Customer value: a review of recent literature and an integrative configuration

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Abstract The concept of customer value is becoming increasingly used in strategy and marketing literature in recent years. Customer value is considered central to competitive advantage and long-term success of business organizations. Consequently, a great importance attached to this concept. This paper attempts to build an integrative configuration of the concept of customer value that reflects its richness and complexity. It reviews, synthesizes and extends the literature on the subject. The configuration includes three complementary models, namely: customer value in exchange, customer value buildup, and customer value dynamics. Thinking about customer value in this way is helpful in the designing of and studying service offerings.

There is a growing interest on value-based/value-focused strategies, in recent years. This interest is triggered by the belief that managing organizations from this perspective will increase the likelihood of success (e.g., Slywotzky, 1996). Huber et al. (2001) state that many marketing strategists and industrial-organization (IO) economists emphasize that creation of superior customer value is a key element for ensuring companies' success (Higgins, 1998; Kordupleski and Laitamaki, 1997; Milgrom and Roberts, 1995; Porter, 1996; Woodruff, 1997; Wyner, 1996).

The importance of superior customer value is acknowledged in most business strategy models (Cravens et al., 1997). A clear understanding of the concept of value becomes essential for the success of value-based strategies (Woodruff, 1997). Indeed, superior value of products/services delivered to customers leads to customer loyalty, the real driver of financial performance (see Reichheld et al., 2000; Hesckett et al., 1997; Reichheld, 1994). Reichheld and Sasser (1990) show that, on average, a five percentage points increase in customer retention leads to between 40-50 percent increase in net present value profits. A few years later, Reichheld (1994) reports that a decrease in defection rate (or an increase in retention rate) of five percentage points can increase profits by 25-100 percent and that this result is consistent across a wide array of industries. Satisfaction is a state of mind and it is only important as an indication of the intention of the most important behavior of repeat purchase, favorable word-of-mouth, and referrals. Reichheld (1994) states that customers who describe themselves as satisfied are not necessarily loyal. He reports that 60-80 percent of defecting customers

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reported that they had been "satisfied" or "very satisfied" on the last satisfaction survey prior to their defection. Heskett et al. (1997) report that a study of retail bank depositors found that completely satisfied customers were 42 percent more likely to be loyal than merely satisfied customers. Reichheld and Sasser (1990) report that Xerox found that its completely satisfied customers were six times more likely to repurchase a Xerox product or service than its merely satisfied customers. The literature shows that loyalty and profits are strongly linked to value created for customers. Customers are loyal to a company as long as it offers them superior value compared to its competitors.

The concept of value, however, is one of the most overused and misused concepts in social sciences in general and in management literature in particular (Leszinski and Marm, 1997). It is used in diverse fields such as finance, economics, management, information systems, ethics, aesthetics, justice, social equity and fairness, etc. (Normann, 2001; Wikstrom and Normann, 1994). Further, value is discussed in many streams of marketing literature– including: relationship marketing, pricing, and consumer behavior – in total quality management literature, and strategy literature (see de Chernatony et al., 2000).

This paper attempts to synthesize and extend the literature on the subject. It pulls together different streams of research and tries to incorporate them into a more useful, practical, and coherent framework. It endeavors to build an integrative configuration of the concept of customer value that reflects its richness and complexity. The aim is to make the customer value concept more helpful in designing of and studying service offerings and in developing competitive strategies.

The remainder of this paper is divided into six sections. The following section sets the context by exploring three categories of value in management literature. Next, three models, prevailing the field of customer value, are explored. Then, the concept of customer value is presented in three interdependent and interrelated models that are put together in the following section as parts of an integrated configuration. The managerial implications of the new integrative configuration are presented next followed by directions for further research. The paper ends with a conclusion summarizing its main ideas.

**Categories of value**

The management literature on value is clustered generally around three categories of value: financial economists advocate shareholder value, marketers advance customer value, and stakeholder theorists promote stakeholder value (see Reichheld, 1994). Customer value, however, is the source of all other values (Treacy and Wiersema, 1995; Hammer, 1996; Heskett et al., 1994; Lemon et al., 2001).

The concept of shareholder value is well developed within the finance literature driven by the increasing power and influence of financial markets (Payne et al., 2000; Koller, 1994; Wenner and LeBer, 1989; Stewart, 1991; Slater and Olsen, 1996; Bannister and Jesuthasan, 1997; and Dobbs and Coller, 1998). According to Rappaport (1987) the rationale for using shareholder value approach in selecting corporate and business strategies is based on the belief that strategies that create the greatest shareholder value will develop the greatest sustainable competitive advantage. But as Grönroos (2000, p. 9) states: "In the final analysis, shareholder value comes from profitable customer relationships, not from the stock exchange." It is the profits obtained from
customers over their lifetime with the organization that drives financial performance. Loyalty literature shows that a small increase in customer retention leads to a major increase in net present value profits (Reichheld, 1994; Reichheld and Sasser, 1990). Shareholder value is, then, the result not the drive of sustainable competitive advantage (Kaplan and Norton, 1996).

