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DIAGNOSING CUSTOMER VALUE:

A REVIEW OF THE LITERATURE AND A FRAMEWORK

FOR RELATIONSHIP VALUE MANAGEMENT

by

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Abstract

This paper presents a conceptual framework for *relationship value management* that integrates two current research perspectives; *customer value* and *relationship marketing*. The concept of *value* and, more specifically, *customer value* is of increasing interest to both academics and practitioners. In order to develop the framework, a substantial review of past and current literature is undertaken on the concepts of value and customer value. Nine core streams of value literature are identified and discussed; *consumer values and consumer value*; *the augmented product concept*; *customer satisfaction and service quality*; *the value chain*; *creating and delivering superior customer value*; *the value of a customer*; *customer-perceived value*; *customer value and shareholder value*; and *relationship value*. To date, the core focus of this literature has been on value from the perspective of the organisation and its customers - the *customer-supplier relationship*. However, it is argued that the emergence of the relationship marketing paradigm has seen an increased emphasis on the role of *other stakeholders* in relationships. An existing multi-stakeholder model of relationship marketing, the Six Markets Model, is introduced and is integrated with key concepts from the value literature to produce the relationship value management framework.

Introduction

Creating 'value', and more specifically, 'customer value', is increasingly seen as the next source of competitive advantage (Woodruff, 1997). It is also of major and increasing concern to consumers and marketers (Patterson and Spreng, 1997). Yet, despite the increasing attention being focused on this concept, there is still remarkably little in the way of agreement in the literature on what constitutes 'value' and 'customer value' or how it is related to relationship marketing. Indeed, a review of the literature reveals, for example, the term 'customer value' being used in a variety of contexts; these include 'creating and delivering customer value' (eg how companies can 'add value'), 'customer-perceived value' (eg desired and received value at purchase and in use) and 'value of the customer' (eg customer lifetime value). Further, while the term value is frequently used to describe customer value, it is also used in relation to other aspects of value in the organisation.

The objectives of this paper are twofold: first, to undertake a comprehensive literature review of the different perspectives of value; and second, to consider how these views of value could be addressed in the context of relationship marketing. Much of what has been written to date on value creation has focused primarily on the perspective of *the organisation and its customers*. Relatively little attention has been given to *other stakeholders* and how they should be considered within an organisation's total value creation process. In particular, the role and interdependence of these multiple stakeholders represents an area we consider worthy of further exploration. We argue that value and customer value need to be seen both in the context of these stakeholders and the organisation's total approach to value management - which we term 'relationship value management'.

The paper is structured as follows. Firstly, we identify and discuss some of the precursors to the value concept. Next we identify four influential antecedents and three more recent perspectives of the concept of customer value. In the third section, we examine how these seven antecedents and perspectives, and their precursors, have led to two newer developments in value research; the link between customer value and shareholder value and the notion of 'relationship value'. These developments extend the concept of value beyond a primary focus on one stakeholder - the customer. Finally, we bring together key concepts from both the value and the relationship marketing literatures and develop a framework for 'relationship value management'. This framework provides an integration of the value process and relationship marketing as well as addressing the role multiple stakeholders can play in creating and delivering sustained value.

Precursors of Value

The notion of value creation has been implicit in marketing since our industrial beginnings. In the context of relationship marketing, work by a number of scholars has referred to early examples of organisations or individuals understanding customer's needs and delivering value to them. For example, Grönroos (1996) refers to an ancient chinese merchant who progressively built more and deeper relationships with the customers in his village through a change in his role "from a transaction-oriented channel member to a value-enhancing relationship manager".

Sheth and Parvatiyar (1995) point out how relational bonding between traders in pre-industrial society was prevalent and that the development of 'markets' in this period was concerned with continuity and security for the repeat purchaser. This continuity was achieved because those who participated in the market knew and trusted each other (MacKenney, 1987). These early examples illustrate buyer-seller relationships where both parties received some form of value. Such interactions led to an ongoing relationship, rather than a series of individual transactions with different traders, the results of which had the benefit of customer retention for the seller and a sense of security and trust for the repeat purchaser.

Looking back at the literature on the development of modern marketing, it is possible to identify many precursors to the notion of value. For example, in their study of the evolution of relationship marketing, Sheth and Paravatiyar (1995) describe how a number of marketing scholars became interested in brand loyalty and repeat purchasing including Churchill (1942), Womer (1944) and Barton (1946). This earlier work was further developed in the buyer behaviour theory of Howard and Sheth (1969).

The notion of value is implied in the work of Webster and Wind (1972) with their concept of the buying centre which emerged from a study of industrial markets. Although the concept of value is not specifically emphasised in their work, it is clear that different members of the buying centre or decision-making unit (DMU) value certain aspects of the supplier's offering to a greater or lesser degree more than other members of the DMU .

Value is also implied in the work on exchange theory. For example, the pioneering work done by Kotler and Levy (1969) and Kotler (1972) on broadening the concept of the marketing mix regarded the process of exchange as an essential part of marketing activity: "The core concept of marketing is the transaction. A transaction is the exchange of values between two parties. The things-of-value need not be limited to goods, services, and money; they include other resources such as time, energy, and feelings" (Kotler, 1972). A little later Bagozzi (1975) focused on the importance of the exchange process in greater detail and pointed out that there are three broad determinants of exchange relationships; *social actor variables* (attraction, similarity, prestige, expertise); *social influence variables* (specific actions, communications, information transmitted between parties); *situational variables* (alternative sources of value, the physical and psychological setting, the legal and normative setting). It is likely that all these aspects will have some impact on the notion of value. However, while the exchange theory of marketing provides good normative rules for exchange relationships, it does not yet explain why and how values (and arguably value) are created (Sheth, Gardner and Garrett, 1988).

The early marketing literature on consumer behaviour also had its roots in the economic theory of 'utility'. The economists view of value states that consumers spend their income so as to maximise the satisfaction they get from products (Bowman and Ambrosini, 1998). This neo-classical theory, while generally regarded
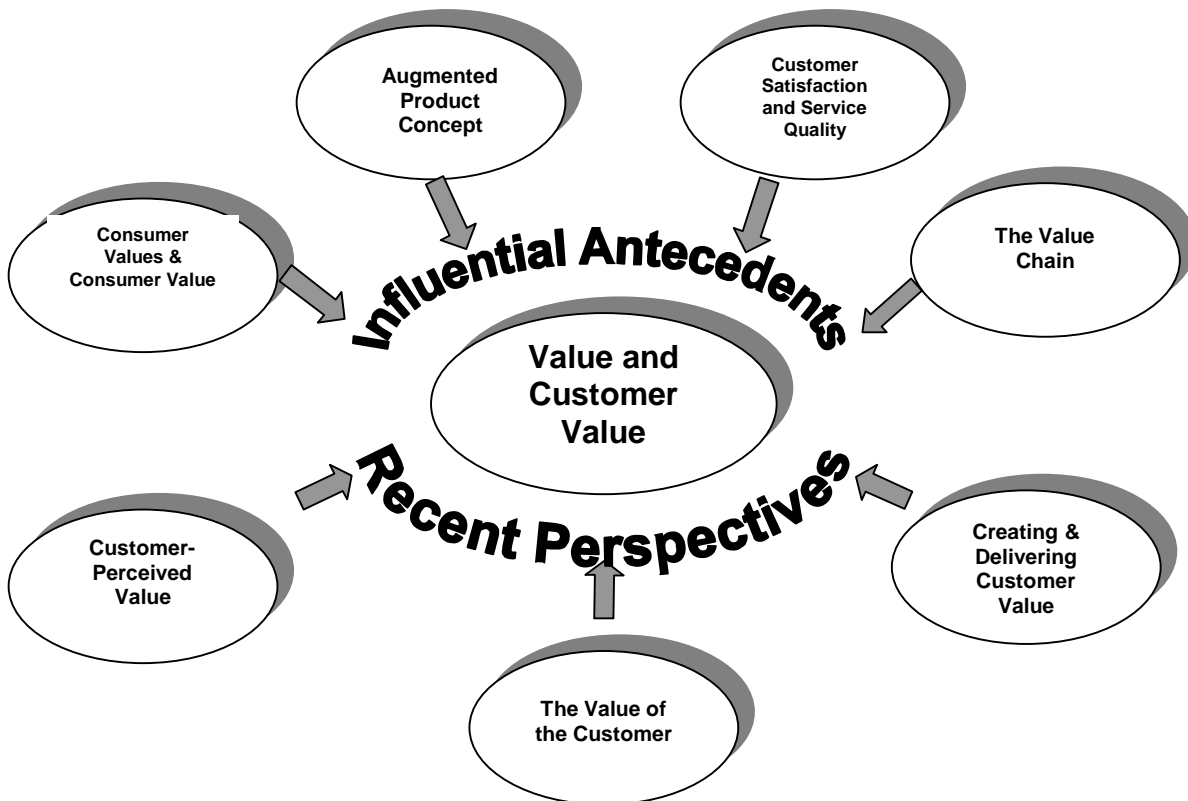
now as an over-simplistic view, has however provided the basis for much of the later work on value, customer value and relationship value outlined later in this literature review.

