

DRIVING CUSTOMER LOYALTY THROUGH VALUE CO-CREATION IN THE NIGERIAN SMARTPHONE MARKET

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Abstract

Facilitated by a wide array of technological advancements, interaction between customers and companies is taking new forms and shapes that go beyond traditional exchanges. This study is focused on driving customer loyalty through value co-creation in the Nigerian smartphone market. The cross sectional survey research design method was employed. The geographical area for this study was the computer village, in Lagos State. The participants of the study were 292 customers of top Smartphone brands, who were sampled through convenience sampling strategy at different locations in the computer village based on availability and willingness of the participants. The research instrument was a 30-item validated structured questionnaire, on a five-point likert scale. Data obtained were analyzed using correlation and multiple regressions analytical tools. Findings revealed that dimensions of value co-creation; sponsored co-creation, user innovation and co-production exhibited positive effect on customer loyalty. On this basis, it was concluded that value jointly created by consumers has implication on what they consume and companies that provide platform for this interaction will achieve superior organizational performance. The study recommended that in implementing co-creation, companies should target the right co-creators, find what motivate them and focus co-creative initiatives on activities that deliver sustainable competitive advantage.

Keywords: Value co-creation, co-production, user innovation, sponsored co-creation, customer loyalty

Introduction

The world has evolved from different eras and shifts from agrarian to the industrial then to the technological, we have now entered the innovation or information which appears more dynamic, rapid, fast and strategic. In this era and shift, things are done through ideas, information era and research are highly valued due to their long-term value with sustainable development. Facilitated by a wide array of technological advancements, interaction between customers and companies is taking new forms and shapes that go beyond traditional exchanges. In the traditional conception of value creation process, consumers were "outside the company". Value creation occurred inside the company (through its activities) as embodied in the value chain concept and outside the market. The company had a separate role of production while the consumer had the distinct role of consumption. But nowadays companies are no longer perceived as sole goods providers, nor customers regarded merely as sources of money. Thus, both companies and customers are initiating new ways to support each other's value creation, that is, new value-co-creation mechanisms are developed (Prahalad & Ramaswamy, 2004; Saarijärvi, 2012).

Value co-creation, is an emerging business and innovation paradigm which has provided companies with strategic impetus

to reconsider their customers role in current business practices. It begins by recognizing that the role of the consumer in the industrial system has changed from isolated to connected, from unaware to informed and from passive to active. Value co-creation as new lens for exploring the value concept implies a collaboration between the company and some other entities. In this case it is the customer who partners in the creation of value. The term 'co-creation' is not entirely new, however, but it is now receiving more attention—driven largely through the increasing use of internet and social media websites—as companies endeavor to differentiate themselves from competition. It follows that as management teams drive growth through value creation they are investing heavily in greater product variety through brand or product extensions, in addition to enhancing the increasing brand touch-points. All this is done to produce stronger brand connections (Prahalad & Ramaswamy, 2004; Urbick, 2012).

There seems to be little doubt that co-creation adds a new dimension to the company/customer relationship by engaging customers directly in the production and distribution of value. However, the process requires a fundamental shift in the way the companies and customers interact. This interaction can take place anywhere within the business operation (not just at the point of sale), and research sessions provide an ideal time to explore value co-creation (Saarijärvi, 2012). Succinctly, this ongoing participation of active consumers in the production of their own use and exchange value inverts the long-standing marketing orthodoxy of the company as the arbiter of value.

Customer loyalty on its own part has long been a topic of high interest in both academia and practice, and a loyal customer base has been found to be beneficial to the firm. Most companies strive for customer loyalty as the competition in most sectors grows tighter, both the importance of, and the challenge in, keeping customer loyalty increases. Businesses have much to earn by

keeping happy customers. It is less expensive to have a defensive strategy and keep existing customers than to have an offensive strategy and try to attract new customers. Attracting new customers, by for instance commercials and other marketing actions, is about five times as expensive as keeping an existing one (Mårtensson, 2009; Timm, 2001). Building on this theme, organizations need to know how to keep their customers, even if they appear satisfied. Every organization has come to realize that in order for it to survive, let alone grow, it has to acquire and then retain profitable customers. And it is loyal customers that generate increasing profits for each additional year they are retained.

