



Contents lists available at ScienceDirect

## Journal of Retailing and Consumer Services

journal homepage: [www.elsevier.com/locate/jretconser](http://www.elsevier.com/locate/jretconser)

## From perceptions to propositions: Profiling customer value across retail contexts

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### ARTICLE INFO

#### Keywords:

Customer value  
Customer value proposition  
Retail contexts

### ABSTRACT

The core claim made in the paper is that retailers wishing to identify and manage competitive customer value propositions succeed by measuring and modeling customer value perceptions with reference to specific contexts relevant for their competitive advantage. Hence, the purpose of the paper is to present development and validation of a scale for measuring and modeling customer value and to illustrate how contextual perspective contributes to the evaluation of customer value propositions. The findings, based on empirical data from Finland, Japan, and the U.S., validate a framework wherein customer value reflects economic, functional, emotional, and symbolic dimensions of value, associating with satisfaction and word of mouth effects. The customer value profiles generated on this basis provide analytical insight for evaluating how country, channel, product category, and competitive situation influence the criteria for contextual evaluation of customer value propositions.

### 1. Introduction

Identifying and managing customer value propositions has established itself as a key topic in the management literature, because it aids companies in differentiation for competitive advantage (Payne and Frow, 2014). Hence, better-than-average companies need to “choose their value” and bring it to the core of their strategic management. This task is complicated by the fact that customer value often seems to be a moving target: it varies between customers, across contexts and situations, and over time (Holbrook, 1999). It requires analytics that assist companies in understanding what drives customer value as an outcome of their customer experience. Nevertheless, building an understanding of how value creation can have a positive effect on behavioral intentions is crucial for all industries.

Contemporary retailing is a good example of an industry wherein the drivers of customer value are very context-dependent and a strong customer value proposition is crucial for competitive advantage. Many retailers operate with several product categories, carry competing brands, and cater for fragmented market segments in both offline and online environments. The core claim in this paper is that retailers wishing to identify and manage competitive customer value propositions succeed by measuring and modeling customer value with reference to specific contexts that are relevant for them. This calls for understanding the key dimensions of customer value from shoppers’ angle and for tools to measure the value created. Hence we conducted research with a twofold aim: to develop and test a model for customer

value in retailing and to illustrate how it can be profiled across retail contexts to identify and evaluate customer value propositions. To that end, a literature review is presented that builds on the concept of customer value. To test and validate the framework empirically and to illustrate the contextual effects of customer value profiles, an international survey was conducted. Both offline and online purchases of fashion and electronics items are examined as contexts of shopping value. The presentation of results and discussion is followed by conclusions and a few thoughts on implications.

### 2. Theoretical background

Perceiving and proposing value represent two key perspectives to conceptual discussion surrounding customer value creation (Martelo Landroguet et al., 2013). While the former considers the customer’s angle and builds on literature on customer(-perceived) value, the latter is focused on customer value propositions as strategic tools for positioning and managing customer value creation. The perceptions of customer value reflect the outcomes of shopping, representing the key motivations for the customer to buy (Sheth et al., 1991). From the retailer’s perspective, customer value propositions are designed to resonate with these preferred outcomes. For our purposes, both perspectives have general theoretical roots that are usefully transplanted to the retailing context. More importantly, the contextual nature of customer value helps us understand why the relevancy of these dimensions of customer value varies with the person, time, and

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<http://dx.doi.org/10.1016/j.jretconser.2016.07.016>

Received 22 October 2015; Received in revised form 2 June 2016; Accepted 24 July 2016

Available online xxxx

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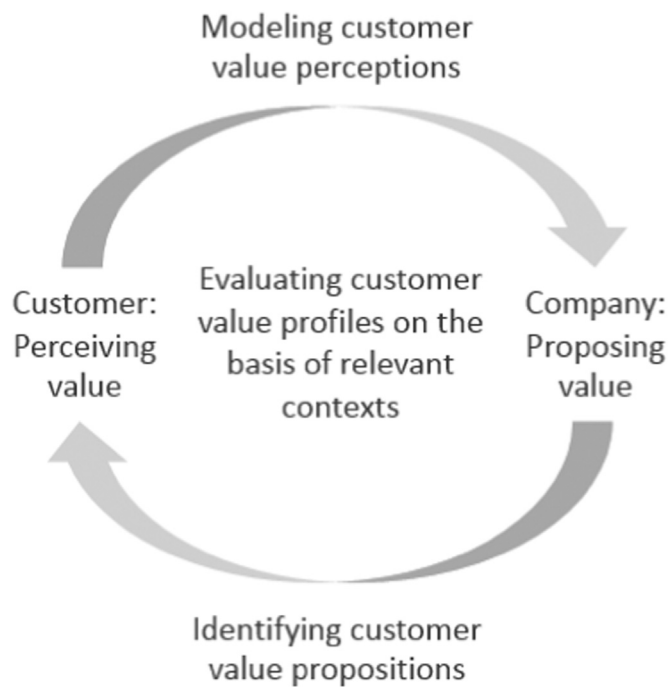


Fig. 1. Integrating perceptions and propositions with contextual customer value profiles.

situation (Holbrook, 1999). Understanding what constitutes poor, satisfactory, or excellent performance in terms of value created for the customer calls for contextual profiles of customer value (Fig. 1).

