural facilities. Over the past period; tourist arrivals to this destination saw a downward trend due to the unstable political situation the country faced.

This saw service quality delivery deteriorating and customer satisfaction along with it. Zimbabwe at large and Victoria falls in particular need to adopt co-creation not only as a survival strategy to resuscitate the tourism and hospitality industry and put it back on to the global tourism market as a competitive destination but also as a growth strategy and; according to Haggai 2 verse 9; "the glory of the latter house shall be greater than of the former".

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Co-creation is a new concept that is yet to be tested and approved as an ideology that strategically positions organisations at a competitive advantage. There is a general lack of knowledge on the extent of customer product or service co-creation especially in the tourism and hospitality industry particularly at Zimbabwe's prime tourist destination. Expressed as a question, one would read; "To what extent are tourism and hospitality products and services being co-created by providers and customers offered at Zimbabwe's prime destination".

The co-creation concept; brought to light in 2000 by Prahalad and Ramaswamy; was defined by Tang (2008) as sharing innovation and product development with partners outside the corporate boundary, whether suppliers According customers, or contractors. to (http://en.wikipedia.org/wiki/Co-creation); Isaac Newton said that in his great work, he stood on the shoulders of giants and in this respect co-creation could be seen as creating great work by standing together with those for whom the product is intended. From these definitions; one is forced to conclude that co-creation is all about removing bottlenecks hindering stakeholder participation in product creation. The quoted literature demonstrates that co-creation refers to collective, combined or collaborative fashioning of systems, products and services by more than one stakeholder; that includes companies and customers.

Cherkoff and Moore (2006:3) wrote that "co-creation is an energetic process, not an intellectual exercise" while Sanders and Stappers (2008) defined co-creation as "any act of collective creativity". The authors go further to say; embracing co-creativity requires that one believes all people are creative and the predominant culture accepts egalitarian idea.

Prahalad and Ramaswamy (2007) suggests that co-creation involves joint problem definition and problem solving in an environment in which consumers can have an active dialogue and co-construct personalised experiences. In this approach, the company does not just try to please the consumer but works with consumers to co-construct the service experience to suit their preferences. Co-creation is about working together to solve problems, uniting a range of viewpoints and approaches to an issue and to define and build a variety of outputs, from strategy to communications, from products to experiences. In this respect therefore; co-creation can be viewed as an important piece in the middle that unites the customer and the firm.

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The days of autonomously designing products or developing production processes, tapping new distribution channels or engaging in other marketing activities without involving consumers, seem to have disappeared (Cova and Salle, 2008). As Poon (1993) stated, the 'new tourist' wants to be in charge and this is reflected in more and more people responding to their own travel needs by consulting and booking through the Internet. Besides, virtual tourism communities like forums, wiki's and blogs, where experiences are compared, evaluated, defined and exchanged are on the rise. Websites for house swapping, bed sharing and coach surfing are only some examples. Audio snacks is an example of a virtual space to find, purchase, download, listen to, and enjoy user-generated pod tours that people have created to share. It is a virtual space where everyone interacts with others (<a href="www.audiosnacks.com">www.audiosnacks.com</a>). These are all examples of co-creation between (potential) tourists. Due to these changes in customer needs, the researcher believes co-creation is the most promising strategy to be adopted otherwise organisations may face the fate of dinosaurs – extinction.

According to Gross and Brown (2006); tourists do not just want to be spectators but they also want to participate. They also want to do some gardening, not only view the gardens, they want to take a peek behind the scenes, not only go to a concert, but also meet the musicians afterwards. Learning experiences, such as photography workshops, going to a wine university, learning to understand the ecosystem of an area of natural beauty, are also growing in popularity. Furthermore, the sharing of experiences, the social dynamics connected with travel, getting to know new people, reinforcing old friendships and making new ones, and spending time with relatives, are also considered important (Arsenault and Gale, 2004).

