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Value in services – a service dominant logic perspective

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Abstract

Along with the changing logic of marketing from goods-dominant view to service-dominant view, the services marketing which has long been sharply separated from the marketing of goods is directly influenced. With the change in the logic to the understanding that the core of an exchange is the service provision rather than products (Vargo & Lusch 2004a), the services literature has entered into a crisis time for which Lovelock & Gummesson, (2004) suggested that a re-evaluation of some concepts of services marketing is of utmost importance. Accordingly, the purpose of this paper is to re-evaluate the value concept in services marketing. Specifically, an evaluation of how the term value has been defined and utilized within different marketing and consumption patterns from the goods dominant to service dominant logic eras is provided and an integrative value approach encompassing multiple levels of value creation process is proposed.

Keywords: service marketing; value co-creation; SD logic; value in consumption; value-in-context

1. Introduction

In recognition with its distinguishing characteristics from goods marketing, the field of services marketing emerged as a distinct subfield of marketing with its own core paradigm (Lovelock & Gummesson, 2004). Thus far, the services marketing scholars have focused on how marketing management and strategy is differentiated in services based on its distinctions. Recently, the controversy regarding the core paradigm of services, which Lovelock & Gummesson (2004) referred to as services marketing crisis has received more attention. Schneider (2000), Grove et al. (2003), Lovelock & Gummesson (2004) pointed to the inapplicability of the existing paradigms of services literature to the radically

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different services environment of today. This change stems from the shift from goods-centric view to the service-centric view in marketing. The paradigm debate in services literature is in juxtaposition with the paradigm debate in the overall marketing field. Vargo & Lusch (2004a, 2004b) suggested that a new dominant logic is emerging in marketing in which the core concept of exchange is service provisions rather than goods. With the new logic emerging in marketing and having a significant impact on services marketing, the sharp distinction between goods and services get blurred. Lovelock & Gummesson (2004), correspondingly, submitted that services should be re-evaluated under the new dominant logic of marketing. Accordingly, the purpose of this paper is to shed a light on the value concept with the perspective of service-dominant (SD) logic.

The concept of value has been at the heart of all human activity. In all kinds of exchange, the worth of what is obtained is evaluated by the value gained. Thus, value has been a critical concept both for marketers and consumers. Meanwhile, marketing scholars have dealt with the topic from several perspectives in order to define it better (e.g. Gale, 1994; Christopher, 1996; Woodruff, 1997; Zeithaml, 1998), utilize it in various marketing contexts (e.g. Teas & Agarwal, 2000; Baker et al., 2002; Cretu & Brodie, 2007), and provide it as a critical strategic factor for marketing practitioners (e.g. Brandenburger & Stuart, 1996; Sargeant, 2000; Ward & Ryals, 2001). During all this endeavour, both marketing and services marketing fields have witnessed radical changes stemming from social, cultural, and technological developments each having direct or indirect effects on what value meant for the parties involved (e.g., consumers, marketers, intermediaries). Therefore, the rest of this study provides an assessment and evaluation of the changing nature of the term value from the consumers’ point of view and proposes a typology.

2. Service and the service dominant logic

Vargo & Lusch (2008a, 2008b) make a distinction between the terms “service” – the singular form and “services” – the plural form. In this new marketing perspective, the SD Logic, they utilize the term “service” to reflect the “process of using one’s resources for the benefit of another entity” (Vargo & Lusch 2004b, 2006; Lusch et al. 2007). The “goods and services” are combined under the term “service provision” with the proposition that goods are the distribution mechanism for the service provision (FP3) (Vargo and Lusch 2004b, 2006). It is different from the traditional use of plural term “services” which reflects “a special type of output – intangible product” (Vargo & Lusch, 2008a). Under the traditional interpretation, though deliberately differently, all the views were based on a common grounding which was the attempt to differentiate services from goods (Schneider, 2000). These views can be categorized as the following (Lusch et. al., 2007): First, services are regarded as a supportive drive to the production of goods (Converse 1921; Fisk et al. 1993); second, they are viewed as activities that are done in combination with products as a value-added tool (Dixon 1990); third and most frequently, they are seen as an intangible type of product (Kotler, 2003).