Antecedents and Recent Perspectives on Customer Value

Since this earlier work many researchers have considered the concept of 'value' and 'customer value'. To review the research on customer value and other related work, we identified a large body of literature on what we term 'the value concept'. The concepts of 'value' and 'customer value' have been considered by a number of researchers who use the terms to mean different things in different contexts. However, many of the foundations on which these recent perspectives are based have their origin in earlier work which, while not using the term 'customer value', are nevertheless closely linked to the development of the current concepts of value.

We identified four areas which we consider have influenced the recent thinking on customer value. We term these *influential antecedents* in Figure 1. These are: consumer values and consumer value; the augmented product concept; customer satisfaction and service quality; and the value system and the value chain.

Figure 1: Different Perspectives of Value and Customer Value

Augmented Product Concept

Customer Satisfaction and Service Quality

Consumer Values & Consumer Value

The Value Chain

Influential Antecedents

Value and Customer Value

Recent Perspectives

Customer-Perceived Value

Creating & Delivering Customer Value

The Value of the Customer

Consumer values and consumer value: these were researched extensively in the 1970s and 1980s. Much of this research was based on, among others, the seminal work of Gutman (1982).

A*ugmented product concept*: this was developed by Levitt (1980) who proposed that in addition to the generic or core product there also existed an 'expected product', an 'augmented product' and a 'potential product'.

Customer satisfaction and *service quality*: these are concerned with the measurement of value outputs. More recently these have focused on multi-attribute measurement models developed by, for example, Parasuraman, Zeithaml and Berry (1985) and (1988).

The value chain: Porter (1985) built on earlier work when he introduced his value chain as a means of identifying how value can be created within organisations.

From these influential antecedents, at least three other perspectives have emerged. We have termed these *recent perspectives* in Figure 1. These are: creating and delivering customer value; the value of the customer (or customer lifetime value); and customer-perceived value.

Creating and delivering superior customer value: this is now recognised as a key activity in the generation of competitive advantage and has become the focus and interest of many researchers (eg Day, 1990).

Value of the customer: this looks at value from the viewpoint of the profit obtained over a customer's lifetime including the profit increase that can be gained through customer retention (eg Reichheld and Sasser, 1990).

Customer-perceived value: work in this area concentrates on the customer's perception of value and the importance of determining that value in order to develop products and services that are closely aligned to what the customer finds of value (eg Woodruff, 1997).

This brief overview has described the influential antecedents and recent perspectives of customer value. We now outline a detailed review of the value literature in each of these areas. The structure of our literature review is shown in Figure 2. In this figure we show a representative selection of the main contributors' work in each of the key areas identified above. This figure represents only a broad chronological progression of research. Also, there is some overlap between these areas. For example, the work on creating and delivering superior customer value is related to the earlier work on the value chain and customer satisfaction.

Influential Antecedents of Value in Marketing

The specific use of the term 'value' (and 'values') as applied to marketing has emerged from these earlier precursors in the literature mainly over the last twenty-five years. However, it also needs to be recognised that the roots of the use of the term 'value' derive from work outside marketing such as that undertaken by

Hilliard (1950) and Morris (1956, 1964). Much of this early work focused on value as preference. Other work focused on developing a priori lists of values, such as that developed by Rokeach (1973), who created a classification scheme based on thirty-six personal values.

We now consider the literature on the four influential antecedents and three more recent perspectives of value outlined above. As we proceed from a discussion of the antecedents to the recent perspectives, we gain a richer understanding of the concept of value as it applies to marketing strategy. Each are significant bodies of literature in their own right and unlike the precursors have value as an explicit construct.
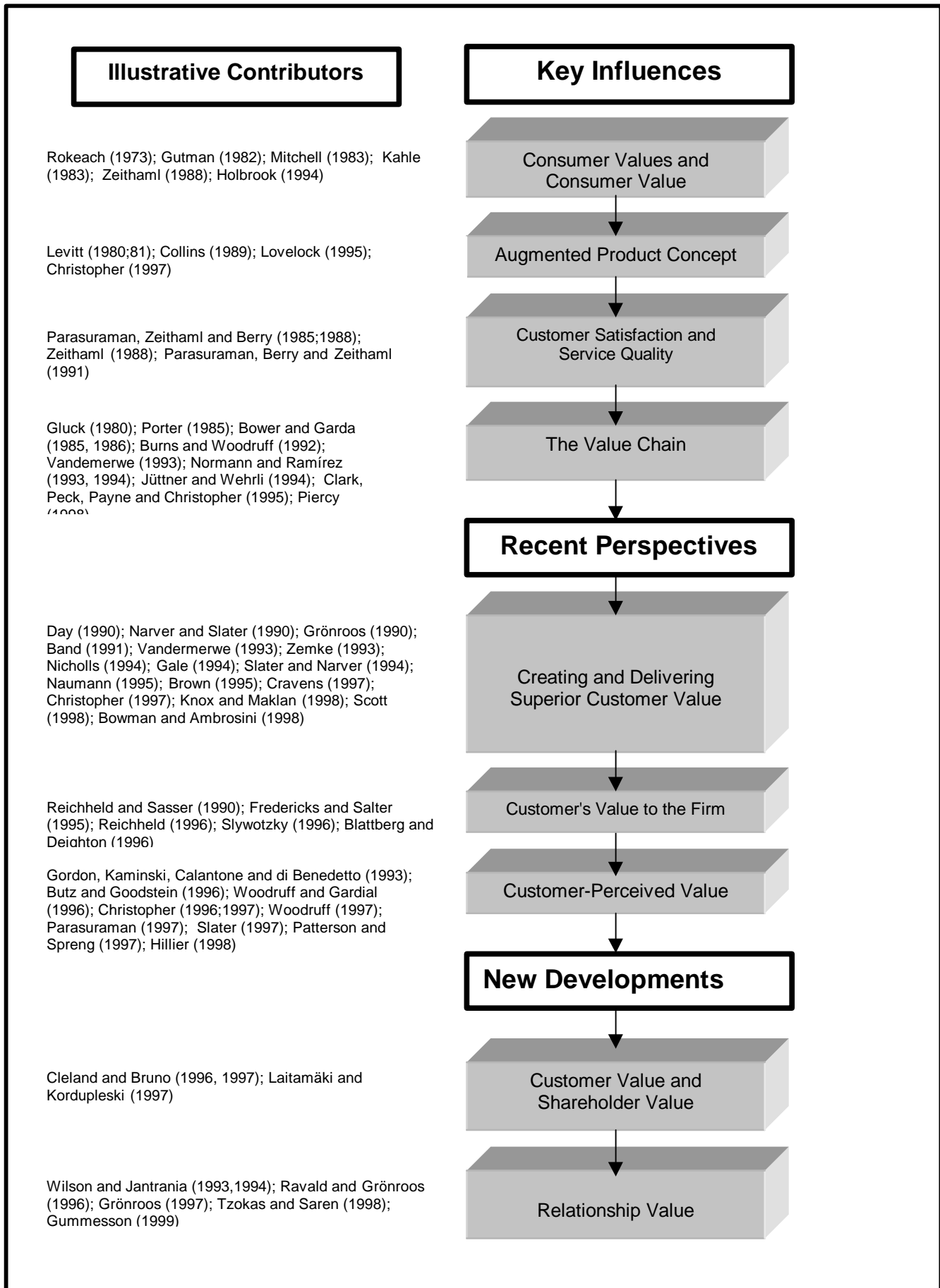
Consumer values and consumer value

