

# Network Value Creation through Marketing

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## Abstract

**Purpose:** The article is devoted to critical reflection on the commonly used value chain model taking the perspective of contemporary role of client and technological advancement in multifaceted organizational development and management. It attempts to outline and thoroughly describe the new perspective of value creation and value management taking into account digital technologies and social media platforms.

**Methodology:** Deductive approach have been implemented, secondary data and sources have been used. Finally, the model of Value chain 2.0 was presented, conceptualized and described from both theoretical and practical sides.

**Design:** The first part of the article is focused on the explanation of present potential of client for any enterprise. The second part attempts to explain the role of virtualization processes, exemplified by social media, semantic web approach or virtual organization in the shift of value creation. Finally, the concept of value chain 2.0 is proposed and discussed.

**Findings:** There is a rapid transformation of value creation where linearity, control and inter organizational resources are gradually being replaced by network value creation where clients' activities play pivotal role in organization performance and where value is defined in much broader way.

**Practical implications:** The conclusions have profound meaning for companies and organizations striving for engagement of clients, partners and employees in value creation processes. The paper presents both theoretical foundations along with practical implications for value co-creation.

**Originality:** The thorough and detailed analysis and interpretation of multifaceted shift and transformation of value creation and value management is presented. The article describes the ways the social media, digital technologies and contemporary marketing influence the way organization creates value.

**Keywords:** virtualization, marketing, value co creation, client, Web 2.0

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## | Introduction

The continuous dynamic development of network economy and globalization processes form the substantive background for deliberations regarding the processes of marketing virtualization and their role in network value creation. Contemporary enterprises find it increasingly difficult to struggle on the market individually, as the requirements regarding the resources needed for this struggle are growing (Haberberg and Rieple, 2001). Functioning within a virtual network of relationships with full mutual trust between the partners – including the clients - enables cumulative and skilful operation. Relations existing between a company, its business environment and clients are based on generating value, i.e. a certain set of advantages which should be reflected in offerings available on the market. Every company pursues the goal of creating value greater than that offered by the competitors (Brilman, 2002). The essence of modern management lies in value management or value exchange between a company and entities from its business environment. Hence, marketing plays an important role in the management processes, as its it defined as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large (AMA, 2012).

## | Client as value co-creator

Value creation is a paradigm of modern company operations. On the other hand, virtualization – defined as transformations of the concept, strategy and operations of the conducted business, resulting from its confrontation with the virtual environment and its features (Mazurek, 2012) cause difficulties in determining certain system framework of organization's operations and methods of value creating, including getting the essence of value, i.e. advantage that has been achieved or generated. For instance, taking the point of view of a company, in the conditions of the contemporary network economy the concept of value is wider than profitability, rentability and effectiveness (Perechuda, 2007). Mention is made on a specific interpenetration of company and client (Smith, 2009) causing that value creation in a traditional dual configuration 'company-client' no longer illustrates the transformations taking place on the widely conceived market in an adequate manner. It is necessary to re-orient in terms of the formerly used classic success factors, which means i.a. discussing the role of intangible resources, particularly relations, information and knowledge – and in this context – the role played by the client in the co-creation of value streams on-line (Lefebvre, 2012).

As a consequence of operating within virtual environment, including Internet, and utilizing the modern concepts of company's development, i.e. Web 2.0, *cloud computing* or semantic web – all barriers of treating the client as a partner are disappearing. In addition, the client becomes a part of the organization – co-creator of value streams of great importance for the client, the company and its stakeholders. This in turn appreciates the role of marketing as a concept of operations, as it is marketing that focuses the attention of the organization on the client – from acquiring the client to involving fully in diverse internal processes.

