

# UNDERSTANDING THE LINKAGE BETWEEN (MASS) CUSTOMIZATION AND VALUE ARCHITECTURE DESIGN

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**Purpose** – 21<sup>st</sup> century markets are in a constant flux. Following the success of mobile web applications customers are provided with real time information about new product developments and behavioral trends. Interestingly, more and more customers are not interested in mass market products and are not willing to follow general trends – a phenomenon that contradicts classical insights on customer behavior (Applebaum, 1951; Rust and Zahorik, 1993). Instead, these customers try to avoid being trapped in uniformity and call for individualized solutions particularly meeting their needs (Agnihotri et al., 2016). Changes in customer behavior normally call for firm action (Chen & Popovic, 2003). In this case, firms are challenged to change their basic mindset and to abandon the idea of realizing standardization advantages as customization seems to be the new holy grail in the realm of successfully interacting with customers (Leischnig, Kasper-Brauer & Thornton, 2018).

**Methodology/approach** – We base our paper on the service-dominant logic (SDL) concept (e.g. Lusch & Vargo, 2014; Vargo & Lusch, 2004; Lusch, Vargo, & O'Brien, 2007; Vargo & Lusch, 2008) as this concept provides a suitable framework for analyzing value creation, value delivery, and value capture processes. Especially related to the observed customization trend linked to a need for a high degree of availability of individual customer data, it is important to highlight that value co-creation does not take place automatically (Grönroos, 2011). Firms need to establish support structures to facilitate value co-creation (Payne, Storbacka & Frow, 2008; Vargo, Maglio & Akaka, 2008) – an aspect that is not easy to realize as actors involved in this process are said to have a unique perspective on value co-creation (Chandler & Vargo, 2011). Following this train of thoughts, the “value-in-context” concept has been developed with the aim of highlighting that value co-creation is context-specific (Vargo, 2009). As this changes the underlying logic how a business works, fundamental changes of a firms’ value architecture are required (Ng, Parry, Smith, Maull, & Briscoe, 2012). Therefore, aiming at understanding (mass) customization, a holistic, system-based analysis of the value-creating space of a firm, namely the firms’ business model (Ng & Briscoe, 2012) is required.

We take on this making use of the business model concept developed by Teece (2010). As the research topic we tackle is still widely underresearched, we decided for making use of a qualitative research approach (Eisenhardt, 1989). We present insights from a multiple-case study including seven firms as well as 70 customers (ten per firm) that aims at uncovering the linkage between firm value architecture design and changing customer expectations and behavior. Our main data source is interview data, additionally we include archival of the firms under research. Firm interviews are semi-structured interviews focusing on identifying the firm value architecture; customer interviews are open interviews. Overall, we base our study on more than 50 hours of interview recordings collected between September 2018 and January 2019. We analyze the data making use of the well-accepted “Gioia-methodology” (Gioia et al., 2013).

**Findings** – Our findings show in detail how the value architecture employed by firms is determined by individual customer behavior and customer preferences. Against our rich data background we are able to identify “trigger points” in customer behavior firms interpret as alarm signals causing them to purposefully starting business model innovation processes by questioning the suitability of the employed value architecture. We identify change value architecture change directions caused by customization needs, the corresponding value architecture designs and can at least provide basic insights into the success of the change path firms employ.

**Research implications** – Our paper advances SDL literature as well as business model literature as we provide insights into new determinants and catalysts of value co-creation processes and update the by now still very collective perspective on customer behavior prevalent in SDL literature. Related to business model literature, we identify triggering effects of business model innovation caused by changing customer behavior – a linkage that has by now as far as we know not gained deeper research attention. As we also gain at least basic insights into the success of changes in firm value architecture related to our specific research context, we also contribute to answering the relevant question the success of business model innovation.

**Practical implications** – Our findings enable practitioners to better prepare for and handle business model innovation needs that become manifest in changes of the value architecture and are caused by fast changing customer behavior. With the rise of social media, traditional ways of approaching customers are likely to experience disruption, our findings provide the opportunity for firms to proactively deal with change as we show directions and determinants of as well as crucial points in the change process.

**Originality/value** – As far as we know, the topic of our paper is new and has not been approached before. The topic we tackle is timely and crucial for understanding how market interaction and co-creation is supposed to work in the 21<sup>st</sup> century. We enhance both, SDL literature and business model literature; our insights offer a glimpse in the by now still widely shut black box of value co-creation while infusing the topic with business model flavor.

**Key words** – (Mass) Customization, Changing Customer Behavior, Service-dominant Logic (SDL), Business Models, Value Architecture, Business Model Innovation, Two-perspective Qualitative-empirical Research, Matching Data.

**Paper type** – Research paper (empirical).

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