Work on consumer value has its origins in work on human values and consumer values. However, it is important not to confuse the terms consumer 'values' and consumer 'value', so it is appropriate at this point to comment on the terms value (singular) and values (plural). Holbrook (1994), suggests the term value refers to a preferential judgement whilst the latter is used to refer to the criteria by which such judgements are made. 'Values' are described by Rokeach (1973) as deeply held and enduring beliefs whereas 'value' implies, through the notion of preference, that it is the result of a trade-off (eg between benefits and sacrifices) and an interaction (eg between a customer and the product/service).

The research on consumer values in marketing can be traced to work in consumer research by academics such as Gutman (1982) who sought to understand buying behaviour and decision-making of consumers in the purchase situation through identifying the product attributes that could be linked to a customer's values. Also within the realm of consumer research several values inventories have been developed to help measure values. Two of the most widely known examples of these are the 'values and lifestyles (VALS)' methodology developed by Mitchell (1983) and the 'list of values (LOV)' developed by Kahle (1983). This work was important in recognising that an understanding of the customer's values and behaviour could help an organisation to better design and market its products and services.

From this research on consumer values, work on consumer value has evolved. One of the most interesting pieces of research was that undertaken by Zeithaml (1988) who proposed a conceptual model that defines and relates price, perceived quality and perceived value. She developed four consumer definitions of value; (1) 'value is low price'; (2) 'value is whatever I want in a product'; (3) 'value is the quality I get for the price I pay'; and (4) 'value is what I get for what I give'. Her work is especially significant as it provides a more comprehensive understanding of the linkages between price, perceived quality and perceived value.

Figure 2: Development of the Value Literature

Illustrative Contributors	Key Influences
Rokeach (1973); Gutman (1982); Mitchell (1983); Kahle (1983); Zeithaml (1988); Holbrook (1994)	Consumer Values and Consumer Value
Levitt (1980;81); Collins (1989); Lovelock (1995); Christopher (1997)	Augmented Product Concept
Parasuraman, Zeithaml and Berry (1985;1988); Zeithaml (1988); Parasuraman, Berry and Zeithaml (1991)	Customer Satisfaction and Service Quality
Gluck (1980); Porter (1985); Bower and Garda (1985, 1986); Burns and Woodruff (1992); Vandemerwe (1993); Normann and Ramírez (1993, 1994); Jüttner and Wehrli (1994); Clark, Peck, Payne and Christopher (1995); Piercy (1998)	The Value Chain

Recent Perspectives

Day (1990); Narver and Slater (1990); Grönroos (1990); Band (1991); Vandermerwe (1993); Zemke (1993); Nicholls (1994); Gale (1994); Slater and Narver (1994); Naumann (1995); Brown (1995); Cravens (1997); Christopher (1997); Knox and Maklan (1998); Scott (1998); Bowman and Ambrosini (1998)	Creating and Delivering Superior Customer Value
Reichheld and Sasser (1990); Fredericks and Salter (1995); Reichheld (1996); Slywotzky (1996); Blattberg and Deighton (1996)	Customer's Value to the Firm
Gordon, Kaminski, Calantone and di Benedetto (1993); Butz and Goodstein (1996); Woodruff and Gardial (1996); Christopher (1996;1997); Woodruff (1997); Parasuraman (1997); Slater (1997); Patterson and Spreng (1997); Hillier (1998)	Customer-Perceived Value

New Developments

Cleland and Bruno (1996, 1997); Laitamäki and Kordupleski (1997)	Customer Value and Shareholder Value
Wilson and Jantrania (1993,1994); Ravald and Grönroos (1996); Grönroos (1997); Tzokas and Saren (1998); Gummesson (1999)	Relationship Value

Holbrook (1994) provides one of the most detailed academic treatments of consumer value. He defines customer value as 'an interactive, relativistic, preference experience'. He develops a typology of customer value that is based on a combination of three dimensions; 'extrinsic/intrinsic', 'self-oriented/other-oriented' and 'active/reactive'. He also distinguishes eight types of value in the consumption experience. It should be noted that some of these such as 'spirituality', 'morality', 'aesthetics' and 'play' appear somewhat more tangential to mainstream marketing than others which focus on 'efficiency' (convenience), 'excellence' (quality) and 'esteem' (reputation) and politics (success).

The augmented product concept

This concept derives from early work by Levitt (1969) where he points out that competition is not between what companies produce in their factories but between "what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value". In later work (Levitt, 1980) outlines the 'generic', 'expected', 'augmented' and 'potential' product concept. Shortly afterwards Levitt (1981) distinguished in greater detail between marketing of 'intangible products' and 'product intangibles'. In this work, he pointed out that from the buyer's perspective the product is "a promise, a cluster of value expectations of which its intangible parts are as integral as its tangible parts". Here the concept of value for the customer is very much viewed as an inherent part of the product or service. Levitt's model is particularly useful as it allows us to reconcile the marketer's traditional view of the product, seen in the terms of various inputs and processes needed to produce it, and the consumer's view of the offer, as being a set of solutions and supporting benefits (Christopher, Payne and Ballantyne, 1991).

Levitt's work has been drawn on by many writers. For example, Collins (1989) uses this framework in the context of describing the total product concept for a peronal computer from both the consumer's and marketer's views. Several writers, eg McDonald (1984) and Christopher and McDonald (1991), use the concept of the 'product surround' which suggests that whilst the core or generic product typically accounts for up to 80% of the total cost, it may only have 20% of the total impact on the customer. By contrast the 'product surround' (which includes the expected, augmented and potential product) may represent up to 80% of total customer impact ie what the customer values. Although this proposition is not based on empirical research, many managers have judged it to provide a very useful guideline in their businesses..