### 2.1. Perceiving customer value

Understanding what customers value is a precondition for formulating competitive customer value propositions. This understanding of customer value is typically achieved through two routes: investigating the assessment of the tradeoff between benefits and sacrifices and conceptualizing the key outcomes of shopping represented by dimensions of customer value. The former approach is required when the structure of customer value and the dynamics of the resulting decision-making process are being assessed (Woodruff, 1997; Zeithaml, 1988). The latter approach, however, is the focus of this paper, because the key dimensions of customer value drive shopper behavior: they reflect the criteria that the customer uses in the evaluation process. In other words, modeling the key dimensions enables profiling customer perceptions of value for comparison of them to the intended value creation of the retailer. Theoretically, there are two general typologies of customer value that underlie most studies addressing the dimensions of customer value in retailing: functional, emotional, social, conditional, and epistemic value, conceptualized by Sheth et al. (1991) and Holbrook's (1994, 1999) extensive axiological framework entailing eight types of value (efficiency, excellence, status, esteem, play, aesthetics, ethics, and spirituality). These studies acknowledge that value for the customer is about both utilitarian and hedonic outcomes. Both conceptualizations also address the role of social aspects related to value creation, which can be seen in how customers are perceived by others as a result of their consumption-related choices.

In the retail context, the perceived shopping value (PSV) scale of Babin et al. (1994) is a widely cited way of measuring and modeling the utilitarian (task-related, instrumental, and rational) and hedonic (recreational, self-purposeful, and emotional) dimensions of customer value. Both the original and modified versions of this scale have been used across a variety of retail contexts. Another widely cited scale, PERVAL, by Sweeney and Soutar (2001), defines value in the consumer-goods context along four dimensions: price/value for money,

quality/performance, emotional value, and social value. Whereas the heritage of Sheth et al. (1991) can be seen in the PERVAL scale, other works, such as that on functional, social, emotional, and epistemic value by Ming-Sung Cheng et al. (2009), come even closer to the original conceptualization. Examples of studies inspired by Holbrook's dimensions of value include Mathwick et al. (2001) providing evidence of online, catalog, and mall shopping environments' effects on efficiency, excellence, aesthetics, and play; see also the work of Kim (2002) and of Keng et al. (2007). Integrating the dimensions of value discussed in earlier research and conceptualizing hierarchical models of customer value have gained popularity too. Davis and Dyer (2012) conceptualize and measure nine types of value: acquisition, transaction, efficiency, choice, aesthetics, exploration, self-gratification, social interaction, and social status. Rintamäki et al. (2006) model total shopping value as reflecting utilitarian, social, and hedonic dimensions, which have two sub-dimensions each: monetary savings and convenience; status and self-esteem; and entertainment and exploration, respectively. Combining hierarchical modeling and investigation of whether shopping-trip value is derived from the store or instead from products, Diep and Sweeney (2008) model utilitarian and hedonic value in terms of six sub-dimensions. Utilitarian shopping-trip value is derived from utilitarian store value and two types of product value: performance and value for money. Hedonic shopping-trip value is derived from hedonic store value and two other types of product value: emotional and social.

Overall, a division between utilitarian and hedonic value seems to prevail in the discussion of dimensions of customer value in retailing, while the total number of dimensions varies. The utilitarian dimensions seem clustered around two key outcomes: value derived from the price paid and the value of the time and effort saved. Similarly, modeling of the hedonic dimensions of value is based on the feelings and emotions aroused by the shopping experience, alongside the various ways of expressing oneself that are rooted in the symbolic and social aspects of the shopping experience.

### 2.2. Proposing customer value

Customer value propositions are created to reflect the customer value perceptions sought by the targeted customers. Having two key roles, customer value propositions position the company in the customers' minds and align the organization around the strategic creation of customer value (Lanning and Michaels, 1988; Webster, 2002). Moreover, customer value propositions are an essential part of a measurement-based management system, integrating strategic goals with operational execution (Kaplan and Norton, 1996). The *raison d'être* of customer value propositions is hence to enhance competitive advantage.

Retail-specific conceptualizations of customer value propositions are considerably scarcer than investigations of customer perceptions of value. Murray (2013), for instance, defines a retail value proposition with his "ESE" model, wherein environment, selection, and engagement represent key building blocks for strategic value creation. Environment encompasses the location, retail format, store-layout atmospherics, design elements, and use of technology. Selection is about the right mix of products, calling for expertise in supply-chain management, purchasing, tracking of trends, and category and shelf-space management. In essence, engagement has to do with customer-relationship management based on enticing customer experiences. The three components are then subjected to retail pricing, with a goal of balance between creating and capturing value.

Focusing on identifying customer value propositions (for B2C and B2B customers but also developers) for business innovation, Lindic and Marques da Silva (2011) conceptualize a framework based on an Amazon.com case study, called "PERFA." The "P" refers to performance, serving the customers as well as possible while being profitable. Next, ease of use involves reducing the effort of using a product or system, and reliability means the product delivering in line with its

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