In the pre-1950’s era, the firms’ main focus was the transactional relationships which create immediate cash flows. Moreover, in the classical view, the customer was seen as a passive recipient of value created by companies (Deshpande, 1983). A radical shift of paradigm occurred in 1950’s with the emergence of the buyer behaviour school (Sheth et. al., 1988). Marketing shifted its focus from the product-centric to the customer-centric view and from aggregate markets to individual customers, as a unit of analysis. However, the view which sees customers as the value recipients has not changed until recently. In recent years, the perspective in relationship marketing has shifted from a “marketing-to” view to a “marketing-with” approach (Vivek, 2009). The marketing-with approach is symbolized by the SD logic and claims that value is always co-created with the collaboration of the consumers, whereas in the traditional view of goods-dominant (GD) logic, consumers are provided with the value created by the firms (Lusch, 2007). According to the SD logic of marketing, firms are not selling goods and services, but offering value propositions as a service to the customers (Gummesson, 2007). Customers are the co-creators of value. The value can only be actualized in the usage process not in the production phase of the product. It is concerned with “the evolution, interaction, and reciprocal co-creation of value among service systems” (Maglio et al., 2009; Spohrer et al. 2008).

The transition to the SD logic emphasizes the value and the networks through a shift to “understanding exchange in terms of value rather than products and networks rather than dyads” (Vargo & Lusch, 2008). The value creation
occurs in this network of relationships in which the customer-to-customer interactions are of cardinal importance. Gummesson (2007) questions customer-centricity of GD logic and proposes a “balanced centricity” with a network approach and a concept of “many to many marketing”. Many-to-many communication model was proposed by Hoffman & Novak (1996) for hypermedia computer mediated environments where there is a person interactivity through a medium with many individuals as well as interactivity with the medium. From the SD logic perspective, this many-to-many interactions occur both directly and through a medium between consumers, companies, and all the actors within the network in the value co-creation process. This approach was indicated by far-sighted marketing pioneer Alderson (1957, p. 69) almost 60 years ago with the statement that “What is needed is not an interpretation of the utility created by marketing but a marketing interpretation of the whole process of creating utility.”

In the services literature, which has been established when the dominant logic of marketing was goods-centric, the consumer was seen as an operand resource – a resource to be acted on (Vargo & Lusch 2008). However, in SD logic, there is a shift from goods-centric view to service-centric view, and a shift from operand resources to operant resources. The service in the new logic of marketing is “the application of operant resources (skills and knowledge) for the benefit of another party” (Vargo & Lusch 2008). Customer is not seen as a mere value-recipient, but a value co-creator - an operant resource that is able to act on other resources. Furthermore, there is a network conceptualization in which multiple actors are interacting during the value co-creation process. Therefore, it is indispensable for the services, which have long been studied under the traditional logic, to be re-evaluated with the new logic of marketing. Accordingly, the following sections will provide a closer analysis of the value concept within the changing services field.

3. Value: Changes and evolution

The value concept in marketing has been receiving substantial attention since 1950’s with the recognition that the economic-based transaction centred views do not bring adequate explanations to the marketing discipline. Indeed, value creation is the goal of marketing (Sheth & Uslay, 2007). In its basic sense, customer value can be defined as the net gain meaning all the benefits over costs (Christopher, 1996). Customer value is also defined as the “market perceived quality adjusted for the relative price of your product” by Gale (1994, p xiv). Perceived value is defined as the “tradeoff between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price” (Monroe, 1990, p. 46). Furthermore, Zeithaml (1998, p. 14) defines value with the consumers’ overall assessment of utility based on what is received and what is given. Correspondingly, Woodruff (1997) suggests that the customer value concepts include utility, worth, benefits and quality.

