DEVELOPMENT OF VALUE PROPOSITIONS: A MANAGERIAL FRAMEWORK

Introduction

The business world is rapidly changing, breaking down industry barriers, creating new opportunities while at the same time destroying long-successful business models. Given the amount of turmoil, that digitalization, sharing economy, 3-D printers, just to name a few examples, are causing, it is time for companies to evaluate opportunities and threats originating from these phenomena and start creating new business options for the future. Predominantly industrial firms increasingly move from goods-centric offerings to services and solutions, in order to increase revenues and to build sustainable competitive advantage (Adrodegari and Saccani, 2017; Falk and Peng, 2013; Neely, 2008).

Companies use business models in order to describe the rationale of how an organisation creates, delivers and captures value (Baden-Fuller and Mangematin, 2013; Osterwalder and Pigneur, 2010) The core element of a business model is the value proposition (Morris *et al.*, 2005; Lindgardt *et al.*, 2012; Voelpel *et al.*, 2004). Despite an increasing interest in value propositions from scholars and practitioners alike, “there is little understanding of their application to today’s increasingly interconnected and networked world” (Frow *et al.*, 2015, p. 35). Furthermore a study revealed, that fewer than ten per cent of organisations have a formal process for developing and communicating their value propositions (Frow and Payne, 2014). This view is supported by an explorative study with 15 Swiss CEOs and project leaders that are mainly acting in B2B business. They reported to face the following challenges in the context of defining and implementing value propositions:

- Challenge “organisation“: Companies’ internal structures are still “product-driven“. Value propositions are based on products, but do not include, or are not formulated for services explicitly. As a result of this, no clear responsibility for the service is assumed, e.g. profit centers for services exist rarely.
- Challenge “partner models“: Although companies are aware of opportunities resulting from networking and cooperation with other industries (e.g. automotive industry and car park operators in crowded cities), they lack methods and tools to develop “co-created“ service offerings in an efficient and customer-oriented way.
- Challenge “communication and distribution“: Companies report difficulties in communicating the benefit of a new value proposition internally and externally. As a result of this, it is hard to motivate the sales team, but also to convince customers.

To address this topic, we developed a methodology and a managerial framework with which companies can locate their current (implicit or explicit) value proposition and which support them in deciding on the direction of their new value proposition. The framework is based on a relationship continuum which ranges from exchange to partnership.

Value proposition in the „New Economy“

While in the 1980’s and 90’s a value proposition described the positioning of a company, highlighting favourable points of difference and determining promises of delivered value (Kambil *et al.*, 1996; Lanning 1998), more recently it has been postulated to integrate “co-creation“ into the value proposition concept (Prahalad and Ramaswamy 2004; Vargo and Lusch 2008). This is not surprising, as value propositions form a central foundational premise in Service-dominant logic, stating that an “enterprise can only make value propositions“ (Vargo and Lusch 2008) and that “value is co-created by multiple actors, always including the beneficiary“ (Vargo and Lusch 2016). Despite the fact that economic actors today are much more interconnected and that potential connectivity of objects is fundamentally changing the firm's relationship with the market and its customers, the discussion on value propositions often upholds a traditional economic view that value is created *by* firms and passed down the supply chain as goods and services *to* or *for* customers who ultimately consume its value (Porter, 1985). This traditional view ignores the fact that content generated by customers can also be an input factor for the firm’s value proposition (Ng, 2013).

Another important recent development in the value proposition literature is the notion of moving from a narrow dyadic, customer-supplier perspective, to a much broader one that includes multiple stakeholders, or “actors” within a service ecosystem (Frow *et al.*, 2015). Vargo and Lusch (2011, p. 15) define service ecosystems as “relatively self-contained, self-adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange”. A service ecosystem perspective suggests that the system is not static, but adapts to changing situations, rather than determining the nature of relationships contained within it (Kandiah and Gossain, 1998) and it requires a shift in perspectives from parts to wholes, from objects to relationships, from measuring to mapping and from structures to processes (Capra and Luisi, 2014).