Stakeholder value advocates believe that a company has social responsibilities that go beyond shareholder value creation to encompass other stakeholders such as employees, consumers, and society at large (Barsky, et. al., 1999). Further, they believe that stakeholders should be given the opportunity to participate in determining the future direction of the firm in which they have a stake (Gomez, 1999; Langtry, 1994). Goran Carstedt, for example, believes that meaningful purpose for a business firm must be to create and deliver: customer value, co-worker value, social value, and shareholder value (Normann and Ramirez, 1994).

Kaplan and Norton (2001) observe that some companies use a stakeholder scorecard in which they identify their major constituents-shareholders, customers, and employees—plus, often, other constituents such as suppliers and community. They report that Sears, Citicorp, and AT&T use some form of a stakeholder scorecard. They explain that Sears built its initial [stakeholder] scorecard around three elements: “A compelling place to shop”, “A compelling place to work”, and “A compelling place to invest”. Citicorp has a similar scorecard. Heskett et al. (1997) provide empirical evidence to show that creating value for customers, employees, and investors forms a reinforcing cycle of superior performance. Their findings show the existence of direct and strong relationships between profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; service quality and productivity; and employee capability, satisfaction, and loyalty.

This paper focuses on customer value. Building on the extant literature, it attempts to offer an integrated configuration of the concept of value. Its purpose is to provide an inclusive treatment of this concept for the benefit of researchers and strategists. Next section explores three prevailing models of customer value.

Models of customer value
Many authors have acknowledged the difficulties involved in defining customer value (e.g. Piercy and Morgan, 1997; Woodruff, 1997). These difficulties stem from the subjectivity and ambiguity of value which is compounded by the fact that customer value being a dynamic concept that evolves over time (Jaworski and Kohli, 1993; Naumann, 1995).

It is important to notice that there is a general agreement in the literature that customer value is determined by customers' perception not by suppliers' assumptions or intentions (Belasco and Stayer, 1993; Anderson and Narus, 1998; Woodruff and Gardial, 1996; Zeithaml, 1988). Value is defined by the customer in the marketplace not by the supplier in the factory (Webster, 1994); or as Doyle (1989, p. 78) puts it: value is “not what the producer puts in, but what the customer gets out.”

Definitions of customer value can, generally, be grouped into three categories, with some variations within each category: value components models, utilitarian or benefits/costs ratio models, and means-ends models. These models, taken separately, are incomplete in themselves and as such their usefulness is limited. Each category emphasizes certain dimensions of the concept and pays little attention to others. One
should notice, however, that these categories of value definitions are not mutually exclusive. On the contrary, there is a great overlap between them, which can be utilized to build an integrative configuration of the concept of customer value. That configuration is hoped to offer readers a more complete treatment of the concept that brings together all its salient facets in a comprehensive and balanced way. In the following sections the paper presents a brief explanation of each category of value models.

Value components models
The principal value elements used in value studies, according to Kaufman (1998), are classified as: esteem value or “want”, exchange value or “worth”, and utility value or “need”. Kaufman asserts that each decision to acquire goods or services includes one or a combination of all the above value elements, where the sum of the elements results in a buy decision. Kaufman (1998, p. 5) defines these elements as follows: “Esteem value or “want” invokes the buyer’s desire to own for the sake of ownership… Exchange value or “worth” [explains] why the product interests the buyer and how and when the buyer will use the product… Utility value or “need is the primary value element [which] describes the performance and physical characteristics of the product.”

Kano’s model of customer perception of value, as illustrated in Figure 1, is another well-known value components model. It is based on the disconfirmation model that is prevalent in the consumer behavior literature (Rust and Oliver, 2000; Oliver, 1997). It includes three components of value: dissatisfiers (must be), satisfiers (more is better), and delighters (exciters) (Joiner, 1994; Thompson, 1998):

1) Dissatisfiers. Characteristics or features that are expected in a product or service and generally taken for granted, like getting one’s garments ironed from the dry cleaner. Since they are expected to be there, their “presence” only brings customers up to neutral but their absence annoys them. This is similar to what Thompson (1998, p. 19) calls basic, must-have needs. These needs “drive customer defection and attrition if they are not met.”

![Figure 1. Kano's model of customer perception](image)

Source: Joiner (1994, pp. 68-9)
(2) **Satisfiers.** These features are expected and explicitly requested by customers. They typically meet performance-related needs. Customers are disappointed if these needs are poorly met but have increasing satisfaction (and perhaps even delight) the better these needs are met. For example, poorly organized books in the shelves of a bookstore will frustrate customers; a computer-enabled search for the needed title and its availability in the stated spot may delight them. These features are often considered the minimum standards to stay in business.