The idea of involving customers through their own participation in the value creating process has been receiving increasing attention in marketing literature and as seen in extant studies. The general thought that value can be co-created has been proposed by many different authors in a variety of different contexts such as financial services, online auctions, travel reservations, telecommunications, etc (Auh, Bell, McLeod, & Shih, 2007; Bendapudi & Leone, 2003; Normann & Ramirez, 1993). However there is still little knowledge on how or if possibly customers engagement in the co-creation of value with organizations can lead to loyalty outcomes on the part of the customers and there has been little attempt to academically examine it (Anthony, 2010). In a similar vein, despite the large quantity of customer loyalty research, there seems to be little or no published study to date that has examined the consumer in a loyalty program as a co-creator of value.

There continues to be growing interest on the importance of value for the customer in the service and relationship marketing literature, yet little is known about how customers engage in the co-creation of value. Against this background, this research strives to extend our understanding as it appears that the elements of co-creation has not been integrated into gaining customers

loyalty with respect to the Smartphone market in Nigeria.

The decision to examine value co-creation practices in the Nigeria's Smartphone market is due to cogent reasons. Firstly, Nigeria was in lead of Africa Smartphone market in the first quarter of 2015, experiencing year-on-growth of 135 percent and accounted for fourteen percent of all Smartphone shipments across the continent during the quarter as revealed by the latest figure released by global technology consulting firm, International Data Corporation, IDC, (Urhobo today, 2015). Secondly, the Smartphone market represents a large source of employment opportunities. Thirdly, Smartphone penetration in Nigeria is arguably the highest in the world. In 2013, over 10 million smart devices worth \$1 billion were sold in Nigeria, according to analysts (Nigeriannation, 2015; Urhobo today, 2015).

The components or constructs of co-creation such as co-production (Auh et al., 2007; Terblanche 2014), user innovation (Bogers, Afuah & Bastian, 2010; Von Hippel, 2005) and sponsored co-creation and autonomous co-creation as identified by Zwass (2010) would be examined in relation to customer loyalty.

The general objective of this study is centered on the effects of value co-creation on customer loyalty in the Nigerian Smartphone market more specifically, this paper aims to: examine the impact of sponsored co-creation of value on customer loyalty, ascertain the effect of user innovation on customer loyalty and establish the impact of co-production on customer loyalty.

Statement of the Problem

There continues to be growing interest on the importance of value for the customer in the service and relationship marketing literature, yet little is known about how customers engage in the co-creation of value. While today's consumers have more choices of products and services than they

have ever had before, they seem dissatisfied. Ironically, the more choices of products at their disposal are yielding less satisfaction for them. However, they are in an ideal position to suggest improvements to a product or product category that they might have been using for some time. Elicitation approaches, where the intention is to generate candid responses from consumers that can immediately be put into action, are usually not successful and are not insightful. Projective techniques, where the unconscious expression of consumers' impressions, emotions or feelings are exploited to spark co-creation to help the consumer bring to life a new reality of a specific brand or product category seems to have much greater chance of providing the actionable answers that drive innovation and customers loyalty.

On the flip side, companies have more strategic options that yield less value and invest in greater product variety but are less able to differentiate themselves. This emerging reality is forcing a reexamination of the traditional system of company-centric value creation that has served them so well in the past. Growth and value have become the dominant themes for top management as the interaction between the consumer and the company is becoming the locus of value creation. This implies that the high-quality interactions that enable an individual customer to co-create unique experiences with the company is likely to be the key unlocking new sources of competitive advantage through customer loyalty because value from these processes will have been jointly created by both the firm and the consumer.

Theoretical Perspective

Value co-creation

A thorough inspection of works and literature on co-creation reveals that there is lack of consensus on what it actually means. This situation arises because scholars and practitioners are interpreting the concept from different perspectives. Words such as co-production, customer participation, collaboration, crowd sourcing are being used

to mirror co-creation. However, these words as employed usually do not correspond to co-creation. For instance, Etgar posits (2008) that co-production precedes the consumption stage and takes place in the production stage. Hence, it is a component of co-creation.

