

The cycle of customer value: A model of return

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Abstract. The aim of this paper is to contribute to the strategic management literature by identifying a relationship between customer value seen from the customer perspective and customer value seen from the firm perspective, and how this relationship might affect the value created for the customer. We propose that such a relationship exists, and attempt to create an integrated view of customer value. We have not found any papers that focus on the relationship between these two perspectives of customer value, and our aim is to bridge this gap in the literature. Our proposed model shows that what really creates value is the relationship between customer value from the customer's point of view and customer value from the firm's point of view.

Keywords: value, perceived value, value creation, value appropriation, customer value, strategic management

1. Introduction

It has long been recognized that the essential elements of a firm's business strategy are understanding the value that customers perceive in an offer, creating value for them and then managing it over time (Porter 1985, 1998; Slater, Narver 1998). Determining what the customer seeks from a product/service also helps a firm to formulate its value proposition. Porter (1985) notes that a firm's competitive advantage stems from its ability to create value for its customers, which exceeds the firm's cost of creating it (DeSarbo *et al.* 2001).

'Customer value' emerged in the 1990s as a growing topic of interest for firms, both at an academic and a professional level. The concept is considered one of the most significant factors for a firm's success (Gale 1994; Parasuraman 1997; Woodruff 1997; Zeithaml 1988; Zeithaml *et al.* 1996) and has been highlighted as an important source of competitive advantage (Mizik, Jacobson 2003; Spiteri, Dion 2004; Woodruff 1997). Customer value is also recognized as the fundamental basis of all marketing activity (Holbrook 1996) and is regarded as a critical strategic tool to attract and retain customers (Lee, Overby 2004; Sánchez, Iniesta 2006; Wang *et al.* 2004), as well as being an indicator of repurchase intentions (Parasuraman, Grewal 2000).

In recent decades, firms have been operating in a new and complex competitive environment in which more and more customers are demanding the creation of value (Sánchez *et al.* 2009) and firms are increasingly regarding customer value as a key factor in their search for new ways to obtain and maintain a competitive

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3 advantage (Woodruff 1997). This has generated a growing interest in creating and
4 delivering superior value to the customer (Smith, Colgate 2007; Wang *et al.* 2004).

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6 The existing literature demonstrates that customer value can be viewed both from
7 the customer's point of view and from the firm's point of view. Some authors focus
8 on perceived value (the customer perspective), while others focus on value creation
9 and appropriation (the firm perspective). But it is important to find an integrated
10 view of both perspectives from which to study customer value. In fact, according to
11 Priem (2007), the customer perspective presents an alternative point of view that is
12 potentially important for strategic management. Indeed, we suggest that the
13 unification of these two perspectives is what really creates value. The firm only
14 truly creates value when the customer perceives that value. Therefore, we propose
15 the existence of a relationship between the different perspectives and will attempt
16 to create an integrated view of customer value. It is clear therefore, that the ability
17 of the firm to create and appropriate value needs to encompass the customer
18 perspective. We have not found any papers that focus on the relationship between
19 these different perspectives of customer value, and our aim is to bridge this gap in
20 the literature, and carry out an analysis of how these perspectives can be related.
21 Our objective therefore is a) to identify the relationship between customer value
22 from the customer's point of view and customer value from the firm's point of
23 view; b) to produce a model that shows this potential relationship; and c) to
24 demonstrate that it is this relationship that really creates value.
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26

27 To summarize, the aim of this paper is to contribute to the strategic management
28 literature by identifying a relationship between customer value from the customer
29 perspective and from the firm perspective, and the potential influence of this
30 relationship on the value created for the customer. The paper begins with an
31 explanation of the theoretical context, followed by a presentation of the study
32 model and the positing of our hypotheses. The third section contains a description
33 of the principal aspects of the methodology, including the research context,
34 measures, data collection and analysis. A discussion of the results and implications
35 of the study follows, and the paper concludes with the limitations of the study and
36 suggests further areas of research.
37
38

39 **2. Theoretical background**

40 **2.1. Different perspectives of customer value**

41
42 The study of 'customer value' is complicated by the different definitions of the
43 concept, depending on the point of view adopted. For example, Payne and Holt
44 (2001) note that the term 'customer value' can be used in a variety of contexts.
45 These include 'customer-perceived value', 'creating and delivering customer
46 value'.
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3 value' and 'value of the customer'. These three perspectives are explained more
4 fully below:

5
6 1) Customer-perceived value: Traditionally, the principal mechanism for listening
7 to the customer has been to measure satisfaction. Woodruff (1997) states that the
8 measurement of satisfaction needs to shift towards a better understanding of what
9 customers value in terms of which products/services help them to achieve their
10 organizational goals and purposes. As a result, many researchers are now focusing
11 on this extended view of customer-perceived value (Anderson, Narus 1998;
12 Parasuraman 1997; Ravald, Grönroos 1996; Slater 1997; Woodruff 1997). From
13 this perspective, customer value becomes a customer-oriented concept and the
14 customer's perception of what is created and delivered should be established and
15 borne in mind when the firm defines its value proposition (Omar *et al.* 2011;
16 Payne, Holt 2001).

17
18 2) Creating and delivering customer value: Customer value creation and delivery
19 was the focus of much research during the 1990s (Band 1991; Day 1990; Gale
20 1994; Naumann 1995). This perspective focuses on the links between customer
21 value, firm performance and competitive advantage and argues that a firm's
22 success depends on the extent to which it delivers what is of value to its customers
23 (Acar, Zehir 2010; Payne, Holt 2001). Naumann (1995) stresses that product
24 quality alone is not enough to guarantee a firm's survival and states that the key
25 success factor is the firm's ability to create and deliver superior customer value
26 compared to its competitors.

