

# Article Title Page

## Developing an Integrated Vision of Customer Value

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**Structured Abstract:**

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**Design/methodology/approach:** We propose that a relationship between the different perspectives exists and we will attempt to create an integrated vision of customer value. We have not found any papers which focus on the relationship between these different perspectives of customer value, and our aim is to fill this gap in the literature.

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**Practical implications:** Our paper can influence the current service management of firms with regard to customer value creation in several ways.

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**Article Classification:** Conceptual paper

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**Running Heads:**

## DEVELOPING AN INTEGRATED VISION OF CUSTOMER VALUE

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## 1. INTRODUCTION

Understanding the value that customers perceive 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 (Drucker, 1985; Porter, 1985, 1998; Slater and Narver, 1998). Determining what the customer seeks from a 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, at both an academic and professional level. This concept is considered as 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 and Jacobson, 2003; Spiteri and Dion, 2004; Woodruff, 1997). Customer value is also recognized as the fundamental basis of all service marketing activity (Holbrook, 1996) and is regarded as a critical strategic tool to attract and retain customers (Chen and Quester, 2006; Lee and Overby, 2004; Sánchez and Iniesta, 2006; Wang *et al.*, 2004) as well as an indicator of repurchase intentions (Parasuraman and 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 for seeking new ways to obtain and maintain a competitive advantage (Woodruff, 1997; Woodruff and Gardial, 1996). This has generated a growing interest in creating and delivering superior value to the customer (Smith and Colgate, 2007; Wang *et al.*, 2004).

The existing literature demonstrates that customer value can be viewed both from the customer's point of view and from the firm's point of view. Some authors focus on perceived value (the customer perspective), while others focus on value creation and appropriation (the firm perspective). But it is important to

find an integrated vision of both perspectives with which to study customer value. Therefore, we propose that a relationship between the different perspectives exists and we will attempt to create an integrated vision of customer value. We have not found any papers which focus on the relationship between these different perspectives of customer value, and our aim is to fill this gap in the literature. Our objective is to: a) identify the relationship between customer value from the customer's point of view and customer value from the firm's point of view, b) identify if there is an interaction between these points of view, c) produce a model that shows this potential relationship and d) demonstrate that it is this relationship that really creates value for service customers.

To summarize, the aim of this paper is to contribute to the service management literature by identifying a possible relationship between customer value from the customer perspective and from the firm perspective, and the potential influence of this relationship on the value created for the customer. The remainder of the paper is organized as follows: first, we set out the theoretical context of this paper; second, building on the existing literature on perceived value and value creation and appropriation, we develop a model to link these concepts; and finally, the implications of the study are discussed.

## **2. THEORETICAL BACKGROUND**

### **2.1. Points of view from which to study customer value**

The study of 'customer value' is complicated by the different meanings of the concept according to the point of view adopted. For example, Payne and Holt (2001) note that the term 'customer value' can be used in a variety of contexts. These include 'customer-perceived value', 'creating and delivering customer value' and 'value of the customer'. We now go on to explain these three perspectives more fully:

1) Customer-perceived value: Traditionally, the principal mechanism for listening to the customer has been to measure satisfaction. Woodruff (1997) states that the measurement of satisfaction needs to shift towards a better understanding of what customers value in terms of which services help them to achieve their organizational goals and purposes. As a result, many researchers are now focusing on this extended view of customer-perceived value (Anderson and Narus, 1998; Butz and Goodstein, 1996; Parasuraman, 1997; Patterson and Spreng, 1997; Ravald and Grönroos, 1996; Slater, 1997; Woodruff, 1997; Woodruff and Gardial, 1996). In this way, customer value becomes a customer-oriented concept. The customer's perception of what is created and delivered should be established and borne in mind when the firm defines its value proposition (Payne and Holt, 2001).

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

3) The customer's value to the firm: Understanding customer value from the perspective of 'the value of the customer to the firm' has also received attention from researchers (Payne and Holt, 2001). This stream of research focuses on the value of the customer to the firm; considering it as an output, rather than an input, of value creation. As such, it focuses not on the creation of value for the customer but on the value outcome that can be derived from delivering superior customer value. According to Payne and Holt (2001), a key concept that forms part of this perspective is that of 'customer lifetime value'. This perspective views customer value as the value that a firm can obtain from its customers (Woodall, 2003) and does not consider the value provided by the firm to its

customers. From an analysis of Payne and Holt's (2001) description of this customer value perspective, we would venture that this refers to firm value appropriation.