Value co-creation is a word used to describe a host of business practices in which customer works with companies to co-create value through close collaboration with other members of the value chain and with consumers in the specification, design, manufacturing, distribution and support of products and services. It is related with the need to gain competitive advantage by building unique competences, in conjunction with appropriate organizational resources and technological capabilities, aiming at better satisfying customers' demands for personalized products, services and experiences (Prahalad & Ramaswamy, 2004). For the purpose of this research, value co-creation is defined as customer active involvement and contribution in some ways in the design, delivery and creation of customer experience that adds value to the purchase process (Sheth, Sisodia, & Sharma 2000).

Key features of co-creation

From literatures on co-creation we identified the salient attributes as outlined below:

- It is an experience-oriented concept.
- Each experienced is unique and provides personalized solution to the customer.
- It is customer-centric requiring active involvement of knowledgeable customers.
- Value is derivable from both the good or service and the whole experience enjoyed from the interaction in the network of customer experience.
- Joint problem definition and solving as both parties influence the interaction proportionately.
- It begins from customer's initial contact with the company and continues even after consumption.

Customer loyalty

Customers are the *raison d'être* of businesses because the life of a business is guaranteed only by attracting and retaining customers. As competition tightens in every industry so also is the abundance of choices at consumer's disposal. Hence, it is imperative to retain loyal customers (Singh & Khan, 2012).

Customer loyalty which was established in the 1940s refers to the adherence of customers to a company in simple terms. More aptly, it is an attitudinal and behavioral tendency to favor one company and/or its brand over all others, expressed over a period of time. This study adopts Oliver's (1997, p. 392) comprehensive definition of customer loyalty as:

"A deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brandset purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.

Even when a company makes mistake, loyal customers will not leave. This explains why customer loyalty has been the dream goal of any business organization.

From the foregoing it can be observed that customer loyalty involves the twin-notions of attitudinal loyalty and behavioral loyalty. Hence one can approach it from any one or both of these directions. The attitudinal element implies that loyalty is a state of mind. By this definition, a customer is "loyal" to a brand or a company if they have positive, preferential attitude toward it. This dimension focuses on how strong the psychological commitment or attachment is to the company or its product and the emphasis is on "willingness", rather than on actual behavior per se. On the other hand, behavioral component relies on a customer's actual product conduct, regardless of the attitudes or preferences that underlie that conduct. By this definition, a customer is

“loyal” to a company if they buy from it and then continue to buy from it (Peppers, 2009).

The behavioral component is more relevant and practical because one can observe behaviors. However, it is argued that attitudinal approaches to loyalty should supplement the behavioral approach since positive attitudes do tend to drive positive behaviors. (Rahim, Ignatius & Adeoti, 2012).

Sponsored co-creation and customer loyalty

In sponsored co-creation, consumers can contribute to virtually every stage of the value chain of the organizations that involve them in their activities. The following contribution domains can be recognized, starting with upstream value-chain stages; Ideation and Idea Evaluation, Product Co-Design, Product Testing, Contribution of Consumer Resources, Product Promotion.

Sponsored co-creation grants consumers’ free rein to work with the company-provided resources in the production of their own value offerings. (Darmody, 2009). Ever since companies began using the web to solicit ideas from outsiders for developing products and enhancing services, the promise of co-creation has been producing desirable side effects in the form of reduced market research cost or increased customer loyalty (Bughin, 2014). When BMW established its own co-creation Lab. The platform is a virtual meeting place where people share their ideas about cars and related topics. Everyone is invited to share their thoughts and give suggestions on specific topics related to the future of automotive sector. The outcome is clear: users feel more engaged as they shift from mere customers to developers. Hence, they tend to show more commitment and loyalty related behavior.

Thus we hypothesized that:

H₁: *There is a significant relationship between sponsored co-creation and customer loyalty.*

User innovation and customer loyalty

Von Hippel (2005) coined the term user innovation when after his years of research in different industries reveals that ideas for new or improved products originate from users who develop makeshift or trial product to serve their needs but much of credit going to the companies. User innovation simply means innovation by users of products and services both intermediate and end users. Wise and Hogenhaven (2008) define it as a process of using users’ knowledge to create novel concepts and products. The focus is on comprehending the true users’ need and their systematic involvement. In the words of Von Hippel (2005) users in this context are firms or individual consumers that expect to benefit directly from using a product or service.