27
28 3) Value of the customer: Studies have also been undertaken into customer value
29 from the perspective of 'the value of the customer to the firm' (Payne, Holt 2001).
30 This stream of research focuses on the value of the customer to the firm; viewing it
31 as an output, rather than an input, of value creation. As such, it focuses not on the
32 creation of value for the customer but on the value outcome that can be derived
33 from delivering superior customer value. According to Payne and Holt (2001), a
34 key concept that forms part of this perspective is that of 'customer lifetime value'.
35 This perspective views customer value as the value that a firm can derive from its
36 customers (Woodall 2003) and does not consider the value provided by the firm to
37 its customers. From an analysis of Payne and Holt's (2001) description of this
38 customer value perspective, we would venture that this refers to firm value
39 appropriation.

40
41
42 This paper is based on a study of the three streams of investigation proposed by
43 Payne and Holt (2001): perceived value; value creation; and value appropriation. In
44 our opinion, their approach concurs with our idea of value. On the one hand,
45 marketing literature focuses on the demand perspective of value –customer value
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3 and its perception– while on the other hand, strategic management literature views
4 value creation and appropriation (and the firm’s ability to carry this out) as the
5 distinctive competence.
6

7 Business strategy aims to create firm value, but the real interest lies in
8 appropriating the greatest possible amount of the value created. To achieve this,
9 firms depend not only on their own organizational resources and capabilities, but
10 also on customer perceptions and customer reactions to the firm’s value
11 proposition compared to its competitors. We therefore propose this study of value
12 creation from a double perspective: on the one hand, focusing on what needs to
13 happen inside firms in order to develop a value creation capability; while at the
14 same time focusing on customer perceptions, because these determine the extent to
15 which firms can appropriate value.
16

17 We propose that these two perspectives must be unified in order to achieve a more
18 realistic understanding of value creation. Our main objective therefore is to connect
19 these two contributions in order to clarify the whole process of value creation.
20

21 **2.2. Perceived value (PV)**

22
23 The value perceived by the customer has received a lot of attention from both
24 academics and practitioners due to the importance of predicting purchase behavior
25 and achieving competitive advantages (Bolton, Drew 1991; Cronin *et al.* 2000;
26 Parasuraman *et al.* 1985; Zeithaml 1988).
27

28 Sánchez and Iniesta (2006) demonstrate that many terms have been used to refer to
29 PV, such as ‘judgment value’ (Flint *et al.* 1997), ‘shopping value’ (Babin *et al.*
30 1994), ‘consumption value’ (Sin *et al.* 2001; Sweeney, Soutar 2001), ‘relationship
31 value’ (Raval, Grönroos 1996), ‘product value’ (Bowman, Ambrosini 2000),
32 ‘service value’ (Bolton, Drew 1991; Cronin *et al.* 2000), ‘desired value’ (Flint *et al.*
33 2002), ‘expected value’ (Van der Haar *et al.* 2001), ‘customer value’ (Woodruff
34 1997), ‘perceived value’ (Agarwal, Teas 2001; Zeithaml 1988) or ‘received value’
35 (Flint, Woodruff 2001).
36

37
38 In the review of the PV literature carried out by Woodall (2003), 18 different terms
39 were found that describe the idea of value from the demand side. In fact, some
40 authors use different terms within the same paper. According to Sánchez and
41 Iniesta (2006), these terms all refer to the same idea; that of customers’ perception
42 of value, but different terminology has developed from the study of value from
43 different perspectives and in different contexts.
44

45 Although PV has often been defined as a trade-off between quality and price, many
46 researchers note that it is a more obscure and complex construct, which
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3 encompasses ideas such as price, quality and perceived benefits and sacrifices
4 (Bolton, Drew 1991), and a more specific investigation of its dimensions is
5 required (Sinha, DeSarbo 1998).

6
7 As several authors have done (Boksberger, Melsen 2011; Cengiz, Kirkbir 2007;
8 Sánchez, Iniesta 2006; Ulaga 2003; Ulaga, Chacour 2001), we identify a number of
9 convergences and divergences within the different existing definitions of PV.

10
11 Among the convergences, we would highlight the following:

12
13 1) The perceptual nature of value is probably the most widely accepted aspect of
14 the concept (Day, Crask 2000). Value is perceived subjectively by customers and is
15 not determined objectively by the firms (Anderson, Narus 1998). As Doyle (1989)
16 states, 'value is not what the producer puts in but what the customer gets out'. Most
17 of the literature agrees on this subjectivity of value (Babin *et al.* 1994; Bolton,
18 Drew 1991; DeSarbo *et al.* 2001; Monroe 1990; Zeithaml 1988).

19
20 2) Value is inherent or is linked to the use of the product/service, which
21 distinguishes it from personal and organizational value. According to Woodruff
22 and Gardial (1996), 'customer value is not inherent in products/services
23 themselves; rather it is experienced by customers as a consequence of using the
24 firm's products/services for their own purposes'.

25
26 3) The process of perceiving value typically involves a trade-off between perceived
27 benefits and sacrifices; that is, between what the customer receives (e.g. quality,
28 benefits, utilities) and what he/she gives up (e.g. price, opportunity cost and
29 maintenance cost) to acquire and use a product/service (Zeithaml 1988), although
30 some definitions do not refer to this trade-off. *Perceived benefits* are a combination
31 of elements that include physical attributes, service attributes and the technical
32 support available relating to the use of the product/service, as well as the purchase
33 price and other indicators of perceived quality (Monroe 1990; Payne, Holt 2001).
34 *Perceived sacrifices* are sometimes described in monetary terms (Anderson *et al.*
35 1993), although there are other, broader definitions of sacrifices. An important
36 point in the conceptualization of value is that the direct monetary cost (price) is
37 only one of the components that the customer gives up to obtain the
38 product/service (Zeithaml 1988). Sacrifice is a wider and richer concept, that
39 includes non-monetary costs such as time, effort and the assumed risk associated
40 with a particular purchase (Cronin *et al.* 1997; Dimitriadis 2011).

