

THE IMPORTANCE OF VALUE CREATION PROCESS IN MARKETING

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Abstract: *This paper discusses the use of the term “value” in the framework of marketing aiming to identify the major approaches from the shareholders and customer perspectives. Throughout the extensive literature, it’s been proven that the value creation process is considered extremely important, therefore, this paper tries to encompass the main definitions and approaches regarding the value creation process. The results describe the interdependency between the strategic goals of the organizations and the value perception of customers.*

Key words: *Value concept, value creation process, value chain, value proposition, customer value*

1. Introduction

The notion of “value” has been used throughout times in philosophical and economic sciences in a wide variety of contexts and therefore, it has numerous connotations in everyday language. Under these circumstances, value can be defined as standards, beliefs, principles, social and moral obligations but at the same time, it could be easily linked to desires, needs, and interests (Paulus, 1990). According to Brown (1984), there is a clear distinction between the two most important meanings of the notion “value”: the evaluation of an object or phenomenon and the criteria used to evaluate the respective object or phenomenon and as a conclusion, the object and the subject are connected through an evaluation process.

In philosophy, the concept of “value” was considered an interesting and intriguing subject, and various theories were elaborated highlighting different approaches that involved the value concept. Related to the typology of theories of value in philosophy, Gewirth (1985) and Dunn (1983) identified three different theories that can be associated with value: (1) the descriptive theories of value which refer to “what is” truly in the field of value and emphasizing on finding and explaining the values held by a group of people, (2) normative theories of value that propose and make judgments about “what supposed to be” in the field of value and philosophers make statements about what should be considered a “good” or “moral” behaviour for an individual and

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(3) meta-normative theories of value which analyse both the value and its evaluation.

In economics, theorists explained the two major meanings of value: the value-in-use (value) and the value-in-exchange (price) and according to Trinh (2014), the difference between the two types of values is considered the foundation of value theories that constantly seek to describe how goods and services are priced and what is the value provided for both the shareholder and the consumer. For a better explanation of the value concept in economics Pauls (1990) mentioned that economics like other social and behavioural sciences, can be divided into a positive and a normative branch where value is perceived as follows: within positive economics, theorists are concerned about “what is” and are continuously guided by the descriptive theories of value while for the normative economics, theorists are concerned about what “is supposed to be”, they believe that all decisions are formulated based on a personal value and they are influenced by the normative theories of value.

The value concept is one of the most complex, interesting, and fascinating concepts from economics but at the same time, it represents the base of the marketing activities (Halbrook, 2004). Furthermore, the term value is abstract and reflects different meanings for consumers (Zeithaml, 1988), researchers (Lai, 1995), and practitioners in the field (Woodruff and Gardial, 1996). In essence, the concept of value is essential to marketing theory, and as a logical extension, it allows a more in-depth comprehension of consumer patterns and behaviour. Furthermore, emphasizing the importance of the value concept in marketing, the American Marketing Association (2017) reformulated their marketing definition encompassing the role “value”:

“Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large”.

For this reason, this paper explores the value concept in marketing and tries to define and describe the two distinct directions found in the literature: shareholder value and consumer value.

2. Literature Review

In the beginning, the concept of value has crucial epistemological implications for the marketing domain and its relevance has grown as two crucial dimensions have emerged: the economic dimension where value is linked to perceived price via transaction value) and the psychological dimension, where value is linked to cognitive and affective influences on product purchase and brand choice (Gallarza et al., 2011).

2.1. Shareholder value

Value chain

When assessing the management literature that depicts value concept, three categories are noticeable: financial economists support shareholder value, marketers promote superior customer value and stakeholder theorists strongly emphasize stakeholder value (Reichheld, 1994). Because of the growing strength and impact of

financial markets, the notion of shareholder value has been widely established in the finance literature (Payne et al., 2000).

The argument for applying the shareholder value method in selecting corporate and company strategies, according to Rappaport (1987), is based on the premise that strategies that create the most shareholder value will develop the most durable competitive advantage.