(3) **Delighters.** These are new or innovative features or characteristics that customers do not expect— they surprise them in a good way! They innovatively solve a latent need of the customer. For example, offering a babysitting service by a cinema operator will delight movie-loving parents with small children. Since they are unexpected, there is no negative effect if they are absent; but when present they have a positive effect.

These models are especially useful in thinking about product features in the process of developing new products and/or services. They pay, however, modest attention to the interaction and relationship between customers and suppliers in product/service delivery. They pay much less attention to the full customer activity cycle that spans from need identification through purchase, use and disposal of the product. They also are incomplete in that they focus on customer’s benefits and demote the customer’s sacrifice side of the value equation.

**Benefits/costs ratio models**

Value is defined in relation to pricing as the difference between customers’ perceptions of benefits received and sacrifices incurred (e.g. Leszynski and Marn, 1997). Customers’ benefits include tangible and intangible attributes of the product/service offering (Monroe, 1990; Gale, 1994). The sacrifice component includes monetary and non-monetary factors such as time and effort needed to acquire and use the product/service (e.g. Butz and Goodstein, 1996; Carothers and Adams, 1991; Gronroos, 1997; Kotler, 1996; Naumann, 1995; Treacy and Wiersema, 1995; Zeithaml, 1988).

Huber et al. (2001) suggest that to evaluate the “perceived customer value” of a product, the costs of obtaining the perceived benefits are usually the major concern of buyers, since consumers may apply principles of costs-benefits to evaluate a purchase (Zeithaml, 1988). In their model they propose that the relevant costs of a purchase considered by consumers include the following: monetary costs; time costs; search costs; learning costs; emotional costs; and, cognitive and physical effort coupled with financial, social, and psychological risks. They further suggest that consumers encounter risks when they face the uncertainty or potential negative consequences of consumer activities.

Day (1990) proposes that the perceived customer value represents the difference between “customer’s perceived benefits” and “customer’s perceived costs”. Huber et al. (2001) believes that benefits and costs are defined in terms of consumers’ perceptions in the activities of acquisition, consumption (or using), and maintenance, as well as consumers’ expectation of personal values satisfaction before buying.

Woodruff and Gardial (1996) assert that the judgment of value results from a trade-off in positive consequences (benefits) or desired outcomes and negative consequences (sacrifice) or costs.
Zeithaml (1988) noted four types of consumer definitions of value:

1. low price (focus on sacrifice);
2. whatever the consumer wanted in a product or service (focus on benefits);
3. the quality obtained for the price paid (trade-off between one sacrifice component and one benefit component); and
4. total benefits obtained for total sacrifice incurred (all relevant components considered).

Treacy and Wiersima (1995) see customer value as the sum of benefits received minus the costs incurred by the customer in acquiring a product or service. For them, benefits build value to the extent that the product or service improves the customer’s performance or experience; while costs include both the money spent on the purchase and maintenance, and the time spent on delays, errors, and effort. Both tangible and intangible costs reduce value. They argue that components of customer value include low price, speedy response, premium service, and high quality.

Groth (1994) argues that consumers purchase products or services for other than just pure utilitarian reasons, which explains why people do not assign a value to high quality replications of art work. His concept of exclusive value premium (EVP) stresses that premiums above pure utilitarian value are attributable to psychic needs fulfillment (see Figure 2).

Groth (1994, p. 10) argues that psychic factors (factors that contribute to an EVP) are “internal” and “external” in nature:

Internal. Represent factors of importance independent of the opinions, influences, approval, suggestions of others. Some factors may be perceived, others real … External. Represent factors of importance because of the opinions, influences, approval, suggestions, interaction, and interpersonal relations of or with others. Factor forces may be real or perceived.

Horovitz (2000) argues that customers receive value when the benefits from a product or service exceed what it costs to acquire and use it. According to Horovitz (2000) benefits can be improved, extended, and expanded. Improving a benefit means focusing on one or a few of the product’s attributes and rising the benefits offered beyond the current range. For example, the transformation of Heathrow Airport from a dull, purely functional airport into an exciting complex complete with user-friendly services and a

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**Figure 2.**
Exclusive value premium and margin

*Source: Adapted from: Groth (1994, p. 10)*
shopping mall. *Extending benefits* means creating solutions for the customers, i.e. extending the benefits to auxiliary services that the customer has to perform when using your service. In other words, pushing the service concept before, after, or during the customer use of the primary service. An illustrative example is the British Airways offering of showers or trouser pressing to its Executive Club member after long flight. *Expanding benefits* means adding intangibles to the tangible, to add soft aspects to service so as to go from a solution to an "experience", e.g. the experience provided by "edutainment" or "retailtainment".