While underlining the role of the client in value creation processes, an emphasis is also put on the importance of client's knowledge (Ghorbani, 2014); it is i.a. possible to use the knowledge in research and development of the organization, for creating innovations, or – at the operational level – for generating value in a strictly financial sense, that is treating the client as a source of income, recommendations, reputation (Tkaczyk and Krzyzanowska, 2013) or as a sales intermediary who follows the affiliation model (Kucia and Mazurek, 2011). The advantages gained as a result of value creation in cooperation with the client may be of long-term nature, exceeding the strictly economical income. As the actions and processes related to virtualization become increasingly more multithreaded, it is difficult to accurately determine which actions and relations with entities from the business environment are profitable and which are not. It turns out that the client may bring a range of additional advantages for the company, e.g. product innovations, increased brand trust, solutions to problems connected with e.g. identifying the weaknesses of the company and the attempts to support the company to overcome those etc.; these advantages may be classified as the elements of company's intellectual marketing resources (Kotler, 2010).

As far as business practice is concerned, social networking services such as Facebook, Instagram, Twitter, etc. are mainly based on creating value streams of great importance for all stakeholders, i.e. owners, managers, clients, partners; this happens through active cooperation and involving the clients in the company's development process. According to the literature, the client itself constitutes one of the main factors creating value not only for the organization but also for other clients. This argument may be supplemented with the statement that thanks to virtual tools and possibilities offered by the company, the client can also create value for itself, which is also supported in the aforementioned social networking services within the virtual environment and the Internet.

Focusing on the effects of harnessing social networking media in marketing, R. Roberts and J. Kraynak suggest that the media change consumers who – as a consequence of acting in a network - are given the possibility to exert strong influence on the enterprise, its products or actions, and may adopt the role of marketers (Roberts and Kraynak, 2008). When compared, Weinberg focuses on the aspect of making customers active on the Internet and claims that thanks to social networking media customers could conduct an active dialogue with other customers and with the enterprise (Weinberg, 2009). Social media marketing contributes to establishing networks and fosters processes of information and knowledge exchange among participants of that network (Kim, 2010).

In view of the foregoing it should be therefore considered to treat the client and its competences, skills and powers as the company's assets that play an extremely important and increasingly more critical role in value creation processes.

At this point it is worth to confront the considerations regarding value and the role played by the client in value creation with the concepts of corporate value generation such as: Value Chain 2.0.

## | From Value Chain 1.0 to 2.0

The value creation process on the market is based on basic and supportive actions which are performed, among others, in a planned, sequential and phased manner (Porter, 1985). Partners participate as performers of particular phases which result in creating of the final value, i.e. finished product. The popular M. Porter's concept, when confronted with virtualization processes, reveals such features that seem to call into question its common use in the world of network economy. This refers to i.a.:

- linearity – the value is being created in phases set in advance that are predefined as basic and supportive actions, in a foreseeable and fully controlled manner, and the manner of performing one action exerts direct influence on the next action,
- separation – the functions of particular processes and entities responsible for performing them are separated; this may cause an increased effectiveness for a short period of time but also minimizes the possibility to re-design the processes in an innovative manner,
- sequencing, which in fact entails the risk of losing a resource of great importance – time – resulting from the formalization of “closing” particular phases – levels of the chain before going to the next phase,
- closeness – an organization is not oriented at innovation coming from outside, as the company's partners should create value on the basis of the cooperation model arranged within the value chain (prepared project),
- marginalization of the role of marketing that is seen in a strictly functional, almost operative manner,
- treating the client as a “recipient” of value generated in the chain and therefore depreciating its role in co-creating of this value.

Limitations that have been identified show that the concept of value chain crumbles under the pressure of contemporary conditions and the power of consumer actively acting within networks and desiring to participate in the value creation processes.

The concept of value chain is based on the neoclassical approach of determining precise boundaries of the company's scope of activities and relations existing between entities that co-create value within a value chain (Szymura-Tyc, 2006). The limitations of value chain might be addressed by incorporating the features of the Internet (i.e. speed and interactivity), which in consequence allows for accelerating the ongoing processes and, at the same time, not avoiding such limitations as linearity or sequencing. Furthermore, M. Porter highlights the role of value system in company's actions and attempts to attain competitive advantage; the value system comprises: supplier's value chain, company's value chain, channel's value chain and buyer's value chain. However, while conceptualizing the discussed processes, the author continues to recognize the specific sequencing of management processes and treat the client as a subject that will draw a certain value only at the moment of consumption or use of the product (Porter, 1985).

