CHAPTER 8

Leading Change: A Customer Value Framework

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Takeaways for Leading Change

Complex and dynamic changes like digitalisation and disruptive business models as well as environmental and sustainability challengess are part of any organisation's environment today. There is increasing uncertainty concerning the actions needed from managers and executives to succeed. The customer value framework presented in this chapter offers a simplifying tool and heuristic for managers to use in complex decision situations. The framework enables managers to build a concrete outside-in vision for organisational change. It helps managers to focus on outside-in thinking – starting from understanding what is valuable and meaningful for the customer, a key stakeholder of any organisation. It moves on to the way value can be created relationally with customers as well as how it can be ultimately captured. Outside-in thinking is crucial in today's VUCA world (Elkington, van der Steege, Glick-Smith, & Moss Breen, 2017). If organisations focus only on their internal perspective, they may fall behind as they lose sight of what is happening in their external environment. The chapter provides an important introduction to customer value for students, scholars and practitioners both within and outside the field of marketing interested in leading a customer-oriented change.

Customer value is a core purpose of successful organisations and serves as a vehicle for leading and communicating change – the fundamental theme of this book. Customer value captures what customers perceive as meaningful and important. Organisations which strive to adopt the customer's perspective will benefit from the customer value framework. Keeping the customer's perspective at the heart of organisational decision-making will ensure the organisation remains relevant to one of its key stakeholders – the customers. The customer-value framework is not something that can be implemented only as a top-down, hierarchical management process in the organisation. Rather, it emphasises the role of frontline employees who are interacting with customers. These employees often have vital knowledge about what customers' value. Customer value is a relational concept in the sense that it prompts thinking in outside-in rather than traditional inside-out terms. Outside-in thinking is becoming crucial in today's VUCA world; that is, volatile, uncertain, complex and ambiguous (Elkington et al. 2017. See also Chapter 1 in this book). If organisations focus only on their internal perspective, they may fall behind as they lose sight of what is happening in their environment due to forces of change like digitalisation, sustainability challenges and disruptive business models. The customer value framework enables managers to build a concrete outside-in vision for organisational change.

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The purpose of this chapter is to offer a timely introduction to customer value as a framework for leading change. It consists of three parts. In the first part, the concept of customer value is explained: what is it and how can it be defined? In the second section, we address customer value as a key driver in the organisational transformation from inside-out (firm-oriented) toward outside-in (market-oriented) orientation. The outside-in perspective extends attention from the internal perspective of the organisation such as its resources and capabilities toward the external perspective: it starts from customers, what is relevant to them rather than what is important to the firm or organisation. The third section provides examples of how organisations successfully apply the customer value framework in their respective contexts.

Defining Customer Value

Customer value entails what customers perceive as meaningful and important for them. It is at the core of contemporary marketing[1]. It addresses the two sides of the same coin: why customers choose and buy certain products or services and become loyal to particular companies, and why these companies and other organisations succeed (Kumar & Reinartz, 2016). These two perspectives – customer and company perspectives to value – are widely used in consumer and buyer behaviour research as well as management and strategy literature. They are relevant to companies and public sector organisations alike (Mitronen & Rintamäki, 2012). The concept of customer value addresses the nature, structure and dimensions of value from the customer's perspective (Holbrook, 1994; 1999; Khalifa, 2004; Gallarza, Gil-Saura, & Holbrook, 2011). The concept of customer value proposition entails the strategic positioning for competitive advantage based on value created for targeted customer segments from the company's perspective (Webster, 1994; Anderson, Narus, & Van Rossum, 2006).

Despite the various endeavors to articulate the ultimate definition of customer value, researchers have concluded no single explanation encompasses all aspects of the concept (for a review, see e.g. Gallarza et al., 2011). Instead, researchers have addressed the concept from different perspectives, focusing on the nature, structure and dimensions of customer value. These perspectives provide a holistic view of the customer value concept and are discussed next in more detail.

