Dynamics of value propositions: insights from service-dominant logic

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Abstract

Purpose – This article examines the notion of value propositions (promises of reciprocal value between service providers and their customers), value-in-exchange and value-in-use, all within the conceptual context of service-dominant (S-D) logic.

Design/methodology/approach – Responding to calls in the recent literature for an academic critique of S-D logic, its key constructs, and its application in marketing situations of varying complexity, the article presents a conceptual analysis of the determinants of value emphasis in value propositions from the S-D perspective.

Findings – Four guiding principles are derived from a rigorous analysis of the relevant literatures. Ways are discussed in which firms might achieve greater flexibility in designing their market offerings, and thus manage different customer segments using different value propositions. The general conclusion is that the ability to communicate a firm's value propositions strategically and effectively is a new area for the development of competence at the core of competitive advantage.

Research implications – The findings pave the way for empirical research into the dynamics of value propositions. Since the main focus of the conceptual framework is on the customer-provider dyad, future studies should broaden coverage to multilateral settings and networked environments.

Practical implications – Factors that determine the relative emphasis in value propositions between value-in-exchange and value-in-use are discussed, and the management implications derived from each of the four principles identified.

Originality/value – The article elaborates the application of S-D logic in marketing by investigating the determinants of relative emphasis of value propositions.

Keywords Offerings, value proposition, value-in-use, value-in-exchange, buying centres, service-dominant logic

Paper type Conceptual paper

1. Introduction

The 'service-dominant' logic within marketing, identified by Vargo and Lusch (2004a), makes explicit the notion of 'co-created value'. As distinct from treating 'value' as an embedded attribute of the product being exchanged, this conceptual framework views it as a being created by the interactions with customers taking place throughout the relational process. It is thus rooted in subjective performance criteria and measured by *value-in-use*, rather than in objective quality standards, capable of measurement in terms of *value-in-exchange*. In this view, firms do not deliver value, but instead offer propositions that have the potential to co-create value in partnership with customers, (Vargo and Lusch, 2008), defined by Ballantyne and Varey (2006) as "reciprocal promises of value, operating to and from suppliers and customers seeking an equitable exchange" (pp. 334-335).

Woodruff and Flint (2006) point to the need for a greater understanding of value phenomena in general and, in the context of service-dominant logic (henceforth 'S-D logic'), Vargo and Lusch (2008) recognise value propositions as central conceptual elements requiring further elaboration. Implemented in marketing practice, S-D logic should uncover opportunities for value creation constrained by the traditional 'goods-dominant' (G-D) mindset (Ballantyne and Varey, 2008). Such conceptual elaboration should facilitate the formulation of superior value propositions, creating greater opportunities for the co-creation of value, to the benefit of customers and providers alike (Payne *et al*., 2008).

Even if value-in-use does take up a super-ordinate position in relation to value-in-exchange, a strategic issue remains to be addressed: whether firms should always strive to communicate propositions emphasising the former kind of value, or might in certain situations place relatively more emphasis on the latter (Day, 2006).

For example, if a customer's short-term orientation is towards the achievement of annual price concessions on capital goods and service agreements, propositions focusing on value-in-use may be contraindicated, even if they would be a good business rationale for buyers in general (Kowalkowski, 2008). This conclusion supports the view of Lusch *et al*. (2007) that it is not viable for a firm to pursue an unvarying approach to the formulation of its value propositions. In that case, those responsible for the related strategy decisions need to be able to recognise the determinants of value emphasis, in order to be able to change, adapt and influence the value proposition effectively. This in turn demands a clear understanding of the nature of the interactions between providers and customers, and those among the members of buying centres where those exist.

Accordingly, the purpose of this article is to facilitate a deeper understanding of the relative emphasis on value-in-exchange and value-in-use in value propositions. Four 'principles' are presented, aimed at helping firms to craft competitive value propositions. If these succeed in delivering a deeper understanding of the balance between value-in-exchange and value-in-use in value propositions, decision makers will be able to recognise, shape and exploit value-creation opportunities. In other words, the application of S-D logic can be the key that unlocks the potential to gain comparative advantage in the marketplace.

The broad perspective taken in this article encompasses all types of value propositions and offerings by including both direct service provisions (the services themselves) and indirect service provisions (the associated goods). A distinction is made between the concepts of a 'value proposition' and a 'core service offering' (Lusch et al., 2007), the former generally preceding the latter. Before any sales agreement is reached, the provider's and customer's considerations converge into what Ballantyne and Varey (2006) call “a reciprocal value proposition”. This conceptualisation is consistent with an earlier description by Normann and Ramírez, (1993): “what we usually think of as products or services are really frozen activities, concrete manifestations of the relationships among actors in a value-creating system. To emphasise the way all products and services are grounded in activity, we prefer to call them offerings.” (p.68). It is also in line with the recent work of Grönroos (2008), who characterises S-D offerings as value-supporting processes that comprise goods, services, information and customer-firm interactions.