To the previous classification, we can add another carried out by Vargo and Lusch (2004). These authors posit a change in the marketing dominant logic. They propose to pass from a focus on tangible output with embedded value to a focus on dynamic exchange relationships that involve services in which value is cocreated with the customer (Chan, Yim and Lam, 2010; Edvardsson, Tronvoll and Gruber, 2011). Depending on the dominant logic adopted, Vargo and Lusch (2004) propose two perspectives of value:

1) Traditional goods-centered dominant logic: Value is determined by the producer because it is embedded in goods. Value is defined in terms of 'exchange-value'.

2) Emerging service-centered dominant logic: Value is perceived and determined by the customer on the basis of 'value in use'.

According to Vargo and Lusch (2004) and Lusch and Vargo (2006), firms can only offer value propositions; the customer must determine value and participate in creating it through the process of coproduction.

Although we consider very interesting Vargo and Lusch's (2004) ideas, this paper is based on a study of the three streams of investigation proposed by Payne and Holt (2001): perceived value; value creation; and value appropriation. In our opinion, Payne and Holt's (2001) approach tends more toward our idea of value. On the one hand, service marketing literature focuses on the demand perspective of value: customer value and its perception, while on the other hand, service management literature views value creation and appropriation (and the firm's ability to carry this out) as the distinctive competence. Our main objective is to connect both of these contributions.

## **2.2. Perceived value**

The value perceived by the customer has received a lot of attention from both academics and practitioners due to the importance of predicting purchase behavior and achieving competitive advantages (Bolton and Drew, 1991; Cronin *et al.*, 2000; Dodds *et al.*, 1991; Holbrook, 1994; Parasuraman *et al.*, 1985; Zeithaml, 1988). It has also been characterized as the main outcome of marketing activity (Babin *et al.*, 1994; Holbrook, 1994).

According to Sánchez and Iniesta (2006), there are many terms that have been used to refer to perceived value, such as 'judgment value' (Flint *et al.*, 1997), 'shopping value' (Babin *et al.*, 1994), 'consumption value' (Sin *et al.*, 2001; Sweeney and Soutar, 2001), 'relationship value' (Ravald and Grönroos, 1996), 'product value' (Bowman and Ambrosini, 2000), 'service value' (Bolton and Drew, 1991; Cronin *et al.*, 2000), 'desired value' (Flint *et al.*, 2002), 'expected value' (Van der Haar *et al.*, 2001), 'customer value' (Woodruff, 1997), 'consumer value' (Holbrook, 1994), 'perceived value' (Agarwal and Teas, 2001; Zeithaml, 1988) or 'received value' (Flint and Woodruff, 2001).

In the review of the perceived value literature, carried out by Woodall (2003), eighteen different terms were found to describe the idea of value from the demand side. In fact, different terms are used in the same paper by certain authors. According to Sánchez and Iniesta (2006), all of these terms refer to the same idea: the customer perception of value, but different terms have been used as a result of the study of value from different perspectives and in different contexts.

### ***2.2.1. Difficulty of defining perceived value***

Despite the importance of perceived value, paradoxically, little interest has been shown in the understanding of its conceptual basis, compared to other variables such as price, quality or satisfaction (Sánchez and Iniesta, 2006). Although many authors point out the scarce and insufficient investigation into perceived

value (Bolton and Drew, 1991; Day and Crask, 2000; Dodds *et al.*, 1991; Holbrook, 1994, 1999), the fact is that there are many papers, although these are quite dispersed and somewhat inconclusive (Sánchez and Iniesta, 2006). This phenomenon can be explained by the fact that perceived value is a *complex* (Lapierre, 2000; Ravald and Grönroos, 1996; Woodruff and Gardial, 1996), *polysemic* (Kashyap and Bojanic, 2000; Zeithaml, 1988), *subjective* (Babin *et al.*, 1994; Woodruff and Gardial, 1996) and *dynamic* (Day and Crask, 2000; Naumann, 1995; Van der Haar *et al.*, 2001) concept.

