Chapter 18
Co–Creating Digital Transformation

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ABSTRACT

The purpose of this chapter is to discuss two subfields of marketing, namely digital transformation and co-creation, that share common characteristics and possess key differences. The initial focus is on the digital transformation subfield, in terms of the definition, phases, strategies, business models and resource integration, and finally, the new technologies and platforms. Subsequently, the chapter provides in-depth information on the value co-creation subfield focusing on value definition, innovation and co-creation, and the service-dominant logic. Value co-creation and digital transformation have emerged because academics in both subfields have been discussing new questions raised by the advent of new technologies on how value from delivering new products and services can be captured. This chapter argues that these two subfields are converging to enable resource integration through similar sources such as platforms created through digital ecosystems. Working together, the two fields can improve their potential to find better solutions to improve the transformation process.

INTRODUCTION

Understanding digital transformation can be complex, not only because the nature of the field is multidisciplinary in academic debates in that it includes innovations, information systems, marketing, and strategic management, but also because practitioners from different silos or functional areas can also have different views. To understand the foundation of digital transformation, one should first investigate the meaning of digitization. Briefly, digitization is the conversion of atoms to bits, replacement of pictures with JPEG images, paper with electronic files, music with MP3s (Gobble, 2016), while digitalization is the transformation of all those things into process improvements that enhance customer experiences that go beyond traditional firm-customer interactions (Ramaswamy & Ozcan, 2016).

Digital transformation is the value creation phase either through a new business model or a new business logic based on all these efforts. Drawing on a vast amount of literature, Verhoef et al. (2021)

identified the different phases, where digital transformation is the third and most pervasive of the three phases that starts with digitization followed by digitalization. Digital transformation has fundamentally altered consumers' expectations and behaviors (Lemon & Verhoef, 2016) and it has broken down the barriers among people, businesses, and things. Breaking those barriers means that people have the ability to create new products, services and find more efficient ways of doing business in response to all changes.

The phenomenon of co-creation has spread since Prahalad & Ramaswamy (2000) coined the term by recognizing the transforming role of actors and this new theory was defined as the joint creation of value by the company and the customer. Co-creation was defined "*as an active, creative and social process, based on collaboration between producers and users that is initiated by the firm to generate value for customers*" (Roser et al., 2009, p.9). Value co-creation in the contemporary world has evolved together with the capabilities and ubiquitous elements of the virtual world and digital transformation will accelerate the intense cooperation between firms and consumers that leads to mutually beneficial relationships (Belk & Llamas, 2013).

DIGITAL TRANSFORMATION

Digital economy has been described as an era in which intelligent machines and people were connected through technology and it '*emerges through countless, diverse, dispersed and uneven processes of digital transformation, which consist in changing how the consumers, employees, markets, enterprises, and other organization's function*' (Śledziewska & Włoch, 2021, p.3). The digital economy builds upon the internet economy, and it takes connectedness into an upper level via digital products that have four main layers as device (hardware), communication (network), service (software) and content (data and information) by extraordinary pace of innovation.

Although digital transformation is a hot topic and there is a plethora of scientific literature on the subject, the topic remains scattered. As Parviainen et al. (2017) argued, the context is limited to specific sectors such as healthcare, transportation, education, retail, manufacturing, smart cities or public services and a significant number of articles focus on digitalization-induced changes that affect business models. Digitalization is not only a hot topic among academia, but also a contemporary issue that needs to be addressed by practitioners, which is also evident in many conferences and white papers. It has been studied through frameworks (Hagberg et al., 2016) and as a journey with learning and challenges (Quinton & Simkin, 2016), but a fundamental shift in focus is needed to study the impact of digital transformation on society in a wider context. Digital transformation changes the ways of working, roles, and the business models and it is analyzed through these domains. Even though it fundamentally changes societal structures, this is the end process and there is little scientific research on the spectrum of changes in the areas of human society (Parviainen et al. 2017).

Verhoef et al. (2021) reviewed the literature on digital transformation from different fields and provided strategic imperatives and a research agenda. According to the authors, digital transformation has been analyzed from the perspective of different business disciplines; while marketing researchers have reviewed the change from the *digital marketing* perspective (Kannan & Li, 2017), research in the *strategic management* literature has mostly focused on business models (Osterwalder & Pigneur, 2010), and the *information systems* literature has discussed the technological development that underpins the transformation (Sambamurthy et al., 2003). There is a plethora of literature on the strategic management

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