Though most of the discussion and examples in this article will relate explicitly to business-to-business relationships, its arguments and conclusions are not limited to that context. From the perspective of S-D logic, the business-to-business versus business-to-consumer dichotomy is flawed, as argued by Fern and Brown (1984) and Dant and Brown (2008). That is, all business relationships are essentially business-to-business (Vargo, 2009).

The article is organised as follows. First, it briefly reviews the concepts of value-in-exchange and value-in-use, as discussed in the published literature. Second, the role of customer buying centres and purchasing practices in enabling or constraining opportunities for value creation is discussed. In that context, bearing in mind the arguments advanced in the previous paragraph, a buying centre could be any entity concerned in purchase decisions, be that a group of employees in a private or public organisation, a sole proprietor, a single-person household, a family group, or a community. Third, important provider capabilities for the crafting of competitive value propositions are presented. Fourth, the dynamics of value propositions are examined through the lens of S-D logic, culminating in the articulation of four principles relating to the value emphasis of value propositions. Finally, it concludes with discussion of its contribution to the body of research, the managerial implications, and future research directions.

2. Determinants of value emphasis

In accordance with the view of Holbrook (2006) that 'value' is "an interactive relativistic preference experience" (p. 212), the conceptual framework developed here treats value-in-use as a higher-order concept than value-in-exchange while acknowledging that value-in-use deserves at least equal emphasis in any practical definition of the value proposition. The determination of value in the process of exchange remains an important component of value creation, and it becomes manifest in the market-related financial figures furnished by accounting systems that capture this limited form of value (Vargo and Lusch, 2006). Hence, value-in-exchange is the negotiated evaluation that buyers and sellers offer and receive among themselves. It is therefore an integral, although limited, part of value creation since the most relevant concept is value-in-use. As Moran and Ghoshal (1999) put it, "it is not resources *per se*, but the ability to access, deploy, exchange, and combine them that lies at the heart of value creation" (p. 409). Furthermore, the contextual nature of value implies that it is uniquely and phenomenologically determined by the customer and created during in-use experience (Vargo and Lusch, 2008).

Despite the super-ordinate role accorded to value-in-use in this conceptualisation, individual firms may encounter situations in which emphasis on short-term transactions rather than long-term collaborative exchanges may be more appropriate (Anderson and Jap, 2005). It is demanding to pursue a true service strategy with a comprehensive focus on value-in-use, on account of the time, cost and effort implications, and possibly of conflicting business logic, customer strategies and buying behaviour.

2.1 The central role of the customer

Though customer-related factors should play a central role in determining the emphasis on different values, value propositions often exhibit in practice a one-sided provider perspective, insofar as they articulate benefits predetermined by the provider (Woodruff and Flint, 2006). It is also a fact that customers do not perceive all offerings and providers to be equally important from their own point of view (Kraljic, 1983). If an individual provider's offering has limited relevance to their value-creation process, they may prefer to form an arm's-length relationship (van Weele, 2004). There is a limit to the number of co-creation collaborations a firm can strike up with customers (Zolkiewski, 2004), who will not necessarily be willing to invest in such relationships with every firm with which they interact (Rust and Thompson, 2006). The emphasis within value propositions is thus likely to differ according to each customer's readiness for such intimate involvement. Furthermore, unless customers themselves adopt the S-D logic, not only is it likely to be more challenging for the provider to craft value propositions and offerings that emphasise value-in-use, but also for the customer to derive the value promised.

2.1.1 Roles in buying centres

One of the main challenges in formulating value-in-use propositions derives from the possibility that ad-hoc customer buying centres play different roles in different buying processes. The fact that one relationship between customers and providers may work acceptably well at an operational-user level offers no guarantee for future new offerings with higher value-creation potential. It is possible that attempts to establish enhanced value propositions will fail on account of a buying centre's G-D mindset, its lack of authority, or a poor understanding of the firm's corporate operations and strategies (Kindström, 2009). To interact successfully with customers, is therefore not only a matter of working effectively with initial gatekeepers, but also of understanding each buyer's internal linkages (Bonoma and Johnston, 1978; Edvardsson *et al*., 2008).