According to Sánchez and Iniesta (2006), the complexity of this concept arises from its ambiguous interpretations (Khalifa, 2004; Van der Haar *et al.*, 2001), its abstract sense (Dodds *et al.*, 1991; Patterson and Spreng, 1997) and from variations in the perception of value by customers (Huber *et al.*, 2001; Sinha and DeSarbo, 1998; Slater, 1997), within the same person (Chen and Dubinsky, 2003; Parasuraman, 1997) and in different situations (Holbrook, 1994, 1999; Lapierre, 2000; Woodruff, 1997).

Although perceived value has often been defined as a trade-off between quality and price, many researchers note that perceived value is a more obscure and complex construct, which encompasses ideas such as price, quality and perceived benefits and sacrifices (Bolton and Drew, 1991; Holbrook, 1994), and a more specific investigation of its dimensionality is required (Sinha and DeSarbo, 1998).

### **2.2.2. Convergences and divergences in the definitions of perceived value**

Following several authors (Boksberger and Melsen, 2011; Cengiz and Kirkbir, 2007; Sánchez and Iniesta, 2006; Ulaga, 2003; Ulaga and Chacour, 2001; Woodruff, 1997), we identify a set of convergences and divergences in the different definitions of perceived value.

Among the convergences, we would highlight the following:

1) The perceptual nature of value is probably the most universally accepted aspect of the concept (Day and Crask, 2000). Value is perceived subjectively by customers and is not determined objectively by the firms (Anderson and Narus, 1998; Woodruff and Gardial, 1996; Zeithaml, 1988). As Doyle (1989) states, 'value is not what the producer puts in but what the customer gets out'. Customers are not homogeneous and therefore, different customer segments perceive different values within the same service (Ulaga and Chacour, 2001). Most of the literature defends this subjectivity of value (Babin *et al.*, 1994; Bolton and Drew, 1991; DeSarbo *et al.*, 2001; Monroe, 1990; Woodruff and Gardial, 1996; Zeithaml, 1988).

2) Value is inherent or is linked to the provision of services, which distinguishes it from personal and organizational value. According to Woodruff and Gardial (1996), 'customer value is not inherent in services themselves; rather it is experienced by customers as a consequence of using the firm's services for their own purposes'.

3) The process of perceiving value typically involves a trade-off between perceived benefits and sacrifices; that is, between what the customer receives (e.g. quality, benefits, utilities) and what he/she gives up (e.g. price, opportunity cost and maintenance cost) to acquire and use a service (Zeithaml, 1988), although some definitions do not refer to this trade-off. *Perceived benefits* represent a combination of elements that includes physical attributes, service attributes and the technical support available in relation to the provision of the service, as well as the purchase price and other indicators of perceived quality (Monroe, 1990; Payne and Holt, 2001). *Perceived sacrifices* are sometimes described in monetary terms (Anderson *et al.*, 1993). There are other broader definitions of sacrifices. An important point regarding the conceptualization of value is that the direct monetary cost (price) is only one of the components of what the customer gives up to obtain the service (Zeithaml, 1988). Sacrifice is a wider and richer concept, that includes non-monetary costs such as time, effort

and the assumed risk associated with a particular purchase (Cronin *et al.*, 1997; Dimitriadis, 2011).

4) Value is perceived in connection with the competition (Gale, 1994). A superior customer value position is achieved when a firm creates more value than its competitors (Beitelspacher, Richey and Reynolds, 2011; Slater and Narver, 2000). Offering better value than the competition will help a company to create sustainable competitive advantage (Ulaga and Chacour, 2001).

Among the divergences in the definitions of perceived value, we would highlight the following:

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

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

3) It is not clear whether a comparison between different objects is required for the generation of value. Not all authors consider this element in their studies of value (Gale, 1994; Petrick, 2002; Van der Haar *et al.*, 2001). Holbrook (1999) asserts that value is comparative because the value of an object can be stated only in reference to that of another object evaluated by the same person.