41
42 4) Value is perceived in relation to the competition (Gale 1994). A position of
43 superior customer value is achieved when a firm creates more value than its
44 competitors (Slater, Narver 2000), and offering better value than the competition
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3 will help a company to create sustainable competitive advantage (Ulaga, Chacour
4 2001).

5
6 With regard to the divergent definitions of PV, we would highlight the following
7 points:

8
9 1) The way in which the definitions have been developed makes it difficult to
10 compare concepts (Sánchez, Iniesta 2006), because these usually differ in the terms
11 employed, such as utility, benefits, quality, price and satisfaction.

12
13 2) Researchers disagree on the positive and negative components of customer
14 value. According to Sánchez and Iniesta (2006), quality is the most commonly
15 cited benefit, while price, time, effort and psychological cost are the most
16 frequently cited sacrifices.

17
18 3) It is unclear whether a comparison between different objects is required for the
19 generation of value. Not all authors consider this element in their studies of value
20 (Gale 1994; Van der Haar *et al.* 2001). Holbrook (1999) asserts that value is
21 comparative because the value of an object can only be understood when compared
22 to that of another object evaluated by the same person.

23
24 4) There are different opinions on the circumstances in which a customer thinks
25 about value. Some authors have studied value in the context before the purchase
26 (Chen, Dubinsky 2003; Monroe 1990), during the purchase (Holbrook 1999;
27 McDougall, Levesque 2000; Ulaga, Chacour 2001) and at different times during
28 the purchase decision process (Van der Haar *et al.* 2001; Woodruff 1997). This
29 phenomenon reflects the dynamic nature of the concept (Sánchez, Iniesta 2006).

30
31 5) There are different views of the cognitive nature versus the affective nature of
32 value. Some researchers have posited value as a strictly cognitive concept (Oliver
33 1999; Zeithaml 1988), while others defend both the cognitive and affective nature
34 of PV (Babin *et al.* 1994; Babin, Kim 2001). The 'value for money' paradigm that
35 has traditionally defined value from a cognitive perspective as a trade-off between
36 quality and price has been considered very simplistic in consumption experiences
37 (Sweeney, Soutar 2001). Thus, a large number of authors have defended the
38 existence of both cognitive and affective systems in the nature of value (Babin *et*
39 *al.* 1994; Babin, Kim 2001).

40 41 42 **2.3. Value creation (VC) and value appropriation (VA)**

43
44 It has been suggested that a firm's purpose is to create value (Slater 1997) and that
45 this is a precursor to customer satisfaction and loyalty (Woodall 2003). Slater
46
47

(1997) asserts that firms should be committed to the idea that VC should be the reason for their existence and, undoubtedly, their success.

According to Drucker (1973), the mission and purpose of every business is to satisfy the customer. This satisfaction is achieved when the firm delivers superior customer value. Superior performance is not an end in itself; it is the result of providing superior customer value (Slater 1997). Two processes, which combine and interact with each other, are fundamental to achieving this outcome (Mizik, Jacobson 2003). One of the processes involves the creation of customer value, while the other focuses on appropriating value in the marketplace. VC alone, however, is insufficient for a firm to achieve success in the marketplace; it must also have the ability to restrict competitive forces (such as erecting barriers to imitation) so that it can appropriate some of the value that it has created, in the form of profit (Mizik, Jacobson 2003).

Therefore, due to increasing turbulence and constant changes in the current economic and competitive environment, some authors (Hitt *et al.* 2001; Nonaka, Toyama 2002; Venkataraman, Sarasvathy 2001) have recently stressed that for a strategy to be effective it should adopt both VC and VA.

Similarly, Tuominen (2004) views VC as an organizational capability that, along with the VA capability, is required in order to gain competitive advantage in the marketplace. The superiority of firms that lead the competition cannot be based solely on the creation of value; they also have to be able to appropriate the value created through market share and profits (Mizik, Jacobson 2003; Tuominen 2004). In any event, it is likely that these advantages would only be temporary, as market dynamism and uncertainty generate the need not only to create new value, but also to maintain the value created in previous periods (Eisenhardt, Martin 2000; Morrow *et al.* 2007; Sirmon *et al.* 2007).

Priem (2007) defines VC and VA capabilities as follows:

1) Value creation: When value is created the customer is a) willing to pay for a novel benefit; b) willing to pay more for something perceived to be better; or c) will choose to receive a previously available benefit at a lower unit cost, which often results in a greater volume being purchased. Therefore, this organizational capability refers to an innovation that establishes or increases the customer's evaluation of the benefits of consumption.