Where offerings are more extensive, it is important to maintain several customer interfaces at different organisational levels. Whereas spare-parts sales may require only a single operational-level interface, the process of selling such integrated solutions as aircraft availability is radically different, involving interfaces across several business functions and negotiations at the highest management level (Kowalkowski, 2008). Consequently, the different roles of 'evaluators' in buying centres must be taken into account in the development of value propositions (Johnston and Lewin, 1996; Webster and Wind, 1972).

In spite of the growing evidence in the literature and in practice that tangibility is not what buyers actually purchase (Lovelock and Gummesson, 2004; Vargo and Lusch, 2004b), decision makers and other individuals might nonetheless be driven primarily by short-term financial goals and transaction-based, value-in-exchange incentives. Corporate financial policy and directives may also regulate what is purchased and how purchasing should be conducted. For example, IKEA has long had a policy of owning rather than renting such assets as warehouse trucks (Kowalkowski, 2008), whereas other firms may make the opposite decision in order to reduce their balance-sheet assets. Financial policies can thus have a direct effect on the feasibility of a given value proposition and, consequently, on the value emphasis. Customers may also put limits on contractual periods, meaning that mutual investment in solutions aiming at longer-term increases in value-in-use are not possible. Even if such limitations have a rationale from a value-in-exchange perspective, they can limit the strategic value-creation opportunities that would arise if those involved were to recognise that the time-logic of marketing exchange becomes open-ended under S-D logic (Ballantyne and Varey, 2006).

Michel *et al*. (2008) discuss three distinct customer roles in the value-creation process, from an S-D logic perspective: users, 'payers' and buyers, whether individual or organisational. Whereas the user's role primarily relates to value-in-use and the payer's primarily value-in-exchange, the buyer's role bridges the two. In some contexts, all three roles are performed by the same person; in others, they are played by different individuals. From the S-D perspective, innovative value propositions can change one or more of the customer roles. A case in point is Metro, a newspaper distributed free to travellers on public transport in major cities across Europe, the Americas and Asia. It has modified all three customer roles: how readers use a newspaper (a collection of short items designed for a 20-minute read), how they pay for the service (free), and how they obtain it (by self-service from distribution racks at the transport hubs).

In general, if the key role of the payer is to be gatekeeper, decider, major influencer or some combination of the three, it is more likely that he or she will be inclined to adopt the value-in-exchange criteria when making buying decisions. A focus on value-in-exchange may also suit low-cost providers aiming for increased sales and market share but having limited interest in close collaboration with customers in the creation of mutually beneficial value propositions. This is one reason why firms that increasingly compete by emphasising value-in-use, find it important not only to interact with the customer at the operational level, as a user, but also to carry out other joint task tasks aimed at increasing awareness of lifecycle costs and identifying new value-creation opportunities (Kowalkowski, 2008). Furthermore, the types of need identified are likely to depend on whether the initiator in the purchasing process is the user, buyer or payer.

Initially, the focus of a value proposition must therefore meet the initiator's criteria, but the focus is likely to shift as the needs and demands of the other evaluators in the buying centre are taken into account, and the final decision criteria evolve. The initial focus may also change during the sales process, as a result of the communicative interactions and dialogue within the buying centre and with the supplier. As Bonoma and Johnston (1978) pointed out, social factors play a major role in influencing purchasing decisions.

Despite the fact that users are more likely than other members of buying centres to base their decisions on value-in-use (Michel *et al.*, 2008), the fact that (in the business context) they typically work only at the operational level can result in a limited comprehension of the systemic, long-term, strategic value-creation potential of a given value proposition (Kindström, 2009). In particular, if a central procurement function has taken up a complex offering on the basis of strategic and value-in-use considerations, local users and managers may oppose the purchase, be reluctant to cooperate, and even try to bypass the agreement by acquiring the offering from local providers instead (Nordin, 2006).

For example, if a major manufacturer has consolidated its supplier base for logistics services and signed a central agreement with a single supplier such as Caterpillar, individuals and local units within the client firm may focus on value-in-exchange and notice that local transportation costs have actually increased. They may not recognise, however, that total costs have actually decreased and that both value-in-exchange and value-in-use have correspondingly increased (Abrahamsson and Wandel, 1998). It therefore becomes important for providers to: ensure that their customers have the knowledge and competence to take advantage of the established value propositions; understand the sensitivities of local users, local managers and others in the buying centre; be capable of communicating with them and support ongoing learning regarding value-creation processes at a local level.