4) There are different opinions on the circumstances in which a customer thinks about value. Some authors have studied value in the context before the purchase (Chen and Dubinsky, 2003; Monroe, 1990), during the purchase (Holbrook, 1999; Huber *et al.*, 2001; McDougall and Levesque, 2000; Ulaga and Chacour, 2001) or at different times during the purchase decision process (Van

der Haar *et al.*, 2001; Woodruff, 1997). This phenomenon reflects the dynamic nature of the concept (Sánchez and Iniesta, 2006). According to Woodruff (1997), customers can consider the value at different times; for example, when they make the purchase decision or when they experience the service outcome during or after use. Each of these contexts focuses on different customer judgment tasks. Purchasing involves choice, and requires customers to distinguish between offers and to value which one they prefer. On the other hand, during and after use, customers are more concerned with the outcome of the chosen service in a specific use situation. Gardial *et al.*, (1994) show that customers might perceive value differently when buying than during or after use.

5) There are different opinions on the cognitive nature of value versus affective nature. Some researchers have posited value as a strictly cognitive concept (Oliver, 1999; Zeithaml, 1988), while others defend both the cognitive and affective nature of perceived value (Babin *et al.*, 1994; Babin and Kim, 2001). The 'value for money' paradigm which has traditionally defined value from a cognitive perspective as a trade-off between quality and price has been considered very simplistic in consumption experiences (Sweeney and Soutar, 2001). Thus, a large number of authors have defended the presence of both cognitive and affective systems in the nature of value (Babin *et al.*, 1994; Babin and Kim, 2001).

### **2.3. Value creation and appropriation**

The creation of value has been put forward as the purpose of a firm (Slater, 1997) and as a precursor to customer satisfaction and loyalty (Woodall, 2003). Slater (1997) asserts that firms should be committed to the idea that customer value creation should be the reason for its existence and, undoubtedly, of its success.

According to Drucker (1973), the mission and purpose of every business is to satisfy the customer. This satisfaction is achieved when superior customer

value is delivered by the firm. Superior performance results from providing superior customer value; it is not an end in itself (Slater, 1997). Two processes, which combine and interact, are fundamental to achieving this outcome (Mizik, 2002). One of the processes involves the creation of customer value; the other focuses on appropriating value in the marketplace. The marketing concept identifies the customer as the main focus and the force that defines the scope and purpose of a firm. This implies that to gain a competitive advantage a firm should create superior customer value (Drucker, 1954). Value creation alone, however, is insufficient to achieve success in the marketplace; a firm's ability to restrict competitive forces (e.g. erect barriers to imitation) to enable it to appropriate some of the value that it has created in the form of profit, is also necessary (Mizik, 2002).

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

### **2.3.1. Value creation and appropriation definitions**

We refer to Priem's (2007) definition of the concepts of value creation and appropriation.

1) Value creation. This refers to an innovation that establishes or increases the customer's valuation of the benefits of consumption. According to Priem (2007), when value is created the customer will: a) be willing to pay for a novel benefit; b) be willing to pay more for something perceived to be better; or c) choose to receive a previously available benefit at a lower unit cost, which often results in a greater volume being purchased.

2) Value appropriation (also referred to as value capture, allocation, realization, dispersion or distribution). This refers to the appropriation and retention by the

firm of payments made by customers in the expectation of obtaining future value from consumption. According to Priem (2007), value is captured when a firm: a) receives customer payments by preventing its competitors' attempts to appropriate those payments, for example, through imitation; and b) simultaneously retains those payments by denying claims on them from other members of the same value system, for example, through channel power.

### **2.3.2. Relationship between value creation and appropriation**

According to the above idea, it would seem that neither value creation nor value appropriation should be considered separately. Both value creation and value appropriation capabilities are required for securing a competitive market position and achieving superior performance (Han *et al.*, 1998).