First, Holbrook (1999, p. 5) defines the nature of customer value as "an interactive, relativistic preference experience." Compared to other concepts such as quality, customer value is not an objective characteristic

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1 "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large" (American Marketing Association, 2013).

of any artefact, but perceived (and often co-created) in interaction between a customer and a product or service. Further, customer value is a subjective evaluation, emphasising the role of contextual factors such as use situation, time and personality. Preference refers to the idea that the customer makes comparisons between different options and makes judgements based on liking some more than others. Customer value is not only about what happens in the mind of the customer – the decision processes and cognitive information processing related to choosing products and services. It is also about how customers experience value through all of the five senses in pre-purchase, purchase and post-purchase events.

Second, the structure of customer value is important, because it helps in understanding value as an outcome of evaluation and in identifying the hierarchical levels where the evaluation process (i.e. valuation) takes place. From bottom to top, these levels include attributes, consequences, and goals/purposes. The structure of customer value is often defined at the consequences level, as an equation of benefits and sacrifices (Zeithaml, 1988; Woodruff, 1997). This equation may take the form of benefits minus sacrifices (e.g. Anderson et al., 2006) or benefits divided by sacrifices (e.g. Zeithaml, 1988). Benefits and sacrifices are perceptions of bundles of attributes related to products and services in use situations (Zeithaml, 1988; Woodruff, 1997). For instance, product attributes such as luxurious brand image and expensive price might be perceived as status. Whether or not status is perceived depends on the goals and purposes of the customer. Personal and contextual factors affect this evaluation. Khalifa (2004) has suggested value components models, benefits-sacrifices models, and means-ends models as conceptual levels for modeling customer value. Value components models simply focus on positive and negative attributes as decision-making drivers. Benefits-sacrifices models focus on the customer consequences of using products and services. Means-ends models, then, take all three levels to promote the understanding of the chains linking customer goals, preferred outcomes and finally the concrete and abstract attributes (see also, Puustinen, Kuusela, & Rintamäki, 2012).

Third, the dimensions of customer value depict the subject matter of what is being appreciated. A classic approach is to differentiate between utilitarian and hedonic value (Batra & Ahtola, 1991; Sheth, Newman, & Gross, 1991; Babin, Darden, & Griffin, 1994; Holbrook, 1999). Utilitarian value refers to rationally defined, instrumental outcomes, whereas hedonic value is self-purposeful, and evaluated based on emotional criteria. These basic dimensions can be seen as opposite ends of a continuum, leaving space in between for other dimensions to occur. One attempt to summarise these underlying dimensions is based on economic, functional, emotional, and symbolic value (Rintamäki, Kuusela, & Mitronen, 2007; Rintamäki & Kirves, 2017). Economic value focuses on the price of the offering. Customer value is created through low prices, discounts and other monetary incentives. Functional value focuses on solutions to customer problems. It is about saving customers time and effort (both physical and cognitive). Convenience, ease of use and agile service models create functional value. Emotional value sets the focus on customer experience, emphasising the role of positive feelings and emotions in value creation. These may vary from fun and excitement to feeling relaxed and secured. Symbolic value then, focuses on meanings that define one's identity. Symbolic value results from status (how does the use of this product or service present me in the eyes of others?), self-esteem (how I can build and sustain my own self-image?), and sense of belonging (with whom do I want to bond?).

If customer value is a key driver of consumer and buyer behaviour, then it must be placed at the heart of organisational strategy. This *company perspective to value* is discussed in literature under the label of customer value proposition (for a review, see e.g., Payne, Frow, & Eggert, 2017). The origins of the concept can be found in late 1980's at McKinsey, where Lanning and Michaels (1988) developed their ideas of business as a value delivery system. Their thinking challenged the prevailing business logic at that time, where the product(ion) was the starting point and customer the endpoint. In their model, they start from understanding what customers value in the first place, hence steering the system.

Customer value proposition can be defined as "an encapsulation of a strategic management decision on what the company believes its customers value the most" (Rintamäki et al., 2007, p. 624). It is essentially a tool for positioning the company around customer value creation. As Webster (1994, p. 25) explains, a value proposition can be seen as

> the verbal statement that matches up the firm's distinctive competencies with the needs and preferences of a carefully defined set of potential customers. It's a communication device that links the people in an organisation with its customers, concentrating employee efforts and customer expectations on things that the company does best in a system for delivering superior value. The value proposition creates a shared understanding needed to form a long-term relationship that meets the goals of both the company and its customers.

Instead of a mere slogan, the customer value proposition transforms a company's use of resources and capabilities into enablers of relevant dimensions of customer value.

