

CUSTOMER VALUE PROPOSITIONS AND CO-CREATION OF SERVICE IN MULTI-CHANNEL RETAIL CONTEXTS

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Abstract

Purpose: To create superior value, pioneers in retailing orchestrate interactive multi-channel service concepts (e.g., Berry et al., 2010). In these new concepts, the retailer, partner companies, and consumers become co-creators of service (Gummesson, 2006). In addition, interactive technologies linking the different parties are often needed (Varadarajan et al., 2010). As a result, many of these interactive, multi-channel service concepts can be understood as service systems that as a whole contribute to a common value proposition (Barile & Polese, 2010). The commercial success of these new service concepts often depends on how this value proposition is judged from the customer perspective (Anderson et al., 2006; Rintamäki et al., 2007). Understanding of the cross-channel customer experience becomes crucial (Chatterjee, 2010). In addition, the resources and competencies needed to facilitate relevant customer value propositions pose a challenge from the business model perspective (e.g., Johnson et al., 2008; Vargo & Lusch, 2008). Accordingly, the purpose of this paper is twofold: 1) to illustrate customer value propositions in multi-channel business models and to 2) describe and create understanding of co-creation of service in multi-channel retail contexts.

Methodology/approach: Customer value propositions and the co-creation of service in multi-channel retail contexts are approached from the angle of three streams of literature: service-dominant logic (Vargo & Lusch, 2008), service science (Vargo et al., 2008; Spohrer & Kwan, 2009), and many-to-many marketing (Gummesson, 2006). The research project is part of a program that focuses on responsive retail and service concepts in multi-channel environments.

Findings: Crafting customer value propositions and facilitating the co-creation of service in multi-channel retail contexts requires 1) identifying the competitive customer value proposition, 2) defining the channel strategy, 3) identifying participant roles and resources, 4) aligning business models for value creation, and 5) managing dialogue and customer experience across channels.

Research implications: From the theoretical perspective, the paper contributes to understanding of customer value propositions in multi-channel retail environments.

Practical implications: From the managerial angle, the paper contributes to the understanding of cross-channel consumer behavior and crafting of customer value propositions in multi-channel retail contexts.

Originality/value: This conceptual paper develops a framework for crafting customer value propositions and facilitating co-creation of service in multi-channel retail contexts.

Key words: Customer value proposition, multi-channel retailing, service-dominant logic, service science, many-to-many marketing

Paper type: Conceptual paper

Introduction

Recent years have brought winds of change to the retail arena. More than a decade of rehearsals of copying the same brick-and-mortar offerings to first online and later mobile business models has been accompanied by truly novel perspectives to creating value for customers. Besides selling merchandise in multiple channels, retailers have increasingly stepped away from a position from which they just move goods, toward a role of providing service to customers. For instance, we have witnessed an abundance of applications targeted at making the buying decisions easier, facilitating the consumption of the goods sold, and sharing the shopping experience with friends via social media. Retailers and their partner companies offering media, IT solutions, and market knowledge, as well as customers, have become co-creators of value (e.g., Prahalad & Ramaswamy, 2004). Further, the role of customers and their social networks is expanding from that of passive recipient of marketing to co-creator of the content, co-innovator, and co-marketer (e.g., Nambisan & Nambisan, 2008). This has necessitated the orchestration of new business models that are characterized by multi-channel presence and increased interaction among consumers, retailers, and partnering companies.

Beginning by considering the issue of multi-channel presence, Chatterjee (2010, 10) notes that “retailers using multiple channels have two strategic options” – namely:

- (1) operate multiple channels as independent entities (multi-channel strategy, i.e. order and pick up in-store, order online or by telephone and get product delivered); or
- (2) integrate multiple channels allowing cross-channel movements of products, money, and information (cross-channel strategy, order online/pick up in store, order in store, and get product delivered home).

For our purposes, the second option is of special interest. The design of multi-channel service that is responsive to customer needs is based on cross-channel strategy – the customer decides where and how to encounter the retailer. When cross-channel movements are encouraged, retailers face the challenge of orchestrating seamless customer experiences for value creation. The increase in the number of interactions between consumers, retailers, and partnering companies suggests that value is co-created when different parties bring something in and create an offering that becomes larger than the sum of its parts. In multi-channel retail solutions that encourage cross-channel behavior, the parties bring, in essence, their operant resources. The relativistic nature of channel use situations should be taken into account from the perspective of value creation but at the same time enforce the

customer value proposition that differentiates the company from its competitors. This implies that customer value propositions should give guidance to multi-channel strategies.