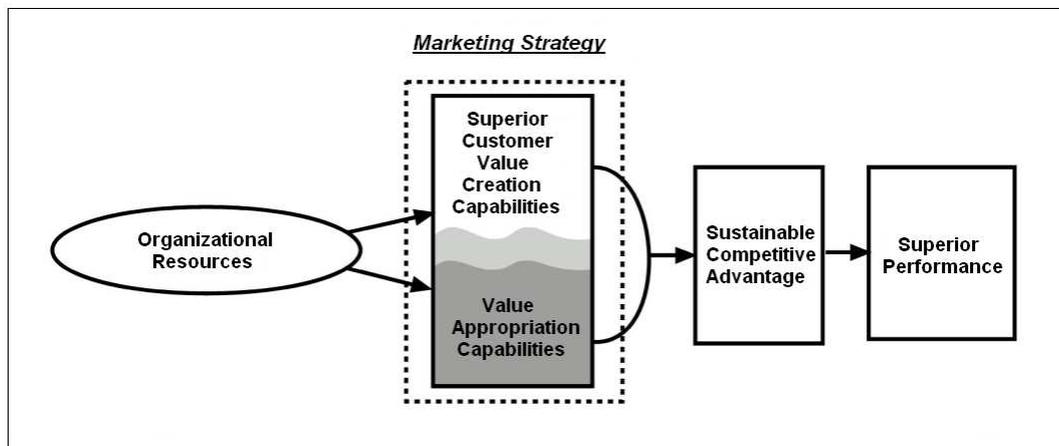
According to Mizik and Jacobson (2003), value creation influences the potential magnitude of the firm's competitive advantage, while value appropriation influences the amount of the advantage the firm is able to capture and the duration of that advantage. Value creation involves new or modified services, while value appropriation focuses on restricting competitive forces and extracting benefits from the marketplace (Han *et al.*, 1998).

According to Mocciaro and Battista (2005), the firm is not considered to be oriented exclusively towards either value creation or value appropriation, but rather both conditions characterize the process of firm development. They posit that there must be a period in which the firm may pursue value appropriation in order to seize the fruits of its innovations through an increase in the efficiency of its resource allocation. They also argue that, at the same time, value appropriation alone cannot stand the test of time in a hypercompetitive environment. These authors argue that there is a need to anticipate and proactively contribute to the creation of the future 'rules of the competitive game' in order not to succumb to rival firm actions. According to Mocciaro and Battista (2005), it is during phases of stability that firms create the basis for the future adoption of value-creating behaviors and foster the construction of new

competitive advantages (i.e. phases of inner change). Also, the adoption of value-creating behaviors must be followed by phases of stability in order to increase the efficiency of the production processes and consolidate the stable rents arising from the innovations that have occurred. In conclusion, innovation fosters value creation and stability fosters value appropriation.

Building on Mizik and Jacobson (2003), we see that firms divide their scarce resources and attention between the two fundamental processes: value creation and value appropriation. Although value creation and appropriation are both required to achieve a sustainable competitive advantage (as we see in Figure 1), firms have to decide the extent to which they will focus on one or the other (Mizik and Jacobson, 2003). Therefore, firms are faced with the strategic task of balancing the two processes in their strategies and determining the appropriate amount of support for each.

Figure 1. Marketing strategy and sustainable competitive advantage



Source: Mizik and Jacobson (2003)

A firm is forced to prioritize these alternative uses of its limited resources, according to the way it has chosen to compete (Mizik and Jacobson, 2003). On the one hand, a firm may choose to compete primarily on the basis of value creation. This firm needs to be constantly moving ahead and innovating as competition erodes the benefits from its previous initiatives. On the other hand, a firm may choose fiercely to defend its position in the market against

competition by erecting barriers to imitation, for example, through brand-based advertising. In this case, the firm tries to extend the time its advantage persists (Mizik and Jacobson, 2003). Most firms avoid these extremes and opt for a strategy that balances the support given to value creation and appropriation.

Along the same line, Tuominen (2004) views value creation as an organizational capability that, along with the value appropriation capability, is necessary to achieve a 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 and Jacobson, 2003; Tuominen, 2004). In any event, it is likely that these advantages would be temporary. Market dynamism and uncertainty provoke not only the need to create an ongoing new value, but also the need to maintain the value created in previous periods (Eisenhardt and Martin, 2000; Morrow *et al.*, 2007; Sirmon *et al.*, 2007).