In summary, from a scholar’s and a practitioner’s perspective, a value proposition should be defined from an ecosystem perspective, emphasising its co-creative and dynamic nature. Taking into consideration this “logic”, we follow Frow *et al.*, (2015, p. 22) who argue that “value propositions are a strategic imperative for organisations with finite resources, determining how to apply those resources and achieve the most beneficial outcomes“ and who describe value propositions as “a dynamic and adjusting mechanism for reaching an agreement on how resources are shared within a service ecosystem”.

Methodology

To address the gap of a limited understanding of developing a value proposition within the milieu of the new economy, we applied an interaction research approach (Gummesson, 2002). The approach assumes that testing concepts, ideas, and findings through interaction with different target groups is “an integral part of the whole research process” (Gummesson, 2002, p. 345). We proceeded in a two-stage process comprising two different, successive single case studies. The purpose of the first case study was to identify a methodology and a framework with which companies can locate their current value proposition and which supports them in deciding on the direction of their new value proposition. The objective of the successive case study was to validate and refine the methodology and the framework.

Case study I – data collection and analysis

The first case study comprised the ecosystem around a supplier company in the financial services industry. Data was collected from narrative interviews with eight customer organisations and a Repertory Grid workshop with nine customers, such as a start-up in the health consulting business and a long-established architect business and six experts from the ecosystem, such as a lawyer and a trustee. The purpose of the customer interviews was to identify, from the customer perspective, both those customer needs which are addressed by the current value proposition and those which provide potential to be included in an extension of the value proposition. In line with the view that value propositions support customer processes (Ulaga and Reinartz, 2011), the customer needs were identified within the customers' value creation processes. To elicit these customer needs, we chose narrative interviews focusing on the following themes:

- customer's business offering
- customer's value chain (primary and secondary value creation processes)
- customer's key value and costs drivers
- strengths and opportunities for improvement within the customer's value creation processes

To ensure a comprehensive coverage of needs and processes, all interviewees held strategic senior positions within the eight customer organisations, such as CEO or managing partner. The interviews lasted two hours on average, were recorded and transcribed verbatim. In the process of the analysis, we coded the data into customer processes and customer needs within these processes. The final coding scheme contains only codes which were mentioned by two or more interviewees. On completion of the coding, the results were validated with the interviewees.

In the workshop with the second customer group, we applied the Repertory Grid technique (Kelly 1955, 1991) in order to identify "hidden needs" concerning the extended value proposition. Repertory Grid is a flexible technique that can be applied in order to help interviewees to articulate their attitudes, when it comes to feelings during the purchasing process or opinions about product and service offerings. It supports researchers and companies to better understand customer needs and to identify new product and service offerings (Goffin and Konsers 2011). "It is an attempt to stand in others' shoes, to see their world as they see it and to understand their situation and their concerns" (Fransella and Bannister, 2004, p.6). We asked the workshop participants to name business partners with whom they have positive business experience versus ones with whom they have negative business experience. In a next step we asked them to name the service attributes and benefits of the positive and negative examples. The results (constructs) were then discussed, grouped and ranked by the workshop members. In a third step the workshop members were asked to transfer the positive constructs on the financial service supplier.

Next, we categorised the attributes according to common themes as regards content and labelled them accordingly. Based on this categorization and in consultation with the literature, alternative types of value propositions based on different relationship types were identified. These value propositions as well as the results from the customer interviews and the customer workshop were presented and discussed in the workshop with the experts on the service ecosystem. The aim of this workshop was to integrate these initial findings into a preliminary framework which was advanced in the second case study.