Horovitz (2000) looks also at the cost side of the value equation, which means the total cost of ownership of a product. The elements of cost from the customer's point of view include: money paid; costs and effort of getting the product or service; and costs and effort of using the product or service properly.

Grönroos (2000, p. 140) describes customer perceived value (CPV) by the following three equations:

\[
\begin{align*}
\text{CPV1} &= \frac{\text{Episodobenefits} + \text{relationshipbenefits}}{\text{episodesacrifice}} + \text{relationshipsacrifice}; \\
\text{CPV2} &= \frac{\text{Coresolution} + \text{additionalservices}}{\text{price} + \text{relationshipcost}}; \\
\text{CPV3} &= \text{Corevalue} \pm \text{addedvalue}.
\end{align*}
\]

He asserts that the three equations above describe the same value concept from varying angles. Looking into customer value from all these angles leads to a deeper conception of how customers perceive value, which factors contribute to this value, and how value can be managed.

Grönroos (2000), pp. 141-2) differentiates between core value and added value. He explains:

The *core value* means the benefits of a core solution compared with the price paid for that solution. The *added value* is created by additional services in the relationship compared with the relationship costs that occur over time.

Relationship includes both supplier-customer single encounter (episode) and their continuous long-term relationship. He further elaborates on the added value component, which can be both positive and negative:

If it is positive, for example because of quick delivery, attentive and supportive service employees or smoothly handled service recovery, it contributes favorably to total perceived value. However, if additional services cause unnecessary or unexpected relationship costs, the effect of the added value component is negative. Thus it is not an added value, or a negative added value. (Grönroos, 2000, p. 142).

Negative added value, on the other hand, is created by complicated systems, non-user friendly technology, unfriendly or unskillful employees, late deliveries, incorrect invoices, badly handled complaints, delayed maintenance of equipment, complicated equipment documentation, long queues to get served, etc. If such contacts and processes in the customer relationships are not managed as services, but as administrative routines or are focused on internal efficiency only, their effect on

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customer-perceived value is normally destructive. Even an excellent core value is quickly destroyed by late deliveries, lack of proper support and delayed maintenance, or unfriendly and untrustworthy personnel and a lack of interest in service recovery. Grönroos (2000).

The benefits/costs models are also prevalent in the strategy literature. Porter (1985, p. 3) defined value as “what buyers are willing to pay” (see also, Normann and Ramirez, 1994; Mathur and Kenyon, 1997; Piercy, 1997). Parolini (1999) criticizes Porter’s definition of value in that it identifies value only with the value that the company has managed to obtain for itself, implying that the net value for the customer is not a value in itself. She also describes the meaning of value in microeconomics as the consumer surplus, which is: “the difference between the utility of a product for consumers (that is, the gross benefit received as measured by the price they would be prepared to pay for it) and the reduction in the sum that these have available to spend on the consumption of other products (that is, the price that they have to pay in order to be able to make use of the product).”

Parolini (1999) develops a methodology based on the value concept as a tool for competitive strategy. Within that methodology, which she calls the value net, she differentiates between three types of net value: the net value created by the system, the net value received by the final customers, and the net value acquired by value-creating players. She defines each type of net value as follows:

The net value created by the system [is] the difference between the gross value that a customer assigns to a product or service (regardless of its purchase price) and the overall costs sustained by the VCS [Value Creating System] in producing it. The value attributed to a product is directly related to the benefits that consumers expect from it and inversely related to the costs associated with its use (accessory or complementary goods, maintenance and other post-purchase costs). The total net value created by the system is divided between the final customers and the economic players participating in its creation on the basis of their relative bargaining power. The net value received by the final customers [is] the difference between the value that customers attributes to a product and the price actually paid for it. The total price paid corresponds to the total revenues received by the players involved in value-creating activities. The net value acquired by value-creating players [is] the difference between the total price that the purchasers have paid to the players carrying out value-creating activities and the total costs that the latter have had to bear (Parolini, 1999, p. 108).

These different meanings of value are illustrated in Figure 3.

Brandenburger and Stuart (1996, p. 7) emphasized the importance of suppliers as well as buyers in the context of value creation. The value created by “a vertical chain of players” equalled the buyer’s “willingness-to-pay” minus the supplier’s “opportunity cost”, both of which depended on the characteristics of the suppliers, firms and buyers. (de Chernatony et al., 2000)

These utilitarian models are broader than the value components models and more complete. They consider customer value in a longer time horizon perspective and include almost all elements of customer activity cycle. However, they do not pay much attention to the dynamics of value building and destruction. They seem to be static rather than dynamic. They do not link benefits and sacrifices with customer ends, values and purposes. They also do not offer much on the importance of different
benefits to prospective customers or the significance of sacrifices, nor they consider explicitly the consequence of all these on customer behavior.