### **2.3.3. Value creation and value appropriation capabilities**

Barroso and Ruiz (2010) argue that it is necessary to analyze how a firm uses its resources to create customer value (Adner and Zemsky, 2006; Priem, 2007; Sirmon *et al.*, 2007; Srivastava *et al.*, 2001). Barroso and Ruiz (2010) note that value creation has been very present in the field of firm strategy in general, and in the resource-based view (RBV) in particular, but it has been analyzed from an exogenous perspective. Therefore, one of the biggest criticisms made of the RBV is the scant attention paid to how resources generate value for customers (Sirmon *et al.*, 2007; Srivastava *et al.*, 2001; Zander and Zander, 2005).

Value creation involves the development of a set of capabilities related to the creation and renovation of the routes to competitive advantage. On the other hand, value appropriation involves the development of a set of capabilities oriented to the extraction of benefits derived from value creation (Barroso and Ruiz, 2010). In other words, it focuses on the appropriation of market rents generated from the possession of specific differential resources or capabilities

(Mocciaro and Battista, 2005). For the appropriation of benefits to take place, isolating mechanisms that restrict competitive forces must be in place, since without them, there will be no incentives to create value for the customer (Mizik and Jacobson, 2003).

In Mocciaro and Battista's (2005) study, value creation refers to a firm's role in the economic system in which it operates and involves the firm's ability to perceive and implement new combinations of resources to allow new competences and knowledge to be developed and which increase the efficiency of the resources currently in use in the economic system.

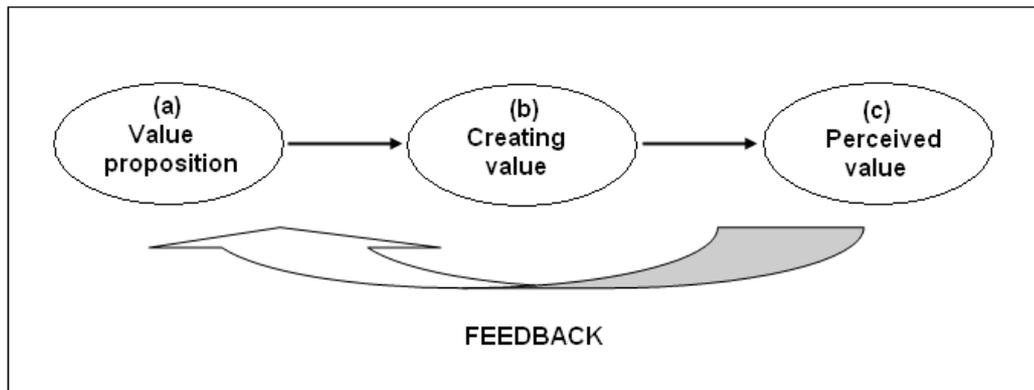
A firm's technological capabilities, driven by R&D expenditures, have been linked to value creation (Mizik and Jacobson, 2003). As for the appropriation of value, several different capabilities exist to increase isolating mechanisms and these influence the length of time that a firm is able to earn economic profits. Accumulated assets, such as customer loyalty, serve as isolating mechanisms and influence the ability of competitors to dissipate a firm's advantage. According to Mizik and Jacobson (2003), one key component of value appropriation capability of particular concern to service marketing managers relates to the effects of advertising. The firm's ability to differentiate its offer through advertising facilitates value appropriation because it lengthens the duration of the competitive advantage (Mizik and Jacobson, 2003).

### **3. RESEARCH MODEL**

In this section of the paper, we will try to relate the two perspectives of customer value: perceived value (the customer perspective); and value creation and appropriation (the firm perspective).

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

Figure 2. Customer value



As we see in Figure 2, we propose that the value cycle begins with the firm's proposition of value (a). In fact, 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 that allows it to stand out from the competition. We state that the proposition of value of each firm helps them to create value for its customers. But regardless of how much value a firm creates, if the customer does not perceive it (c), the firm is not creating value.

If a firm creates value and the customer perceives it, the necessary next step is the firm's appropriation of that created value. This is the reason why we propose that a feedback through the customer perceived value is required so that the firm could update and adapt its value proposition.

As explained earlier in this paper, we argue that when the concept of 'customer value' is discussed, it is important to keep both the customers and the firm in mind, since the relationship between them is what gives rise to true value. What we try to achieve with our study is to find how the relationship between customer value from the customer perspective and from the firm perspective must be in order to improve the value created for the customers.