Case study II – data collection and analysis

The second case study comprised the ecosystem around a logistics company. Since the aim of this case study was to validate and refine the methodology developed in case study I, this methodology was applied in case study II. Data collection and analysis proceeded in the same way. The initial interviews with customers were conducted with six business customers. Again, to ensure a comprehensive coverage of needs and processes, all interviewees held strategic senior positions within the customer organisations, such as CEO and Strategic Purchasing Manager. The first workshop was held with six customers. In the second workshop, seven experts on the service ecosystem participated. Following the data analysis and before holding the second workshop, we again consulted the literature and further expanded the preliminary framework to a more generic level. This framework was discussed and further refined in the workshop with the experts on the service ecosystem.

Discussion of findings

Findings from case study I

From the customer interviews, a variety of customer needs were identified within six main customer processes as shown in Table 1.

Table 1: Findings from customer interviews: Customer business processes and needs

Business process	Customer need
Financial Management	Accountancy
	Annual accountancy
	VAT invoicing
	Succession counselling
	Financing of business development
	Payment system / management
	Receivable management
	Loans for customers
	Insurance counselling
	Financial precaution counselling
	Project calculation
	Financial ‘literacy’ counselling
Strategic Management	Support in strategic decision making
	Start-up counselling
	Legal counselling
Human Resource Management	Recruitment support
	Reduction of employee absence
IT Management	IT/ software solutions
Procurement	Cash flow management
	Financing of larger orders
Marketing	Creation of marketing material
	Website design

Some customer needs vary depending on the life cycle of the customer business from start-up counselling to succession counselling. Some are closely related to financial services, such as annual accountancy or payment management. Many are not directly related, such as recruitment support or creation of marketing material. Thus, it is hardly surprising that a lot of the identified customer needs are not yet addressed by the current value proposition of the financial services company. When discussing the results with the customers, they confirmed this finding. With regards to most of the needs not yet covered by the value proposition, they emphasized that they would appreciate and utilize the offering from the financial services provider, if it existed. For instance, one manager stated: “We need to check up on insurance issues on a regular basis. I would definitely be glad if I had someone to who I could delegate this. If a bank advisor offered this I would surely make use of it.”

The results from the Repertory Grip workshop were summarized in a value map (Figure 1) (cf. Reynolds and Gutman, 1988), as workshop participants mentioned attributes, benefits, but also values related from to the experience with an “ideal financial services supplier”. Values were coded as per the value categories of Rokeach (1973).