> Hence, a good customer value proposition should
> a) increase the benefits and/or decrease the sacrifices that the customer perceives as relevant;
> b) build on competencies and resources that the company is able to utilize more effectively than its competitors; and
> c) be recognizably different (unique) from the competition, and
> d) result in competitive advantage. (Rintamäki et al., 2007, p. 624).

Based on the above discussion, customer value can be defined as an economic, functional, emotional and/or symbolic outcome of the evaluation of customer-experienced benefits and sacrifices throughout the pre-purchase, purchase and post-purchase stages. These four dimensions of value also serve as a foundation for identifying customer value propositions that position the organisation in the eyes of the customers and steer the implementation of strategy within the organisation. Proposing customer value challenges companies to make conscious choices about the customer segments they serve, resources they need, and competencies in which they excel. Based on the strategic customer value proposition, operational-level processes can be designed for creating the right value for the right segments in ways that break free from traditional product-centric thinking. Creating customer value suggests new roles for the customer and the organisation, and inspires new ways to integrate resources for value creation.

Moving Toward Outside-in Thinking

The literature on strategic management and decision-making underlines the need for organisations to constantly change and adapt in order to ensure their survival. One way to survive is to transform organisational decision-making and activities to be more in line with the marketplace. A key aspect in decision-making is whether it takes an inside-out (firm-oriented) or outside-in (market-oriented) orientation (Day & Moorman, 2010). While both types of reasoning are needed in all organisations, an inside-out orientation still typically dominates decision-making in organisations across industries.

An inside-out orientation to strategic decision-making starts by considering the organisation's unique strengths, such as valuable resources, superior goods or distinct capabilities. It then involves searching for potential markets and strategies for leveraging these unique resources (Hooley, Greenley, Fahy, & Cadogan, 2001). Inside-out decision-making is therefore focused on understanding, improving and leveraging the organisation's current strengths. In the short term, an inside-out oriented organisation typically succeeds, since cost-cutting and performance enhancement exercises generate tangible and direct results on the bottom line. Achieving favorable results quickly creates a positive feedback loop. This means organisations tend to become inside-out oriented over time. An organisation with an inside-out orientation risks distancing itself from its market, ultimately losing its relevance in the eyes of its customers and other stakeholders.

In contrast, an outside-in orientation places importance on external considerations: it shifts attention from internal organisational characteristics toward the external environment. In that respect, strategic decision-making with an outside-in orientation begins with sensing and interpreting market signals, such as emerging consumer trends, shifts in competitor behaviour and novel customer processes (Payne, Storbacka, & Frow, 2008; Saeed, Yousafzai, Paladino, & De Luca, 2015). These insights are then used to anticipate, influence and meet marketplace changes by developing new capabilities and offerings (Day & Moorman, 2010).

Many organisational changes are rather driven by external than internal pressure. Evolving market dynamics, such as rapidly changing technological infrastructure, competitive landscape or consumer needs, are often the drivers that define the magnitude and nature of change. On a wider scale, sustainability challenges caused by resource scarcity, environmental degradation and socio-political instability set the boundaries for organisational change. These drivers are external in nature, but exert internal pressure on organisations: the need to develop new competences, introducing digitised processes or investing in a new product and service portfolio. Focusing one-sidedly on current strengths may lead the organisation astray. Extending organisational attention into the external environment is a necessity for any organisation.

We argue that customer value can act as a key driver of organisational change from an inside-out to outside-in orientation. First, it shifts attention from internal quality standards to how customers eventually perceive the organisation in relation to its competitors. As organisations grow, they usually build more hierarchical layers between top management and the customer. Other stakeholders become more visible to decision-makers than customers and their changing needs. For instance, quality is typically measured and controlled through objective, easy-to-measure metrics, such as number of defects per unit, occurrences of process errors, or ratio of shipments made on time. However, these metrics might not correspond with customer perceptions of quality and thus might be misleading. Customers may for example judge quality in terms of the behaviour of customer service personnel, market positioning in relation to competition, or the brand's price image – all captured within the notion of customer value.