The purposes of this paper are to illustrate customer value propositions in multi-channel business models and to describe and shed light on co-creation of service in multi-channel retail contexts. Hence, this paper provides a starting point for understanding customer value propositions and their role in the multi-channel retail business models.

Theoretical background

From the theoretical viewpoint, customer value propositions in multi-channel retail contexts are approached from three interlinked streams of literature (Barile & Polese, 2010): service-dominant logic (Vargo & Lusch, 2004; 2008), service science (Vargo et al., 2008; Spohrer & Kwan, 2009), and many-to-many marketing (Gummesson, 2006). As Frow and Payne (2011, 225) point out, service-dominant logic has given a new relevance to the concept of value propositions (VPs) by taking it as a foundational premise:

There has been increased interest in VPs following recent work in S-D logic. Lusch et al. (2007) contend that an enterprise cannot create value, but can only offer VPs (FP7). The original conceptualization placed the VP as the first step in value delivery. In contrast, S-D logic suggests value, is not delivered by one party to another. Value is co-created in-use with both parties playing a role and the VP sets expectations of value in-use. We conclude that early work on VPs has strong vestiges of goods-dominant (G-D) logic with its emphasis on a supplier delivering value. A major contribution of S-D logic is the shift in emphasis to a customer and supplier co-creating value...

Further, Ballantyne et al. (2011, 205) emphasize the reciprocity of the value proposition and suggest a refined FP7: “[A]n enterprise can initiate or participate in developing value propositions as reciprocal promises of value but beneficiaries will always determine what is of value in their own terms.” In the context of this paper, the nexus in crafting of the value propositions is the retailer, who, Lusch et al. (2007) remind us, is the main integrator of resources between the parties. The retailer links consumer customers as well as the partnering companies and other stakeholders around a common value proposition. For our purposes, S-D logic provides a lens that can be used for understanding how different parties bring resources and competencies in order to facilitate service for value creation (Vargo & Lusch, 2008). Further, S-D logics can be used when the network of actors is described in terms of the interactions taking place when specialist skills and

knowledge are applied for another party's benefit (ibid.). Within the network, reciprocity of the value propositions takes place as the meanings of value are negotiated between the parties and evaluated in accordance with the use contexts of the participants. For meaning to remain in the long term, it is the consumer customer who defines the value and gives justification for the system that can profitably make the value proposition.

Customer value propositions in the context of multi-channel retail contexts are based on networks of actors that are connected by information technology. Hence, service science (management, engineering, and design) complements the S-D logic lens for understanding of the possibilities and limitations of multi-channel value propositions. In cases where the information technology provides a competitive advantage, it might also change the participants' roles and give rise to a new main resource integrator. For instance, ShopKick is a smartphone application that has a value proposition of making shopping in brick-and-mortar stores more entertaining for customers and activating the customers such that they make more frequent visits to stores such as Best Buy, Macy's, and Target, which are partners in the program. ShopKick utilizes GPS for recognizing customers when they enter the store and rewards customers with in-store offers and "kickbucks," redeemable points that customers collect. Although a very simple example, it shows well enough ShopKick as a new player that became a resource integrator among retailers that wanted to contribute to a common value proposition, thanks to its ability to use information technology to connect customers and retailers in a new way. As the participants' roles become more complex and the actors rely on complex information systems of their own, crafting a common value proposition that integrates the participants' information systems in a new, meaningful way grows more and more challenging. In these cases, service science can offer tools for understanding how information systems can facilitate value co-creation.

Often, multi-channel value propositions not only increase dyadic interactions between parties but draw in new parties and new ways of interactions. For understanding the complex interactions that are taking place in these co-creation networks, many-to-many marketing provides a second perspective, complementing the lens of S-D logic on our subject (Gummesson, 2006; 2008). In sum, many-to-many marketing's actor-to-actor (A2A) emphasis provides focus on description, analysis, and utilization of the network properties of marketing that provide tools of use for understanding the co-creation of value and participant roles in a new light (e.g., Gummesson, 2006; 2008). As the ShopKick example shows, these interactions often include B2B, B2C, and C2B. However, ShopKick users also have features that make use of social media, which expands their interactions even to C2C.

Perspectives on value propositions

Recently, Frow and Payne (2011) provided a thorough review of the value proposition concept. They recognize customer value propositions as a focal concept that is complemented with five additional perspectives on VPs: those considering recruitment, internal, referral, influence, and supplier/alliance markets (Ballantyne et al., 2011; Payne et al., 2005, see also Storbacka and Nenonen, 2011 for a market proposition perspective).