However, there is still an on-going controversy regarding how value is defined and measured (Werelds et al., 2014). It is due to various value conceptualizations in the literature defining different facets of value. Thus one definition and measurement of value does not encompass the whole meaning. Some of these value conceptualizations are “use value”, “exchange value”, “aesthetic value”, “identity value”, “instrumental value”, “economic value”, “social values”, “shareholder value”, “symbolic value”, “functional value”, “utilitarian value”, “hedonic value”, “perceived value”, “community values”, “emotional value”, “expected value”, and “brand value” (Karababa & Kjeldgaard, 2013). Werelds et al. (2014) distinguish these value conceptualizations into one dimensional and multi-dimensional approaches. They argue that the one-dimensional approach which is based on the value concept defined as the “trade-off between the perceived quality and the sacrifice” (Dodds et al. 1991, p. 316) does not provide an adequate depth of perspective to define value which is a complex phenomenon. Therefore, more complex multi-dimensional approaches are suggested and modelled by various researchers (e.g. Ruiz et al. 2008; Sweeney and Soutar 2001; Sánchez-Fernández & Iniesta-Bonillo 2007)

Accordingly, it is intended to apply a multi-dimensional and integrative approach to the value concept in this paper at a broader level. The following sections of the paper will primarily discuss the different value types under three conceptions of value: value-in-exchange, value-in-use, and value-in-context. The first two fall under the goods dominant logic perspective as the conceptualizations focus on the products and lack multiple customer-firm
interactions, while the last one falls under the SD logic view which has the emphasis on the interactions. Later, an integrative view of value classifications will be provided which incorporates various value concepts under a common scheme.

3.1. GD-Logic view of value

Value-in-exchange: Exchange is the core concept of marketing and marketing is conceptualized as a system through which the value is exchanged among various parties (Bagozzi, 1975). The value-in-exchange is defined by American Marketing Association (2014) as “the amount of money or goods actually paid for a product or service.” The exchange value has its foundations in classical and political economy and it is conceptualized through quantitative economic indicators such as money (Marx, 1962; Tucker, 1978). From the firms’ perspective, the pricing strategy defines the economic value of its products. According to the economic-based market transactions view, value is created at a single point in time at the purchasing moment where money is exchanged with the product, and is determined based on the factors such as the cost of production, the competitors’ pricing strategies, and also the utility or “use value” for the customer (Yip, 2012). In this value conceptualization, the consumer is a mere recipient of value which is created by the company and provided to the consumer in the form of goods and services. In other words, the value is embedded in the products (Grönroos, 2008).

Value-in-use: The value-in-exchange view is challenged later with the claim that the value is generated in the customer’s domain during the usage process as value-in-use (Normann and Ramirez, 1993; Holbrook, 1994; Ravald and Grönroos, 1996; Vandermerwe, 1996; Wikstrom, 1996; Woodruff and Gardial, 1996; Normann, 2001; Vargo & Lusch, 2004b; Grönroos, 2006). Hence, value is not created by the provider, but is created through customer’s value-generating process (Grönroos, 2000). Products, which are the distribution mechanisms for service, become valuable to the customers as the service value is determined during the time of its use. Ballantyne & Varey (2006) explain this with the time logic of marketing that becomes open-ended from pre-sale interaction to post-sale value-in-use, as relationships evolve. According to Ravald (2001), value-in-exchange is a function of value-in use. Grönroos (2008) explains the relationship between the value-in-exchange and value-in-use by stating that value-in-exchange only exists if value-in-use can be created. Goods and services have exchange value only in the short term. In the long term, if there is no or low value-in-use, then there will be no or low value-in-exchange. Correspondingly, Ballantyne & Varey (2006) state that exchange value for the customer comprises the predicted value-in-use of the goods and services that are exchanged. Grönroos (2008) further distinguishes the value-in-use in goods dominant logic and value-in-use in SD logic, the former lacking the firm-customer interactions. Value-in-use in this paper is conceptualized both under the goods-dominant logic and service-dominant logic. While the customer interactions and a network model do not exist in the earlier conceptualizations prior to the emergence of SD logic, value-in-use falls under GD logic. On the other hand, value-in-use will also be taken as one of the attributes of value-in-context.