Means-ends models
Means-ends models are based on the assumption that customers acquire and use products or services to accomplish favorable ends. This view is prevalent in consumer behavior literature in particular where value is defined in terms of personal values, mental images, or cognitive representations underlying customers’ needs and goals (Rokeach, 1973; Gutman, 1982; Peter and Olson, 1987; Wilkie, 1994; de Chernatony et al., 2000).

Means-end theory, according to Huber et al. (2001), postulates that linkages between product attributes, consequences produced through consumption, and personal values of consumers underlie their decision-making processes (Gutman, 1991). Means are products or services, and ends are personal values considered important to consumers. Means-end theory seeks to explain how an individual’s choice of a product or service enables him or her to achieve his or her desired end states. Huber et al. (2001) assert that consumers obtain consequences (desirable or undesirable) from the consumption of products or services either directly from consuming or indirectly at a later point in time or from others’ reactions to one’s consumption behavior. They stress that consumers choose actions that produce desired consequences and minimize undesired consequences (Peter and Olson, 1990; Olson and Reynolds, 1983). They believe that values provide the overall direction, consequences determine the selection of behavior, and attributes produce the consequences.

Sheth et al. (1991) identified five consumption values – “functional”, “social”, “emotional”, “epistemic” and “conditional” – which could influence consumer purchase and choice behavior. Levitt (1980, p. 84) argued that a product represented “a complex cluster of value satisfactions” to buyers, who attached value to the product according to its perceived ability to meet their needs. A brand that satisfies customers’ practical needs delivers functional value, whereas a brand that satisfies customers’ self-expression needs delivers symbolic value (Bhat and Reddy, 1998; de Chernatony et al. 2000).

Lanning (1998) makes an important contribution by insisting that the value that matters is the value in the customer’s experience not the value in the product. He
maintains that the customer's resulting experience is the essence of value proposition. He argues that the customer's resulting experience includes one or a series of related physical or mental events leading to an end-result or a consequence that is measurably specific. These events happen in the life of the customer due, at least in part, to the actions of the business organization. The customer perceives the consequence relative to alternatives offered by competitors making the experience either superior, equal, or inferior. The perceived difference has some value to the customer. Learning to discover resulting experience to customers is often hard work but once discovered and articulated clearly, they are easy enough to understand.

Lanning (1998) also differentiates his concept of value as the customer's resulting experience from the prevailing view that equates value with what the customer is willing to pay. The question to ask, in order to understand the customer's resulting experience, is this: "what would the customer perceive as the value of the end-result consequence of this event, compared to alternatives, if they could experience it?" (Lanning, 1998, p. 46).

In an attempt to consolidate the diverse definitions, Woodruff (1997, p. 142) proposed: "Customer value is 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 (1997) emphasizes that value stems from customers' learned perceptions, preferences, and evaluations. His model in Figure 4 demonstrates that moving up and down the customer value hierarchy explains both desired and received value. Moving up the hierarchy suggests that customers think about products as bundles of attributes and attribute performances. They form preferences for certain attributes based on their ability to facilitate desired consequences, reflected in value in use and possession value. Customers also learn to prefer those consequences that help them achieve their goals and purposes. Moving down the hierarchy, customers use goals and purposes to attach importance to consequences (Clemens and Woodruff, 1992), which, in turn, guide customers when forming preferences of attributes and attribute performances.

Figure 4. Woodruff's (1997) customer value hierarchy model.
Parasuraman (1997) observes that Woodruff's (1997) discussion captures the dynamic and context-dependent nature of how customers judge value, the criteria they use to do so, and the relative importance they place on such criteria.

The means-ends models of customer value fill a gap in the literature by being able to explain why customers attach different weights to various benefits in evaluating alternative products/services. They also take into account the negative consequences of certain product/service attributes but fail to pay sufficient attention to the sacrifices a customer is likely to bear in acquiring, using, or disposing of the product/service. They also do not elaborate on the trade-offs customers are expected to make between benefits and sacrifices.

The following section re-conceptualizes customer value in a three complementary models in an effort towards an integrative configuration of the concept.

Towards an integrative configuration
The models of customer value that are reviewed earlier in this paper are different configurations of the same phenomenon. What makes one configuration more appealing than the others is its ability to encompass the salient elements of the phenomenon and how they relate to each other and its usefulness as guidance for future management actions. The literature of the subject is fragmented and does offer an inclusive model that pulls together the different views and ideas properly. The author of this paper argues here that there is a need for a generic configuration that integrates the diverse views on customer value in a coherent way. This configuration has the potential to broaden the perspective of researchers and managers, to give them a more complete and multidimensional picture of customer value, and to increase their degrees of freedom in deciding the value of offerings.

