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Using service logic to redefine exchange in terms of customer and supplier participation

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ABSTRACT

Service logic emphasises value co-creation, although mostly contending that the customer alone creates actual value. Value co-creation and co-production imply customer and supplier participation, but the literature mostly omits participation issues. This paper disentangles notions of production and co-production from the creation and co-creation of value propositions, and from the assumptions underlying value-in-use. The focus is on participation in exchange by customers and suppliers and their contributions at various stages of the value creation process.

The paper uses service logic to develop a process model of customer and supplier participation in exchange with three phases (production, negotiation and usage), explores why suppliers allow customer participation in value proposition creation, and the motivations compelling customers to participate. Understanding how supplier and customer participation impact on value proposition creation and on value-in-use, provides an impetus for improved targeting practices, enhanced supplier ability to compete, and more focused research.

1. Introduction

Within turbulent and complex competitive market environments, suppliers compete by offering distinctive value propositions for customers to assess and possibly select. Competitive advantage is achieved by the supplier offering the value proposition that customers deem to be superior (Vorhies, Harker, & Rao, 1999; Day & Van den Bulte, 2002; Tuominen, 2004). However, an extensive review of the literature reveals an omission with respect to a rigorous definition of a value proposition in a marketing context (Frow & Payne, 2011).

Used recurringly, the term remains open to interpretation, which contributes to some latitude on what is inferred from it and how it is applied. Alternatively referred to as value conception (Moutinho & Southern, 2010), a value proposition is variably said to convey what the product does for the customer (and sometimes, what it does not do), typically including information about pricing relative to competitors (Walker, Gountas, Mavondo, & Mullins, 2012, p. 183), about the benefit(s) offered by the brand (Cravens & Piercy, 2006, p. 278) or, more explicitly, about the attributes that organisations provide to their customers … expressed as the sum of the product or service's attributes, the customer's perception of the value of a relationship with the organisation and the organisation's image (Dann & Dann, 2007, p. 82). In summary, a value proposition has been recognised as comprising all the attributes that suppliers offer to provide to their customers, potentially creating some distinctive perception of value.

In contrast to the focus on suppliers offering a value proposition, historically all value is deemed to be created and perceived by customers (Porter, 1985; Vargo & Lusch, 2004), who turn the subjective proposal of value into actual value. Hence, the same value proposition offered by a supplier may be highly valuable for one customer and of no value at all for another. Consequently, in a rigorous sense, the concept of co-creation of value, while intuitively logical and appealing, is generally elusive (Grönroos & Voima, 2013). Value for the supplier is perceived by the supplier alone and value for the customer (alias customer value) is perceived by the customer alone.

Distinguishing between value and value propositions, we contend that value propositions may be co-created and co-produced *via* customer and supplier participation. Ballantyne and Varey (2006) refer to value propositions as reciprocal promises of value, operating to and from suppliers and customers seeking an equitable exchange (italics added). We adopt Ballantyne and Varey's (2006) definition, and use it as the basis for exploring the gap in the literature related to the process of customer and supplier participation in the determination of value propositions for exchange. That is, contrasting with the perception of value, assessed solely by suppliers or by customers, a value proposition can be variably created and produced solely by the supplier, or the supplier can be assisted by the consumer in co-creation and/or co-production (Grönroos & Voima, 2013; Lusch & Vargo, 2006; Vargo & Lusch, 2008). In the former case, the customer is passive and merely assesses (assigns some notion of potential value to) the proposition of value offered by the supplier, subsequently accepting or declining the

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offer (Prahalad & Ramaswamy, 2004b). In the latter case, the customer participates actively in the exchange process before its final assessment, either by co-creating the value proposition offered by the supplier, presumably in a value-adding way that may entail shared inventiveness and co-design, or by shared production of the core offering itself (Lusch & Vargo, 2006).

Customer participation is defined as the degree of a customer's effort and involvement, whether mental, physical and emotional, that relate to the production and delivery of a service (Silpakit & Fisk, 1985; Cermak, File, & Prince, 1994). Customer participation involves the customers' technical resources (*e.g.*, labour and knowledge), and their functional (interactional) qualities, including interpersonal aspects such as friendliness and respect (Kelley, Donnelly, & Skinner, 1990; Ennew & Binks, 1999). Customers may be required and expected to contribute to service creation, production and delivery, or may display voluntary and discretionary citizenship behaviour (Yi, Nataraajan, & Gong, 2011). Participation is considered to be high, if customers are involved in service co-creation, that is, they contribute more than is essential for the service to proceed, with an emphasis on enhancing value, usually by increased customisation. In contrast, co-production of the core offering follows co-creation and enables service delivery, necessitating moderate or lower levels of participation. For example, participation is higher if customers are required to provide information or exercise some effort, as compared with simply be physically present (Bitner, Faranda, Hubbert, & Zeithaml, 1997).