2) Value appropriation (also referred to as value capture, allocation, realization, dispersion or distribution). Priem (2007) states that value is appropriated when a firm a) receives customer payments by preventing its competitors' attempts to appropriate those payments, for example, through imitation; and b) simultaneously

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3 retains those payments by denying claims on them from other members of the same
4 value system, for example, through channel power. Therefore, this organizational
5 capability refers to the appropriation and retention by the firm of payments made
6 by customers in the expectation of obtaining future value from their consumption.
7

8 These definitions appear to state that VC and VA should not be considered
9 separately, but that both capabilities are required for securing a competitive market
10 position and achieving superior performance (Han *et al.* 1998).
11

12 According to Mizik and Jacobson (2003), VC influences the potential magnitude of
13 the firm's competitive advantage, while VA influences the scale of the advantage
14 the firm is able to capture and the duration of that advantage. VC involves new or
15 modified products/services, while VA focuses on restricting competitive forces and
16 extracting benefits from the marketplace (Han *et al.* 1998).
17

18 According to Mocciaro and Battista (2005), the firm is not considered to be
19 oriented exclusively towards either VC or VA, but rather, they both characterize
20 the progress of a firm's development. They argue that there must be a period
21 during which the firm pursues VA in order to benefit from its innovations, by
22 increasing the efficiency of its resource allocation. They also suggest that VA alone
23 cannot stand the test of time in a hypercompetitive environment and argue that
24 there is a need to anticipate and proactively contribute to the creation of the future
25 'rules of the competitive game'. This will protect them from the actions of rival
26 firms. According to Mocciaro and Battista (2005), during phases of stability firms
27 lay down the foundations for the future adoption of value-creating behaviors and
28 start to construct new competitive advantages (i.e. phases of inner change). The
29 adoption of value-creating behaviors must be followed by phases of stability in
30 order to increase the efficiency of the production processes and to consolidate the
31 stable rents derived from the innovations. In conclusion, innovation fosters VC and
32 stability fosters VA.
33
34

35 Although VC and VA are both required to achieve a sustainable competitive
36 advantage (as shown in Figure 1), firms have to decide the extent to which they
37 will focus on one or the other (Mizik, Jacobson 2003). Firms therefore face the task
38 of balancing the two processes in their strategies and determining the appropriate
39 amount of support for each.
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3. An integrated view of customer value

In this section, we attempt to integrate the two perspectives of customer value described above: PV (the customer perspective); and VC and VA (the firm perspective).

There are several arguments that suggest that the customer perspective is a potentially important alternative viewpoint for strategic management (Priem 2007). One argument is that customers should be an important consideration in strategy formation, since company success depends on customers experiencing benefits. Put simply, by offering benefits that induce payments from willing customers, value creation becomes a precondition for value capture.

Another argument is that the mechanisms associated with demand are generally ignored by current strategy-dominant perspectives, in which value is determined externally (see, for example, Lippman, Rumelt 2003; Priem, Butler 2001a, b). Instead, attention is paid to how a focal member of a value system can increase the share of customer payments into that system, at the expense of other members, in a zero-sum game that divides up a specific amount of value. The customer perspective approach, on the other hand, emphasizes relationships between company strategies and the mechanisms that drive customers' willingness to pay.

Different viewpoints such as this are interesting because they help to uncover, and often disprove, long-held assumptions that may constrain our thinking (Davis 1971).

As a first approximation of the relationship between these three concepts, we propose the following figure:

Insert Fig. 2 here

As shown in Figure 2, we propose that the value cycle begins with the firm's proposition of value (a). Every firm has its own value proposition and its own expectation of value capture in the marketplace. We also propose that a firm must be able to create value (b) for its customers. To create value, a firm needs to have or develop a set of distinctive capabilities to differentiate it from the competition. We posit that the value proposition of each firm helps it to create value for its customers. But regardless of how much value a firm creates, if the customer does not perceive it (c), then the firm is not really creating value (Chan *et al.* 2010;

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3 Martin *et al.* 2004; Simpson *et al.* 2001; Smith, Colgate 2007; Woodruff 1997).
4 This is where perceived value comes into play.

5
6 Some authors identify differences between what managers think their customers
7 value and what customers really value (Anvary Rostamy 2009; Woodruff, Gardial
8 1996). It is important to include PV in the model because of the different ways that
9 customers and firms measure value (Nasution, Mavondo 2008).

10
11 When a firm creates value and the customer perceives it, the firm then needs to
12 appropriate that created value. We therefore propose that feedback through
13 customer PV is necessary, to enable the firm to update and adapt its value
14 proposition.

15
16 As explained earlier in this paper, we argue that when discussing the concept of
17 'customer value', it is important to keep both the customers and the firm in mind,
18 since it is the relationship between them that gives rise to true value. The aim of
19 this study is to identify the nature of the relationship between customer value from
20 both the customer perspective and the firm perspective, to allow improvements in
21 the value created for the customers.

22
23 Traditionally, value research has been focused on the evaluation of how firms
24 create value for their customers and how customers perceive the superior value of
25 what the firm is offering, compared with the competition. In recent years, the
26 emphasis has been on considering customers as assets (Ulaga 2001), an idea that
27 refers to the requirement that firms should be able to appropriate the value created.

28
29 Although VA is important, strategists should not focus exclusively on capturing
30 exchange value, while leaving it to chance that use value is experienced. *Exchange*
31 *value* is the monetary amount realized at the single point in time when the
32 exchange of the product/service takes place and *use value* equates to the specific
33 qualities of the product/service that customers perceive in relation to their needs
34 and how far alternative products/services might meet those needs (Bowman,
35 Ambrosini 2000). An essential part of the strategist's art should be to help
36 customers perceive and experience maximum use value, in a competitive
37 environment in which other firms are also struggling to help their customers (Priem
38 2007). Furthermore, VC alone is insufficient to achieve competitive advantage and
39 financial success and therefore, firms that are unable to restrict competitive forces
40 (e.g. erect barriers to imitation) will not be able to appropriate the value that they
41 have created (Grant 1991; Teece *et al.* 1997). Indeed, there is little incentive for
42 firms to engage in VC in the absence of isolating mechanisms (such as innovation)
43 that prevent the immediate dissipation of the profits associated with a value-
44 creating initiative (Mizik, Jacobson 2003). Firms without the capabilities to restrict
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3 competitive forces are unable to appropriate the value they have created, which
4 means that competitors and customers will claim it (Ghemawat 1991).

