



Identifying competitive customer value propositions in retailing

Customer value propositions

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Abstract

Purpose – The purpose of this paper is to develop a framework for identifying competitive customer value propositions in retailing.

Design/methodology/approach – The paper draws on existing literature on customer value and competitive advantage in order to form an understanding of the key dimensions of customer value, developing a hierarchical model of value propositions and establishing a link between customer value and competitive advantage.

Findings – The work suggests a framework for identifying competitive customer value propositions (CVPs) where four hierarchical key dimensions of customer value – economic, functional, emotional, and symbolic – are first identified. In the second stage, a CVP is developed on the basis of these value dimensions. In the third stage, the CVP is evaluated for competitive advantage. It is proposed that economic and also functional CVPs are more likely to represent points of parity, whereas emotional and social CVPs represent points of difference for retail companies seeking differentiation from their competition and gaining of competitive advantage.

Originality/value – Identifying competitive CVPs, the paper combines a hierarchical perspective on customer value and the concept of competitive advantage in a manner that offers managers a strategic positioning tool that links the customer's value needs to company resources and capabilities.

Keywords Customers, Competitive advantage, Product positioning, Retailing

Paper type Conceptual paper

Introduction

The competitive advantage of successful service providers and retailers is often explained with a logic wherein service quality contributes to customer value, resulting in increased satisfaction and behavioral intentions, eventually creating loyalty that manifests itself in enhanced profitability (see, for example, Cronin *et al.*, 2000; Slater and Narver, 1994; Wang *et al.*, 2004; Webster, 1994a). Of these concepts, customer value is by definition customer-centric, but it also can be formulated as a proposition capturing the essentials of the company's offering. From the customer's perspective, customer value can be seen as a more personal and holistic view on quality: it is a subjective assessment of both positive and negative consequences of using a product or a service, the ultimate reason that people buy what they buy (Sheth *et al.*, 1991; Woodruff, 1997). From the company's perspective, these buying motives should be captured in a customer value proposition (CVP), making it a strategic priority issue in areas such as segmentation, service development, and marketing communications. Hence, customer value links the customer and the company in a way that makes the concept especially appealing in the context of understanding the success of best-practice companies.



Browsing the recent journal articles and bestsellers reveals that much of customer value results from well-designed customer experiences (see, for example, Berry *et al.*, 2002; Carbone, 2004; Meyer and Schwager, 2007; Morgan and Rao, 2003; Schmitt, 2003). Carbone and Haeckel (1994, p. 9) define customer experience as “the ‘takeaway’ impression formed by people’s encounters with products, services, and businesses – a perception produced when humans consolidate sensory information”. Customer experience – pleasant or unpleasant – inevitably takes place every time customers interact with companies and their offerings. This means that the best companies are able to orchestrate customer experiences that provide customer value complementing their core offering.

It is always the customer who defines what is valuable and what is not. Because customers define value, firms can only make value propositions intended to support customers in their value-creating consumption activities (Vargo and Lusch, 2004). For retailers, decisions on what to sell and at what price have lost much of their strategic resonance, because the same or similar products and services can be obtained from competitors at prices that leave little or no room for adjustments. Hence, the decision of how to sell – what kind of customer experience is offered – becomes a relevant strategic question from the competitive advantage point of view.

The purpose of this paper is to develop a framework for identifying competitive customer value propositions. This is done by understanding the key dimensions of customer value, developing a hierarchical model of value propositions, and establishing a link between customer value and competitive advantage.

Customer value propositions

There is no single widely approved definition for a customer value proposition (Anderson *et al.*, 2006). However, many authors agree on two issues: a customer value proposition should be defined from the customer perspective, and it has a key strategic role within the organization in pursuit of competitive advantage (e.g. Anderson *et al.*, 2006; Webster, 1994a). Customer value and competitive advantage are two interrelated but independent streams of literature that can be used in identifying successful customer value propositions. For example, Webster (1994a, p. 25) defines a value proposition 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 organization 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.

Definitions of customer value vary from simply identifying product attributes to understanding the consequences of consumption experiences: for one customer, “value is low price” and for another “what I get vs what I give” (Zeithaml, 1988). Attribute-based definitions are the first step. From the value proposition perspective, definitions based on the consequences of the attributes are more efficient, because they reveal how customers make use of the offering in real life (the value-in-use perspective) (Woodruff, 1997).