Meanwhile, Gronross (2000) disagrees, specifying that shareholder value comes “from profitable customers experiences and not from stock exchange” demonstrating that customer loyalty plays a major role for both the organization and customers. Any small increase in customer retention leads to a significant increase in the value profits.

The theoretical approaches of companies in terms of the value creation process are among the most diverse and varied. In this context, the literature mentions Porter (1985) who contributed by emphasizing the importance of the value chain considering the business as a collection of interconnected activities, which allows the delivery of superior value to all customers but at the same time, provides the context for overcoming competitor performance (Gilmore, 1999). The notion of value chain presented by Porter (1985) is essential because it emphasizes the importance of value perceived by the customer but at the same time highlights the efforts of an organization in the process of creating the capacity to create and add value to all products or services (Miller and Dess, 1996). Therefore, the client is recognized as being of crucial importance to any organization that seeks financial independence, and this is often pointed out by the fact that a company's costs of attracting new customers are 5 times higher than those of retaining them (Lewis, 1991).

Value proposition

Most corporate strategy models recognize the importance of exceptional customer value (Cravens et al, 1997) therefore, for value-based strategies to succeed there is a clear need for extensive knowledge of the value notion (Woodruff, 1997). Along with the value chain introduced by Porter (1985), companies are constantly seeking to identify ways and methods to increase the value for customers therefore, the value proposition is considered an important and efficient strategic tool especially designed by a company for communicating how value will be provided to all customers (Anderson et al., 2006). Moreover, Payne (2017) considers the value proposition the core of any organization because “it should be the firm's single most important organizing principle” (Webster, 2002). Nevertheless, a well-formulated value proposition represents the core of all conversion strategies, and it is considered the foundation for convincing and converting visitors into customers (Buttle, 2009). According to Rintamaki et al. (2007), a compelling value proposition comprises genuine, trustworthy, and desirable concepts and ideas and it is imperative for all goals to be achieved otherwise, marketing efforts will be drastically affected, and the conversion rates will be far below what they could be. Under these circumstances, companies need to identify the elements that make their offer superior so that they can demonstrate, document, and communicate all these aspects to their target customers (Sawyer, 2011) while Martinez (2006) supports the idea that in order to get the best combination of value, it would be appropriate to have

a link between two perspectives of value, namely: (1) Internal value - refers to the perceptions and perspectives of shareholders where value means profit but the corporate value is not limited to profit but is expressed by -a vision and mission of the company but also through very well defined and communicated objectives (2) External value - refers to the customer perspective where value is represented by satisfaction.

Furthermore, by using the value propositions, companies can penetrate new markets much faster, and they can gain control of their target market. Customers are vital for any organization and Steven (2009) suggested that competitive differentiation is determined by the value perceived by the customer yet, Fifeld (2007) observes a specific orientation from customers and believes that customers understand value intuitively which makes it difficult for companies to objectively quantify the advantages of benefits or products provided. In addition, Fifeld (2007) identified two factors that make value hard to assess: 1) Value is linked to the question of pricing, which is a topic that both practitioners and researchers rarely examine (2) the term value has varied connotations for each of us and is difficult to describe or quantify.

To summarize, the concept of value proposition is complicated, and it is doubly crucial when considering the perspectives of the two parties involved in the process (Walker, 2008) (1) from the standpoint of organizations, where a company's goal and vision are critical to achieving projected success, and (2) from the standpoint of customers

2.2. Consumer value

The conceptualization of the notion of value is the most prevalent in the literature, according to Rintamaki et al. (2006) and Hu (2010), but a definition of value is difficult to provide because consumer behavior changes frequently and constantly. An extensive review of the literature demonstrated the complex nature of the concept of value (Babin et al., 1984). From the abundance of definitions allocated to what value represents for customers, Halbrook (2005) defines customer value as an “ interactive, relative and preferential” experience that is difficult to understand and apply while Ulaga (2003) suggested that the key features mentioned by Halbrook could be identified as follows: the customer perceives the product or the service uniquely, the purchase of the product is conditional or contextual, the purchase decision is relative compared to the alternatives known or imagined. There have been authors who have simplified prior definitions of customer value, such as Zeithaml (1988), who claimed that customer value is what is received (benefits, quality, value, and utility) after purchasing and utilizing a product because after what consumers pay (price, cost, sacrifices), they develop a certain mindset or emotional attachment to the goods. Even though the simplified definition is chosen and adopted, it is impossible to say with certainty whether the value to the consumer is summative (more benefits and fewer sacrifices) or ratio (benefits divided by sacrifices) Parasuranam (1997). After careful and comprehensive research, Zeithaml (1988) identified four possible definitions of the value concept:

Value = price

Value = what I get for what I give

Value = ratio of quality and price.