5
6 Mizik and Jacobson (2003) stress that VC investment decisions cannot be divorced
7 from those related to VA, since countless examples exist of innovations that
8 created enormous value, but where the innovating firm was unable to capture the
9 surplus value. They argue that firms that fail to pay sufficient attention to VA
10 cannot be expected to achieve sustained competitive advantage and capture the
11 benefits created by their VC capabilities.

12
13 In Figure 2, we try to demonstrate how the three views of value are equally
14 important for a firm and that all three should be interrelated. Similarly, Barroso and
15 Ruiz (2010) note that, from a firm's perspective, VC starts generating value for the
16 customer, which enables it to gain a competitive advantage, which in turn
17 contributes to increased shareholder wealth (Priem 2007; Sirmon *et al.* 2007).

18
19 Figure 3 is a graphical explanation of the process we propose.

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23 Insert Fig. 3 here

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26
27 As we have demonstrated, both the firm and its customers need to be considered
28 when discussing customer value, since true customer value develops from the
29 relationship between them.

30
31 We therefore propose the following model:

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33
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35 Insert Fig. 4 here

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37
38 We also propose the following hypotheses:

39
40 *Hypothesis 1: Customer value creation is positively related to customer perceived*
41 *value.*

42
43 *Hypothesis 2: Customer perceived value is positively related to firm value*
44 *appropriation.*

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3 As we see in Figure 4, our proposed model includes the three views of value and
4 the relationship between them. We would argue that it is this relationship that
5 really creates value.

6
7 This means that a firm has to be able to create value for its customers, and in order
8 to create value, it needs to have or develop a distinctive set of capabilities that
9 allows it to stand out from the competition. For example, a firm's technological
10 capabilities, driven by R&D expenditure, have been linked to VC (Mizik, Jacobson
11 2003).

12
13 Regardless of how much value a firm creates, if the customer does not perceive it,
14 the firm is not really creating value. This is where PV comes into play and with it,
15 the role of the customer.

16
17 If, on the contrary, a firm creates value and the customer does perceive it, the next
18 step must be the appropriation of the value it has created. Just as when the firm
19 creates value, it needs to have –or if not, to develop– a set of capabilities, such as
20 barriers to imitation, in order to capture the value created.

21 22 **4. Methodology**

23 24 **4.1. Data collection**

25
26 The context for the research hypotheses is the Spanish banking industry, including
27 retail and commercial banks and saving banks that serve the general public;
28 representing around 18% of national GDP.

29
30 This is a suitable sector for our study because increasingly intense competition
31 within the financial service industry is forcing banks to recognize the need to seek
32 new ways of creating customer value. In addition to the competitiveness of the
33 industry, the relative intangibility of their products/services creates the need to
34 capture and retain customers by offering them something extra and the need to
35 appropriate the value created for them.

36
37 The crisis in the financial services industry is highly significant, both now and in
38 2010, when the study was carried out. The effect of this crisis has been to force
39 many countries to apply severe measures to reduce the impact on their financial
40 services industry. Numerous banks and insurance company takeovers and
41 capitalizations have taken place, the number of company mergers as a rescue
42 measure has multiplied and crashes have increased. The full extent of this crisis is
43 still unknown, since events have occurred at an unusually high speed, leading to
44 enormous changes within a short time span, mostly following the crash of Lehman
45 Brothers in September 2008.

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3 A total of 110 banks were operating in Spain at the time of the study (2010), of
4 which 65 were commercial/retail banks and 45 were savings banks.

5
6 The small number of bodies comprising the banking industry in Spain can be seen
7 as an advantage or a disadvantage. On the one hand, the study is able to examine
8 the whole population instead of a particular sample, but on the other hand, a small
9 sample size can lead to problems in the analysis of the data.

10
11 Only 85 of the banks met the requirements of the study. Only 40 of the 65
12 commercial/retail banks qualified: of the other 25 banks, 17 simply bore a
13 corporate name, but were the capital property of other banks, operating from within
14 their offices; and eight were investment (not commercial) banks. The target group
15 therefore consists of 85 financial bodies, representing around 77% of the total.

16
17 The response rate was high, at around 90%, with 76 of the 85 banks completing the
18 questionnaire. It is of note that all of the completed questionnaires were valid.

19
20 We also gathered data from banking customers to gain a more precise picture of the
21 value generated by the firms. A pool of customer data (with a minimum of 20 to 30
22 customers) was obtained for each of the 76 banks to observe standard customer
23 behavior regarding PV. The study used 1832 customer questionnaires.

24
25 To measure VA, we opted to use secondary data (financial reports) because we
26 believe that this variable should be measured objectively.

27
28 We decided to combine these sets of data (from banks and customers) to test the
29 hypotheses in our theoretical model.

30 31 **4.2. Measures**

32
33 We measured all of the constructs in the questionnaires against existing scales in
34 the literature, which indicates that all of the instruments in the study have a proven
35 validity and reliability.

36
37 Following a review of the scales used in previous investigations, we chose Hooley
38 *et al.*'s (2005) scale to measure customer VC capability, although the lack of
39 proposals for measuring customer VC created problems when seeking the most
40 appropriate instrument for this construct. The model uses Hooley *et al.*'s (2005)
41 scale because it is complete and refers to the creation of value for customers, as
42 opposed to other proposals, which analyze VC for all the stakeholders.

43
44 The model uses Martin *et al.*'s (2008) scale to measure customer PV. This consists
45 of four dimensions: service quality (SQ); service equity (SE); confidence benefits
46 (CB); and perceived sacrifice (PS). We believe this scale is well suited to our

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2
3 study, given its emphasis on perceived service value. Furthermore, according to
4 Martin *et al.* (2008), the scale can be generalized to other contexts.