Second, customer value provides a useful language and frame of reference for organisational members to reflect upon the customer benefits and sacrifices related to their offerings. Simply by acknowledging that customer value is multidimensional in nature can extend organisational thinking and decision-making from product features and costs toward more nuanced and holistic considerations (Yrjölä, Kuusela, Neilimo, & Saarijärvi, 2018). Considering customer value dimensions such as emotional and symbolic value can lead to new insights. For instance, marketing a video camera can be more impactful if the message is positioned around the creation and storage of emotionally and symbolically important memories as opposed to technical features. As another example, rather than trying to reduce costly

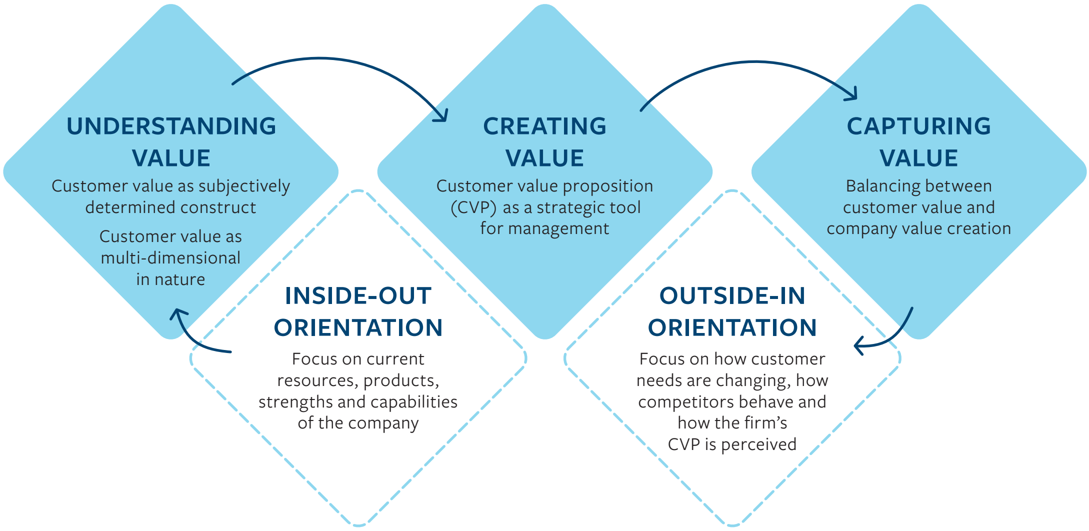

FIGURE 1. The customer value framework

queue times, an organisation can enhance the customer's experience by reducing boredom and stress related to queuing for the service.

Third, customer value can be used as a yardstick in allocating scarce resources between competing initiatives. Potential activities and investments should be measured against their ability to create new value for customers to ensure the organisation remains relevant in their eyes. Similarly, any elements of a service offering that do not impact customer value can be eliminated to reduce costs (Maklan, Antonetti, & Whitty, 2017). Decision-making should be guided by the goals of enhancing customer-perceived benefits, creating new types of benefits or reducing customer sacrifices.

Customer value is thus a powerful driver for igniting an organisational transformation from inside-out to outside-in thinking. This shift in corporate mindset makes both public and private organisations more sensitive to relevant changes that challenge their organisation's raison d'etre.

The customer value framework is depicted in Figure 1 as an arrow from inside-out toward outside-in orientation containing three steps of understanding (1), creating (2), and capturing value (3).

Illustrating the Customer Value Framework

This section illustrates the customer value framework in practice. The first step of the framework is *understanding value*. It involves viewing customer value as a multidimensional concept as well as considering the mechanisms through which value can be created. As described in the previous sections, customer value by its very nature has multiple dimensions ranging from more utilitarian (in the form of monetary savings and convenience) to more hedonic dimensions, such as exploration, status and self-esteem (Rintamäki, Kanto, Kuusela, & Spence, 2006). Decision-makers should start by appreciating this diversity inherent in customer value.

It is important to note that value is not something transmitted by the company to the customer but instead, both parties participate in value (co-)creation.