2.1.2 Competence in buying centres

Regardless of the composition, membership, roles and culture in a buying centre, a major determinant of value-creation effectiveness is the degree of purchasing competence its members collectively possess. Across industries, a lack of such expertise has prevented customers from buying the offering that would have best reflected their desired service system benefits best in terms of value creation (Kindström, 2009). For instance, customers who want to focus on value-in-use and buy a material-handling solution including auxiliary services, rather than purchasing plant and machinery, are more likely to struggle with their evaluation of potential providers (Kowalkowski, 2008). The level of purchasing competence is thus a significant factor in determination of the value emphasis of value propositions.

Even if a collaborative approach to purchasing has gained ground since the early 1980s, as Lindgreen and Wynstra (2005) suggest, purchasing processes and practices typically fail to locate suppliers capable of proactive development in actual use (Hertz and Macquet, 2001; Andersson and Pruth, 2006). The value-creating system may therefore look effective from a static, short-term perspective but not from the dynamic S-D logic perspective. For example, a major survey of Swedish shipping companies revealed that, even if most were content with the third-party logistics services they had bought, they could not fully realise the potential of the concept if they applied dynamic value-creation logic because they had not focused on its longer-term development aspects in the evaluation and selection of suppliers (Andersson and Pruth, 2006).

The emphasising of value-in-use becomes perhaps even more challenging when offerings are based on indirect service provisions: that is, the goods accompanying the service. Anderson *et al*. (2000) found that purchasing managers in the USA consistently selected lower price and value-in-exchange over higher prices for better value-in-use potential, and that many customers therefore preferred unit price decreases over value increases as well as decreased value over increased price. Even though it advocates an approach aimed at increasing value-in-use rather than value-in-exchange, these findings clearly illustrates that there are situations and industries in which incentives reward purchasing offices for such G-D practices as short-term price reductions without consideration of long-term consequences. Powerful customers with such mindsets leave providers with few short-term options but to make resource allocation trade-offs in favour of emphasising value-in-exchange offerings and sub-optimal value creation.

As well as limited competence, at least three other factors contribute to the myopic purchasing practices of many customers. First, since most value is created elsewhere than the purchasing office, members of the buying centre may not receive the credit for the purchase or may have to share it with the departments that create the most value (Anderson *et al*., 2000). Second, a single-minded focus on value-in-exchange can also derive from financial metrics and organisational measurement systems that inadequately reflect customer value creation (Kindström, 2009). As a consequence, providers who provide offerings with high value-creation potential should approach customers whose measurement systems enable them to track accurately the measurable parts of the value-in-use created (Anderson *et al*., 2000). Third, short-sighted purchasing practices may be directly linked to customer strategies. Payne *et al*. (2008) argue that co-created value requires organisations to have "a long-term view of customer relationships, which does not fit well with the short-term financial goals that tend to drive Western capital markets" (p. 93). It is intuitively reasonable to suppose that this is equally valid for the way many customers view supplier and other stakeholder relationships.

2.2 Internal capabilities

The value focus in the formulation of value propositions depends not only on the central role of customer-related factors but also on several interrelated internal factors. Despite much discussion in the literature about offering customer 'solutions', for example by Tuli *et al.* (2007) and Nordin and Kowalkowski (2010), a shift to the emphasis on value-in-use of the service-centred view is a particularly complex and demanding endeavour, which poses internal challenges for most traditional firms (Kowalkowski, 2008).

First, since providers often have difficulty inducing customers to buy offerings that exceed minimum exchange-value specifications, they must be able to provide some incentive for change (Anderson *et al.*, 2000). If a customer has adopted the G-D logic, and thus focuses on a low purchasing price, the provider has to understand *why* that is the case; explanations may include its own poor demonstration of value potential, the customer's financial directives, or budgetary constraints. That knowledge becomes the key to persuading the customer to change focus.

To do so, a provider must possess the internal ability to formulate a competitive value proposition, and to convince both the customer and its own internal stakeholders that the firm is committed to the offering. Developing that capability will demand a constant search for new ways of involving customers in co-creation behaviour that stresses value-in-use, such as communicating ways in which they might actively participate in and support ongoing learning about the offerings and processes (Payne *et al.*, 2008), and convincingly demonstrating the value potential of each offering in the value proposition (Anderson *et al.*, 2007). However, even firms in market-leading positions often embrace product-centred corporate cultures and sales orientations while claiming to offer customer solutions (Kowalkowski, 2008). It is clear that the customer-orientation jargon vocabulary has G-D connotations, being often aimed at selling more products rather than creating value.

The second challenge is the acquisition of the competences required for the delivery, follow-up and evaluation of what has been promised (Kindström, 2009). For example, shortfalls in process optimisation, technology consulting and other specialised skills cause many firms to struggle to meet customer demand for complex offerings with an emphasis on value-in-use. Providers therefore have to achieve a proper alignment between their value propositions and the operating resources available to them, as they co-create new offerings and market existing ones.