5
6 Using Tuominen's (2004) scale as our basis, we developed a list of variables to
7 help us measure the firm's VA. Data was collected from each bank regarding
8 market share; sales volume; overall profit levels; ROI (return on investment); and
9 profit margins. This data was taken from the 2009 annual accounts of each bank
10 posted on its website or from the website of the National Share Market
11 Commission.

12
13 Appendix A provides a summary of the questions used in the questionnaire given
14 to both customers and managers.

15 16 **4.3. Data analysis**

17
18 In order to obtain a robust evaluation of the quality of the items, we carried out a
19 confirmatory analysis (CFA), using the covariance matrix as input, via the EQS 6.1
20 robust maximum likelihood method (Bentler 1988). As the model uses reflective
21 and formative indicators and the data is non-normal, other software packages for
22 structural equation modeling (e.g., LISREL or AMOS) were inappropriate
23 (Diamantopoulos, Winklhofer 2001). The CFA produced a good fit with an
24 incremental fit index (IFI) of 0.93 and a comparative fit index (CFI) of 0.93 (also,
25 *Satorra-Bentler* $\chi^2_{(18)} = 40.65$; $\chi^2/d.f. = 2.25$; $CFI = 0.93$; $IFI = 0.93$; $RMSEA = 0.07$).

26
27 In all the measurements, Bagozzi and Yi's (1988) composite reliability index and
28 Fornell and Larcker's (1981) average variance extracted index was higher than the
29 evaluation criteria of 0.7 for composite reliability and 0.5 for the average variance
30 extracted.

31
32 We determined the discriminant validity by calculating the shared variance
33 between pairs of constructs (the lower triangle of the matrix in Table 1) and
34 verifying that the value was lower than the average variances extracted for the
35 individual construct (the diagonals in Table 1). The shared variances between pairs
36 of all possible scale combinations indicate that the variances extracted are higher
37 than the associated shared variances in all cases (Fornell, Larcker 1981). In the
38 interest of thorough discriminant validity, we carried out an additional test, which
39 supports this assumption, since the confidence interval (± 2 standard errors) around
40 the estimated correlation between any two latent indicators never includes 1.0
41 (Anderson, Gerbing 1988). Table 1 shows the shared variances, means and
42 standard deviations.

43
44 Appendix A also shows the standardized coefficients for the VC and PV measures
45 in order to report their importance and level of significance.

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3 Insert Table 1 here
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7 **5. Results**

8
9 After checking the psychometric properties of the measures, the next step was to
10 evaluate the relationships set out in our hypotheses –H1 and H2– following a
11 review of the relevant literature. Table 2 shows that the fit of the model is
12 satisfactory (*Satorra-Bentler* $\chi^2_{(5)} = 28.81$; $\chi^2/d.f = 5.76$; *CFI* = 0.93; *RMSEA* =
13 0.14), suggesting that the nomological network of relationships fits the data –
14 another indicator that supports the validity of these scales (Churchill 1979).
15

16 Table 2 shows that the goodness-of-fit measures are acceptable and the proposed
17 model is therefore acceptable.
18
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21 Insert Table 2 here
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24 All of the results are set out in Table 3.
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28 Insert Table 3 here
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32 Table 3 shows a significant link between VC and PV, which supports Hypothesis
33 1; that customers are somehow able to perceive the value that is created for them
34 by a firm.
35

36 The scale used to measure PV (Martin *et al.* 2008) shows the relative importance of
37 each dimension for PV (see Appendix A). It is interesting to highlight therefore,
38 that, according to the model results, perceived sacrifices (-0.04) are not significant
39 for customers when evaluating the service provided by the banks in our study.
40 Conversely, confidence benefits (0.40) and service quality (0.31), followed by
41 service equity (0.12), are important aspects for managers to consider in their
42 attempts to improve customer value perceptions.
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45 Despite the theoretical arguments in its favor, Hypothesis 2 is not supported in our
46 study. The positive/negative value of the link is opposite to that which would be
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3 expected, indicating that when customer perceived value increases, the value
4 appropriated by the firm decreases.

5
6 It is not logical or reasonable to propose such a relationship, since this would mean
7 that firms should reduce their customer perceived value in order to increase their
8 value appropriation. This result may therefore be explained by the following:

9
10 1) A wider gap is required between PV and VA data. This is supported by the idea
11 that more time is needed before one variable affects the other.

12
13 2) Primary data (PV) could be linked to secondary data, which is then developed
14 along a scale. It might be easier, if we are to use secondary data, to conduct the
15 analysis separately for each indicator (i.e. market share, sales volume, overall profit
16 levels, ROI, and profit margins) and look for indicators of robustness, that is to say,
17 to repeat the analysis with more than indicator.
18

19 **6. Discussion**

20
21 The first implication for research is that our paper shows that there are different
22 views and ways of thinking about customer value, depending on the point of view
23 that is adopted: namely, PV (the customer perspective); and VC and VA (the firm
24 perspective).
25

26 Secondly, we try to show the importance of linking the different views of customer
27 value. We argue that when the concept of 'customer value' is discussed, it is
28 important to consider both the customers and the firm, since the relationship
29 between them is what gives rise to value. What we try to show in our study is that
30 the real proxy of value creation is customer perceived value, that is, the firm only
31 truly creates value when the customer perceives that value.
32

33 Our paper not only contributes to the literature on both value and firm
34 management, but will also influence the current management of firms with regard
35 to customer VC.
36

37 Firstly, we recommend that firms combine VC and VA, rather than focusing on
38 only one of these aspects. As we have discussed, sustainable competitive advantage
39 requires both VC and VA (see Figure 1), and the firm has to decide the extent to
40 which one or other predominates.
41

42 Secondly, as an extension of this recommendation, we outline the importance of
43 analyzing the best way to distribute a firm's scarce resources between its VC and
44 VA capabilities. A firm's resources are limited and they need to prioritize the
45 allocation of their resources between their VC and VA capabilities.
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Thirdly, the scale used to measure PV (Martin *et al.* 2008) shows the relative significance of each dimension for PV. Without reference to this scale, managers might endanger customer value perceptions by concentrating on the less important dimensions of PV instead of pursuing the more important dimensions.