The positive consequences are the benefits that the customer derives from the offering. Conversely, negative consequences are the sacrifices (monetary and

non-monetary costs) to the customer of obtaining the benefits. When customers perceive greater benefits than sacrifices, customer value is created. It follows that a generic definition of customer value is that of a tradeoff between benefits and sacrifices (Gale, 1994; Zeithaml, 1988).

The perception of customer value is interactive, between customer and offering, as well as relativistic between people and situations, preferential, and based on a holistic experience (Holbrook, 1999). Recently, others (e.g. Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004) have emphasized the interactive, relativistic, and experiential nature of customer value under the topic of value co-creation. From the value proposition perspective, Ballantyne and Varey (2006) note that “value propositions are reciprocal promises of value, operating to and from suppliers and customers seeking an equitable exchange”. It follows that a good value proposition is specific enough to recognize the unique nature of subjective and interactive consumption experiences but general enough to attract adequate customer segments with homogenous value needs. For Webster (1994b, pp. 107-108), value proposition equates to a positioning statement because it defines “who is the target customer?” as well as “why should the customer buy it?” and “what are we selling?” but is not limited to communication purposes only.

Anderson *et al.* (2006) define three kinds of customer value propositions: all benefits, favorable points of difference, and resonating focus. “All benefits” value propositions are based simply on listing the positive features and outcomes of buying and using the product or service. The other two (of which resonating focus is considered the more advanced) are more sophisticated and are based on points of parity with and points of difference from the competitive offerings. In order to deliver the value that is taken for granted by the market, the company needs to have points of parity in its value proposition. “Points of parity are elements with essentially the same performance or functionality as those of the next best alternative,” according to Anderson *et al.* (2006, p. 94). In order to differentiate itself from its competition, the company needs to have points of difference in its value proposition. Anderson *et al.* (2006, p. 94) explain, “Points of difference are elements that make the supplier’s offering either superior or inferior to the next best alternative”. Points of parity and points of difference refer to different customer value dimensions that aim at competitive advantage.

Competitive advantage and customer value are linked through value delivery (or value creation), which should be reflected in the value proposition:

To achieve superior performance, a business must develop and sustain competitive advantage. But where competitive advantage was once based on structural characteristics such as market power, economies of scale, or a broad product line, the emphasis today has shifted to capabilities that enable a business to consistently deliver superior value to its customers. This, after all, is the meaning of competitive advantage. (Slater and Narver, 1994, p. 22)

For example, Porter’s (1985) cost leadership and product differentiation are generic strategies that address “positions of advantage”, whereas the resource-based view of competitive advantage focuses on the assets and skills that are the “sources of advantage” (Walley and Thwaites, 1996). Numerous typologies and categories of resources have been proposed, and the term “resource” often has been replaced with “capability” or “competence”, indicating the emphasis on knowledge and skills (e.g. Prahalad and Hamel, 1990). For our purposes, it is sufficient to conclude that usually a distinction is drawn between tangible resources (assets, operand resources) and

intangible resources (knowledge and skills, operant resources) (Vargo and Lusch, 2004). Also, customers are seen as a relational, market-based asset (e.g. in the notion of customer relationship), and their management as an intellectual capability that contributes significantly to competitive advantage: “a firm can be said to have a customer-based advantage when (some segment of) customers prefer and choose its offering over that of one or more rivals” (Srivastava *et al.*, 2001, p. 783).

Whereas customer value is always defined by customers’ subjective perceptions and evaluations of the total customer experience, competitive advantage is defined by the company’s use of resources and capabilities to create customer value. Customer value proposition hence is an encapsulation of a strategic management decision on what the company believes its customers value the most and what it is able to deliver in a way that gives it competitive advantage. To summarize the above discussion, we conclude that a customer value proposition should:

- increase the benefits and/or decrease the sacrifices that the customer perceives as relevant;
- build on competencies and resources that the company is able to utilize more effectively than its competitors;
- be recognizably different (unique) from competition; and
- result in competitive advantage.

A framework for identifying customer value propositions

We propose a framework for identifying customer value propositions:

- (1) identify the key dimensions of customer value;
- (2) develop the value proposition; and
- (3) evaluate the value proposition for its ability to create competitive advantage.

This process is presented in Figure 1, “A framework for identifying customer value propositions.” To illustrate the resulting customer value propositions, we have included examples of selected retailers in Figure 2.