There are at least three complementary viewpoints from which customer value will be looked at, namely: the value exchange model, the value buildup model, and the dynamics of customer value. None of these different points of view is able to reflect the richness and complexity of customer value in its own. Moreover, it is the contention of the author that the absence of any of these angles will render the picture of customer value incomplete. Put together, however, these complementary angles encompass the most salient elements of the customer value concept bringing together insights from different streams of thought in the literature. They present customer value in a more complete picture revealing the interaction nature of its different parts and its dynamic character.

The value exchange model
Looking into value from the exchange point of view, a model, such as the one illustrated in Figure 5, is built based on Huber et al. (2001), Parolini (1999), Grönroos (1997), Groth (1994) and Zeithaml (1988) among others.

The value exchange model is basically a give-and-take model or a benefits-costs model. The customer is willing to sacrifice certain amount of time, effort, money, and take certain risks in exchange of expected benefits that outweigh his/her total sacrifices. This difference between total benefits and total sacrifices results in net customer value, that leads to a purchasing decision only if it is zero or above. The total benefits consists of utility value and psychic value. The total customer sacrifices, which we call here the total customer cost, consists of financial and non-financial
customer costs, i.e. the total customer ownership cost (pre-use, at-use, and post-use costs).

The importance of this model is that it incorporates a number of components that are usually discussed separately, such as: total customer ownership cost, net customer value, utility and psychic value. For example, Groth (1994) – see Figure 2 – equates customer value with market price, neglecting both the net customer value and the non-financial costs to customers. In addition, he does not deliberate on total cost of ownership, focusing instead on supplier's costs. Although this does not undermine or reduce the usefulness of his model in explaining his argument, it, nevertheless, gives an incomplete picture of the concept of customer value. Parolini (1999)'s model (see Figure 3) also does not consider total customer costs, despite the fact that it considers net customer value and gross customer value. It also does not elaborate on the concept of customer value. The other advantage of the model of Figure 5 is that it is set in a wider context to form a part of the wider picture of customer value that complements other parts developed in the following subsections.

The value buildup model
Focusing on the benefits side of the value equation and implicitly assuming that total customer benefits exceed total customer costs gives rise to the customer value buildup model as illustrated in Figure 6. This model is an integration and extension of the work of McKean (2002), Smith and Wheeler (2002), Horovitz (2000), Schneider and Bowen (1999), Groth (1994), and Lovelock (1983) among others.

The model is a detailed picture of the gross or total customer value as depicted in Figure 5. The total customer value is affected by four factors. The first two factors concern whether the customer is treated merely as a consumer or respectfully as a person and whether the relationship with the customer is looked at by both parties, the supplier and the customer, as a simple transaction or as a genuine interaction, that is the intensity and longevity of the relationship between the supplier and the customer. These two factors are very closely related to the remaining two factors: the customer needs the supplier intends to satisfy and the corresponding customer benefits he/she intends to offer. Customer needs range from pure utility needs to pure psychic needs or any combination of them. Corresponding customer benefits range from pure tangible or tangible dominated to pure intangible or intangible dominated benefits.

Customer’s perception of value is affected by these four factors. Customer value builds up as he/she feels treated more as a person than just a consumer, i.e. whether the
supplier satisfies only the utility needs of the customer or, in addition to that, satisfies also his/her psychic needs. The customer uses a rich set of valuation criteria, which can be either objective or subjective or a combination of both. This depends mainly on the perceived type of relationship with the supplier (a mere transaction or a genuine interaction), the type of needs he/she intends to satisfy (utility or psychic), and the way he/she is treated by the supplier (as a consumer or as a person). For example, a customer who stops by a gas station to fill in his car's fuel tank intends mainly to satisfy a utility need. The relationship between the supplier and the customer is no more than a transaction. The supplier, most likely, considers the customer as a consumer and deals with him as such. The benefits are mainly tangible and the customer evaluates the service mainly on that basis. Compare this situation with a student who wants to choose a university for his/her graduate studies. What is important for the student in this case is not just the degree program, which is the core product of the university. The student most likely considers, among other things, the image of the university and its professors, and his/her expected or desired experience when he/she enrols in the program, including in-class, off-class, extra curricular and other services provided by the university. The relationship between the university and the student is definitely not a transaction-based. It is a long-term, intensive, and interactive. The student would like to be treated more as a person not just as a consumer of a service. His/her needs go beyond the graduate degree to include psychic needs like feelings of pride, achievement, and superiority.