Traditionally, value research has been focused on the evaluation of how firms create value for their customers and how customers perceive the superior value

of what the firm is offering, compared with the competition. In recent years, the emphasis has been on the need to consider customers as assets (Ulaga, 2001). This idea refers to the requirement that firms should be able to appropriate the value created.

Although value appropriation is important, service managers cannot be focused exclusively on capturing exchange value while leaving it to chance that use value is experienced. *Exchange value* is the monetary amount realized at a single point in time when the exchange of the service takes place and *use value* consists of the specific qualities of the service perceived by customers in relation to their needs and the extent to which alternative services might meet those needs (Bowman and Ambrosini, 2000). Instead, an essential part of the service manager's art is helping customers to perceive and experience maximum use value, in a competitive environment in which other firms are also struggling to help their customers (Priem, 2007). Furthermore, value creation alone is insufficient to achieve competitive advantage and financial success and therefore, firms without the ability to restrict competitive forces (e.g. erect barriers to imitation) are unable to appropriate the value that they have created (Grant, 1991; Teece *et al.*, 1997). Indeed, there is little incentive for firms to engage in value creation in the absence of isolating mechanisms that prevent the immediate dissipation of the profits associated with a value-creating initiative (e.g. an innovation) (Mizik and Jacobson, 2003). Firms without the capabilities to restrict competitive forces are unable to appropriate the value they have created and so competitors and customers will claim it (Ghemawat, 1991).

Mizik and Jacobson (2003) stress that value creation investment decisions cannot be divorced from those related to value appropriation, since countless examples exist of innovations that created enormous value, but where the innovating firm was unable to capture the surplus. According to these authors, firms that fail to pay sufficient attention to value appropriation cannot be expected to achieve sustained competitive advantage and capture the benefits from their value creation capabilities.

This idea is illustrated in the previous figure. In Figure 2, we try to show how the three views of value are equivalent for a firm in an important level and that all three should be interrelated. Similarly, Barroso and Ruiz (2010) note that, from a firm's perspective, value creation starts generating value for the customers, which enables them to gain a competitive advantage, which in turn contributes to increased shareholder wealth (Priem, 2007; Sirmon *et al.*, 2007).

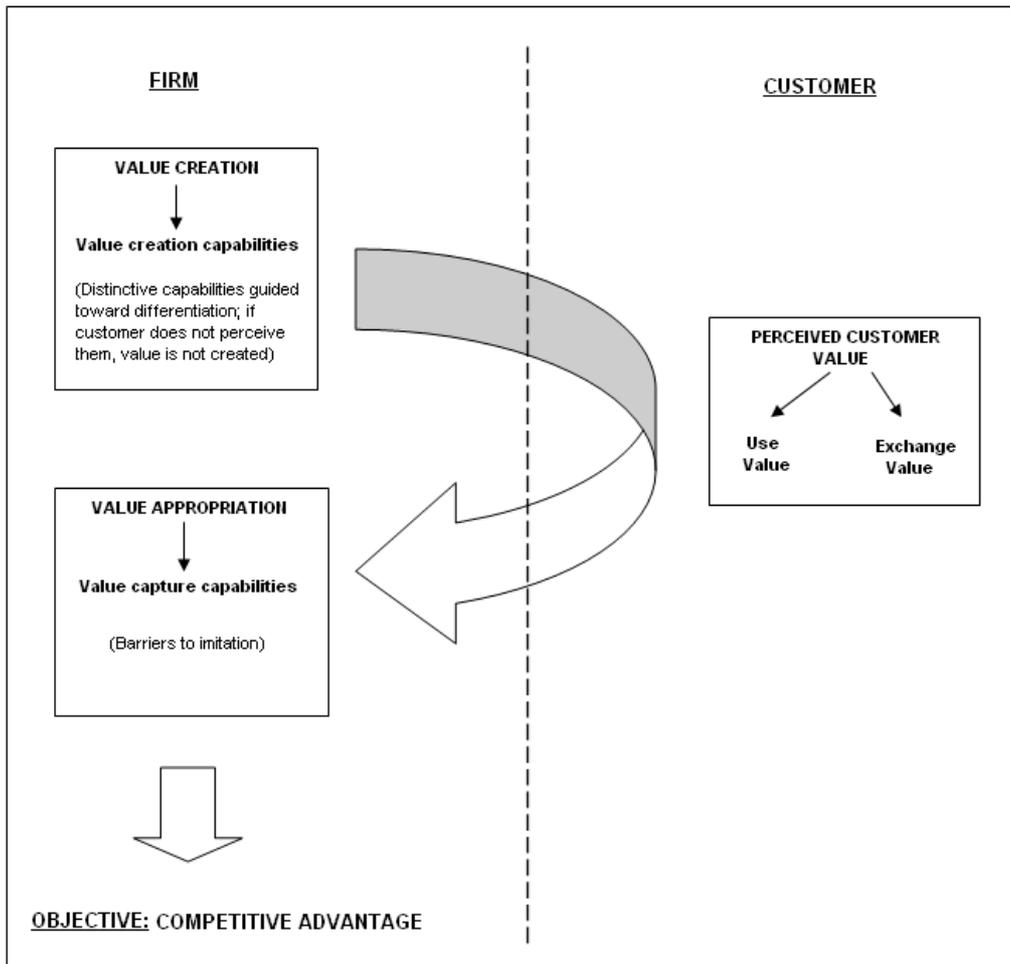
Therefore, a firm has to be able to create value for their customers. In order to create value, the firm needs to have or develop a distinctive set of capabilities that allows them to stand out from the competition (as discussed previously).