User innovation enables users to build exactly what they want, and when the products are commercialized there is increase willingness on their part to pay high prices (which is one measure of customer loyalty) in order to get exactly the product they want (Franke & Von Hippel, 2003). Hence, a producer can take advantage of the fact that users can innovate, by helping these users better adopt the producer’s product to meet their needs or those of other users, so that the producer can continue to sell more of the same product. Lüthje (2004) states that providing platform for users to engage in the process of problem can bond them to the manufacturer and/or the product.

We thus proposed that:

H₂: *There is a significant relationship between user innovation and customer loyalty.*

Co-production and customer loyalty

Co-production is one term that is often used interchangeably with co-creation until experts pinpointed that it is just one dimension of it. Jacob and Rettinger (2011) conceptualized it as the use of operand and operant resources by customers in the creation of the core offering itself which generates value. In a similar vein, Grönroos

(2008) simply states that co-production occurs when customers involved in the company's production processes. Critics are of the opinion that co-production should be viewed as a goods-dominant term since it implies the production of something. However, Vargo and Lusch (2004) contended that co-production is cased within co-creation and it is an element of it.

Other studies have shown that co-production decreases costs, provides customization opportunities, increases the company's productivity and enhance customer loyalty (Auh, Bell, McLeod, & Shih, 2007; Lovelock & Young, 1997). Using Nigerian example, infinixHot note—a 2 days battery life Smartphone—and Zero 2 are the outcome of collaborative efforts that achieved success. Bruno Li, Infinix Nigeria country manager said "Being closer to our fans and end-users is what makes us understand the market. We like to interact with our users either online or offline". (Ekwujuru, 2015).

When customers engage in co-production, they share their novel ideas and also share their problems with the company. This strengthens a company competitive capacity. Hence, when co-production is applied to fulfill customer needs, loyalty becomes easily attainable (Chen, Tsou & Ching, 2011).

We thus proposed that:

H₃: *There is a significant relationship between co-production and customer loyalty.*

Theoretical Framework

Service Dominant logic theory (S-D)

The Service dominant logic was proposed by Stephen Vargo and Robert Lusch in the year 2004. S-D logic is a proposed reformulation of marketing thought based on the idea that marketing thinking needs to move away from thinking in terms of exchanging and marketing goods(e.g. Goods dominant logic) to seeing marketing more in terms of an exchange of mutually beneficial service, or

reciprocal use of competencies. S-D logic aptly states that value is jointly created by the customer and the supplier, and not transferred during the transaction (Vargo, Maglio & Akaka 2008).

The supplier presents the value proposition to the customer, and when the customer accepts the value proposition and participates in creating value it becomes value-in-use (Ballantyne & Varey 2006). This implies that S-D logic embraces concepts of value-in-use and co-creation of value rather than value-in-exchange and embedded-value concepts of Goods-dominant logic. S-D logic includes the transaction of both tangible products and intangible services. Transactions involving tangible products use the product as a vehicle by which operant resources can be delivered (Ballantyne & Varey 2006; Vargo *et al.* 2008). Vargo and Lusch (2008) went further to argue that marketing thought has evolved from "market to" i.e. management of customers and markets in the 1950s, to "market with", i.e. collaboration with customers and partners to create and sustain value from 2005. According to Sheth, Sisodia, and Sharma (2000) the service-centered view of marketing is customer centric and market driven. This means more than simply being consumer oriented; it means collaborating with and learning from customers and being adaptive to their individual and dynamic needs.

A service-centered dominant logic implies that value is defined by and co-created with the consumer rather than embedded in output. Of these principles, there are three major underlying principles that are important to the co-creation dimension of S-D logic. Firstly, and most importantly, 'the customer is always the co-creator of value' (Vargo & Lusch 2008). This means that the creation of value is an interactional process that requires the active participation of both the customer and the supplier. Secondly, 'the enterprise cannot deliver value, but only offer value propositions' (Vargo & Lusch, 2008). This means that firms can offer

resources to the customer but value is only created once the customer uses the resources. Value is not simply delivered to the customer through the exchange. Thirdly, 'value is always uniquely and phenomenologically determined by the beneficiary' (Vargo & Lusch 2008), meaning that the individual receiving the benefits of the transaction will determine the value derived from it based on their current experience, previous experience and unique needs.