A third critical factor is the ability of providers to build trust, as well as keeping promises. The outcome of this long-term, complex process is always provisional (Ballantyne and Varey, 2008), and can therefore easily be eroded. Offerings with an emphasis on value-in-use carry a higher risk of failing to build trust effectively since they tend to be more complex and dense than those based on value-in-exchange. It is therefore important to develop trust, to integrate processes, to pool resources, and to share data, information and knowledge.

The fourth challenge is to ensure that customers, providers, and any other actors involved in value creation processes capture a fair share of that value (Ballantyne and Varey, 2006; Blois and Ramírez, 2006). Fink *et al*. (2007) found that, in practice in competitive supplier markets, providers did not always achieve better performance through closer collaboration, despite increased customer-perceived value. Therefore, despite the emphasis on long-term customer value creation, it is essential that value propositions are designed to create value for all parties involved; the service is likely to be unsustainable otherwise.

Finally, the strategic management of the value focus of each firm's value propositions should be understood as a dynamic, competently developed operating resource that is at the heart of competitive advantage and performance. As Day (1994) put it, management requires a 'spanning capability' to integrate a whole range of critical activities that need to be informed by both external and internal analyses, which he characterised as 'outside-in' and 'inside-out'. By developing their internal capabilities and applying a dynamic S-D logic perspective on value, service providers should be better able to recognise, shape, and exploit opportunities for the co-creation of value. Table 1 summarises the firm-related and customer-related elements that determine the relative emphasis of the value propositions discussed in this section.

Take in Table 1

3. Characteristics and focuses of value propositions

The customer-related factors and internal capabilities discussed in the previous section will serve as the basis of a further examination of the characteristics and value focuses of different value propositions. Linking these elements of the conceptual framework to the dynamic nature of value, this section will articulate four principles explaining the relative emphasis, *ceteris paribus,* between value-in-exchange and value-in-use, from the perspective of service-dominant logic.

According to S-D logic, any marketing exchange involves at least two 'evaluators', whose value perspectives become linked together as a reciprocal value proposition (Ballantyne and Varey, 2006). It thus requires that the provider does not pre-define the nominal and potential real value of offerings, but rather establishes them through interactions with the customer in the dynamic buying-and-selling process. Furthermore, the initiator role can attach to both provider and customer.

An example of a value proposition being initiated by the customer is the transport operator FirstGroup's proposal to Volvo of an arrangement in which the bus maker would ensure ongoing vehicle availability for FirstGroup's operations in the U.K. By focusing on achieving low-cost bus miles and no breakdowns, the contract drives home the concept of value-in-use from the customer's point of view. The reciprocated value proposition includes: referral value; increased involvement in and influence on vehicle specification; the opportunity for Volvo to find ways to beat the stipulated cost saving in order to generate additional financial feedback; and opportunities for business innovation.

Executives who devise value propositions need to take into account the subjective value perceptions of all parties potentially involved in co-creation – initiators, deciders, users, buyers and others – and be aware that value perceptions will not necessarily be congruent among them (Holbrook, 2006; Vargo and Lusch, 2008). They must also consider the customer's key performance indicators and internal measurement systems that aim to capture, objectify and evaluate the value created at the firm level (Tuli *et al.*, 2007). What makes it particularly interesting to examine complex value propositions in the light of subjective value is that there are often multiple evaluators from all parties involved in the enactment of each value proposition. The extent to which value-in-exchange is explicitly linked to specific functions, departments and budgets, and is assigned a monetised value in customers' accounting systems, is independent of the number of evaluators. Value-in-use, however, is inherently idiosyncratic and process-oriented, and tends to be cross-functional rather than specific to purchasing units or any other functional groupings. Thus:

Principle 1: Value propositions with an emphasis on value-in-use are more likely to address the needs of multiple evaluators than those with an emphasis on value-in-exchange.

Since the process of crafting a value proposition can be time-consuming, especially in the case of complex and high-value offerings, the provider needs to match different emphases to different values and the involvement of different interested parties throughout the negotiation and commitment phases of a typically lengthy sales process (Kindström and Kowalkowski, 2009). This implies that the provider not only has knowledge of each customer's purchasing processes and the mindsets of the evaluators in its buying centres, but also informs them of the potential benefits of each offering, by communication and dialogue (Ballantyne and Varey, 2006). If so, mutual understanding is fostered and further opportunities arise for the co-creation of value.