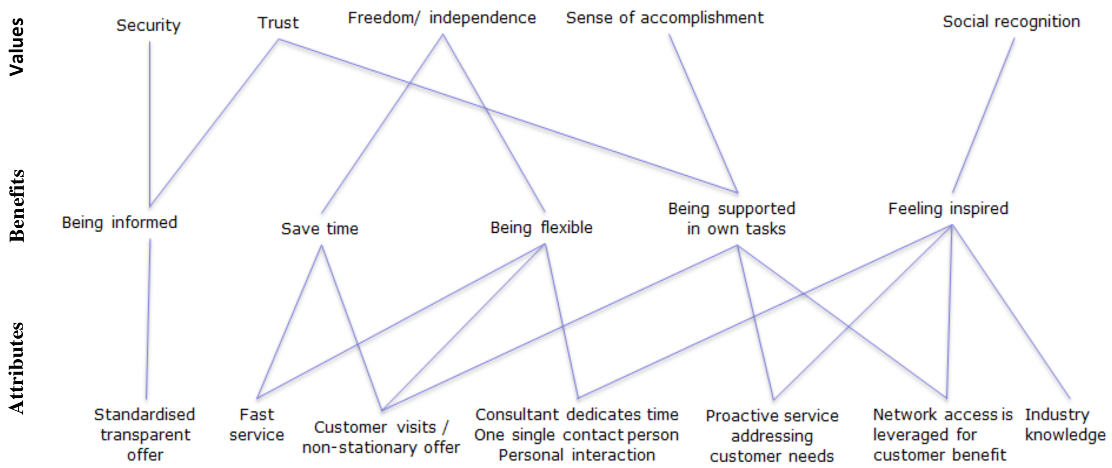

Figure 1: Findings from Repertory Grid workshop: Value map

The categorization of the attributes in consultation with the literature resulted in the identification of three main themes: exchange relationship, customer relationship and partner relationship. The themes form a continuum from exchange to partner relationship. This continuum reflects how resources are given and received. In an exchange relationship, resources are given with the expectation of receiving a comparable resource in the future or in return for a resource already received. In a partner relationship, resources are given in response to a need and out of concern for the welfare of the other party. In such relationships, receiving resources does not create a specific obligation to return a comparable resource, as it does in exchange relationships. A customer relationship is located ‘in between’. While the exchange relationship can be attributed to the ‘transactional paradigm’, customer and partner relationships can be located within the ‘relational paradigm’ (cf. Webster, 1992). In contrast to a transactional exchange relationship which is based on the axioms that self-interest, independence and choice are the drivers of value creation, the remaining relationship types are based on the assumptions that mutual interdependence and cooperation leads to higher value creation (cf. Sheth and Parvatiyar, 1995).

Table 2 summarises the findings from the workshop with the service ecosystem experts, i.e. the occurrences of these relationship types within the case of the financial services ecosystem. The current value proposition of the financial services provider includes elements of the exchange and customer relationship. It does not yet contain partner relationship elements, but it has the potential to be developed in this direction.

Table 2: Findings from workshop with service ecosystem experts: Relationship types

	Exchange relationship	Customer relationship	Partner relationship
Relationship subject	Benefit for benefit	Recognition as individual customer	Up-front benefits, not getting rich at the expense of the customer
Focus	Standardised financial products	Customised financial solutions	Holistic problem solutions
Exemplary offerings	Mortgage	Cash flow management, succession counselling	Start-up counselling, recruitment support
Exemplary customer expectation	Fast and standardised solution	One contact person, personal interaction	Provider network can be accessed, knowledge of business model

The customer relationship is backed up by early literature on relationship marketing. In the early development stage, the concept focused on the supplier-customer relationship. Berry (1983, p. 25) defined relationship marketing as “attracting, maintaining and […] enhancing customer relationships”. Customer service at the buyer-seller interface was fundamental (Clark, 2000). The partner relationship can be related to later contributions to relationship marketing which broadened its scope by extending relationships beyond supplier-customer dyads (e.g. Gummesson, 1999). Berry (1995), for instance, conceptualised relationship marketing as a means-end equation: “Companies must establish relationships with noncustomer groups (the means) to successfully establish relationships with customers (the end)” (Berry, 1995, p. 242).

Findings from case study II

As in case study I, the customer interviews and the customer workshop revealed customer needs that can be assigned to the different relationship types. Table 3 shows exemplary offerings derived from the customer needs that were mentioned. Some of them are closely related to “traditional core competences” of a logistics provider, such as automated ordering process and are mostly covered by the current value proposition of the logistics company. Customers also expressed needs for logistic solutions that can be assigned to the customer relationship type, such as the management of the assortment in the customer’s branches. Finally customers as well as the ecosystem experts articulated needs that can be assigned to the partner relationship type. In this role the logistics company would be the only provider for all third-party materials combined with the offering of a product data and inventory management system. This would imply a mutual interdependence between the logistics company and its customers, but would involve also cocreation with other actors of the ecosystem. Customers and workshop participants were aware "of certain risks, that this deeper form of cooperation bears", but valued the benefits higher. Their perception is based on the reputation of the logistics company as "a reliable and trustworthy partner" in their industry. Table 3 summarizes the case-specific results from the customer interviews and the customer and the expert workshops.