Customer needs are often idiosyncratic and tacit in nature and, hence, hard to accurately measure and coherently implement (Franke and Piller 2004; Simonson 2005). As suggested by Hippel (2005), consumers have deep and complex needs; however, traditional market research methods often provide managers with only a brief signal of what customers want or need. As a result, most new product failures are attributed to the tourism service provider's inability to accurately assess and satisfy customer needs (Ogawa and Piller 2006). As recently noted by Hippel and Katz (2002), an alternative and emerging means of bridging this asymmetry is to provide customers with information and tools that enable them to take a more proactive role in the new product development process. In recent years, according to Kozinets and Handelman

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(2004), the inherent skepticism of consumers' growing suspicion and distrust of marketing communications, fuelled by increased news coverage of corporate scandals, muck-raking documentaries of big business, and anti-corporate websites, has ignited more active forms of consumer resistance such as anti-corporate blogging, brand avoidance, and culture jamming. Hence, an increasing number of consumers are engaging in direct action to alter corporate marketing activities that they find objectionable. This increased consumer agency represents a significant strategic challenge and has led several large firms, including McDonalds, to be more cognizant of and open to customer input (Kalaignanam and Varadarajan 2006). The researcher identified that organisations are reducing the risk of product failure and loss of customer loyalty by involving their customers in product creation.

#### 2.0 Materials and Methods

Descriptive research is designed to describe phenomena associated with a subject population or to estimate proportions of the population that have certain characteristics and are more of a fact-gathering expedition (Cooper and Schindler 2006). Descriptive research design provides answers to the questions who, what, where, when, why, which and how thereby giving a more accurate snapshot that enables precise decision making; conclusions and professionally practical recommendations. According to Cooper and Schindler (2006), the idea of sampling is that by selecting some of the elements in a population, conclusions may be drawn about the entire population. It should be a good example of a defined universe so that the values of population can be estimated from the corresponding sample data (Quee 1999). The researcher used purposive sampling to select respondents to represent the entire population of tourism and hospitality product and service providers as well as guests. The major reasons why data was collected by sampling in place of complete enumerations are:

- Lower costs due to the homogeneous nature of similar service providers (travel agency, for example) and the heterogeneity of the tourism and hospitality industry in general; it was cheaper to sample than to conduct a census.
- Greater accuracy of results –Sampling possessed more thorough investigation of missing, wrong, or suspicious information, better supervision, and better processing than is possible with complete coverage. The lesser administrative problems encountered in collecting data

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from a sample lead to more accurate data than could be obtained by collecting data from all units.

- Greater speedy of data collection –sampling's speed of execution reduced the time between the recognition of a need of information and the availability of that information.
- Availability of population elements sampling can be the only possible solution where the population is infinite. The researcher had to collect data from tourist; thus; it was impossible to collect data from each and every tourist at the resort town.

A sampling frame is closely related to the population. It is a list of all elements in the population from which the sample was drawn and hence serves as boundaries that circumscribe the population. Cooper and Schindler (2006) also describe a sampling frame as a complete and correct list of population members only; thus, the sampling frame used to determine the extent of co-creation of tourism and hospitality products and services offered at Zimbabwe's prime tourist destination was as below:

**Table 1 Total Sample Size** 

Category	<b>Population Size</b>	Sample 3	
Hotels	5		
Registered Lodges	10	3	
Tour Operators	4	3	
Travel Agents	11	3	
Restaurants	6	3	
Total	36	15	

**Source: Raw Data** 

There are basically two major classes of the sampling techniques, which are, the probability sampling and non probability sampling. Probability sampling is whereby the members have a known chance of being selected into the sample. Probability sampling provided an objective measure of the reliability of the sample estimate; thus; the researcher used the probability

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sampling to undertake this study. The sample units of service providers were drawn using the stratified sampling. Five strata of service providers were identified; these are hotels, lodges, travel agents, restaurants and tour operators. Participating service providers were then randomly chosen from the each stratum.

Participating customers were chosen based on judgemental non-probability sampling method because it was necessary to judge on the type of customers who could provide more sufficient and reliable information. The questionnaire as a research instrument was used in collecting data, this is a sheet of paper consisting of a series questions in a format which the respondents answers, and it was used for gathering information. The questionnaire was composed of both structured questions which were simple and relatively easy to administer and unstructured questions, which assessed the views of the respondents without guiding them.