As the name implies, a customer value proposition is based on the value or worth that the customer receives from interactions with companies, products, and services. The ultimate reason for customers to buy is the utilitarian and hedonic value they receive for their money, time, and effort (Batra & Ahtola, 1991; Sheth et al., 1991), whether the actions take place in an offline (Babin et al., 1994), online (Childers et al., 2001), or mobile (Cyr et al., 2006) environment. A distinctive customer value proposition needs to be crafted if competitive advantage is to be gained (Anderson et al., 2006). According to Rintamäki et al. (2007), competitive customer value propositions should increase the benefits and/or decrease the sacrifices, build on those competencies and resources that can be better utilized than competitors', be unique and hence recognizably different from the competition, and result in competitive advantage. For retailers, Rintamäki et al. (ibid.) suggest customer value propositions based on economic value (focus on price), functional value (focus on solutions), emotional value (focus on customer experience), symbolic value (focus on meanings), or a combination of these.

Recruitment market value propositions are based on congruence of the values of ambitious and talented labor and the values of the company, hence contributing to the recruitment process. Correspondingly, internal market value propositions aim at retaining and motivating the most capable workers. Where referral market value propositions are concerned, both advocate-initiated customer referrals and company-initiated customer referrals can be identified. As Frow and Payne (2011) point out, the role of referral markets has become accentuated with electronic and virtual multi-channel environments that bring different parties together. Covering up to 34 specific sectors influence market value propositions aim at identifying value co-creation opportunities with, for example, investors, media, government and regulatory bodies, and competitors. Finally, supplier/alliance market value propositions can be considered with partners, with whom resources and competencies are exchanged for value co-creation. We acknowledge the importance of these other markets for value propositions but limit their further treatment because our point of departure in this paper is customer value propositions.

Customer value propositions as links to business models

Frow and Payne (ibid., 235) describe value propositions as “reciprocal promises co-created usually between two counter-parties.” However, they also note that, instead of being dyadic promises of value, value propositions may involve multiple parties. This is often the case in multi-channel retail contexts, where the value is co-created with the retailer, its partners, and customers. Hence it is important to understand how customer value propositions act as strategic links between parties, connecting their business models. Magretta (2002, 87) relies on Peter Drucker when defining a good business model according to the questions it should answer: “Who is the customer? And what does the customer value? It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying logic that explains how we can deliver value to customers at an appropriate cost?” Later, Chesbrough emphasized the two functions of a business model – i.e., value creation and value capture. To provide an abbreviated form of his definition (for fuller details, see Chesbrough, 2007, 13), one can identify the following functions of business models: to 1) articulate the value proposition, 2) identify a market segment, 3) define the structure of the value chain required, 4) specify the revenue generation mechanism(s) for the firm, 5) describe the firm’s position within the network/ecosystem, and 6) formulate the competitive strategy.

Johnson et al. (2008) show that a successful business model has four components: 1) customer value proposition, 2) profit formula, 3) key resources, and 4) key processes. Within this business model framework, the customer value proposition is the *raison d'être* for any business model. It is the starting point for identifying, evaluating, and designing competitive business models. As Johnson et al. (ibid.) point out, four common areas at which successful business models target their customer value propositions are innovating a service that makes it available in economic terms for those who previously could not afford it, enhancing access to the service, breaking the skill barrier, and saving customers’ time. In the context of multi-channel retailing, it is easy to recognize examples of business models that are based on these four ways to enhance customer value.

The other three elements of Johnson et al.’s business model framework describe what it takes to create customer value profitably. In brief summary, the profit formula includes models for revenues, cost structure, margins, and resource velocity. Further, key resources consist of people, technology, equipment, information, channels, partnerships and alliances, and the brand. Respectively, the key processes might include design, development, sourcing, marketing, hiring, training, etc.,

complemented with appropriate rules, metrics, and norms that bring repeatability and scalability to the value creation.

Framework for customer value propositions in multi-channel retail contexts

Frow and Payne (2011, 233) propose a five-step, iterative planning framework for value propositions as mechanisms for aligning value: 1) identify the stakeholders, 2) determine the core values, 3) facilitate dialogue and knowledge-sharing, 4) identify value co-creation opportunities, and 5) co-create stakeholders' VPs. Our approach is slightly different, in that, instead of focusing on the stakeholder perspective, we take the retailer and the customer value proposition itself as our starting point. As Lusch et al. (2007, 13) note, "S-D logic suggests retailing is best characterized as a service integration function." Hence it is natural to consider the retailer to be the prime integrator of resources, whose challenge is to craft customer value propositions for a multi-channel environment wherein partner companies and customers alike may take part in the co-creation of service. Therefore, we propose the following five steps: 1) identify a competitive customer value proposition, 2) define the channel strategy, 3) identify participant roles and resources, 4) align business models for value creation, and 5) manage dialogue and customer experience across channel boundaries.