According to another approach, also considering value chain as the fundamental concept, value is not only created at particular levels of the value chain, but also at the contact points of those levels. This means that not only resources, but also relations between entities co-creating value are of key importance (Chaffey, 2003). The concept of “contact points” should also be confronted with the conditions of network economy and virtualization processes, which is reflected by:

- rapidly growing complex links between entities and functions,
- shift in the perspective of preparing an offering – the client can individually configure the offering; the company is no longer responsible for preparing it and finding a recipient,
- shift in the role played by consumer – from a passive product recipient the consumer transforms into an active partner supporting the company in processes related to e.g. product creation, marketing communication or sales,
- shift in the perspective of activity in general – it becomes more important to create value in a wider context than company-client – other stakeholders cooperating with the above mentioned entities, e.g. local communities, investors, become also critical; this corresponds to the nowadays popularized trends of socially responsible business and competing for customers with intangible assets, which in practice are hardly related to the product,
- costs of information exchange and information asymmetries – which according to traditional approach are seen as the fundament of a business – in virtual environment are disappearing,
- acting in form of virtual network of relations between partners, which allows for operating in a cumulative and efficient, and especially flexible and fast manner,
- virtualization of actions, including communication, which leads to the situation where geographic location of entities participating in the network of relations is no longer relevant; this may be considered as an additional advantage for the effects of the cooperation due to e.g. lower costs outside the center and entering global markets.

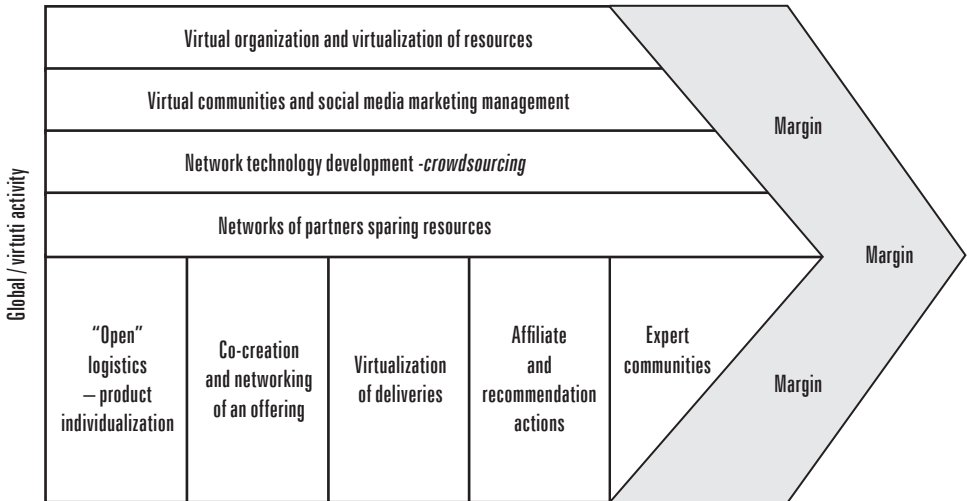
In light of virtualization processes, there are also other reasons for questioning the concept of value chain. According to A. Haberber and A. Rieple, the number of companies which these days can individually compete on the market is decreasing, as the requirements regarding resources, competences and skills needed for this struggle are higher (Haberber and Rieple, 2001).

A response for this perspective and conditions of actions constitutes i.a. the concept suggested by X. Comtess and J. Huang (Comtess and Huang, 2008). The features of *Value Chain 2.0* comprise:

- network perspective of value creation,
- the role of the cooperation with the client by value creation and recognizing its role in the modern network economy (*customer empowerment*),
- recognition of the newest concepts of virtual environment development (*cloud computing*, Web 2.0).

The authors confront static, linear and sequential view of value creation with the dynamics, cooperation and networking of the modern digitalized economy, resulting mainly from the participatory role of the client, whose activity is reflected both in value creation (*creator of content*) and in creation of mechanisms for creating this value (*creator of context*). This concept constitutes an interesting example of the aforementioned idea of interpenetration of company and client. The new concept of value chain is illustrated in the following figure.

Figure 1 | The concept of Value Chain 2.0



Źródło: Comtess and Huang (2008).

The discrepancies between value chain and value chain 2.0 are presented in Table 1.