Methodology

The cross sectional survey research design method was employed. The geographical area for this study was the computer village, in Lagos State because it is regarded as the nation's commercial capital, witnessing the highest traffic in Smartphone activities and usage (Isakpa, 2015). The participants of the study were 292 customers of top Smartphone brands in the computer village, who were sampled through convenience sampling strategy at different locations in the computer village based on availability and willingness of the participants. That is acclaimed the largest technology market and ICT hub in Nigeria-located in Ikeja, the state capital (Yinka, 2016). The non-probability sampling method was used because the population was large and not easily accessible and the researcher had no control over it. To ensure that all possible items were represented, regarding when customers go to the computer village. Preliminary observations were taken to discover the time frame the shops in the computer village have the highest concentration of customers. The time from 12 noon to 4 pm (from Thursdays to Saturdays) was observed to have the

largest concentration of customers in the computer village.

The research instrument was a 30-item validated structured questionnaire, the item measures were based on a five-point likert scale. Primary data were used since data were collected directly from Smartphone users. Data obtained were analyzed using correlation and regression.

Measurement

Value co-creation was measured using three constructs (sponsored co-creation, user innovation and co-production) and these three dimensions were addressed in 22 items, sponsored co-creation was measured by 7 items, user innovation 7 items and co-production 8 items. Then customer loyalty was measured by 8 items. The scale was validated using exploratory factor analysis (EFA) which examined the interrelated measures among sponsored co-creation, user innovation, co-production and customer loyalty. From factor loading and analysis, 6 items were deleted which indicates that they were not significant. As shown in table 1, all factor loadings produced favorable values, above 7.0 for each item that measured a particular construct which implies that all items used to measure a particular construct are appropriate. For the reliability test, the test-retest method was used to estimate the internal consistency. Favorable reliable scores were obtained from all items since all coefficient values were above 0.6 thus exceeding the minimum benchmark of cronbach alpha value (0.6) recommended by Malthotra (2004).

Table 1: Results of Exploratory Factor Analysis and Reliability of the Scales

Scale items	Sponsored co-creation(SC)	User innovation (UI)	Co-production (CP)	Customer loyalty (CL)	Cronbach Alpha (α)
SC1	0.77				0.89
SC2	0.78				
SC3	0.81				
SC4	0.79				
SC5	0.88				
SC6	0.80				

UI1	0.71
UI2	0.84
UI3	0.73
UI4	0.74
UI5	0.72
UI6	0.78
CP1	0.76
CP2	0.75
CP3	0.80
CP4	0.81
CP5	0.79
CP6	0.78
CL1	0.80
CL2	0.79
CL3	0.81
CL4	0.82
CL5	0.81
CL6	0.80

0.88
0.76
0.75
0.80
0.81
0.79
0.78
0.80
0.79
0.81
0.82
0.81
0.80
0.91

Table 2: Correlation Matrix among the Dimensions of Value Co-creation and customer loyalty

Sponsored Co-creation	1
User Innovation	.463**
Co-production	.520**
Customer loyalty	.609**

** Correlation is Significant at 0.01 (2 tailed).

The correlation analysis in table 2 shows that sponsored co-creation exhibited positive correlation with customer loyalty (r= .609** P<.01). User innovation was also positively

correlated with customer loyalty (r = .459** P< .01). Co-production exhibited positive correlation with customer loyalty (r = .392** P<.01).