3.2. SD-Logic view of value: Value-in-context

SD logic designates the value concept as value-in-context where context refers to a “set of unique actors with unique reciprocal links among them” (Chandler & Vargo, 2011, p. 40). Chandler & Vargo (2011) depict that the markets emerge through simultaneous and continuous processes. Context is the essential value co-creation dimension comprising the temporal successive levels of these processes. They conceptualize the value-in-context through the network of dyadic, triadic and complex network relationships. Each of dyads, triads and complex networks are identified as the levels of the market creation process and constitute the entire service ecosystem.

Furthermore, value-in-exchange and value-in-use can be recognized as the functions of value-in-context. The value propositions proposed by the firm might involve value-in-exchange implications like price or product attributes; and also value-in-use implications having a combination of value signs such as utilitarian, symbolic, hedonic and others which would be actualized during the usage. However these value propositions can only be actualized within a context. In various contexts, the actors interact with each other and actualize the value-in-exchange and value-in-use attributes.
Each of these contexts where interactions take place can be defined as one of the levels of the value co-creation process.

Indeed, even before the emergence of SD logic, the context-specific situational variables have been used as a basis for benefit segmentation (e.g. Dickson, 1982). Thus, the concept of value-in-context is analogous to the strategic perspective of benefit segmentation in that they both integrate the situations where consumers have their interactions to explain benefits and utilities obtained. According to Belk (1975), the situation which refers to the characteristics specific to the time and place when the consumer is responding to an object, has an impact on persons and behaviours. Correspondingly, Dickson (1982) provides person-situation benefit segmentation framework based on the consumer’s particular usage situations. This framework associates consumers’ personal traits and their specific consumption occasions with benefits and utilities obtained. As value is defined in terms of overall assessment of the utilities (Zeithaml, 1998), and benefits (Christopher, 1996), it is expected to observe the impact of context-specific factors on value with the same perspective.

4. An Integrative view of Value in Service Consumption

Three key dimensions of value-in-context derived from Chandler & Vargo (2011) are; (1) multi-actor interactions (dyads, triads, networks), (2) value co-creation, and (3) long term relationship - value over time. An integrative approach of the value concept for the service consumption proposed in Table 1 is grounded on these three main dimensions starting from broader multi-actor interactions dimension and going towards narrower and more specific value co-creation and long-term relational attributes dimensions. The following sections will explain these three dimensions which will be followed by the integration of the service marketing value attributes which is illustrated under long-term relational value attributes dimension.

<table>
<thead>
<tr>
<th>Integrative View of Value in Service Consumption</th>
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<tbody>
<tr>
<td>Dyadic Interactions</td>
</tr>
<tr>
<td>(1) Multi-Actor Interactions</td>
</tr>
<tr>
<td>Firm-Customer Dyad</td>
</tr>
<tr>
<td>Many-to-Many Networks</td>
</tr>
<tr>
<td>(2) Service Value co-creation</td>
</tr>
<tr>
<td>Value proposed by the firm</td>
</tr>
<tr>
<td>Value derived from Customer-customer interactions</td>
</tr>
<tr>
<td>(3) Long Term Relational Value Attributes</td>
</tr>
<tr>
<td>Service quality, price benefits, utility benefits, service staff knowledge and skills</td>
</tr>
</tbody>
</table>

Table1: An integrative view of value in service consumption (adapted from Chandler & Vargo, 2011)

**Multi-actor interactions**: The notion that value is co-created means that there are multiple actors in value creation process, including the service provider and other customers. The value-in-context concept of value creation regards that there are continuous multi-actor interactions during value creation process, differently from value-in-use concept which ignores the interaction effect while involving customers’ and firms’ value creation process separately. Therefore, the first key characteristic of the value-in-context, which also differentiates it from value-in-use, is the multi-actor interactions.

**Value co-creation**: According to the value concept in the new logic of marketing, value is not created solely by the firm, but created with collaboration of the customers (Vargo & Lusch, 2004b) during their usage of products and interactions with different actors. The role of the firm is to propose a value proposition via resources such as goods
and services, and it is the customer who creates the value through a process over time. Thus, the second significant characteristic of value-in-context concept is the value-co-creation.

**Long-term relationship – value over time:** This multi-dimensional evolution transpires in three dimensions; “across levels of context, over time, and through replication” (Chandler & Vargo, 2011). This explains that value is created through these multidimensional exchange processes which happen over time. Therefore, the third key characteristic of the value-in-context is the recognition of the value over time through long-term relationships occurring among actors in dyads and triads through networks.