Table 3: Findings from customer interviews and workshop and the workshop with service ecosystem experts: Relationship types

	Exchange relationship	Customer relationship	Partner relationship
Relationship subject	Benefit for benefit	Deepening the customer relationship by offering customized services	Offering a platform in the "logistics ecosystem"
Focus	Standardised logistics services	Customised logistics solutions	Holistic problem solutions
Exemplary offerings	Automated ordering process, Enhancement of the ordering website	Assortment planning, Management of the internal logistics (of the branch system)	Supplier management, Product information and data management
Exemplary customer expectation	Efficient logistics supply	Optimized supply chain offering	Provision of a platform for services

The framework shown in Table 3 was advanced to a generic level in consultation with the literature and validated and further refined within the workshop with the experts on the service ecosystem (see Table 4). The criteria that were chosen for the conceptualization of the relationship type are based on the transactional and relationship paradigms (Webster 1992; (cf. Sheth and Parvatiyar, 1995), Service- dominant Logic (Vargo and Lusch, 2017) and theoretical foundations about liquification and density of information resources (Normann, 2001). Liquification refers to the separation of information from the physical objects, allowing the information to be easily moved about and re-manifested in many different ways (Michel *et al.*, 2008). In a partner relationship the focus of the offering is shifted from an output to a process of value creation and the supplier firm is perceived as an organizer of this process, with the customer as a co-producer, rather than a receiver of value. Whereas in an exchange relationship the offerings are "frozen knowledge" on the continuum towards partner relationship the 'dematerialization' of resources increases their 'liquidity', which allows increased "density" for value creation (Michel et *al.*, 2008).

The fact that "the world moves towards an era of Internet-of-Things" (in which) „a technical process of converting previously static and unmovable information into a dynamic, transportable resource is creating disruption at a Schumpeterian level that is only just beginning" (Ng and Wakenshaw, 2017, p. 3) should to be considered in a framework that supports companies in locating their current (implicit or explicit) value proposition and in deciding on the direction of their new value proposition.

Table 4: Generic framework for relationship types

	Exchange relationship	Customer relationship	Partner relationship
Relationship subject	Benefit for benefit	Individualized	Cocreation with customer
Focus	Standardised	Customised	Holistic
Interaction type	Mainly episodic	Relational	Long lasting relationship, organizer of a process
Information symmetry	Assymmetric	Less assymmetric	Symmetric
Use of customer data	No use	Ex-post use for specific offerings	Real-time use
Role of the customer	Receiver of "value"	Partly "co-creator" of value	"Co-creator" of value
Information /Resource type	"Frozen" information"	"Semi-frozen" information	"Liquification" of the information
Value creation	Based on efficiency	Based on use of customer data	Based on use of (customer) data and connectedness

Conclusion and managerial implications

To address the gap of a limited understanding of value propositions within the milieu of the new economy, we developed a methodology and a managerial framework with which companies can locate their current (implicit or explicit) value proposition and which support them in deciding on the direction of their new value proposition. In two successive, individual case studies, we applied an interaction research approach (Gummesson, 2002). The methodology and framework result from evidence-based research which has been suggested to be particularly valuable to contribute to the advancement of Service-dominant logic (Vargo and Lusch, 2017). Our conceptual contribution can be positioned as "summarising", i.e. we encapsulate and consolidate existing management methodologies into a manageable set of activities and an organising framework. As stated by MacInnis (2011, p. 142): "conceptual contributions at the procedure level can be of particular value to marketing practitioners." Our research is exploratory, the findings are therefore tentative. Future research could validate the framework within a variety of B2B contexts. An extension to B2C contexts would also be an interesting route for further studies.

Managers who seek to develop their company's value proposition can use our framework to locate their current and plan for their future value proposition. As a matter of fact both companies from the case study used the specific and generic frameworks (tables 2 and 3 respectively and table 4) to rethink the logic of value creation in their ecosystems and to decide on the direction of reframing their value propositions. The supplier company in the financial services industry decided to develop a service proposition for a specific customer segment that is focused on "customer relationship" with some elements of the "partner relationship", that refer mainly to offering a platform and connecting the customer with other actors in the ecosystem. In order to develop the service offering, service design and service engineering tools were applied. Additionally a conjoint analysis was performed which forms the basis for the pricing model of the new service offering.

The logistics supplier company decided to shift its business model towards a partner relationship. They offer an order and inventory management solution which does not only include the own product range but also third party products.

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