In the framework, the value dimensions are hierarchically organized and combined to form a customer value matrix. The value dimensions range hierarchically from more objective to more subjective, from more concrete to more abstract, from more utilitarian to more hedonic/psychic, and from more transaction-based to more interaction-based (compare Babin *et al.*, 1994; Holbrook and Hirschman, 1982; Holbrook, 1999; Khalifa, 2004; Smith and Colgate, 2007).

Customer value propositions that reflect utilitarian value are created mainly by cutting down on sacrifices: reducing prices, saving customers’ time and effort, and helping customers to make the right decisions. We call these dimensions “economic value” (see, for example, Gale, 1994) and “functional value” (see, for example, Sheth *et al.*, 1991; Sweeney and Soutar, 2001). Propositions that reflect more subjective and abstract realms of customer value provide customers with atmospheres that stimulate their senses, and with stores and brands they can use to express their personality. These dimensions are called “emotional value” (see, for example, Sheth *et al.*, 1991; Sweeney and Soutar, 2001) and “symbolic value” (see, for example, Flint, 2006; Smith and Colgate, 2007).

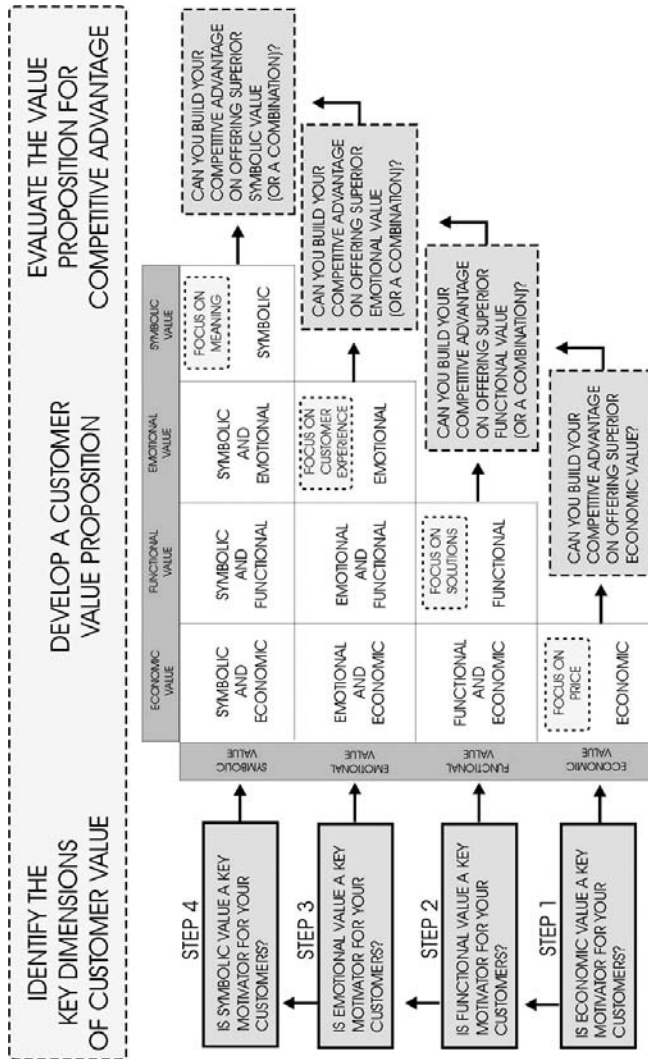


Figure 1. A framework for identifying customer value propositions

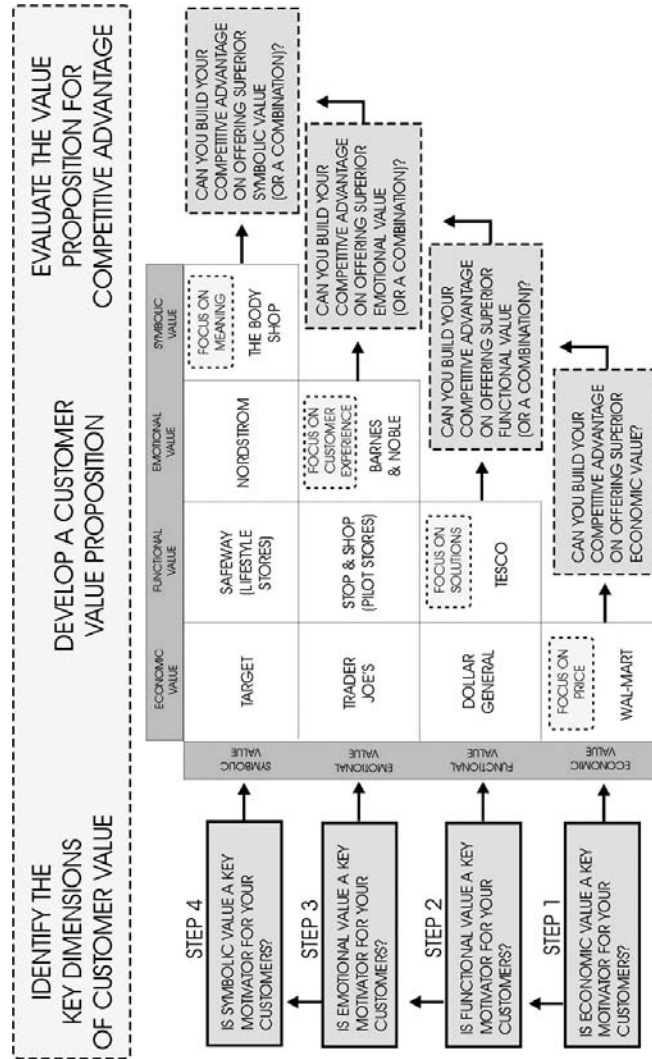


Figure 2.
A framework for identifying customer value propositions, with illustrative examples from retailing

As the value progresses in Figure 1, the consumer's role as a value co-creator increases. This is important from the business perspective, because utilitarian value propositions tend to be more directly related to the core offering, whereas more abstract and personal value propositions increase the value of the core offering by differentiating and complementing it.

Economic customer value propositions

Price remains one of the most important and "hard-to-beat" drivers of customer value. Smith and Nagle (2005, p. 41) define economic value as a "product's objective monetary worth to a customer adjusted for the availability of competitive substitute products". Alternatively, economic value can be defined as the lowest price or the best tradeoff between quality and price (Gale, 1994; Zeithaml, 1988). There are customers who buy on the basis of price only and are not able or willing to make the monetary sacrifice required for higher quality. They might devote a great deal of time and effort to finding the best bargain. Customers who assess the economic value in relation to the quality of the offering might upgrade to a more expensive product if they perceive the increase in quality to be greater than the increase in price.