For many years researchers and marketing practitioners used this model but had to determine what specific product surround elements were important to their particular business. Lovelock (1995) has extended this concept, in the context of services, with his 'flower of service model'. This identified eight key elements of supplementary services which can be used to add value to the core product. Lovelock's work is important as it provides a more structured approach for considering the expected, augmented and potential elements of a product or service.

Customer satisfaction and service quality

Customer satisfaction has been a theme of great interest for researchers and practitioners for many years. For example, customer attitude tracking involving tools such as complaint and suggestion forms, consumer panels and customer surveys have been used widely for decades. A number of academics have developed models of customer satisfaction. For example, Oliver (1980), developed a cognitive model of the antecedents and consequences of satisfaction decisions. However, much of the existing customer satisfaction research focuses on the individual or customer level (Anderson and Fornell, 1994) rather than at the organisational level. A detailed review of the customer satisfaction literature is undertaken by Yi (1991).

In contrast to exploring the purchase and decision making behaviour of consumers, the multi-attribute models of customer satisfaction and service quality (eg Parasuraman, Zeithaml and Berry, 1985) are largely concerned with value outputs, eg the measurement and evaluation of customer reaction after the purchase or service delivery. In particular, the work on SERVQUAL (Parasuraman, Zeithaml and Berry 1985, 1988; Parasuraman, Berry and Zeithaml, 1991) focused on creating a measure of service quality based on perceived differences between product and service quality. The development of the SERVQUAL instrument into five dimensions of tangibles, reliability, responsiveness, assurance and empathy (Parasuraman, Zeithaml and Berry, 1988) point to the importance of the expected, augmented and potential elements referred to in the previous discussion on 'the augmented product concept'. As many of the elements of SERVQUAL are not concerned with a tangible core product or service offer it demonstrates the critical role of service elements.

The work on customer satisfaction and service quality has made a significant impact on our understanding of what customer's value in terms of product and service attributes. Some applications of the models such as SERVQUAL compare different competitors' offerings and, in particular, address the measurement of some of the more intangible aspects of service offerings.

The value chain

Here we use the term *value chain* to cover an umbrella of conceptual approaches typified by the well known work by Porter (1985). Other conceptual approaches include the customer activity cycle, the value delivery system, the value system perspective, the relationship management chain and the value constellation.

Porter's work on the value chain has its origins in the 'business system' developed by McKinsey & Co. The business system concept has been described by Gluck (1980) and Buaron (1980). With the introduction of Porter's (1985) work came the idea of creation of competitive advantage through the management of the internal activities of the organisation that together formed the organisation's value chain. Porter states that his value chain is an advancement on the business system concept because it addresses activities and sub-activities rather than functions and shows how these activities are related. A further important element of

Porter's work is the recognition that customers also have a value chain, regardless of whether they are a commercial organisation or an individual. A firm's differentiation and advantage stem from how its value chain relates to its customer's value chain.

The concept of the customer's value chain is developed in more detail by Vandermerwe (1993). She represents the customer's processes as a cycle; the 'customer's activity cycle'. Companies need to know where added value can take place at critical points in the cycle and treat their customer's value creating chains as the same as their own; not as distinct and sequential. A high value supplier will find ways to eliminate non-value adding expenses and unnecessary activities, thereby increasing value all round.

In 1985 McKinsey & Co published a description of the 'value delivery system' or 'value delivery sequence' (Bower and Garda, 1985a). This approach, which is often referred to as the 'value proposition', points out that companies need to shift from a traditional view of seeing their business as a set of functional activities to an externally oriented view concerned with seeing the business as a form of value delivery (Bower and Garda, 1985b). The value delivery sequence argues that focusing on the traditional physical process sequence of 'make the product and sell the product' is suboptimal. The value delivery sequence, by contrast, depicts the business as viewed from the customer's perspective rather than a set of internally-oriented functions. Burns and Woodruff (1992) have built on the McKinsey model and provide a framework for strategy development that integrates firm and consumer valuation activities. This includes five steps; (1) identify the value, (2) choose the value, (3) provide the value, (4) communicate the value and (5) assess the value.

Other approaches include the value system perspective of Jüttner and Wehrli (1994) and the analytical framework of Piercy (1998) who identifies how a number of organisational processes lead to customer value. The value system is defined by Jüttner and Wehrli (1994) as a "system of interdependent actors [organisations] who raise the total value of the system by interactice value-generating processes and compete with other value systems in the 'competition system' of which they are part". Their work emphasises the role that marketing management has in co-ordinating all the interactive value-generating activities and processes in order to improve performance. Piercy (1998) identifies analytic/tactical, behavioural and organisational dimensions which interact with a process of value definition, development and delivery which result in customer value.

A further value system model related to this work is the concept of the 'relationship management chain' or 'relationship chain' (Clark, Peck, Payne and Christopher, 1995). The relationship chain is a framework for integrating a range of cross-functional elements in the value delivery process. Whilst drawing on the concepts of the business system and the value chain, the relationship chain differs from these in that rather than describing a set of consequential activities that can add value to a business, its focus is also on how value can be achieved through improving relationships.

This approach is also evident in the work of Normann and Ramírez (1993, 1994) who introduce the 'value constellation' as a criticism of and opposition to Porter's value chain ideas. They argue that strategy is not a matter of positioning a fixed set of activities along a value chain. Rather, it shows how the focus of strategic analysis should not be the company or the industry but the *value-creating system* itself, within which economic actors (suppliers, business partners, allies and customers) work together to co-produce value (Normann and Ramírez, 1994). That is that *mutual value* is created as the result of a reciprocal interactive relationship between organisations and stakeholders in a constellation or network exemplified, for example, by the six markets models developed by Christopher, Payne and Ballantyne (1991).

These core ideas about value creation and competitive advantage are drawn together by Stabell and Fjeldstad (1998) who present a typology, based on work by Thompson (1967), of alternative value configuration models for understanding and analyzing firm level value creation. They argue that the value chain is only one of three generic value configuration models. There is also the *value shop* model where value is created by mobilizing resources and activities to resolve customer problems and the *value network* model where value is created by facilitating a network relationship using a mediating technology.

Recent Perspectives of Value in Marketing

Building on these four antecedents, three more recent perspectives of value have been developed in the marketing literature; these are: *creating and delivering superior customer value, value of the customer* and *customer-perceived value*. These perspectives focus more directly on the customer and the notion of 'customer value' and all directly use the terms 'customer' and 'value' as part of their description. These customer-oriented approaches to value are also closely linked to the role of value in creating competitive advantage.

Creating and delivering superior customer value

One recent perspective on customer value has been in the area of superior customer value creation and delivery. This has been the focus of much research interest in the 1990s (eg Day, 1990; Band, 1991; Gale, 1994; Brown, 1995; Naumann, 1995; Cravens, 1997; Scott, 1998). This work is closely aligned with the calls for organisations to become more market and customer-focused with strong influences from the 'market orientation' strategy literature (Day and Wensley, 1988; Kohli and Jaworski, 1990; Narver and Slater, 1990; Jaworski and Kohli, 1993; Day, 1994; Slater and Narver, 1994, 1995; Jenkins, 1996). Whilst academics have advocated customer focused philosophies for some forty years (Day, 1994) this more recent research strongly emphasises the links between customer value and organisational profitability and performance. This work argues that a company's success will depend on how well it provides its customers with what is valued. This involves developing the market-oriented-culture necessary to build and maintain the core capabilities that continuously create superior customer value (Slater and Narver, 1994). Recent work in the strategy area has focused on understanding the creation and capture of value eg Bowman and Ambrosini (1998).