The major reason why questionnaires were chosen was that they were relatively cheaper to structure and administer. Furthermore, they have a wide coverage of the target population. In addition to the above, questionnaires were advantageous in cases where respondents were very difficult to get in touch with because of their tight work schedules so the researcher had to employ the drop and pick method. Furthermore, questionnaires also gave the respondents ample time to respond to questions without feeling pressured. Hence objectivity was to a greater extent achieved. Questionnaires were also used because they were the best research tool that maintained confidentiality as some of the respondents where acting on behalf of the marketing manager and feared victimization is identity was t be disclosed. Another advantage of using questionnaires is that the same questionnaire can be administered to different respondents resulting in standardized responses.

However; though presenting quite a number of benefits there were also drawbacks involved in administering the questionnaires which included, ambiguity unclear answers were given by respondents, and also some questionnaires were not returned by the respondents. Another disadvantage of using questionnaires was that some respondents opted not to return them, resulting in a low response rate. Co-creation as an untamed dogma proved to be a challenge to most managers thus most questionnaires were not completed by the time the researcher had

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proposed o collect them. The researcher had to reschedule and self administer the questionnaire providing clarification where necessary.

To achieve greater reliability, the questionnaire was pre-tested at Victoria Falls hotel reception where Wilderness safaris and Wild Horizons have their promotional outlets. Three questionnaires were distributed to these organisations and five customer questionnaires where left at the hotel's guest relations desk. This was done to identify issues that may not have had a clear meaning to the key informants and adjustments made accordingly, making the final questionnaire used in the survey valid and reliable.

#### 3.0 Results and Discussion

The researcher distributed a total of 50 questionnaires to both guests and service providers. Management at Kingdom hotel were attending their general meeting and none of the immediate subordinate had the authority to assist the researcher. The researcher had to replace Kingdom hotel with Spray view hotel. The researcher failed to collect questionnaires that were left at Savannah lodge and Wild Horizons as the respondents were not in at the appointed time of collection. The response rate from customers was negatively affected because some organisations restricted researcher-customer interactions citing guest complains of annoyance from their customer. The researcher however rectified this low response rate by asking customers on the streets of the prime destination to complete the questionnaires leading to a much better response rate shown in table 2 below.

		Service Providers					
Category	Customers	Hotels	Lodges	Tour Operator	Travel Agency	Restaurant	Total
Questionnaires sent	35	3	3	3	3	3	50
responded	26	3	2	2	3	2	38
		100%	66.7%	66.7%	100%	66.7%	
Response Rate	74.3%			77.7%			76%

Table 2: Réponse rate on questionnaires sent to répondants.

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# Products and services being co-created in Victoria falls

From the research findings; the researcher identified that co-creation is penetrating into the Victoria Falls tourism and hospitality industry. This was revealed by the average 67% response to the effect that their organisations were co-creating with the co-creating mode being the Travel Agencies were a 100% co-creation was shown. This was so because the main travel agency business is package services for the guests according to the guests` needs and purpose of visit. Restaurants revealed the most non- conformance to this new concept as none of the respondents showed co-creation green light.

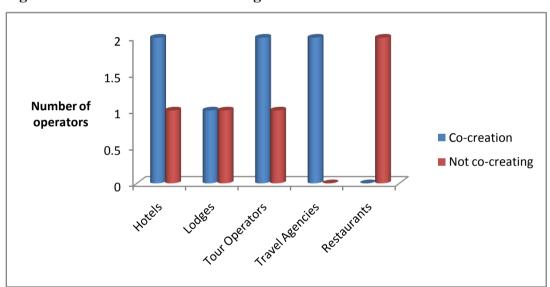


Figure 1: Products and services being co-created

The researcher could not get information from Kingdom hotel; the only provider of casino services because of their tight meeting schedules; hence the zero percent co-creation from a service providers' perspective. Significantly; water borne activities dominated the co-creation package as they collectively attracted 60% of the service providers with boat cruising being the most occurring (mode). This could be because of the nature of the resort town; most travellers to the prime tourist destination visit for the purposes of engaging in these water borne activities and site seeing. Notably; guided tours were the mode service from a customers' perspective taking up 25% of their responses; this was attributed to the fact that guided tours are booked by travel agencies who are flexible to include guests' ideas and suggestions while tour operators