Armed with a nuanced understanding of customer value, organisational decision-makers can begin to plot out ways in which customer value can be created. It is important to note that value is not something transmitted by the company to the customer but instead, both parties participate in value (co-)creation. It is necessary to scrutinise what kind of value is created for whom, by what kind of resources and through what kind of mechanism (Saarijärvi, Mitronen, & Yrjölä, 2013). To achieve this, there has to be mutual motivation to establish a change in the traditional resource integration process. For example, Threadless.com harnesses the creativity of consumers by encouraging them to design own T-shirts and submit their sketches for other customers to vote for their favourites. This allows the firm to better understand the nature and volume of customer demand. Similarly, through the Ideastorm concept, Dell has integrated customer resources to their new product development process exemplifying another change in traditional resource integration process (see Saarijärvi et al., 2013).

In addition to understanding the dimensions of customer value, organisations should pay attention to the resources (e.g. customer resources or firm resources) and mechanisms (e.g. co-production, co-design) through which value can be created together with customers. Broadening value creation from the perspective of the company toward customers also means the traditional roles of companies and customers are recast (Gummesson et al. 2014). For instance, customers have co-designed new services with the cruise ferry operator Tallink-Silja by observing their own cruise experiences and then providing their ideas and suggestions in an online discussion forum.

Recently, the rise of the platform business models and the sharing economy have created new possibilities for delivering benefits and reducing sacrifices. As discussed by Ngueyn et al. (2018), it accounts for tens of billions of dollars and has extended to finance, logistics, learning and many other fields of service. In the context of hospitality management, AirBnB – a famous example of the sharing economy – offers a unique combination of various customer value dimensions, including monetary savings, convenience, feelings of being home, the opportunity to experience cultural authenticity, social engagement as well as enabling meaningful lifestyles (ibid). In that respect, as multi-sided platforms gain share as business models, it becomes even more crucial to understand the evolving roles and mechanisms for value creation.

The second step of the framework involves *creating value* by formulating customer value propositions (CVPs). The CVP is a tool for linking the value needs of customers to company resources and capabilities such as pricing, customer service or branding (Rintamäki et al., 2007). A CVP focusing on emotional value (i.e., creating rewarding and memorable experiences) requires different organisational resources than one focusing on economic value (i.e., offering the best ratio of quality and price). In many contexts, such as retailing, emotional and symbolic CVP's are more likely to provide competitive advantage to companies (Rintamäki et al., 2007).

While creating customer value is a management priority, executives must make decisions regarding what dimensions of customer value to include in their CVP (Yrjölä, 2015). One concrete tool for balancing objective and subjective criteria in such decision-making is the pairwise comparison method. The method is useful in forcing respondents to make choices between CVP elements. This process of making comparisons helps decision-makers prioritise competing targets, such as price and service quality. As one CEO reflected after completing the comparisons:

> [T]he customer doesn't really care about the exact price, the economic value dimension doesn't stand out in our business. Our concept is heavily focused on the functional value: it's easy for the customer and with high quality. And emotional value is definitely an important part of the concept. That is, a good experience and good service (Respondent D as cited in Yrjölä, 2015, p.8).

In efforts to create value, it is also necessary to consider how the organisation can support its customers in their own value creating processes. According to this view, what customers buy are not products or services as such but rather resources and processes that support their life's goals and pursuits (cf. Grönroos, 2008; Gummesson, 1995). For instance, many food retailers have introduced mobile services to support customer value creation both in-store as well as before and after purchase (Saarijärvi et al. 2013). These services can be directed in the creation of utilitarian or hedonic benefits. In food retailing companies can develop mobile services that allow customers to conveniently compare prices or plan what to buy; i.e., enabling utilitarian interaction to pre-purchase processes. Receiving feedback on the healthiness of groceries or helping customers achieve lifestyle goals are examples of hedonic interaction taking place in post-purchase processes. In the context of financial services, customer value creating processes can be supported by facilitating investing-related experiences (e.g. investing as a hobby) or thinking in terms of service flows rather than in terms of purchasing investment alternatives (Puustinen, Maas, & Saarijärvi, 2014).

The last step of the framework, *capturing value,* involves identifying opportunities for ensuring organisational value creation alongside customer value creation. Value capture can take many forms, such as sourcing ideas from customers, getting customers to produce value themselves or creating new revenue sources. During this step, there exists a danger in over emphasising inside-out thinking, so the role of management is to focus attention on customer-oriented ways of enabling value capture, such as considering the perceived value for customers and their willingness to pay for the organisation's offering.