Gale's (1994) work is of special interest as it builds on earlier research relating to the Profit Impact of Market Strategy (PIMS) research (Buzzell and Gale, 1987). He suggests that there are four steps to customer value management. These stages are: (1) conformance quality; (2) customer satisfaction; (3) market-perceived quality and value relative to competitors; and (4) customer value management. As part of this work, Gale draws upon the PIMS research emphasising the corporate pay-off from superior quality and value and outlines seven tools for customer value analysis measurement.

Naumann (1995) stresses that in creating and delivering customer value, product quality alone is not enough to guarantee survival. He states that the most important success factor for a company is the ability to deliver better customer value than the competition. Building on key concepts already discussed in the 'augmented product' and service quality literature, he introduces the 'customer value triad' which brings together product quality, service quality and value-based prices. Grönroos' (1990) perspective on perceived service quality being a combination of *technical quality*, *functional quality* and *image* is important in this context because it illustrates the fundamental aspects of service quality. Product quality and service quality are the pillars that support value-based prices (Naumann, 1995).

Other authors eg Knox and Maklan (1998) have suggested that in order to compete more effectively, organisations need to re-examine the way in which they define and deliver value to their customers by bridging the gap between brand value and customer value. They argue it is no longer enough to focus on creating brand values through brand marketing as a guarantee of long-term and defensible advantage in the marketplace; organisations now need to explore customer value and translate this into a value proposition through branding. Naumann (1995) supports this view and suggests that brands will become more important in the value that they convey to the customer in the future.

The value of the customer

Understanding customer value from the perspective of 'the value of the customer to the organisation' has also received attention from a number of researchers. This stream of research differs from other aspects of customer value in that it concerns the value of the customer to the firm. As such, it focuses not on the creation of value for the customer but on the *value outcome* that can be derived from providing and delivering superior customer value. A key concept that forms part of this perspective is that of *customer lifetime value* (CLV). This view of customer value is closely related to the literature on customer retention and customer retention economics.

The pioneers of work in this field are Bain & Co, a US consulting firm, whose primary focus has been on the impact of retention marketing on company profitability (Reichheld and Kenny, 1990; Dawkins and Reichheld, 1990; Reichheld and Sasser, 1990; Reichheld, 1993; Reichheld, 1996). For example, Reichheld and Sasser (1990) report work which looked at the net present value profit improvement of retaining

customers. It was found that for a number of service and business-to-business organisations, a five percentage points increase in retention could yield up to 125% improvement in net present value profits. This was calculated using the concept of CLV which is defined as the net present value of the future profit flow over a customer's lifetime.

A number of researchers are now developing an interest in customer retention. Rust and Zahorik (1993) and Rust, Zahorik and Keiningham (1995) outline procedures for assessing the impact of satisfaction and quality improvement efforts on customer retention and market share. Based on a survey of literature on customer retention Clark and Payne (1994) identified some key concepts for retention improvement. They propose a three step framework for retention improvement which involves three sequential steps of customer retention measurement; identification of causes of defections and key service issues, and corrective action to improve retention.

Payne and Rickard (1997) developed a mathematical model of customer retention with the objective of enabling a trade-off to be made in the allocation of scarce marketing resources between strategies concerned with retaining existing customers and attracting new customers. Payne and Frow (1997) have used this model to examine the impact of marketing programmes aimed at retaining existing customers and acquiring new customers for a major UK electricity supplier.

Other work on customer retention has been undertaken by Ennew and Binks (1996) who examined the links between customer retention/defection and service quality in the context of the UK banking sectors and Page, Pitt, Berthon and Money (1996) who developed a quantitative approach to analysing defections and their impact using a case study approach. They conclude the cost of retaining customers is generally much less than the cost of acquiring new customers.

This idea that existing customers are much cheaper to retain than new customers are to acquire is widely emphasised in the marketing literature eg Blattberg and Deighton (1996). Others have argued that customer retention as a strategy should be adopted by companies since it costs five times more (some have argued ten) to get a new customer than it does to keep an existing one (Christopher, Payne and Ballantyne, 1991; Filiatrault and Lapierre, 1997). Equally, it can be six times more difficult and more expensive for a new supplier to find buyers than it is for an established supplier (Holmlund and Kock, 1995). Customer value analysis (eg based on CLV) should lead companies to emphasize customer retention strategies.

Value of the customer is also important in the sense that 'not all customers are created equal' (Hallberg, 1995). It is likely that within a portfolio of customers, there will be some that are profitable, some that are break-even and some that are unprofitable. Thus, increasing customer retention does not always increase profitability. In this case, increasing the retention of such unprofitable customers destroys value. Understanding the CLV profitability and unprofitability of different segments will enable organisations to focus on the profitable customers and customer segments.

The thrust of this work is concerned with understanding the profit potential, usually in net present value terms of customers over their projected lifetime. The emphasis is on two elements. First, that different customer segments have different potential profitability and the pattern of profitability may vary dependent on the stage in the customer life-cycle and other considerations. Second, by keeping a higher proportion of the most valuable customers for longer, profitability can be dramatically increased. Some of this work also focuses on how such improved customer retention and resulting profitability can be achieved. This work emphasises the linkages between internal service climate and its impact upon employee satisfaction and customer retention (Schneider, 1973; Schneider, Parkington and Buxton, 1980; Schlesinger and Heskett, 1991; Reichheld, 1996).

Customer-perceived value

While there have been many exhortations to listen to the 'voice of the customer' (Anderson, Jain and Chintagunta, 1993; Griffin and Hauser, 1993; Woodruff and Gardial, 1996), the main process for doing this in the past has been 'customer satisfaction measurement (CSM)' (Woodruff, 1997). It is argued that organisation's need to move beyond CSM and understand more fully what customers' value in terms of which products and services help them to achieve their organisational goals and purposes. The concept of 'customer-perceived value' is currently the focus of many researchers (eg Zemke, 1993; Gordon, Kaminski, Calantone and di Benedetto, 1993; Nicholls, 1994; Fredericks and Salter, 1995; Butz and Goodstein, 1996; Garver and Gardial, 1996; Woodruff and Gardial, 1996; Ravald and Grönroos, 1996; Woodruff, 1997; Parasuraman, 1997; Slater, 1997; Grönroos, 1997; Patterson and Spreng, 1997; Hillier, 1998; Anderson and Narus, 1998). Customer value in this context takes the perspective of an organisation's customers, ie it is a 'customer-directed' concept. It is argued that the *customer's perception* of the value created and delivered should be determined and then taken into account when the organisation defines its value offering.

Several researchers over the years have proposed ways to define value in terms of the customer's perspective (eg Christopher, 1982; Zeithaml, 1988; De Rose, 1991; Anderson, Jain and Chintagunta, 1993; Ravald and Grönroos, 1996; Woodruff and Gardial, 1996). One comprehensive view is that of Woodruff (1997) who defines customer-perceived value as a "…..customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations". Woodruff builds the key elements in this definition into a 'customer value hierarchy model' which links desired product/service *attributes* and performances to desired *consequences* in use situations which ultimately link to the customer's *goals and purposes*. It is argued that the customer value hierarchy allows the determination of customer-perceived value by providing a rich and meaningful way to understand the needs and desires of customers (Woodruff and Gardial, 1996). This approach has considerable appeal. Parasuraman (1997) concluded: "the proposed value hierarchy model and its exposition have much to offer executives involved in customer value determination and researchers interested in refining customer value theory".