We aim to help managers to identify the key dimensions for increasing customer value perceptions. This will guide them in the best way to allocate their resources to reduce perceived sacrifices, increase service quality, improve service equity or develop confidence benefits, depending on the relative weights of each of those dimensions within PV.

We also underline the importance of linking VC and customer PV. A firm's VC should be guided by the value perceived by the customers. Irrespective of how much value a firm creates, if customers do not perceive it, then firms are not creating value.

With this in mind, our intention is to identify the nature of the relationship between VC and PV in terms of their components. As Appendix A shows, we refer to value creation for firms in terms of levels of loyalty and satisfaction from the firm point of view. Thus, if firms can successfully translate these elements into products/services, customers will perceive it. Our findings support this assertion because value creation perception for managers has a significant impact on customers' value perceptions.

Finally, our paper proposes a set of capabilities that firms can use to create value and to appropriate the value created. These capabilities can also serve as a reference point for firms seeking to develop other capabilities to facilitate their VC and VA.

7. Conclusions and future research

In recent years, customers have become the focus of attention, and every firm seeks to satisfy them in one way or another.

Understanding what it is that customers value in an offer, creating value for them and then managing it over time, have long been recognized as essential elements of a firm's business strategy. Customer value emerged in the 1990s as an area of increasing interest for firms, both at an academic and a professional level. On the one hand, service marketing literature focuses on the demand perspective of value, customer value and its perception. On the other hand, service management literature considers that the distinctive competence is VC and the firm's capabilities for it.

1
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3 The existing literature demonstrates that customer value can be seen from the point
4 of view of both the customer and the firm, but a relationship between these two
5 perspectives is required in order to study customer value. In this paper, we offer a
6 model that links PV, VC and VA, and demonstrates that it is the relationship
7 between these three concepts that really creates value for the customer.
8

9 One of the main limitations of our study is that the investigation was carried out at
10 a single point in time, which is a particularly limiting because customer value is a
11 dynamic construct. Time has traditionally been considered in the management
12 literature as a constant rather than a variable, a belief Bluedorn (2000) ascribes to
13 people in general. Further, as Bluedorn notes, the belief that time is a constant is
14 deeply institutionalized, which suggests that most people, most of the time, do not
15 even consider the possibility that time may vary. Furthermore, our study was
16 carried out in a single industry (the Spanish banking industry), which does not
17 allow us to generalize the results attained to other economic industries.
18

19 It would also be interesting to carry out a more fine-grained analysis of every
20 aspect of the relationship between VC, PV and VA, as it is likely that some kind of
21 interaction can be found between all of these concepts. Although we have initiated
22 this investigation, more extensive studies are necessary.
23

24 Finally, it is important to stress the situation that the industry was facing at the time
25 of the study. While we believe that this situation provided an ideal opportunity for
26 our study, it also created problems for collecting data for the empirical
27 investigation. Given the high degree of turbulence in the industry at the time and
28 that the industry and its problems and uncertainties were the subject of much public
29 discussion, some managers were wary of giving out data.
30
31

32 We consider that this investigation provides a starting point for future
33 investigations into the creation of value or its maintenance in the current
34 environment, where the customer is daily more demanding and the competition is
35 stronger. Possible future investigations might extend the timescale of our study and
36 expand into other economic industries, to be able to generalize the results.
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23 Quality, *Journal of Marketing* 60(2): 31-46.

Appendix A

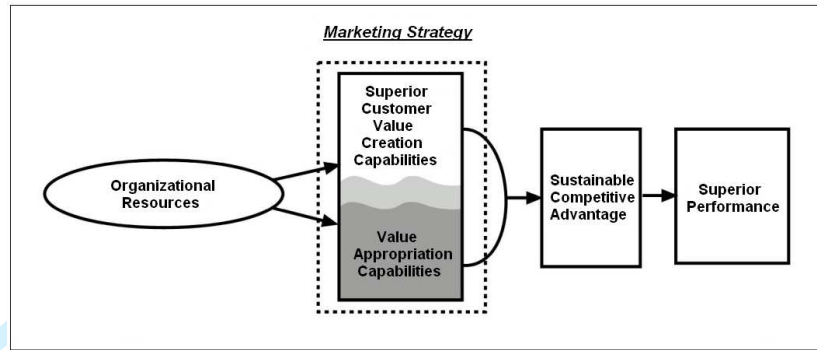
Questionnaire items and statistical coefficients