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

If, on the contrary, a firm creates value and the customer perceives it, the following step must be the appropriation of the value it has created. Just as when the firm creates value, firms need to have or develop a set of capabilities (as discussed above), such as barriers to imitation, in order to capture the value created.

Figure 3 is a graphical explanation of the process we propose:

Figure 3. An integrated view of customer value



As we have seen, we need to consider both the firm and its customers when discussing customer value, since true customer value develops from the relationship between them.

For this reason, our proposed model includes the three value views as well as the relationship between them. We would argue that it is this relationship that really creates value.

#### 4. IMPLICATIONS FOR RESEARCH AND MANAGEMENT

The first implication for service research is that our paper shows the existence of different views and ways of thinking about customer value, depending on the point of view that is adopted; namely, perceived value (according to customer

perspective) and value creation and appropriation (according to the firm perspective).

Secondly, we show the importance of linking the different views of customer value since, as we have stated before, what really creates value is the relationship between these viewpoints.

Our paper contributes to the service literature on both value and firm management. Our paper can also influence the current service management of firms with regard to customer value creation.

Firstly, we recommend that firms combine value creation and value appropriation rather than focusing on only one of these aspects. As we have discussed, both value creation and appropriation are required to achieve a sustainable competitive advantage (see Figure 1); the firm has to decide the extent to which one or other predominates.

Secondly, and as a consequence of the previous idea, we outline the importance of analyzing how to divide a firm's scarce resources between its value creation and appropriation capabilities. As we have discussed, a firm's resources are limited and therefore, firms are forced to prioritize resource allocation between their value creation and value appropriation capabilities.

Thirdly, we state the importance for firms to link value creation and customer perceived value. Firm value creation should be guided by the value perceived by the customers. Irrespective of how much value a firm creates, if customers do not perceive it, firms are not creating value.

Lastly, our paper demonstrates a set of capabilities that can be used for firms to create value and to appropriate the value created. These capabilities can also be used as a reference for firms to develop other capabilities to facilitate their value creation and appropriation.

## **5. CONCLUSIONS AND FUTURE RESEARCH**

Understanding what 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 a topic of growing interest for the 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 views value creation and appropriation (and the firm's capability for it) as the distinctive competence.

Therefore, from the existing literature, we deduce that customer value can be seen both from the customer's point of view and from the firm's point of view, but an integrated vision of both perspectives must be established in order to study customer value. In this paper, we propose a model that links perceived value, value creation and value appropriation and demonstrates that it is this relationship between the three views that really creates value for the service customer.

It would be interesting to continue investigating in this same line but trying to include ideas such as those of Vargo and Lusch (2004), Lusch and Vargo (2006) and followers. This would enrich the study.

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