In the following sections, the service marketing literature regarding the value concept is examined and discussed under the long-term relational value attributes dimensions. These relationships occur between the firm and customer, between the customer and the customer, and among a network, in different contexts and levels: (1) “dyadic relationship” involves “firm-customer” dyad, and “customer-customer dyad”; (2) “triadic and network relationships” involves “many-to many” interactions.

4.1. Dyadic interactions:

4.1.1. Firm-Customer dyad: value proposed by the firm:

As the firms can only propose value, not create it based on SD logic, the value attributes at the firm level will be representing the value propositions that the service providers make with their service. In service marketing literature, value attributes with a focus on long-term relationship have been studied and various value propositions made by the service providers are found. One of these attributes which is probably the most used one in service marketing literature is the service quality (e.g. Boulding et.al, 1993; Zeithaml et. al, 1996). The economic and resource related attributes including price and utility benefits have also been analyzed in service literature with their long-term relational outcomes (Crutchfield, 1998); Morgan, 2000; Morgan et.al, 2000). Further studies applied regarding service marketing are related to the service employee which is one of the most important issues specifically in service as there is a direct contact between the service staff and the customer in most situations (e.g. Julian & Ramaseshan, 1994; Lashley, 1995; Lashley 1999). Therefore, at firm-customer dyadic level value co-creation, the value attributes proposed by the service provider are identified as “service quality”, “price benefits”, “utility benefits”, and “service staff knowledge and skills”.

4.1.2. Firm-Customer dyad: value created by the customer:

At this level of value co-creation, the value is created at customer sphere during usage in response to the value proposed by the service provider. Therefore, these value attributes are directly related to customer feelings and attitudes developed towards the service proposed. In service marketing, various constructs have been studied for their relationships with customer value. The fact that the customer tendencies change over time, the long-term focus has been integrated in these studies. Woodruff (1997) classifies a customer value concept and categorizes customer determined performance into two dimensions which are short-term and long-term focused performance information. He further establishes that the customer value is strongly related to the customer satisfaction in both short and long term by stating that the overall satisfaction is the customer’s feelings regarding the evaluations of one or more use experiences. Correspondingly, numerous studies in service literature examine the customer satisfaction as a direct antecedent of long-term relational outcomes (Anderson, 1998; Anderson & Sullivan, 1993; Fornell, 1992; Hallowell, 1996). Therefore, customer satisfaction is one of the customer related value attributes. Furthermore, at long-term relationships there are two most important attitudes that customers develop towards the company which are commitment and trust. Commitment is studied in service literature regarding its relationship with long-term outcomes (e.g. Pritchard et.al, 1999). Hennig-Thurau et al. (2002) describe commitment as the “customer’s long-term orientation toward a business relationship” which is based on two aspects: the emotional attachments between them, and the customer’s acceptance that staying in the relationship will bring more benefits than terminating it. Furthermore, they define trust as the customer’s conviction that he/she can rely on the service provider which is believed to have a high
degree of integrity (e.g., Moorman et al., 1992; Morgan & Hunt 1994). It is suggested by several scholars that trust is a necessary ingredient for long-term relationships (e.g., Bendapudi & Berry 1997; Doney & Cannon 1997; Ganesan 1994). Therefore, the three attributes which represent the value created at the customer sphere derived from the literature are “customer satisfaction, “commitment”, and “trust”.

4.1.3. Customer-customer dyad: value derived from customer-customer interactions

The second context of dyadic interactions is customer-to-customer. The exchange between two customers during this dyadic interaction regarding a service is the related information and feelings which is referred to as “word-of-mouth communications”. The value derived from this exchange during the interaction is the positive word-of-mouth. Hennig-Thurau et al. (2002) defines positive word-of-mouth as all the information shared between a customer and the others concerning a good or a service. Anderson (1998, p. 6) defines it as “relating pleasant, vivid, or novel experiences; recommendations to others; and even conspicuous display”. Word-of-mouth is a significant factor that influences the future buying decisions (e.g., Sheth et al., 1999), therefore have a long-term relational value. Furthermore, Asugman (2001) identifies five customer-related personal outcomes of positive word of mouth which are self-affirmation, altruism, memory, catharsis, and vengeance. Accordingly, we integrate these personal value attributes into the value of positive word-of-mouth.