Thus, what is critical in the initial negotiation phase can become less important in the commitment phase, and vice versa. The value perspectives of the various actors may change during the process, as a result of formal discussions and informal 'sense-making' (Ring and Van de Ven, 1994), which will in turn yield a shared interpretation, from which the essence of a reciprocal value proposition can emerge. Furthermore, Lindberg and Nordin (2008) found that a high degree of relational proximity and value-in-use was relatively prevalent at some points in the process of buying complex services, but that the degree of objectification and emphasis on value-in-exchange was much more central at other points. A focus on value-in-exchange can be necessary for access beyond gatekeepers, whereas buyers and deciders may have a more comprehensive view and base their decision-making on value-in-use, or vice versa. Thus, the next principle is not that knowledge-sharing that increases over time *per se* shifts the focus from value-in-exchange to value-in-use, but rather that the focus may be on the former at one stage and on the latter at another, which is consistent with the work of Lindberg and Nordin (2008).

Principle 2: The relative emphasis on value-in-use and value-in-exchange will normally change over time during the sales process.

Principle 2 notwithstanding, the congruity between value-in-exchange and value-in-use differs from one context to another. For performance-based contracts and other offerings with continuous financial feedback linked to the value-creation processes of customers, value-in-exchange better reflects the overall value-in-use of offerings than for traditional product-based offerings, even if value-in-exchange could never be a complete proxy for an offering's total value-in-use. The concept is illustrated by an agreement between Toyota Industries, the world's leading supplier of material-handling services and trucks, and a major sawmill operator. The customer was provided with all of its forklift trucks and warehouse equipment, backed by servicing and drivers; payments were linked to the output of prepared timber (Kowalkowski, 2008). Other examples are the contract between Volvo and FirstGroup mentioned previously, and the energy-management service offered by one service division of the electro-technical conglomerate ABB. In the latter, the pricing model is linked to the provider's performance: the more energy-efficient the control system, the greater the savings for the customer, and therefore the greater the income for ABB. Thus:

Principle 3: The discrepancy between value-in-exchange and value-in-use is lower for offerings in which value-in-exchange manifests itself as continuous financial feedback linked to value creation for customers than for other types of offerings.

One important condition, however, is that both customers and providers need to perceive the exchange as equitable, as must any other actors that may be involved. Furthermore, such customised offerings require trust and long-term commitment on the part off all parties involved. In practice, some customers may be reluctant to collaborate actively, and consequently unwilling to buy such offerings (Johnson and Selnes, 2004). Whereas customers with a short-term orientation are most likely to focus on value-in-exchange, those who take a long-term, collaborative view of provider relationships are likely to be more interested in value-in-use factors. So:

Principle 4: The closer the relationship between customer and provider, the more the emphasis of the value proposition can be placed on value-in-use.

This proposition applies to individual relationships as well as to the overall firm-level relationship. Though intuitively obvious, it is nevertheless worthy of emphasis because relationship investments and interactions *per se* do not increase customer value (Korkman, 2006). Since customer relationships do not all have the same value-creation potential, they can at worst tie up customer and provider resources that could have been used to create value in more efficient ways. From the provider's perspective, it is therefore vital to review them, and identify how to allocate resources in such a way as to enhance the interactions and consequent value creation. From the customer's perspective, it makes no sense to allocate resources to collaboration with a provider whose offerings focus mainly on value-in-exchange if it is possible to derive more value-in-use from a similar collaboration with a more competitive provider. Thus, the nature of customer-provider interactions influences value-creation potential and value-proposition emphasis.

4. Concluding remarks

The conclusion to be drawn from this conceptual analysis of the application of the perspective of service-dominant logic to the framing of value propositions is that it has a definite potential to enhance a firm's ability to compete through service. To realise the benefits of adopting the perspective, strategic decision-makers need to be aware of the key determinants of 'value emphasis' elucidated here and to recognise the characteristics of 'value-in-exchange' and 'value-in-use' to the reciprocal processes of establishing a value proposition.

Though the discussion has centred mainly on a customer-provider dyad, it seems reasonable to believe that the conceptual framework it presents may apply equally to multilateral settings and networked environments. The integrative view taken of value creation, in which all actors in business-to-business or business-to-consumer settings are resource-integrating entities with the common aim of 'co-creating' value (Vargo and Lusch, 2008), lends itself to the application of the four guiding principles across marketing contexts.