Whenever there is a fit between the CVP and the willingness of customers to provide additional resources, the organisation has the opportunity to capture more value (Saarijärvi, 2012). This can be done through various value co-creation mechanisms – depending on the dimension of value offered. For instance, organisations with economic CVP's have turned toward the mechanisms of co-production and co-distribution. Customers may help the organisation lower the cost or price by assembling products (e.g. Ikea) or delivering them (e.g. picking up goods directly from the warehouse). Regarding functional CVP's, co-development and crowdsourcing can help organisations harness the customer's knowledge and expertise related to their daily lives. As for emotional CVPs, co-experience and co-design (e.g. designing experiential service interfaces) are viewed as beneficial mechanisms to capture value. Finally, symbolic CVPs require inviting consumers to co-construct meanings for offerings in co-promoting them with the organisation – something especially relevant in today's social media saturated environment. Fans of a brand, for example, can create communities that can operate as value-creating platforms for their members and generate positive word-of-mouth (Schau, Muñiz, & Arnould, 2009). These community members are highly committed and may provide the company with ideas and suggestions for product and service development (Gummesson, Kuusela, & Närvänen, 2014). This example illustrates how value is ideally captured both by an organisation and its customers.

Naturally, all organisations have to consider their business model's capacity for value capture (Yrjölä, 2014). The business model perspective includes both the customer's and the organisation's perspectives in considering how value is created and captured. Complex environments, such as the multichannel retail context, pose challenges for value creation. Creating customer value as such is not enough if it does not simultaneously serve the organisation's goals. An example of this is the showrooming behaviour adopted by many consumers: visiting one retailer's stores to receive free advice or service and then ordering the product online from another retailer.

Finally, the value capture stage also entails implementing customer orientation within the organisation. Customer orientation brings the customer value framework into the level of executive decision-making. This is ultimately the most important level of strategy in organisations

(Saarijärvi, Kuusela, Neilimo, & Närvänen, 2014). Customer value dimensions (economic, functional, emotional and symbolic) can be used as the concrete and actionable mechanism through which customer orientation is incorporated in executive decision making. In the case of S Group's organisational transformation, Neilimo, Kuusela, Närvänen and Saarijärvi (2015, p. 49) note that "by examining the multi-dimensional nature of customer value, the S Group vision team found new opportunities to compete more successfully and incorporated these offerings in its new vision." As organisations need to reassess their strategies, structure and business model in the contemporary turbulent business landscape, a well executed vision based on customer value can be the key to success.

Discussion

Customer value drives change in successful organisations. Whether non-profit or for-profit, operating on the public or private sector, all organisations benefit from keeping their focus on the customer amidst turbulent changes in the market. The customer value framework, depicted in Figure 1, outlines how organisations can orient themselves outside-in (market-oriented) from inside-out (firm-oriented) by understanding, creating and capturing value.

Customer value broadens organisational decision-making in at least three ways: 1. by focusing on experiences and perceptions instead of product attributes alone, 2. by looking at value creation in terms of pre-purchase, purchase and post-purchase activities rather than single transactions, and 3. by considering both the benefits as well as the sacrifices perceived by customers. First, as we argue above, novel ideas and a deeper understanding of customers can be achieved by considering the full spectrum of experiential aspects, such as tactile or olfactory sensations. Second, service design can be improved by taking a wider perspective on customer interactions, such as providing inspiration in pre-purchase situations or supplying customers with recommendations based on their own usage data in the post-purchase stage. Third, customer value steers organisational attention not just on the creation of new types of benefits, but also on the reduction of customer-perceived sacrifices such as time spent queueing, stress or cognitive dissonance. Indeed, behavioural economists have established that people tend overemphasise sacrifices in their behaviour and decision-making (e.g., Kahneman & Tversky, 1979). This highlights the importance of understanding how customer perceive and experience sacrifices.

To conclude, we propose customer value as a framework for leading change, particularly in the strategic shift from inside-out to outside-in thinking and decision-making. Customer value challenges public and private organisations to focus on customer-oriented change. We encourage decision-makers to adopt the customer value framework when addressing the wicked problems (Weber & Khademian, 2008) discussed in the introduction of this book. The customer value framework advanced here is straightforward to apply, easy to communicate, and allows multiple perspectives to be considered.

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