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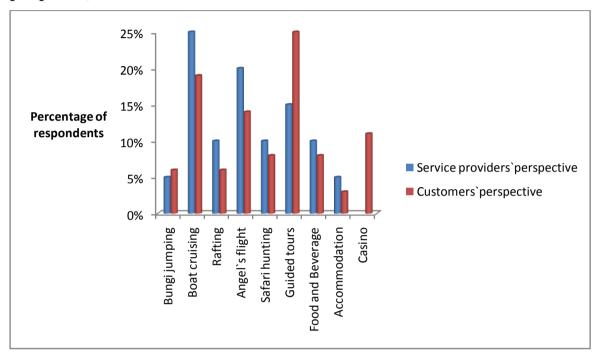
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are also flexible to provide their services with respect to the guests' itinerary as revealed in figure 2 below.

Figure 2: Products and services co-creation (customers and service providers' perspective)



# Factors driving co-creation in Victoria Falls

Though a number of factors drive co-creation at the prime destination; changing customer needs proved to be the major push factor as revealed by the 80% support of this view by service providers. Poon (1993) and Cova and Salle (2008) supports these findings as they argue that the new tourist has complex needs that needs personalised attention to be satisfied. The major pull factor driving co-creation as shown by the respondents was to reduce product failure. Hippel and Katz (2002) noted that an alternative means to bridge the service quality gap is to bring in the customer in product creation.

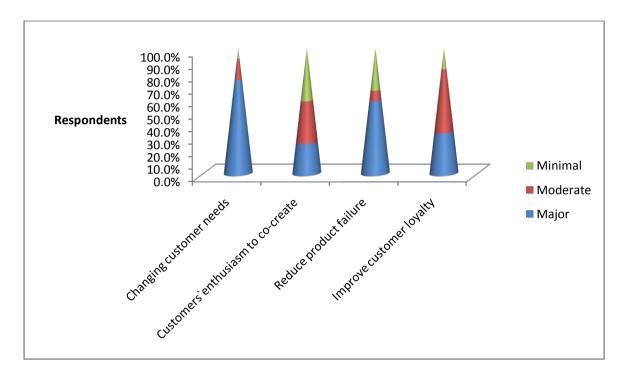
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Figure 3: Stacked cone graph showing factors driving co-creation



# Co-creation at different stages of New Product Development (NPD)

An average of 51% of the responding service providers revealed that their organisations were co-creating at the ideation and product development stage of NPD compared to the 9% noted for service providers co-creating at the product launch stage. This dominance of co-creation at the ideation stage was supported by Gruner and Homburg (2000) as they argued that capturing ideas saves both time and financial resources and reduces the risk of failure of the new product. Due to the nature of their business; travel agencies proved to be the dominant (mode) service provider as they took up 14% of the total 29% of co-creation at the product design stage of NPD. Figure 4.4 below gave a more detailed account of co-creation and NPD stages in Victoria Falls.

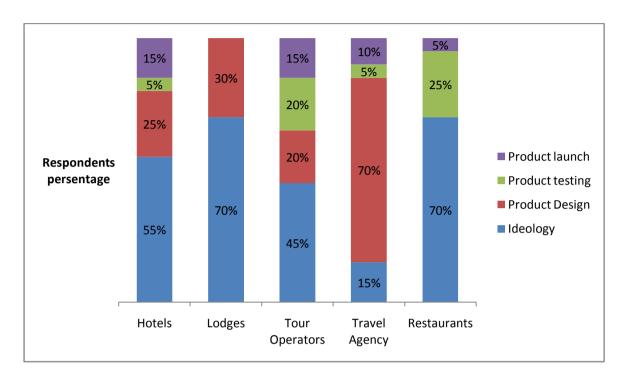
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Figure 4: Stacked column chart showing service provides' co-creation at different levels of NPD



# Challenges/ Barriers to effective co-creation

The majority of responding marketing managers pin-pointed selection of co-creating customers as the major challenge hindering successful co-creation chewing up 29% the challenges. Other major challenges uncovered included lack of resources (non-monetary or operational and time) to implement the concept; senior management reluctance to buy-in the creed due to accountability of failure concerns and the perception of customers as potential competitors; limited knowledge on the dogma because of its novelty nature and secrecy and transparency on information disclosure and took up an average of 16.5%. Other factors such as the nature of the business which were singled out by responding marketing managers took up only 5% off the apple-cut as divulged in figure 4.5 below.