The first step involves identification of a competitive value proposition. As was discussed above, at this point, the customer value proposition is evaluated on the basis of its ability to decrease the sacrifices and increase the benefits experienced by customers in ways that yield economic, functional, emotional, and/or symbolic value, or their combination (Rintamäki et al., 2007). From the retailer's perspective, the customer value proposition should result in competitive advantage that may stem from resource use decisions as well as from differentiation from competitors.

The second step focuses on defining the channel strategy. Peterson et al. (2010), emphasize the role of segmenting the market, understanding the customer journey, creating incentive programs / a reward system for the staff, and providing service support as the bases for channel strategy, while Zhang et al. (2010) recognize organizational structure, data integration, consumer analytics, and evaluation and performance metrics as the four big challenges in crafting of multi-channel retail strategies. All in all, the choice of channel strategy should facilitate work with the customer value proposition selected.

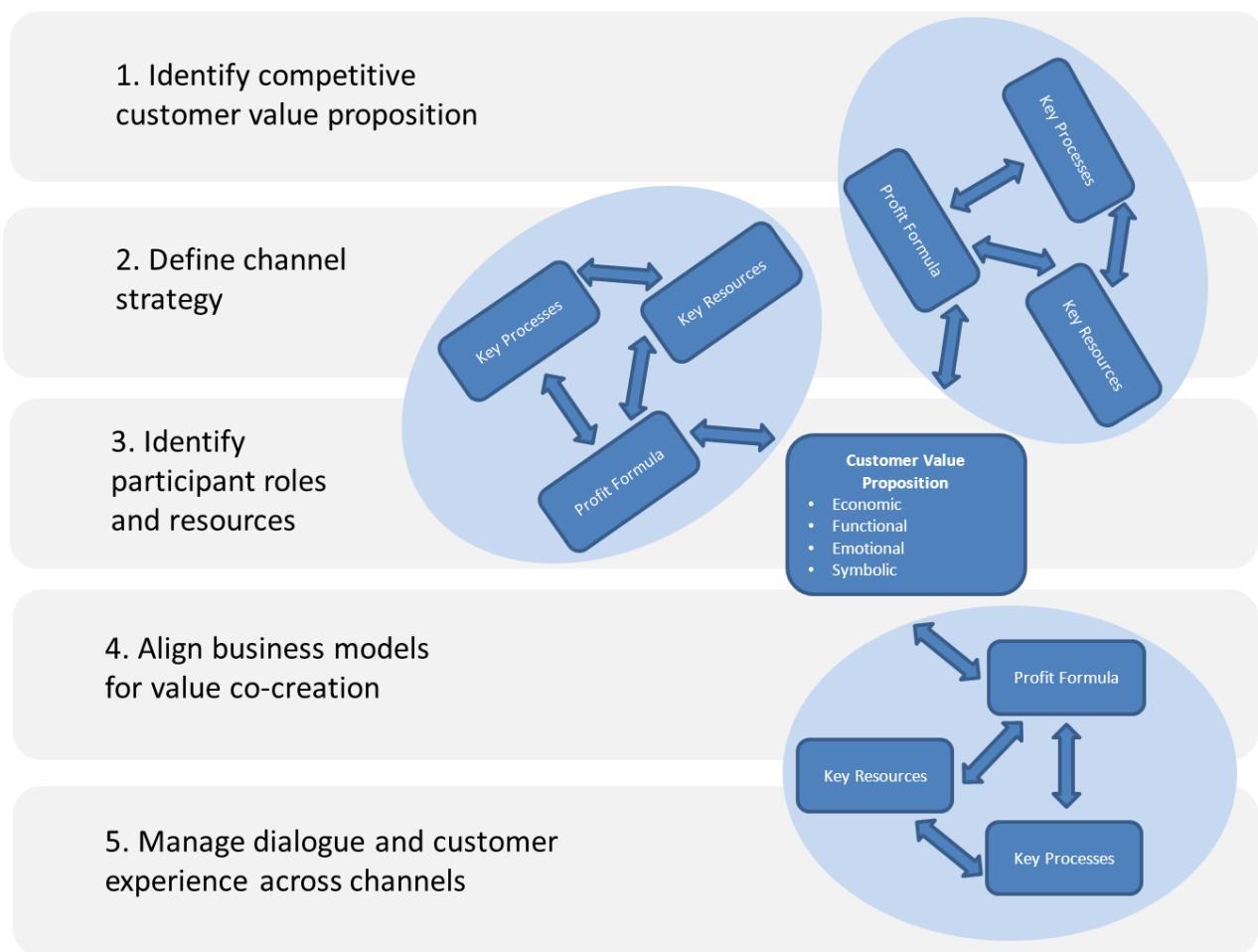


Figure 1. A preliminary framework for managing customer value propositions in multi-channel retail contexts (business model elements and relations expanded from the work of Johnson et al. (2008) and dimensions of customer value propositions from Rintamäki et al. (2007).

Depending on the channel strategy selected and the nature of the customer value proposition, multiple participant roles and resources can be identified, for partner companies as well as for customers. Customers, for instance, may have various roles in the co-creation and facilitation of value (Grönroos, 2008). Recently, Nambisan and Nambisan (2008) identified five distinct customer roles: product conceptualizer, product designer, product tester, product support specialist, and product marketer. In accordance with the role adopted, the customers engage in knowledge development and innovation in relation to the service provider, as well as social interaction and community development in relation to other participants. Partner companies and other stakeholders may bring in various resources and competencies that are necessary for the co-creation of service. As Frow and Payne (2011, 231) point out, “value creation through knowledge and resource sharing binds this stakeholder marketing system together, with VPs potentially playing a key coordination role between members of this system.” Examples of capabilities include collaborative, absorptive,

and adaptive capabilities (Lusch et al., 2007). Collaborative capabilities represent an essential condition of co-operation for value creation. Absorptive and adaptive capabilities are again needed if one is to learn from the market for value creation and to change the ways of operation in order to maintain creation of meaningful value, respectively.

The fourth step involves aligning business models for value co-creation. The retailer as a prime integrator of resources should pay attention to this with two things in mind. Firstly, the collaboration between partnering companies should redeem the value promise to customers. Secondly, the business models should function together in a way that ensures exchange of resources as well as the profitability of individual profit formulae.