It is noteworthy to mention here that the word-of-mouth is found to be closely related to the satisfaction (e.g., Bloemer & Kasper 1994; Oliver 1999). It is important, because it indicates the interrelatedness of a value attribute created at customer-firm level (satisfaction) and the value attribute created at customer-customer level (WOM). Accordingly, it represents the necessity of taking an integrative view of the value concept, as it is proposed in this paper, incorporating all levels of multi-actor interactions in order to make a reliable assessment of value.

4.2. Triadic/Complex networks - value derived from many to many interactions

The last context of the proposed value approach in the table is the triadic/complex networks, the level in which there are more than two actors who communicate. The interaction is at many-to-many level. The value derived from these interactions is the customer engagement in the environments where many customers gather to share information and feelings regarding the firm. Many-to-many communication model was also proposed by Hoffman & Novak (1996) for hypermedia computer mediated environments. With the increase in the computer and internet usage, as well as the development of social media, people interact with each other where many-to-many interactions transpire. Furthermore, platforms such as brand communities within social media environments concentrate the topic of many-to-many communications directed at one specific brand. Therefore the importance of these many-to-many communication context increased in importance in value creation process. One of the most popular contexts of customer engagement is that of virtual brand communities. The social networking sites (SNS), e.g. Facebook, Twitter, Google+, attract companies along with the individuals, as they provide them the opportunity to meet and communicate with their consumers. Brodie et al. (2011) proposes that engaged customers have a key role in enhanced corporate performance by providing word-of-mouth about the products, services, and/or brands to others, involving in new product/service development, and co-creating experience and value.

5. Conclusion

The changing logic of marketing from GD logic to SD logic necessitates a reevaluation of some of the concepts in service marketing. In response, the current paper investigated the value concept used in service marketing and proposed an integrative value approach which represents SD logic of marketing. This approach is developed by enriching the value-in-context concept of Chandler & Vargo (2011) with the integration of the value attributes applied in service consumption.
Accordingly, the integrative value approach is proposed based on three main dimensions: (1) Multi-actor interactions refer first to the dyadic relationships, between the firm and the customer, and between the customer and the customer; and second to the triadic and complex networks such as the many-to-many networks. (2) Service value co-creation indicates that value is not created by one actor and delivered to the other, but it is co-created through the interactions of all the actors involved. The value co-creation process through these interactions involves value proposed by the firm, value created by the customer, value derived from customer-customer interactions, and value derived from many-to-many interactions. (3) Long term relational attributes dimension indicates that the value does not occur at a single point in time as it is in exchange view, but it occurs through the length of the relationships between the actors. The service marketing related value attributes that have long-term relationship focus have been categorized into three types of relationships. First, the dyadic relationship between the firm and the customer involves value proposed by the firm e.g. service quality, price benefits, utility benefits, service staff knowledge and skills; and the value created by the customer e.g. satisfaction, trust, and commitment. Second, the dyadic relationship between the customer and the customer involves the value derived from customer-customer interactions e.g. positive word-of-mouth. Third, the relationships in the triadic and more complex networks such as many-to-many networks involve customer engagement in social networks and computer mediated environments.

The contribution of this integrative view of value to the literature is that it provides a sound value evaluation approach for the service organizations. Value is a quite popular concept in the literature, however there is few which combine various value attributes. On the other hand, it is argued in the current paper that the value is co-created through a process of interactions at different contexts involving different levels of relationships between actors, through which each interaction is interrelated. Therefore, an extensive value approach is necessary to avoid ignoring any level of interactions which might result in inadequate value interpretation for the services organizations. An integrative value approach provides a structure to incorporate different value conceptualizations under one common scheme. It is intended to provide practitioners of marketing strategy an approach that will help them assess the overall synergistic effects of various value concepts from the perspectives of consumers in their strategy.

References