Customers may value positively or negatively their participation in the creation and/or production of a value proposition. For example, consistent with a positive link between customer participation in healthcare decision-making and improved psychological well-being, improved medical status, and greater satisfaction (Ashcroft, Leinster, & Slade, 1986; Fallowfield, Hall, Maguire, & Baum, 1990; McColl-Kennedy, Vargo, Dagger, Sweeney, & van Kasteren, 2012), a patient may value the ability to ask questions and to be given the ability to choose between alternative treatment plans. In contrast, another patient may prefer being told what to do, without accepting any responsibility for which treatment to follow. Participation is highly valued in the first case, leading to possible co-creation and co-production, while non-participation is valued in the second case, and the service is simply created (and produced) by the supplier. The underlying value proposition is built on different (desired and expected) levels of participation; hence, understanding why and how customers participate is a key factor in understanding value proposition creation, customer value creation and, ultimately, what contributes to competitive advantage. Similarly, suppliers may seek to pre-determine a value proposition, or using our definition, they may wish to engage in a reciprocal process that benefits both parties during exchange. Unpacking this value proposition process, from the perspectives of both customer and supplier participation, is the essence of our contribution.

This paper is structured as follows. First, we consider the value proposition and distinguish it from customer-perceived value, and then we consider the concept of value-in-exchange and its relationship to value-in-use. Next our discussion focuses on the concepts of service logic and service-dominant logic, as the theoretical framework for redefining exchange, and finally we present a detailed process model that demonstrates options and motivations for, and implications of, customer and supplier participation in service exchange.

2. Distinguishing the value proposition from customer-perceived value

As noted above, value propositions are reciprocal promises of value, operating to and from suppliers and customers seeking an equitable exchange. However, in the past, many scholars noted that value propositions are created by suppliers to indicate the set of benefits intended to provide value for customers (Vargo & Lusch, 2004; Morris, Schindhutte, & Allen, 2005; Grönroos, 2006), and they are appraised by customers alone (Porter, 1985; Yoon, Guffey, & Kijewsk, 1993; Vargo & Lusch, 2004; Lusch & Vargo, 2006). The argument is that rational and informed customers will select the value proposition that they perceive to be superior in meeting their requirements. Also taken into account in the customers' choice decision are the sacrifices, such as monetary and non-monetary costs, they expect to make in taking advantage of the various competing value propositions.

Congruent with a utility model by Bilkey (1953) accounting for positive and negative valences, net value emerges as the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given (Zeithaml, 1988, p. 14), perceptions that may or may not match. Hence, ultimately, it is reasonable to expect that customers will choose between available value propositions based on their own assessment and expectations of value — a view endorsed in this paper that reinforces Grönroos and Voima's (2013) inference that value as value-in-use cannot exist before it is created (or emerges) from the usage process, where it is accumulating, and therefore cannot be assessed before usage (p. 4). However, an evaluation of the likelihood of achieving that value can be, and is, made during the value proposition stage. Further, when value-in-use is known from a prior purchase, the new value proposition is judged in the context of experience.

In a competitive market, a supplier that offers the superior value proposition has a competitive advantage (Porter, 1980) arguably grounded on some unique capability or competence the supplier possesses to effectively use its resources to serve customer needs and wants (Fahy & Smithee, 1999). This focus on supplier resources is tied to a goods logic whereby a supplier has all the power to provide value (Mele & Polese, 2011), and to market it to customers (Cova & Salle, 2008). Such a view is consistent with the notion of the supplier-initiated superior value proposition, when all value is customer perceived value. However, customers are a resource and they may elect to participate in value proposition creation, potentially providing the factor that determines superiority because of a closer match with customer requirements. Further, when customers elect to participate, their overall perceived value will likely be greater.

One way that a supplier may improve its ability to offer a superior value proposition is through customer research, such as that seeking to establish the value of a product to potential target customers within the new product development process (Tzokas, Hultink, & Hart, 2004), as well as gaining an accurate understanding of the attributes customers care more about, or perceive to be of greater value to them. The growing usage of social media may assist in this aspect, facilitating greater supplier's awareness of customer needs and improving their ability to offer a superior value proposition. Another possible way is to encourage or facilitate actual customer participation or involvement in creating the value proposition. In a service context, customer participation has been found to be strongly associated with repurchase and referrals (Cermak et al., 1994).

The rationale underlying customer participation also assists in understanding why suppliers may choose to customise their value offerings, that is, to cultivate relationships that involve the customers in developing individualised, competitively compelling value propositions to meet specific needs (Vargo & Lusch, 2004, p. 5).

Customised value propositions are a recurring phenomenon in the marketplace. A customised value proposition is one that has been adapted to meet specific customer requirements and only those (Johnson, Christensen, & Kagermann, 2008; Payne, Storbacka, & Frow, 2008), in contrast to a standard value proposition that is offered unchanged and indiscriminately to all customers. For example, the Vila Gale Hotel chain allows guests to choose from a list, whatever combination of supplementary benefits they wish to enjoy for no extra charge during their stay, with different guests typically enjoying different combinations of benefits (*e.g.* daily newspaper plus free breakfast, late check-out plus free movies) (http://www.vilagale.pt/pages/promocoes/?categ=3). More frequently observed is customisation by high customer participation, with or without organisational socialisation