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Conceptualizing and communicating value in business markets: From value in exchange to value in use

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ABSTRACT

Creating and communicating customer value is the basis of business-to-business marketing. In recent years, our understanding of the value construct and the communication of customer value propositions has undergone a fundamental change in perspective. This conceptual review article traces back the roots of the value concept to the early economic literature that distinguishes between two complementary perspectives on customer value: value in exchange and value in use. Building on this important distinction, we argue that the value literature has evolved from a focus on resource exchange and value in exchange to an emphasis on resource integration and value in use. Seen through this lens, we identify distinct stages of conceptualizing customer value and articulating customer value propositions and argue that a deep understanding of how value is created in a customer's idiosyncratic use situation is gaining importance in today's competitive market places.

1. Introduction

Customer value has become a fundamental building block of business-to-business marketing over the last two decades. Since it became a watchword in the 1990s, both managers and scholars have been paying increasing attention to understanding and communicating customer value. A Google Scholar search for "customer value" shows its fast growing popularity that took off in the mid-1990s and has been sustained to this very day (see Fig. 1).

While many buzzwords in the marketing domain turned out as short-lived fads, the focus on customer value is here to stay. In a recent review article, Kumar and Reinartz (2016, p. 36) emphasize that "[c]learly, business is about creating value" and as early as 1994, Holbrook concluded that customer value is "the fundamental basis for all marketing activity" (Holbrook, 1994, p. 22).

The scholarly focus on customer value resonates well with the managerial view on today's market-places. Being faced with increasing competition on a global scale, supplier firms are constantly searching for means to gain and maintain competitive advantage by differentiating themselves and their market offerings from competitors. This quest for differentiation has directed managerial attention to both, a broader and a deeper understanding of how firms create value for their customers. Take the example of SKF, a leading global technology provider to industrial customers (SKF, 2017). Historically, it perceived itself as a premier manufacturer of industrial products such as bearings, seals, and lubrication systems. Cut-throat competition led to a commoditization of its products and a deteriorating competitive position. In response, SKF developed a marketing strategy based on better understanding and communicating how their products create value in customers' use situations. SKF started a company-wide initiative to quantify and document how their products create superior customer outcomes, such as less downtime, ultimately saving the customer money despite premium market prizes. Rather than selling products, SKF shifted its focus to proposing superior value in use (Snelgrove & Anderson, 2017).

Over the last two decades, *Industrial Marketing Management* (IMM) has been a major outlet for the scholarly advancement of the value concept. During the editorship of Peter LaPlaca, IMM published some of the earliest papers on customer value (e.g., Flint, Woodruff, & Gardial, 1997), was the first academic journal to devote a special issue to customer value in business markets (Ulaga, 2001), and was home to numerous conceptual and empirical research papers extending our understanding of customer value (e.g., Cova & Salle, 2008a, 2008b; Eggert, Ulaga, & Schultz, 2006; Kohtamäki & Rajala, 2016; Ulaga & Chacour, 2001). Two literature reviews on customer value have since appeared in IMM (Lindgreen, Hingley, Grant, & Morgan, 2012;

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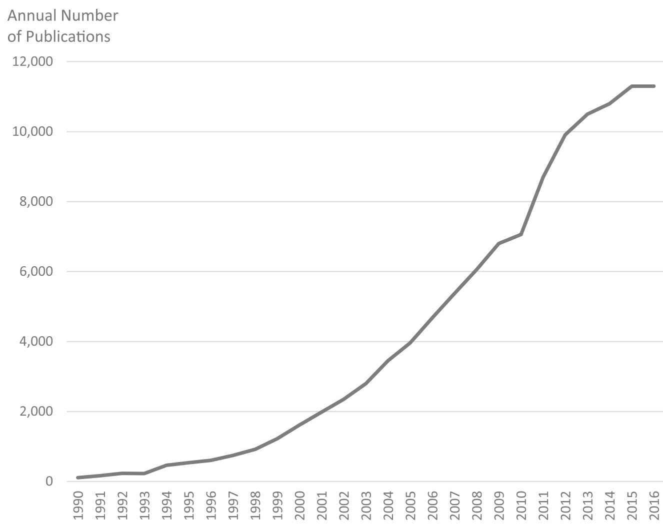

Fig. 1. Google Scholar search for 'customer value'.

Lindgreen & Wynstra, 2005), summarizing the state-of-the art and developing research agendas for customer value in business markets.