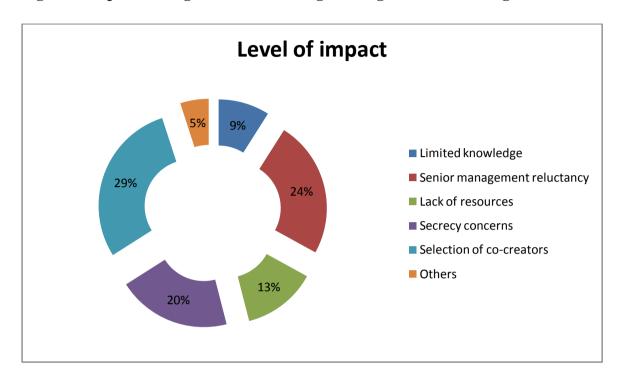
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Figure 5: Exploded doughnut chart showing challenges firms are facing in co-creation



# Suggested solutions to co-creation challenges

Organisation should train and re-train staff on co-creation to encourage more open employee-customer engagement and provide a clearer light of the concept to the "house-of-Gemba" where the service encounter occurs. This was suggested by Shearwater safaris representative and supported by Amyotte and Oehmen (2001) in their quality loss causation model where they noted that service contact personnel have first hand information hence organisations should adopt a customer responsive culture.

Place the highest value on customer interaction and dialogue through brainstorming sessions and strategic meetings to connect with and support brand advocates and build platforms for "communities of creation" to develop. This was proposed by tour operators and travel agencies; Elephant walk in particular.

Select customers with specific competencies and willingness to co-create or engage and give them "open-source" access to the brand to contribute to its design and meaning then devise new

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incentives for co-creative customers to improve customer buy-in to the tenet for example discounted price on the co-created product or service as done by elephant walk during the testing of a new hunting safari.

Set-up mutual and closely integrated innovation practices to boost senior management buy-in that includes incentives to employees involved in co-creation, complimentary holidays, and familiarisation trips and co-creation based promotion as suggested by Backpackers Bazzar as well as staging brand events and experiences.

# Reasons why some organisations are not co-creating

The research revealed that new generation managers are the most co-creating managers in the hospitality industry as shown by the 70% response to this effect. The mode management experience level was shown to be the range between 2 and 5 years of experience. This is supportive of the concept of strategic leadership which states that new strategies needs new managers as management and leadership styles are inflexible hence can not change to adapt to the complex and dynamic environment that characterises the crazy times as noted by Peters (1994). Organisations needs crazy lunatics; the youthful and risk takers if they are to transverse through the valley of death.

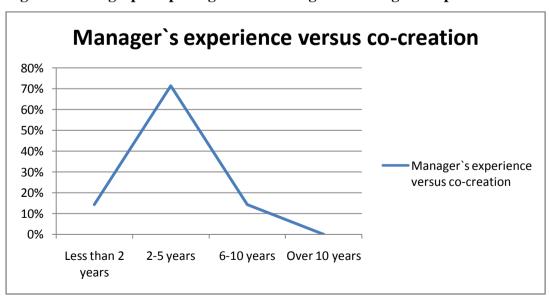


Figure 6: Line graph depicting co-creation against managers' experience

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#### 4.0 Conclusions

After this research was carried out the following conclusions were drawn:

❖ A 67% of tourism and hospitality service providers in Victoria Falls were co-creating their

offerings while a trivial group of customers are engaging in co-creation of tourism and

hospitality products and services they consume. Basing on the findings from the research, it

can be concluded that co-creation is more dominant in water borne activities than any other

tourism and hospitality offerings.