Value = all quantitative, qualitative, subjective, objective factors that create and/or determine buying experience.

Furthermore, Fified (2009) successfully managed to synthesize a different definition of the customer value thus the equation can be interpreted as follows:

Value = Benefits-Sacrifices-Risks-Price

where value is defined not just by the goods or service purchased, but also by the advantages and sacrifices made. As a result, the benefits are derived from using the product or service, and every additional benefit serves only to improve the value. On the other hand, minimizing effort, risk and price have a very strong impact on the customer's perception of value.

The customer value is of paramount importance for any organization, therefore, Paster and Alderman (2006) explained that the value creation process represents a customer-centric framework that supports organizations to recognize the optimal growth possibilities by maximizing the value creation process between the company and its customer and they proposed the following equation:

Customer Value Creation (CVC) = Customer Value Analysis + Operational Excellence

As a result, a thorough examination of the value creation process for the client demonstrates the company's ability to comprehend the procedures required to generate value and it defines value creation from the customer's perspective. Operational excellence is the process that an organization considers critical to delivering value for consumers.

Value dimensions

According to Sheth (1991) when it comes to the value perceived by the customer, four dimensions of value can be outlined, namely:

- Emotional value
Utility derives from feelings or emotional states that a product or service can generate.
- Social value
Utility derives from the ability of the product or service to improve the concept of the social self.
- The value of the price or value for money.
The utility derives from the product because of the reduction of its costs, perceived in the short term but also the long term.
- The value of quality
Utility derives from the perceived quality of the expected performance of the product.

Value typology in Marketing

The literature provides a wide and varied range of classifications when it comes to value typology. In general, two classic approaches transcend in most cases, namely: the value of acquisitions and transactions and the utilitarian and hedonic value (Chen and Hu, 2010).

Functional value (utility)

Utility value, according to Babin et al. (1994), "*results from a certain form of purposeful pursuit of an intended consequence.*" This form of value is reasonable, cognitive, and pragmatic in this environment. Utility evaluation is primarily concerned with a set of expectations that consumers may have for a product or service, and it is generally functional and instrumental. The utility value considers both the aesthetic and functional aspects of a product, but it also considers the type of goods purchased (Schreier, 2006). According to Frankie and Schreier (2008), there is a correlation between the benefits of this impression and consumers' willingness to pay for a product or service.

Utilitarian consumer behavior is regarded from a functional perspective as suggested by Babin et al. (1984) while other researchers clearly stated that the shopping value should be reconsidered and not analyzed only from the utility point of view (Vos et al., 2003). Nevertheless, as suggested by Lim and Ang (2008) consuming activities are rated solely based on rewards of the goods and services obtained yet is advisable to recognize numerous intangible and emotional costs and benefits to fully understand the consumption experience. Currently, available research has established that in general, consumption occurs because of either utilitarian or hedonic motives. Traditionally, utilitarian evaluation has been functional, instrumental, and cognitive and it essentially encompasses the fulfilment of a consumer's instrumental expectations towards a certain product or service (Homer, 2008). Moreover, consumers according to the utilitarian perspective, are concerned with purchasing things in an efficient and prompt manner to satisfy their goals with the least amount of annoyance.

Non-functional value (hedonic)

The hedonic value shows the psychological value that the customer places on the acquisition process as well as the product/service to a considerable extent. Hedonic value can have a favourable impact on customer behaviour and play a key role in converting a customer into a loyal one (Carpenter and Moore, 2009).

In a similar vein, customers' perceptions of hedonic value are based on pleasant experiences as well as their joys, emphasizing the subjective and personal aspect of this sort of value as opposed to utilitarian value (Yulistyawati, 2020).