The customer value accumulates as the satisfied needs advance from utility to psychic, as the customer benefits offered transcend tangibles to intangibles, as the nature of the relationship between the customer and the supplier develops from transaction to interaction, and as the customer treatment shifts from being a consumer to being a person. This accumulation of value may take one of four distinct forms that can be arranged from low to high as follows: functionality; solution; experience; and meaning. The first three forms are well articulated in the literature (see, for example, Horovitz, 2000). Functionality means an outcome that the customer obtains from basic (and facilitating) product features. Solution obtained by extending the offering to include support features that cover some of the activities the customer usually performs to, for example, acquire, install, use, and maintain the product. Experience
involves adding intangibles to the tangible offering of the firm. The customer becomes part of the transformation process rather than mere recipient of its end result. Experience takes into account not only the rational expectations of the customer concerning functional attributes of the product or service but more importantly the emotional elements derived by the total experience (Smith and Wheeler, 2002). McKean (2002) reports that research reveals that up to 70 percent of a customer’s decision to buy is based on interactions and only 30 percent based on product attributes. Meaning magnifies the worth to the experience. It links the immediateness of the experience to the durability of strongly held personal philosophy. It takes the experience to new heights of self-actualization. The difference between experience and meaning is that the former can be understood as “living through” something; while the latter can be thought of as “living for” some purpose. In other words, when the customer discovers, for example, that his/her experience is consistent with and advancing his/her beliefs and purpose in life the value he/she attributes to it intensifies. In branding literature, it is claimed that people buy brands for three main reasons, namely: the functional needs that brands satisfy; the self-image of the customer; and at a more profound level, the customer identification with or philosophical or emotional connection with the attitude or ethos that the brand represents (Smith and Wheeler, 2002). This explains why some customers are willing to pay more for environment friendly products. Mirvis (1994), for example, reports that consumers are willing to spend up to 10 percent more for products which are environmentally safe and investors are favoring companies with a good environmental records (see also, Gray, 1990). Those customers fulfill their self-esteem needs.

The value dynamics model
Looking into the dynamics of value, a model can be developed to reflect the dynamics of how customers evaluate a supplier’s total offering (see Figure 7). It breaks down the gross customer value in the exchange model depicted in Figure 5.

Customer-supplier relationship encompasses two fundamental dimensions: customer as a consumer dimension that focuses mainly on product/service and delivery attributes; and customer as a person dimension that focuses mainly on the customer as a person with core personal needs. The treatment of the first dimension

![Figure 7. Customer value dynamics](image)
can be described by Kano’s model, while the treatment of the second dimension can be found in Schneider and Bowen (1999).

As explained previously, basic product features are those taken-for-granted features, which are not explicitly demanded by customers. Cleanliness of a restaurant and delivering product specifications as promised are examples of those features. Their existence makes the customer neutral, i.e. neither satisfied nor dissatisfied. It does not lead to the intention of repeat purchase. Their absence, however, makes customers dissatisfied.

Expected product/service features are typically performance related. Examples of those features for a retailer include: good quality and reasonably priced merchandise, customers’ car park, an appropriate location, and a suitable layout and space. The absence of those features causes dissatisfaction; while their presence leads to satisfaction but not delight.

Innovative features are neither implicitly nor explicitly expected by customers. Because they are not expected, their absence does not cause dissatisfaction. Their presence, however, surprises customers in a positive way.

Delight and outrage are customer reactions that are more emotionally charged than satisfaction or dissatisfaction. Schneider and Bowen (1999) observe that, generally, most customers range from being moderately dissatisfied to moderately satisfied, which means that customers are essentially ambivalent in their loyalty to a particular business. They predict that these customers would likely defect in the presence of even a modest motivator, such as, getting a better price, or finding a more convenient store location. In their view, an outraged customer will almost certainly defect, while a delighted customer, having experienced the firm’s superior service, is likely to become loyal to the firm.

Schneider and Bowen (1999) propose that customer delight and outrage in the service business stem from the handling of the three basic customer needs – security, justice, and self-esteem. They base this contention on the following two assumptions: customers are people first and consumers second; and people strive to satisfy core needs in life at a level more fundamental and compelling than meeting their specific expectations as consumers. Violating core needs leads to outrage; and gratifying them leads to satisfaction or delight. According to Schneider and Bowen (1999), respecting security and justice in particular seems more likely to produce satisfaction than delight; while boosting the customer’s esteem is likely to generate customer delight.

Satisfaction and dissatisfaction are the result of product/service attributes-basic, facilitating and supporting; that is customer expectations as consumers. Delight and outrage, on the other hand, are the result of the interaction process; specifically, satisfying the deeper needs of customers as people.

It should be noted here that the term “delight” is used differently in this model compared to its use in Kano’s model. It is used here to describe a deep state of satisfaction that is emotionally charged as a result of the customer interaction with the service provider. In Kano’s model, on the other hand, “delight” is used to describe a customer’s positive surprise as a result of a product or service attribute, which is not expected.

Value magnifiers and value diminishers are those interaction features that are responsible for satisfying or dissatisfying core needs of customers as persons. No matter how high the value customers get from the product/service attributes, it may be
destroyed if customers are treated badly by the service provider, i.e. by dissatisfying the core needs of customers as persons. On the other hand, the perceived value can be magnified if customers' esteem and self-actualization needs are diligently satisfied.