At the core of this and other views of customer-perceived value (eg Ravald and Grönroos, 1996; Christopher, 1996, 1997), is the notion of a trade-off between perceived benefits and perceived sacrifice (or positive and negative consequences). Perceived sacrifice includes all costs a buyer faces when making a purchase; eg *purchase price*, *acquisition costs*, *transportation*, *installation*, *order handling*, *repairs and maintenance* and *risk of failure or poor performance*. Perceived benefits are some combination of *physical attributes*, *service attributes* and *technical support* available in relation to the use of the product as well as *the purchase price* and *other indicators of perceived quality*.

Increasing customer value from this perspective can be achieved by increasing the benefits or reducing customer-perceived sacrifice. Increasing the benefits (adding something to the core product that the customer perceives as important, beneficial and unique) should lead to a reduction in customer-perceived sacrifice through a minimisation of costs involved in a discrete episode and the relationship as a whole (Ravald and Grönroos, 1996). Reducing customer-perceived sacrifice can also be achieved by reducing the customer's *direct costs* (costs from going into a relationship with another party)*, indirect costs* (costs that occur because the offering does not function as promised) and *psychological costs* (caused by customer's fearing or knowing problems will occur which inturn leads to a situation where they cannot fully concentrate on other tasks and duties) (Grönroos, 1997).

This approach suggests that it is critical for organisations to determine the key elements of customer-perceived value, since this will help them to understand the customer's goals and desires, and to plan the future value proposition ie what they should do to create value.

Two Newer Developments in Customer Value Research

This literature review illustrates how the research focus has moved from studying the values of individuals; to looking at how value can be created by an organisation both internally and with respect to customers; and finally to a perception of value that considers both the customer's and the organisation's perspectives. Lately the thrust of value research has started shift to reflect the role of other stakeholders in the value process. In this section of the paper we now examine two newer developments – 'customer value and shareholder value' and 'relationship value'.

Customer Value and Shareholder Value

Investors have been interested in 'shareholder value' of companies ever since the ownership structure of such organisations moved from individual proprietors to wider external ownership. The interests of the City in London, particularly since deregulation, have also driven companies to regard the creation of 'shareholder value' as a primary business focus. However, a newer development is the consideration of *both shareholder*

value and customer value. While, obviously not all organisations have a share ownership structure, most organisations of any size eg government departments, nevertheless have some form of 'owner'.

Much of what has been written to date on shareholder value discusses maximising shareholder value without direct consideration of the customer. In many developed countries, maximising shareholder value is widely accepted as management's major goal. However, some believe that shareholder value may come at the expense of other stakeholders, leaving in its wake diminished job security, higher unemployment and poorer products and services (Bughin and Copeland, 1997).

In the last few years there has been considerable emphasis on the tools for measuring shareholder value creation (Dobbs and Coller, 1998). These approaches are known by a number of acronyms such as EVA™ (economic value added eg Stewart, 1991), SVA (shareholder value added - eg Wenner and LeBer, 1989; Day and Fahey, 1990) and VBM (value based management – eg Slater and Olsen, 1996; Bannister and Jesuthasan, 1997). While there is an ongoing debate as to the best way of measuring economic or shareholder value-added, the major issue that should be acknowledged is that it must not be undertaken without a detailed examination of the strategic fundamentals (Day and Fahey, 1990).

There seems to be a strong explicit assumption in much of the academic and practitioner literature that customer value drives shareholder value (e.g. Corpulsky, 1991; Leemon, 1995; Slywotzky, 1996; Slywotzky and Linthicum, 1997; Laitamäki and Kordupleski, 1997). However, there is also a different view that shareholder value drives customer value. This perspective suggests that by focusing on maximising shareholder value, it almost automatically necessitates pleasing customers (Cleland and Bruno, 1996).

We argue that customer value and shareholder value can exist in isolation from each other and where undue emphasis is placed on either shareholder value or customer value this may have a negative long-term impact on the organisation. For example, some organisations may produce high customer value yet have a poor return to shareholders; others may produce a high medium-term return to shareholders but not produce high customer value. However, in competitive markets it is not likely that long-term shareholder value will result in the absence of high customer value.

Our view is that a careful consideration should be made of the interaction between customer value and shareholder value. This view is supported by Cleland and Bruno (1996,1997) who argue that business strategies must be built with both groups in mind.

Relationship Value

A more recent development has been to consider customer value from the viewpoint of relationship marketing. This is described as 'relationship value'. However, both theories and empirical findings of relationship value are very limited (Ravald and Grönroos, 1996). The importance of understanding the

constituents of 'quality' of a relationship was first proposed by Crosby, Evans and Cowles (1990) in their study of relationship quality in services selling. They examined the nature, consequences and antecedents of relationship quality as perceived by the customer in long-term relational settings, acknowledging that the creation and recognition of quality or 'value' in a relationship involves the customer as well as the service organisation.

Wilson and Jantrania (1993, 1994) look at value creation in hybrid relationships exploring in depth the construct of value in a relationship. They suggest that the dimensions of 'relationship value' are *economic* (investments quality, value engineering, concurrent engineering,and cost reduction, *strategic* (core competencies, strategic fit, time to market and goals) and *behavioural* (social bonding, trust and culture). They argue that in asessing the value of a relationship, an organisation should best start with economic value, them attempt to evaluate the strategic value and finally provide a qualitative estimate of the behavioural elements of the relationship. Any relationship creates some value to both partners; thus how this value is shared is likely to be a major issue in the life of the relationship. Tzokas and Saren (1998) have provided a useful categorisation of this research.

Ravald and Grönroos (1996) extend the views of value discussed earlier and suggest that the relationship itself might have a major effect on the total value received by the customer. They consider that value cannot be derived only from the core product plus supporting services but must also include the effects of maintaining a relationship. "In a relational context value for the customer is not embedded in a transactional exchange of a product for money. Instead customer perceived value is created and delivered over time as the relationship develops" (Grönroos, 1997).

Ravald and Grönroos (1996) also point out that traditional approaches based on the 'product surround' or 'augmented product concept' (eg Levitt, 1980) consider only one episode regarding the customer and that in long-term buyer-seller relationships you need to look at 'total episode value' which would be described as a function of 'episode value' and 'relationship value' in the following equation:

$$\text{Total episode value} = \frac{\text{Episode benefits} + \text{relationship benefits}}{\text{Episode sacrifice} + \text{relationship sacrifice}}$$

They show that a poor episode value can be balanced by a positive perception of the relationship as a whole, so it is important for the supplier to maintain a good relationship with the customer since this could make the customer more tolerant towards occasional inferior performance. In long-term relationships, the benefit concept outlined earlier is enhanced to include 'credibility, security, continuity, etc, that together increase the trust for the supplier and thereby support and encourage customer loyalty' (Ravald and Grönroos, 1996). Any relationship creates some value to both partners; thus how this value is shared is also likely to be a major issue in the life of the relationship.

Building on both the idea of relationship value and on the value constellation, Gummesson (1999) proposes a number of fundamental values in relationship marketing, the core value being the emphasis on inter-party collaboration and the creation of *mutual value*. 'Total relationship marketing' is directed to long-term win-win relationships with customers, transcending boundaries and disciplines with value co-produced through the interaction of suppliers, customers, competitors and others. Gummesson (1999) suggests that we are moving from an industrial society to a *value society*.