The nature of hedonic appraisal is more effective than cognitive. Hedonic values are non-instrumental, experiential, and effective, and are frequently linked to intangible retailer/product features. Hedonic value's adventurous aspect represents shopping's entertainment and emotional potential, which stems from the joy and playfulness of the experience rather than the attainment of any pre-determined goal (Hirschman and Holbrook, 1982; Babin et al., 1994).

Utilitarian and hedonic values are considered essential to understanding consumers' judgments of the consumer experience because they are present in all consumption phenomena.

Behavioural intentions

The degree to which a person has made deliberate plans to conduct or not perform a specific future activity is known as behavioural intention. Behavioural intention is the motivating component of volitional behaviour, according to the theory of reasoned action (Fishbein and Ajzen, 1975), and it is closely connected with the behaviour itself (Liu and Jang, 2009). There are two types of behavioural intentions: favourable and unfavourable. Positive word of mouth (saying good things about the service and suggesting it to others), paying a higher price, spending more money with the company, and being loyal are all examples of positive behavioural intentions. Unfavourable behavioural intentions, on the other hand, include abandoning the company, spending less money there, spreading the poor word of mouth, and filing a lawsuit (Ladhari). According to Zeithaml (1988), perceived value plays a significant role in consumers' buying decisions, implying that behavioural intentions are a result of perceived value. Customers are more likely to indicate good behavioural intentions when they perceive high levels of value from consumption experiences. Previous research looked at revisit intentions, word-of-mouth, and propensity to refer to different types of behavioural intentions (Ha and Jang, 2010). Many studies have found a link between customer satisfaction and behavioural intentions like repurchase and word-of-mouth marketing. The apparent rationale for satisfying consumers is to increase the likelihood of repeat business and positive word of mouth, resulting in increased profitability.

3. Conclusions and Recommendations

The purpose of the paper was to investigate the importance of the value creation process in marketing from two perspectives: the shareholder and the customer. At the beginning of the paper, we introduced the reader to the notion of value used in philosophy and economic sciences for creating the perfect setting and a clear understanding of the value creation process discussed. Furthermore, initially, we presented how value can be achieved, managed, and delivered by organizations considering the value chain suggested by Porter but emphasizing the value proposition as a fundamental approach in the value creation process. Furthermore, the value creation process was analysed from a customer perspective highlighting the main characteristics and typologies. The scientific analysis of the literature revealed that there is a clear connection between shareholder value and customer value and in essence, all the components of the entire process of value creation are extremely interconnected. Different results for different stakeholders are the result of the links and interdependencies between the various components that contribute to the creation of value. The first step companies need to understand is the importance of creating and delivering value to its customers and extensive research demonstrated that a thorough analysis of the target market together with their needs, wants and desires is highly

recommended. Consumer behaviour changes constantly and frequently and the purchasing behaviour is adjusted along the way therefore, it is difficult for companies to deliver the value expected by consumers. Nevertheless, it is advisable for companies to closely monitor and evaluate how is value perceived by customers so they will know how to shape or reshape the products and services provided. The behavioural intentions of customers should be further investigated by companies and incorporated in the value creation process as a powerful tool especially designed to anticipate the customer's needs.

Customer value creation is a key marketing concept that has received little attention (Hunt 1999). The framework for customer creation strategy developed in this paper is a useful tool for defining and illustrating value strategies, presenting brand and organization positioning, identifying opportunities for new value creation propositions, and suggesting enhancements to the value of existing products.

Marketing is all about being able to differentiate new products and services. Marketers can be more successful in uncovering possibilities if they are imaginative when it comes to creating customer value. With the framework described, we provided some structure to this creative process.

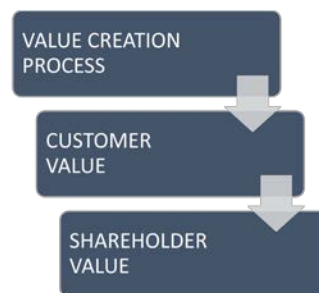


Fig. 1. *Value creation process*

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