Value propositions are a fundamental premise in service-dominant logic (Vargo and Lusch, 2004a; 2008). Whereas the alternative goods-dominated logic hampers strategy development by its focus on value-in-exchange and neglect of other types of value created (Sheth and Uslay, 2007), the service-dominant view can accommodate both value-in-use and value-in-exchange choices. Adoption of this conceptual framework is a particularly timely revision of strategic thinking, given the recent issues and concerns expressed by business leaders and academics about an excessive and endemic short-term orientation (Aspen Institute, 2009). If a firm operates in an environment permeated by the goods-dominant logic, the crafting of value propositions emphasising long-term value-in-use will be a relatively difficult undertaking. Furthermore, members of buying centre teams may hold views of the real world, perceptions of value and purchasing predispositions that are more or less consistent with the service-dominant logic. To ignore those would be to court the risk that the centrally determined value propositions will be ignored by the market.

If some customers tend to act short-sightedly and seem unwilling to cooperate in future-value co-creation initiatives, insisting on emphasising emergent value-in-use may be a less effective strategy than focusing on existent value-in-exchange. Despite its service-dominant perspective, the firm may need to adapt its marketing strategy dynamically, in terms of how it formulates its value propositions and designs its offerings. As Principle 2 states, this may also imply that the relative value emphasis evolves during the sales process.

Nevertheless, the concepts of value-in-exchange and value-in-use must not be treated as opposites. Since value-in-use assumes the super-ordinate position, the relationship between the two is less clear-cut than that between, for instance, fixed and variable costs, and they cannot quite be treated as categorically different. It also means that opportunities to increase value-in-use over time may also increase value-in-exchange. Even if the *relative* value emphasis differs between value propositions, it does not necessarily reflect how the actual value will be determined in the context of a customer's own use. Nevertheless, though either value-in-exchange or value-in-use, or both, can form the basis of value propositions, only the latter captures the actual value created.

4.1 Managerial implications

Table 2 summarises the practical managerial implications of the four principles presented and discussed. Competitive advantage can be achieved through an understanding of which value to emphasise, and when to emphasise it in the value proposition process. This requires knowledge not only of the provider's own organisational structure and capabilities but also of the customer's organisation, its purchasing practices, and the sometimes widely different roles and perspectives of the members of its buying centre teams. Even if the customer is an individual or household rather than a business, different family members can perform different roles in a decision-making team: initiator, user, payer, buyer, or combinations that reflect the context. In total, such knowledge should enable firms to recognise, shape, and exploit value-creation opportunities effectively.

Take in Table 2

The dynamic, relational nature of value creation suggests that managers need to better understand inter-firm and intra-firm interactions. Since value is created through interaction with customers in the broader context of a marketing system (Layton, 2007), those interactions frame to large extent the value that can be proposed and derived within the system. Service providers should aim to anticipate changes in their customers' value needs, thereby giving themselves more time to respond accordingly than competitors who have not done so (Woodruff and Flint, 2006). The literature furthermore stresses the importance of influencing the determinants of value, as well as identifying an understanding them: the process that Payne *et al.* (2008) describe as 'teaching' customers certain co-creation behaviours, and thereby potentially changing existing mindsets.

As Johnson and Selnes (2004) have pointed out, the relative emphasis of value propositions differs with differences in such customer-relationship characteristics as customer interfaces, offerings, time horizons, relationship costs, trust, and risk-taking. Therefore, whereas long-term partners are likely to esteem value-in-use and actively participate in the joint innovation and learning activities that lead to co-creation, short-term-oriented customers will be less willing to enter into close relationships, and may be better served through value-in-exchange. Hence, value propositions should reflect the length and history of the customer-provider relationship.

Though close relationships may offer more opportunity for co-creation, they are not a prerequisite for innovative value propositions. Consider, for example, the introduction of an efficient, online order-placement system that may benefit both the customer and the provider without requiring long-term collaboration. Furthermore, since relationships are dynamic, customers who seem initially of less strategic value to the firm may become more valuable when there is greater emphasis on value-in-use. For instance, proactive dialogue preceding the formal negotiation phase can increase a customer's willingness to engage in future collaboration with the provider, which in turn fosters future awareness of opportunities for value creation. Likewise, discontinuous personal relationships, changes in customer supply and procurement strategies, and changes in buyer authority or evaluation criteria can all necessitate downgrades in provider value propositions.

Customers should not be segmented only on the basis of current and potential relationship proximity, however, but also on the customers' current and potential role in value creation processes. Thus, from a managerial point of view, firms must manage different customer segments through different value propositions, based on a multidimensional segmentation scheme that recognises the dynamic nature of value and value propositions. The characteristics of value principles presented and discussed here can help managers to classify their firms' customer portfolios, and craft effective value propositions accordingly.