Understanding relationship value in long-term relationships will therefore be important if a company is taking a relationship marketing approach to its customers. It also adds complexity and dynamism to the value concept. No longer can value be viewed as part of an individual transaction process; value is created over time and will be subject to changes and external influences, eg other stakeholders, as discussed below.

Relationship Value Management

In discussing customer value creation and shareholder value creation we have outlined how these need to be considered together in order to realise long term competitive advantage. We have also suggested it is important to recognise that customer value in the context of relationship value is a dynamic concept; value is created and changed over time as a result of several transactions. However, we consider that customer value, shareholder value and relationship marketing are inter-related and form part of a broader 'value process'. In this section we develop a framework for 'relationship value management' based on a relationship marketing perspective. This framework draws upon key concepts from the antecedents, recent perspectives and on the newer developments in the value literature

Relationship Marketing: The Role of Multiple Stakeholders

A number of researchers working in the relationship marketing area have developed models which propose that the role of marketing needs to be broadened to include relationships with a number of additional stakeholders or market domains. These stakeholders, whether organisations or individuals can potentially contribute, directly or indirectly to the organisation's effectiveness (eg Christopher, Payne and Ballantyne, 1991; Kotler, 1992; Morgan and Hunt, 1994; Doyle, 1995; Gummesson, 1995). Managing the organisation's internal and external relationships needs to become a central activity; this central activity is relationship marketing (Brookes, Brodie and Oliver, 1998).

The six markets 'relationship marketing' framework (Payne, 1991; Christopher, Payne and Ballantyne, 1991), provides a useful framework to review the role of an extended set of stakeholders in the creation of total organisational value. It presents six role-related market domains or 'markets', each representing dimensions of relationship marketing and involving relationships with a number of parties – organisations or individuals – who can potentially contribute, directly, to an organisation's marketplace effectiveness. While *customers* are viewed in this framework as a major stakeholder, five other stakeholder groups, or market

domains, are identified; *influence* (including shareholder) markets, *recruitment* markets, *referral* markets, *internal* markets and *supplier/alliance* markets. A revised version of the original model is shown in Figure 3.

Figure 3: The Six Markets Model

To implement the model, there is a four stage process; (1) identify key participants, or *segments*, within each of the markets, (2) research to identify expectations and needs of key participants, (3) review current and proposed level of emphasis in each market and (4) formulate the desired relationship strategy and determine if a formal marketing plan is necessary (Payne, 1995). Each market is made up of a number key participants. For example, the customer markets are made up of buyers, intermediaries and consumers and influence markets are made up from financial and investor groups, unions, industry bodies, regulatory bodies, business press and media, user and evaluator groups, environmental groups, political and governments agencies and competitors. Companies need to manage all these different sub-markets or stakeholders in the relationship value management process.

A Framework for Relationship Value Management

We argue that the stakeholders outlined above are *highly interdependent* in the value creation process. Understanding the strategic role of all relevant stakeholders is an essential part of what we term 'relationship value management'. Until recently few researchers and practitioners had considered the measurement of the interdependencies between different stakeholders. In 1993, Rust and Zahorik concluded there exists no published studies which have examined the entire chain of stakeholders.

Since then there have been a number of attempts to start to understand such relationships. There is now a small but developing body of evidence which examines linkages between the quality of relationships across different stakeholders including customers and internal staff.   Much of this work is concerned with

developing linkages between employee satisfaction and customer satisfaction and customer retention and employee retention, and how these result in increased customer value and resulting shareholder value.

For example, Rucci, Kirn and Quinn (1998) have taken the service-profit chain model (Heskett, Jones, Loveman, Sasser and Schlesinger, 1994) and sought to operationalise it within Sears, Roebuck and Company. They identified the linkages between leadership skills, employee attitude, customer satisfaction, revenue growth and profitability. A related approach to quantifying relationships in the service-profit chain has also been undertaken by Roth, Chase and Voss (1997). Work by Reichheld (1996) identifies the interdependence of what he refers to as the 'forces of loyalty'; which include customers, employees and investors. Because of the linkages between loyalty, value and profits, Reichheld (1996) suggests that the impact of these forces is measurable in cash flow terms.

The interdependence of each of these stakeholders suggests the need to integrate them within a relationship management framework. We now outline a framework for 'relationship value management'. This represents a strategic approach to managing an organisation in order to maximise value to customers and the organisation through the integrated management of relevant stakeholders.

Much of what has been written about the determination, creation and delivery of customer value has focused on the customer as the central unit of analysis. However, as we have pointed out above, organisations should address relationship value with relevant stakeholders in order to maximise both customer and shareholder value. Figure 4 outlines the framework for 'relationship value management'. The framework is built on the foundation of key concepts already discussed in the literature review integrated with elements of the six markets model and the customer value/shareholder value linkage.

The framework has two main elements; the central value process and the surrounding stakeholder interaction processes. At the centre of the model is the value process which is aimed at determining a total organisational value proposition. This value process involves four sequential value-based activities: value determination, value creation, value delivery and value assessment. These four activities have their roots in the value literature discussed earlier in this paper. In particular, 'customer-perceived value, the 'value chain', the 'relationship management chain' and 'customer satisfaction' and 'service quality' are underpin the 'value process' at the centre of the model.

For example, *value determination* can be undertaked using a customer-perceived value determination approach such as those suggested by Woodruff and Gardial (1996). The *value creation* and *value delivery* stages of the process would involve aligning the company's products/services (including its processes and employees) to meet the customer-determined value proposition. Models such as the 'value chain' and the 'relationship management chain' will be helpful during these stages of the process. Finally, the *value assessment* stage could be carried out using such tools as customer satisfaction or service quality measures

eg SERVQUAL and results from these would then feed back into the value determination part of the process. Thus the model is dynamic and iterative.