The classic approach to value creation is no longer able to fully explain the complex character and interdependence of contemporary phenomena, where technological tools (e.g. social networks), the concepts of their development (e.g. Web 2.0), and network users (consumers and clients who are active, subjective, full of knowledge and skills) constitute a potential that companies have to use by creating value that is reflected in:

- still important, “hard” parameters of organization's operations, such as profit, income, market position,
- “soft” parameters, which are often hard to be measured, such as: knowledge, innovations, loyalty, client's satisfaction, trust, reputation and partnership with other entities form the business environment.

Therefore, it can be concluded that value creation more often takes place in value chain, where diverse entities participate in a non-linear and temporary manner, out of the strict control of the entity and out of the sophisticated incentives coming from the market laws. An important role

Table 1 | The discrepancies between value chain and value chain 2.0

| Element of value chain 1.0 | Element of value chain 2.0  | Change and characteristics  |
|----------------------------|---|---|
| Basic activity             | Participatory activity  | The essence of actions of this category of value creation processes lies in adopting the point of view that aside from the company, other entities – in particular clients – are also participating at every level of the process.  |
| Internal logistics         | Open logistics based on preparing an individual and personalized offering | The starting point is not product preparation and the attempt to sell it but preparation of a set of elements that the client may individually arrange in order to attain the desired value bundle that is also individually priced.  |
| Production                 | Co-creation   | Value and product essence are co-created by clients and other entities; this is clearly visible in digital products, where the client is responsible for embellishing them and improving their functions.   |
| External logistics         | Virtualization of deliveries, outsourcing                                 | Business partners take over (mainly in the outsourcing model) a set of actions connected with “outsourced” logistics. This activity gains sort of critical importance for virtual entities – such as online shops – which may lose their credibility if outsourcers fail to properly perform actions connected with logistics. This highlights, among others, the importance of properly shaped relations within a value network. |
| Marketing and sales        | Viral and affiliate marketing   | Actions connected with marketing communication and sales are based on clients, which is reflected i.a. in using recommendations and affiliate actions.  |
| Services                   | Expert communities  | Added value, derived e.g. from additional services, is created and offered thanks to virtual expert communities that concentrate on improvements and continuous development of the product, and therefore are able to add more values of the product on an ongoing basis.   |
| Supporting activity        | Global activity   | Supportive actions are replaced with a set of actions, which – by using virtual environment to act in a network – may use the resources belonging to the partners of the organization in a flexible manner  |
| Company's infrastructure   | Virtual organization  | Corporate infrastructure is reduced to barest minimum and transformed into the network of links of resources and skills which – if possible – are virtualized. Therefore, the concept of cloud computing is implemented in the field of management of IT, information and sales resources.  |
| HR management              | Virtual communities   | HR management is replaced with management of relations within virtual communities, which are present at either global (e.g. Facebook) or intraorganizational (e.g. intraorganizational blog) level. (Mazurek, 2008)   |
| Technology development     | Crowdsourcing   | The applied technology is no longer developed in a continuous, long-term manner. From now on, ideas are created virtually and verified in the crowdsourcing model.  |
| Deliveries                 | Suppliers networks  | Deliveries are replaced with entities sharing the resources with the undertaking initiator.   |

Source: own work.

in this value chain is played by the client, especially in the age of popularization of the participatory concept included in the ideas of value chain 2.0, under which the users of virtual environment receive the tools to create – and not only to consume – the value. Marketing is in turn a concept of organization's operation that seems to create, support and accelerate those processes

to the most accurate and highest extent possible. However, it is worth remembering that the mentioned multithreaded transformations reflected in the popularization of network economy, virtual organization, network theory or network value creation are directly connected with the phenomenon of virtual environment, its features and components.

## Final remarks

The popularization of the concepts of virtual organization, network economy and the growing power of social networking media being a practical exemplification of virtual marketing and its present stages of development, leads us to analyze the marketing activity in terms of changes occurring within arranging this activity (Wood, 2012). Hence, the question of influence of Internet on marketing may be seen from the perspective of value creation processes and the potential to engage in such processes other entities than the organization itself. The value co-creation determines new challenges for organizations and management theory and practice.

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