4.2 Future research directions

Since this article has presented a conceptual attempt to frame some critical determinants of the relative emphasis in value propositions between value-in-exchange and value-in-use, empirical research should next test the four principles proposed. Future studies could also explore ways to develop the capabilities discussed, and to alter existing mindsets and practices, to create opportunities for value co-creation, and thus to derive value in equitable ways.

Furthermore, a systemic view of value creation requires increased emphasis on a broader value-creating system, particularly since external determinants can be important influences on the crafting of a value proposition (Windahl and Lakemond, 2006). By using frameworks such as the six markets model (Payne *et al.*, 2005), the study of multilateral value propositions can extend the application of value propositions to a wider range of stakeholders in the value-creating system.

Finally, since many environmental factors have either indirect or direct effects (or both) on the type of value propositions that can be offered, and their focus, analysis of environmental factors is an avenue for further research. This is particularly relevant in the context of service-dominant logic because, even if a firm's social, ecological and governmental environments are generally regarded as uncontrollable in the value-creation process, that logic recognises that such environmental variables can also be potential resources, and should thus be understood as endogenous rather than exogenous.

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Table 1. Factors determining relative emphasis of value propositions

	Focus of value proposition:	
	Value-in-exchange	**Value-in-use**
Provider-related factors	• Limited knowledge of customers' operations and needs • Lack of commitment and/or competence to deliver complex offerings • One-way communication: difficult to demonstrate value potential persuasively • Product-centred corporate culture and/or sales orientation • Limited risk-management skills • Not perceived trustworthy by existing and/or potential buyers • Weak strategic and operational relationships with buying centre members	• Extensive knowledge of customers' operations and needs • Experience, competence and commitment in delivering complex offerings • Sophisticated communication: capacity to involve customers in co-creation and demonstrate value potential convincingly • Customer-centred culture and management mindset • Strong operational-financial-strategic risk management skills • Potential to build trust over time • Strong strategic and operational relationships with buying centre members
Customer-related factors	• Short-term orientation • Limited collaboration with provider • Buyers lack understanding of firms' operations • Customer places clear, low limits on contractual periods • Payer plays key role in buying centre • Buying centre has spatially and temporally myopic perspective on value creation • Weak implementation skills • Purchasing function has low status and low leverage • Buying centre purchases products • Short-term focus in selection of providers • Price is order-winner: customer prefers unit price decreases to value increases and value decreases to price increases • Traditional, product-centred measurement systems	• Long-term orientation • Established and effective collaboration with provider • Experienced buying centre open to new ideas and value-creation opportunities • Possibility of long contractual periods • User has strategic perspective and key role in buying centre • Buying centre has a systemic perspective on value creation • Internal knowledge and competence to take advantage of established value proposition • Purchasing is a strategic function • Buying centre purchases solutions • Long-term focus in selection of providers • Price is order-qualifier: customer prefers unit price increases to value decreases and value increases to price decreases • Measurement systems capable of capturing most of value created

Table 2. Managerial implications of the four principles

Principle	Managerial implication
Principle 1: Value propositions with an emphasis on value-in-use are more likely to address the needs of multiple evaluators than those with an emphasis on value-in-exchange.	• Identify the evaluators in the buying centre and their role as user, payer, buyer, and so on. • Maintain information about the political landscape in the customer's organisation generally and buying centre specifically, to understand customer priorities. • Engage in communication and dialogue, particularly with key evaluators.
Principle 2: The relative emphasis on value-in-use and value-in-exchange will normally change over time during the sales process.	• Recognise dynamic procurement patterns and the extent of changes in 'objectification' of value-in-exchange during different stages in the sales process. • Diagnose the steps in the sales process that are aimed at the particular customer and type of offering, and identify the evaluators that are involved in each. • Be alert and ready to respond quickly.
Principle 3: The discrepancy between value-in-exchange and value-in-use is lower for offerings in which value-in-exchange manifests itself as continuous financial feedback linked to value creation for customers than for other types of offerings.	• Though the potential value of performance-based agreements can be easier to communicate than traditional offerings, operational and financial risks are transferred to the provider, so the benefits and risks for both actors must be kept in mind when crafting a value proposition. • Because new offerings are likely to demand specialised new competences, a proper alignment should be achieved between a value proposition and the resources available.
Principle 4: The closer the relationship between customer and provider, the more the emphasis of the value proposition can be placed on value-in-use.	• Segment customers based on the closeness of the relationship; review the value emphasis in current offerings, and determine the potential for shifting it towards value-in-use emphasis, thereby increasing customers' inclination to engage in the relationship. • Embed systematic listening skills in the sales process and develop the ability to adapt to customers. • Identify the extent to which a customer is willing to adapt its processes and routines to the provider.