Finally, the dialogue and customer experience should be managed across channel boundaries in order to guarantee satisfaction as the composite of all customer touch points. Bridging the customer touch points between channels with interactive technologies helps to facilitate the customer value proposition (Berry et al., 2010).

Discussion and conclusions

Customer value propositions represent a starting point for understanding and developing business models for retailers and other service entities. Although the conceptualization of VPs has started with a goods-dominant logic stance, service-dominant logic, service science, and many-to-many marketing offer a fertile mindset for developing value propositions toward mechanisms of value alignment (Frow & Payne, 2011). Orchestrating multi-channel solutions often brings in a larger number of actors who take part in facilitating the customer value proposition. Hence it is important to craft propositions of value to multiple stakeholders (ibid.). Understanding of the dynamics and relevant value propositions within the network is essential also for evaluation of whether all participants are able to implement viable business models of their own, as a result of which customer value proposition is also possible. When brought into the context of multi-channel retailing, customer value propositions can be seen as tools to focus on customer needs; organize key resources, processes, and competencies for value creation; and manage the collaborative structures stemming from co-creation involving B2B, B2C, C2B, and C2C interactions. To that end, we have suggested a preliminary framework with five phases: 1) identifying the competitive customer value proposition, 2) defining the channel strategy, 3) identifying participant roles and resources, 4)

aligning business models for value creation, and 5) managing dialogue and customer experience across channels.

The main limitation of this paper lies in its conceptual nature, which at the same time opens avenues for future research. Empirical work focused on identifying customer value propositions in multi-channel contexts could take the following perspectives: On what dimensions of value are customer value propositions based? How are competencies, resources, and key processes organized across channels from the customer value creation perspective? What kinds of roles do companies, customers, and other stakeholders have in facilitating the customer value proposition profitably? How can the co-creation of customer value propositions be used as a tool for bringing together the business models of existing companies and to create new business models based on the synergies of the resources, competencies, and key processes of the collaborating parties? Case studies that go into particular depth are needed for understanding the possibilities and dynamics of customer value propositions in complex value networks. However, we believe that, for provision of tools for designing, managing, and foreseeing changes in profitable business models based on shared customer value propositions, it is also essential to develop measurement scales for the key concepts presented.

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