Construct/ Dimensions/ Items	Standardized Coefficient (Factor Loadings/Weights)
Customer Value Creation (1= much lower and 7= much higher).	
CV_1: Levels of customer loyalty compared to competitors	0.62
CV_2: Levels of customer satisfaction compared to last year	0.79
CV_3: Levels of customer loyalty compared to last year	0.94
PERCEIVED VALUE	
Service Quality (1= strongly disagree and 7= strongly agree).	0.31*** ^(a)
SQ_1: In general, this bank's service is reliable and consistent	0.84
SQ_2: My experience with this bank is always excellent	0.90
SQ_3: I would say that this bank provides superior service	0.93
SQ_4: Overall, I think this bank provides good service	0.95
Service Equity (1= strongly disagree and 7= strongly agree).	0.12** ^(a)
SE_1: It makes sense to engage this bank's services compared to others, even if they are the same	0.76
SE_2: Even if another bank offers the same service, I would still prefer this bank	0.91
SE_3: If another bank offers services as good as this bank's, I would still prefer this bank	0.91
SE_4: If another bank is not different from this bank in any way, it still seems smarter to purchase this bank's services	0.85
Confidence Benefits (1= strongly disagree and 7= strongly agree).	0.40*** ^(a)
CB_1: I have more confidence the service will be performed correctly	0.90
CB_2: I have less anxiety when I buy/use the services of this bank	0.86
CB_3: I believe there is less risk that something will go wrong	0.81
CB_4: I feel I can trust this bank	0.87
Perceived Sacrifice (1= strongly disagree and 7= strongly agree).	-0.04 ^{ns(a)}
PS_1: The price charged for this bank's services is high	0.47 ^a
PS_2: The time required to receive this bank's services is high	0.10 ^a
PS_3: The effort I expend to receive this bank's services is high	0.43 ^a

n = 76. All factor loadings are significant at p<.001

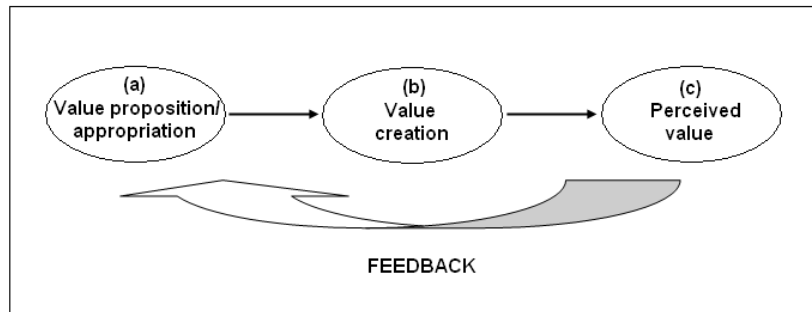
^a These figures are weights because they are associated with formative dimensions

Fig. 1. Marketing strategy and sustainable competitive advantage



Source: Mizik and Jacobson (2003)

Fig. 2. Customer value cycle



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Fig. 3. An integrated view of customer value

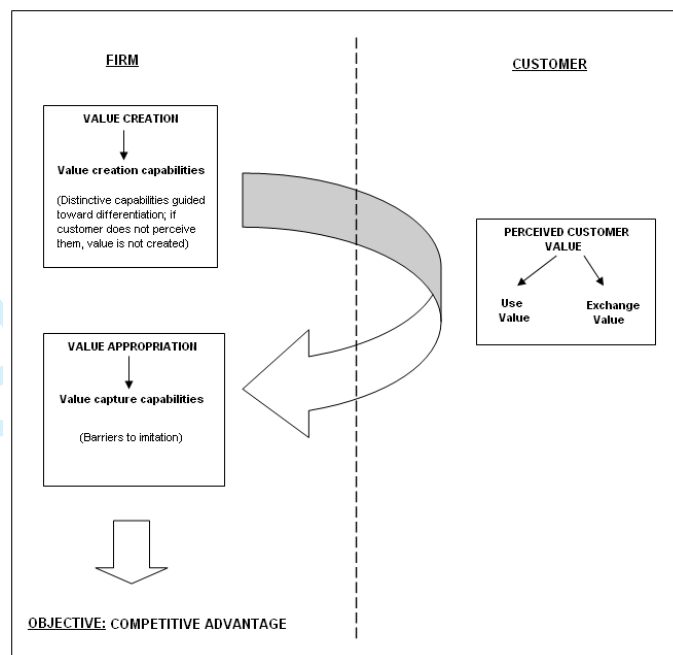


Fig. 4. Value model

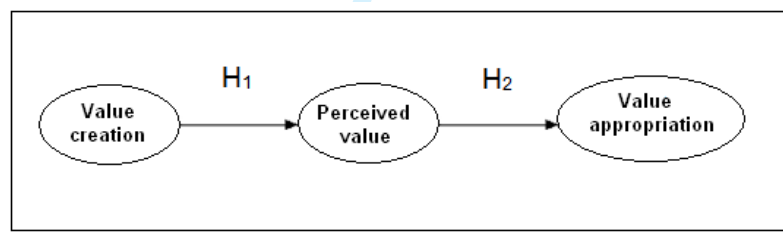


Table 1. Descriptive Statistics and Discriminant Validity

	Mean	SD	AVE	CR	1	2	3	4
1. Value creation	5.3	1.2	0.63	0.82	0.79			
2. Perceived value	5.7	0.9	n.a	n.a	0.15	n.a		
3. Value appropriation	0	1	n.a	n.a	0.12	-0.29	n.a	

Notes:

n.a = not applicable because they are formative measures. Mean = the average score for all of the items included in this measure; SD = Standard Deviation; AVE = Average Variance Extracted; the bold numbers on the diagonal are the square root of the Average Variance Extracted, Shared Variances are given in the lower triangle of the matrix; CR = Composite Reliability.

Table 2. Goodness-of-fit Measures Model

	Model
Degree of freedom	5
Satorra-Bentler	28.81 (p=0.000)
Goodness-of-Fit Index (GFI)	0.96
Root Mean Square Residual (RMSR)	0.07
Root Mean Square Error of Approximation (RMSEA)	0.14
Adjusted Goodness-of-Fit Index (AGFI)	0.88
Normed Fit Index (NFI)	0.92
Comparative Fix Index (CFI)	0.93

Table 3. Summary of Results

Model	Hypotheses	Supported/Non supported	Standardized parameter estimate	R ²
VC----->PV	H ₁	Yes	0.76**	0.58
PV----->VA	H ₂	No	-0.24***	0.06