This article builds on and further extends this tradition. Reflecting on the development of the customer value literature over the last two decades, we argue that our understanding of the value construct and the subsequent communication of customer value propositions has undergone a fundamental change in perspective. The value literature has evolved from a focus on resource exchange and value in exchange to an emphasis on resource integration and value in use. This changing perspective triggered a fresh view on the customer value proposition, understood as a strategic tool for communicating how a company aims to propose value to customers (Payne, Frow, & Eggert, 2018).

We organize our conceptual review article as follows: First, we trace back the roots of the value concept to the early economic literature, distinguishing between two complementary perspectives on customer value: value in exchange and value in use. We explain how these perspectives resonate with two alternative views on the scientific discipline of marketing, emphasizing either voluntary resource exchange or resource integration. Second, we review the evolution of the value construct in the marketing literature and identify three stages: A primary stage that conceptualized customer value as the trade-off between quality and price, a secondary stage devoted to broadening our understanding of value perceptions in business relationships, and a tertiary stage leading to a deepening of our understanding of how value is created in customers' use situations. Third, we discuss the customer value proposition as a strategic tool for communicating how a company aims to propose value to customers and show how the value proposition concept developed from a value in exchange emphasis on superior quality and price to a contemporary view on the customer value proposition as an invitation to co-create value in use through resource integration. We sum up our manuscript with a discussion of implications and future research opportunities.

2. Conceptualizing value in business markets

2.1. Two complementary perspectives on value: value in exchange and value in use

Value is a pivotal construct for the marketing discipline in general (Holbrook, 1994) and business-to-business marketing in particular (Anderson, Narus, & Narayandas, 2009). While the value construct enjoyed limited attention in the marketing literature before it became a focal construct in the 1990s (Eggert & Ulaga, 2002), it has attracted philosophers' curiosity since ancient times.

Aristotle (384–322 BCE) initiated the study of value and raised the famous value paradox by distinguishing between two ways in which a product can be used: a product, such as a shoe, can be used for wearing and for exchange. Drawing on this distinction, Adam Smith (1723–1790) introduced the terms value in use and value in exchange in his seminal work on the 'Wealth of Nations'. He explained both complementary perspectives on value in the following paragraph:

"The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use;' the other, 'value in exchange.' The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water: but it will purchase scare any thing; scare any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it" (Smith, 1776, p. 42).

Distinguishing between both value perspectives was a milestone in the history of economic thought as it provided a conceptual answer to the long-standing value paradox. However, the causal mechanism that is connecting value in use and value in exchange was not yet understood at Smith's time. From an economic perspective, Smith was solely interested in value in exchange. As an inherently subjective concept, value in use earned little attention in his economic theory: "His [Smith's] conception of value, then, is entirely objective. He keeps value in use and value in exchange unrelated and apart" (Haney, 1920, p. 202).

It took another century and required major developments in psychology and mathematics until the link between both conceptualizations of value was revealed. Following Hermann Gossen's (1810–1858) formulation of the law of decreasing marginal utility, it became clear that value in exchange is determined by the marginal utility of the last available unit, thereby connecting both perspectives of value, resolving the value paradox, and explaining why the abundance of water reduces its value in exchange despite its general usefulness (Fig. 2).

Adam Smith's objective conceptualization of value was highly influential for the emerging discipline of economics where it was later absorbed in pricing theory. Compared to economics, the marketing discipline paid more attention to understanding subjective value in use as the ultimate driver of voluntary exchange processes, as reflected in early textbook examples of firms selling agricultural productivity rather than fertilizer and transportation rather than train tickets (Kotler, 1972). As an offspring of economics, however, marketing inherited its dominant paradigm, the exchange view of marketing, from its parent discipline and the management of voluntary market exchange was identified as the *fundamental explanandum* of marketing science (Alderson, 1957; Bagozzi, 1975). Within the exchange view of marketing, suppliers manufacture and distribute goods and services that are embedded with value. From this perspective (1) the supplier creates and determines value, (2) value can be exchanged, and (3) it is marketing's job to understand, communicate and deliver value to the customer (Anderson & Narus, 1998). Within the exchange view of marketing, the creation of value in use occurs after the exchange process and takes place within the customer's sphere (Grönroos & Voima, 2013) by integrating customer's own resources with the resources acquired through exchange. As the resource integration process takes place within the customer's sphere, the customer firm captures the value that is created in its use situation (see Fig. 3, Panel A).

More recently, the traditional view of marketing with its focus on creating and delivering value has been challenged by the service-dominant (S-D) logic of marketing (Vargo & Lusch, 2004, 2008a, 2008b, 2016). It holds that value cannot be delivered to the customer. Rather, value is "determined by the customer on the basis of value in use" (Vargo & Lusch, 2004, p. 7). At its core, S-D logic is a value