Putting it all together
The three models of the integrative configuration of customer value are not intended to be stand-alone models. They are highly related and can be considered as complements of each other. They form a cohesive framework as illustrated in Figure 8.

The outer circle is the value exchange model. The model depicts both kinds of supplier/buyer relationships: the end result of the transaction-based relationship (selling) and the beginning or continuation of interaction-based relationship (interactive generation of value). It summarizes all business activities to create value to the point of exchange. To be able to offer customers superior value for exchange, a firm should understand how to generate and accumulate value for customers, what forms customer value may take, and what factors influence the accumulation of value. Hence the value buildup model is needed to help bring about that understanding. Lastly, in order to build up value, it is essential to know what elements or components that may create or destroy value. The inner circle presents the value dynamics model, which shows these elements.

Implications for management
This integrated configuration of the concept of customer value has a number of managerial implications spanning the thinking and practicing fields. In the field of strategic thinking, the configuration strongly reinforces the idea that the focus of thinking should be shifted from beating competitors to serving customers with superior value (Ohmae, 1988; Day, 1994). The configuration shows that customer value goes beyond products and services (see Figure 6) and as such, the emphasis on products or services per se should give way to a broader and more comprehensive basis of satisfying and delighting customers by nesting those products and services in the total meaningful customer experience. In this way customer value can greatly be enhanced.

Figure 8.
Cascading the three complementary models of customer value configuration.
In the field of practice the new configuration, if adopted, will impact a number of areas. Products and services design, based on the new configuration, should aim to create greater customer value by including elements not previously considered as essential parts of products and services in the traditional sense. Elements related to customer's total experience and philosophy of life that build up value, enhance it, and magnify it can be incorporated in the design; and elements that reduce value or diminish it should be detected and eliminated (see Figure 6 and Figure 7). Dimensions of service quality will expand to include in addition to the well known aspects things related to total customer experience and the attribution of meaning to the acquisition of products/services. The new configuration of customer value would also have an impact on human resource practices in important areas such as hiring, training, and development. The personal attributes and the skills of frontline employees in particular should fit the new design of products/services in which more emphasis is put on human interaction skills such as genuine caring, empathy, and sensitivity to customers changing needs, in addition to professionalism in delivering those products/services. Resource allocation priorities could also be changed following the introduction of new design elements of products/services that can be considered as value builders and magnifiers.

Directions for further research
Although the extant literature offers a valid theoretical support, the ideas presented in this article need empirical testing before they can be used as guiding rules for action. Towards that purpose, the customer value configuration framework generates a number of broad research questions, which can be further broken down into more specific questions. For example: Does the value build up model apply to all service industries regardless of goods-services mix of suppliers' offerings? How do customers evaluate and relate their needs as persons and consumers? How do value magnifiers work and how far customer value can be pushed by focusing on them? What is the real effect of value diminishers on customer buying behavior? Is it practically possible to disintegrate the customer needs as a consumer from his/her needs as a person? Do delight and outrage stem only from satisfying/violating the core needs of the customer as a person or may they also arise from negative disconfirmation of his/her expectations as a customer? Is there a real difference between experience or “living through” and meaning or “living for” from the customer's perspective? Do the four forms of value appeal to all customers or to specific customer segments? What kind of customers prefers to ride this curve of value? These and other salient questions need to be addressed thoroughly and tested empirically to solidify the ground on which the new configuration is built.

Conclusion
This paper attempts to offer an integrative configuration of customer value. It builds on the extant literature to develop a three-angle view of the concept of customer value that integrates diverse but complementary treatments of the subject. The integrative configuration incorporates three models: the value exchange model, the value build-up model, and the value dynamics model. This configuration presents a multidimensional picture of customer value that reflects the richness and complexity of this concept. It widens the view of researchers to investigate and study customer value, customer
acquisition, satisfaction, loyalty and retention. It also increases the managers degrees of freedom in designing their offerings.

The importance of the value exchange model comes from incorporating a number of components that are usually discussed separately in the literature. It is basically a benefits-costs model. The total benefits, or the total customer value, consist of utility value and psychic value, while the total customer sacrifices consist of financial and non-financial customer costs; i.e. the total customer ownership cost (pre-use, at-use, and post-use costs). The value build-up model is a detailed picture of the gross or total customer value. The customer value is affected by four major factors arranged as continuums as described above. Customer value accumulates through four distinct forms: functionality, solution, experience, and meaning. This upward accumulation of value may fade away if the supplier violates certain core needs of customers. The value dynamics model, on the other hand, reflects how customers evaluate a supplier's total offering. It classifies elements of customer value into five categories: satisfiers, dissatisfier, exciters, value magnifiers, and value destroyers. This classification is helpful in designing service offerings in that it directs the management attention to focus more on satisfiers, exciters, and value magnifiers while maintaining a threshold standard on dissatisfiers and value destroyers.

References