Table 3: Multiple Regression Analysis of Dimensions of Value Co-creation and Customer loyalty

Model	Unstandardized Coefficient		Standardized Coefficient	T	Sig.
	B	Std. Error			
(constant)	7.321	1.259		4.323	.002
Sponsored Co-creation	.131	.062	.144	1.324	.033
User Innovation	.159	.036	.123	1.512	.029
Co-production	.146	.061	.200	1.812	.019

a. Dependent variable: customer loyalty.

b.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.411 ^a	.169	.152	1.762

- a. Dependent variable: customer loyalty
- b. Predictors: (constant), sponsored co-creation, user innovation, and co-production

Discussion

This study is focused on driving customer loyalty through value co-creation in the Nigerian smartphone market. The results of correlation analysis revealed that all indicators of value co-creation reported positive correlation coefficient which implies that they are good measures of the variable.

Findings from multiple regression analysis in table 3 revealed that sponsored co-creation has significant positive effect on customer loyalty ($\beta = .144$, $P < 0.01$). This finding provided support for the result of H_1 test, which states that there is statistically significant positive relationship between sponsored co-creation and customer loyalty. This is consistent with the view of Darmody (2009), that sponsored co-creation endears many customers to the company in the same vein, Bughin (2014) opined that sponsored co-creation has produced desired side effect in the form of reduced market research cost and increased customer loyalty.

Again, the findings revealed that user innovation has significant positive relationship with customer loyalty ($\beta = .123$, $P < 0.01$). This finding supports the result of H_2 test, that there is significant positive relationship between user innovation and customer loyalty. This is in line with the finding of Franke and Von (2003), in their view that user innovation influences customer loyalty because when users are given the ample opportunity to build exactly what they want and when the product is commercialized, they are willing to pay high prices which depict loyalty. Luthje (2004) states that when users are provided with the platform to engage in the process of innovation, it bonds them to the manufacturer and/or the product.

Co-production exhibited a positive effect on customer loyalty based on result obtained from regression analysis ($\beta = .200$, $P < 0.01$). This finding is in consonance with the result

of H_3 test that co-production has significant effect on customer loyalty. In line with the findings of Chen, Tsou and Ching (2011), when co-production is applied to fulfill customer's needs, loyalty becomes easily attainable. Auh et al, (1997) opine that co-production decreases cost, provides customization opportunities, increases the company's productivity and enhances customer loyalty.

Conclusion

In light of the foregoing summary of findings on the relationship among sponsored co-creation, user innovation, co-production, and customer loyalty, the researchers final points are put forward as:

Co-creation seems to be the next frontier in innovation, competitive advantage and customer loyalty. Hence, co-creation-savvy companies are beginning to harness consumers' productive capabilities in the development of their value offering, largely due to the fact that granting consumer freedom through co-creation has become the most effective mode of production in recent times.

Value jointly created by customers who express their requirements, share their knowledge and employ their competences has profound implications on what exactly the customer consumes in the end. Because when customers participate in value creation, they have a much larger influence over the outcome they experience with the firm.

Furthermore, companies which recognize this new collaborative commercial reality by providing platforms that empower consumer's creative zeal will achieve superior organizational performance by way of consumer involvement, customer satisfaction and loyalty. Thus, when co-creation becomes the heartbeat of marketing the company wins.

High quality interactions can be part of innovation process that can co-create unique experiences to the company, appear to enhance competitive advantage through customer loyalty.

Recommendations

Given the fact that to develop sustainable competitive advantage in today's business landscape requires strategies that are more resilient to imitations, practical suggestions are given for the implementation of the findings of this research.

Smartphone companies should go down the path of co-creativity by relinquishing some control over their resources to consumers and grant them free rein to work with company-provided resources in the production of their own value-offering. This is because consumers are beginning to own brands and participate in their creation.

Companies should actively target co-creator audience and actively explain to them how to use their co-creation platform, finds what motivate them and attend to the quality of co-creation experiences. Quality in this context refers to the infrastructure for interaction between companies and consumers oriented around the capacity to create a variety of experiences.

Finally, for co-creation to pay off handsomely over time, companies must focus it on activities that deliver a sustainable competitive advantage. That may be about being a price leader, a product innovator, or superior service.

Suggestion for Further Studies

The findings may not be generalized to the larger population of the Nigeria Smartphone market therefore, future research would need to involve a larger size by extending the research to other geographical areas in Nigeria. Further studies on value co-creation can be extended to other domains outside the smartphone market. Future studies can also examine the relationship between value co-creation and other concepts outside customer loyalty.

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