Figure 4: A Framework for Relationship Value Management
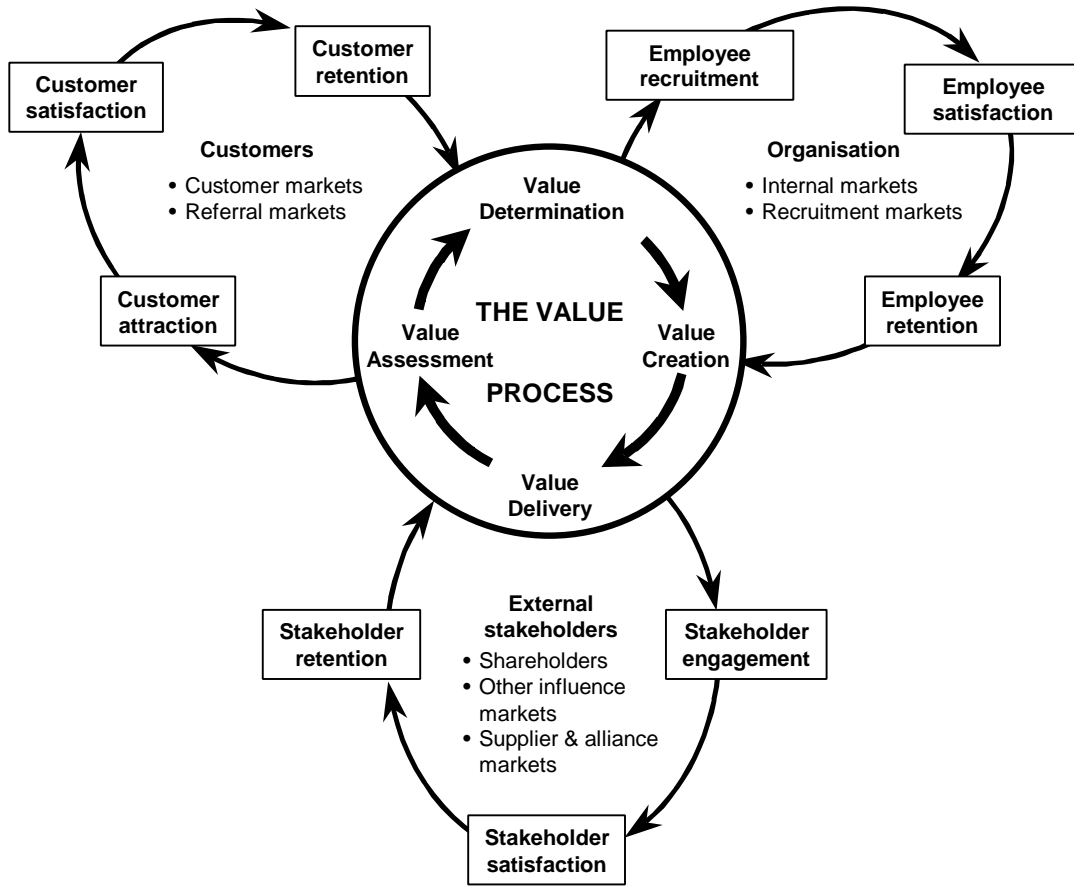
The model also illustrates how the value process has linkages with specific stakeholders. Within the value relationship management framework all the stakeholders in the six markets model potentially have a role to play. However, three groups are especially important. These are represented in the stakeholder interaction processes in Figure 4. They are *customers*, the *organisation* and *external stakeholders* – of whom shareholders are especially important in a publicly owned organisation. Each of the six market domains descried above is represented within the three groups including: *customer* markets and *referral* markets (within the customer group); *internal* markets and *recruitment* markets (within the organisation group) and *influence*, including shareholders and *supplier and alliance* markets (within external stakeholder group). Each of the three major stakeholder groups represents opportunities for value creation and delivery.

In each of the three stakeholder groups in Figure 4 there are a number of key activities which have been represented as three circular sub-processes. For example, within the customer group these key activities are *customer attraction*, creating *customer satisfaction* and ensuring *customer retention*. Within the organisation group, the key activities will be *employee recruitment*, *employee satisfaction* (important given

the strong links suggested in the literature between customer satisfaction and employee satisfaction) and *employee retention*. The external stakeholder activities involve *stakeholder engagement* (engaging the right stakeholders eg investors and suppliers), *stakeholder satisfaction* and *stakeholder retention* (retaining them and ensuring that the needs of eg shareholders are satisfied). Whilst most organisations will place much of their emphasis on shareholders within this group, it is important that other stakeholders including *influence markets* and *supplier & alliance markets* are managed in a way that ensures they are also part of the whole value process. While these three stakeholder groups are shown as separate sub-processes, their interdependence (eg Rucci, Kirn and Quinn, 1998) also needs to be taken into account.

This framework for relationship value management provides a structured model which enables managers to review the overeall value process within their organisations. The first stage would be to determine the value proposition. This is likely to involve talking to customers and employees about what customers value in the organisation's offering. It is accepted that new products, for example, may be a result of innovation that has not involved the customer, but increasingly it is argued that even new products should involve the customer at each stage of development. The next stage would be to create the value offering which is likely to involve employees and other stakeholders such as suppliers and which takes fully into account the value proposition determined by the customer. Delivering the value will involve engaging employees and the external stakeholders and deciding how best to meet the customer's requirements in terms of the maximisation of value. Both these stages are likely to involve process and service improvements and changes.

Finally, many companies are already carrying out customer satisfaction and service quality monitoring and measurement. This still needs be done, but knowledge gained from these processes should be combined with that gained during the value determination stage in the value determination stage to ensure perceived value and received value are aligned. In essence, organisations need both a direction card and a report card. The key activities included within each stakeholder group act as checklists for managers throughout the value process.

Discussion

An extensive review of the literature has shown the concept of value in marketing has its roots in many disciplines including psychology, social psychology, economics, management and marketing. The terms customer value and value are often used interchangeably in the marketing literature. This review also confirms how many of the concepts overlap to some degree with a blurring of distinctions of different types of value (eg Holbrook, 1994). However, in spite of continued and increasing interest from researchers and practitioners in this area, it remains a highly diverse subject. In 1997, Woodruff pointed out that the growing body of knowledge on customer value was fragmented with different points of view and no widely accepted way of pulling the views together.

Following a summary of the *precursors of value*, this paper has classified and reviewed value research within three categories. These include the *influential antecedents of value, recent perspectives of value* in marketing and *newer developments* of value research. Within these categories we identified and examined nine streams of value research in an effort to create some structure to the now substantive literature on value in marketing. The nine streams we identified are: *consumer values and consumer value*; *the augmented product concept*; *customer satisfaction and service quality*; *the value chain*; *creating and delivering superior customer value*; *the value of a customer*; *customer-perceived value*; *customer value and shareholder value*; and *relationship value*.

Our review suggests that much of the literature written on value creation and delivery has focused primarily on the perspective of the organisation and its customers - the *customer-supplier relationship*. However, the emergence of the relationship marketing paradigm has seen an increased emphasis on the role of other stakeholders in relationships. Despite this increased emphasis, relatively little research attention has been given to other stakeholders in the relationship and how they should be considered in the context of an organisation's total value creation process. This suggested a need for an approach that integrates the value process and relationship marketing.

Understanding value in the context of multiple stakeholders adds both dynamism and complexity to the value concept. No longer should value creation be viewed just as part of an individual customer transaction; value will be created *over time* and will be subject to the influences of other external and internal stakeholders. Gummesson (1999) has argued that the creation of *mutual* value will become the core focus of both customers and suppliers and other stakeholders in the relationship so that value is *jointly* created between all the parties involved in a relationship.

In this paper we have proposed a conceptual framework for *relationship value management* aimed at integrating the value process with the multiple stakeholder concept in relationship marketing. This framework, draws on both the value literature and relationship marketing literature and argues for a *strategic approach* for managing the value process. This strategic approach has been emphasised by several authors. For example, Normann and Ramirez (1993) point out the importance of value creation as part of the strategic process: "Strategy is the art of creating value. It provides the intellectual frameworks, conceptual models and governing ideas that allow a company's managers to identify opportunities for bringing value to customers and for delivering that value at a profit. In this respect, strategy is the way a company defines its business and links together the only two resources that really matter in today's economy: knowledge and relationships or an organisation's competencies and customers".

Ideas around the convergence and integration of value concepts and relationship marketing into what we term *relationship value management* are still at an evolutionary stage. We believe that over the next few years this will be an area of increasing interest to both academics and managers. We have presented in this paper a broad conceptual framework for relationship value management. However, more work needs to be

done in the whole area of measurement and development of metrics around the value process. For example, we need to develop specific tools for value management (including customer value determination, service quality measures, customer satisfaction and value chain management) that provide practical guidance and metrics for managers who are implementing enhanced value management processes. The multiple-stakeholder approach will also require the development of a more comprehensive 'balanced scorecard' that enables the trade-off between different stakeholders to be measured. This will need to go considerably beyond the balanced scorecard approach outlined by Kaplan and Norton (1992, 1993). In particular, the role and interdependence of these multiple stakeholders in the creation of mutual value represents an area which needs further exploration.

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