\* The findings also revealed that changing customer needs; customers' willingness to co-

create; reducing product failure; and increasing customer loyalty are the major factors

driving co-creation of tourism and hospitality offerings at Zimbabwe's prime tourist

destination. These factors can therefore be concluded to be the general rationale behind co-

creation.

❖ The findings indicate that co-creation of tourism and hospitality products and services is

more dominant at the Ideation and Product Development stage of NPD as indicated by both

service providers and customers at Zimbabwe's prime tourist destination while the same

cannot be said for the product design and engineering stage of the same (NPD). Cooper

(1993) agree with these results as he postulated that previous researches have shown that

co-creation at the early stage of innovation are vital for the success of NPD.

The researcher concluded that the major challenges to effective co-creation of tourism and

hospitality offering offered in Victoria Falls, in their descending order of significance, are

the selection of co-creating customers; lack of resources to implement the concept; senior

management reluctance to buy-in the philosophy; limited knowledge on the dogma and

secrecy and transparency on information disclosure. These challenges also proved to be

barriers or stumbling blocks hindering the adoption of co-creation to service providers who

are shunning the concept though the view it as a positive strategy to enhance competitive

advantage.

Vol. 10 Issue 05, May 2020

ISSN: 2249-0558 Impact Factor: 7.119

Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com

Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed

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#### 5.0 Recommendations

#### • Conducive technological platform

Tourism and hospitality suppliers should join interactive websites such as facebook and twitter to create a far-reaching form of interaction with consumers, this strategy is being employed by the Amalinda collection via its headquarters (The Bulawayo Club). This will boost the organisation's market intelligence as well as act as a strong leverage towards customer relationship marketing (CRM); a strategy that gives organisations competitive advantage and creates a more open and friendly environment for co-creation. In the short term, this will lead to business models being altered, but in the long term to new enterprise logic (Zuboff and Maxmin, 2002).

#### • Beyond Industrial democracy towards co-creation

Organisations are more focusing on moving from employee participation towards industrial democracy where the employee has the 'power' to influence in decision making. However; the era of dynamic engagement has far outpaced this marketing philosophy (Peters 1994). Organisations should not concentrate on employee empowerment and creating a customer responsive culture but rather should move towards the virgin lands of co-creation.

#### • Manipulate the optimal arousal theory

The optimal arousal theory basically considers tourism to be guided primarily by intrinsic motives and the need to escape the 'been-there-done-that' mentality by venturing 'off-the-beaten-track'. According to Poon (1993); the new tourist seeks out new and different environments that supply a sense off competence and a challenge. With this market intelligence in mind, service providers should inspire participation (Pater 2009) of customers in product or service creation, an act that gives a glow and tingle into the touchy feely issues of the customers' self esteem and self actualisation according to Maslow's hierarchy of needs.

#### • Adopt the Pareto analysis

Organisations should effectively and efficiently scan their markets making full use of marketing information systems (MIS) to identify their target market as well as identify the

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characteristics of their customers. Market intelligence gives an organisation an upper hand in identifying its major customers described by Juran (1995) as the vital few who controls the trivial many. The Pareto analysis or the 80:20 rule suggests that an organisation should concentrate more on satisfying the needs of the vital few (20%) who has the greater bargaining power in an organisation (80%); thus controlling the trivial many. Knowledge of the Pareto analysis aids service providers to overcome their major challenge of selecting the co-creating customers.

# • The purposes principle

According to the seven principles of breakthrough thinking; organisation should identify the purpose of implementing a strategy to so as to have a clearer picture of the objective, mission and vision of the strategy for consistency with the organisation's own core values (<a href="www.emsnetwork.com">www.emsnetwork.com</a>). Co-creation raises important questions about innovation focus. It may be used to develop a specific solution to a problem or to develop a specific product; this can be referred to as purpose driven co-creation. On the other hand, co-creation may not be driven by any purpose at all and practiced simply in order to produce new ideas that allow for an opening of entirely new opportunities. In addition, the objective may be to either continuously improve existing products or create radically new ones. Finally, a question of purpose and customer value may be what form of customer value should be created, standardised value (benefiting all customers) as an example, customised value (such as mass customisation of goods or services) or personalised value (like in co-produced services).

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ISSN: 2249-0558 Impact Factor: 7.119

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