An economic value proposition usually requires resources and competencies based on economies of scale. Wal-Mart is a commonly cited example of a company whose competitive advantage is based on, e.g. purchasing volume, an efficient distribution system, and the use of information technology to streamline the supply chain (Tong and Tong, 2006). Utilizing these resources, Wal-Mart is able to promise its customers "Always low prices", indicating a clear economic value proposition through EDLP (everyday low price).

Functional customer value propositions

Customers who are motivated primarily by convenient solutions search for functional value. Sheth *et al.* (1991, p. 160) define functional value as the "perceived utility derived from an alternative's capacity for functional, utilitarian, or physical performance." For a retail shopper, functional value can be defined as finding the right products with as little time and as little physical and cognitive effort as possible. The value is perceived when these utilitarian-level sacrifices are minimized (Babin *et al.*, 1994).

Creating functional value is often associated with products that meet the target customers' needs, and processes that increase convenience at different stages of the shopping experience (see, for example, Seiders *et al.*, 2000). Tesco is a British retailer that has gained competitive advantage by creating superior functional value for its customers. This goal of providing functional value is based on, e.g. purchasing the right merchandize, training the personnel, and designing convenient shopping experiences. Tesco's customer-focused commitment to provide functional value is summarized in the company's value proposition "Every little helps," which is successfully communicated to customers as well as the employees. For customers:

Every Little Helps is summarized by five promises: the aisles are clear; I can get what I want; the prices are good; I don't queue; and the staff are great (Seth and Randall, 2005, p. 66).

As shown in Figure 2, economic and functional value propositions can be combined to offer customers convenience with a fair price tag. For example, Dollar General's slogan "Save Time. Save Money" illustrates an attempt to create value by minimizing customer sacrifice. With more than 8,000 stores and effective logistics, the chain can

benefit from economies of scale and offer customers low prices plus the convenience of a neighborhood store (Boyle, 2005). Compared to, for example, that of Wal-Mart, Dollar General's value proposition and competitive advantage is based on being situated near the customer but still being able to provide low-cost solutions for most weekly shopping needs.

Emotional customer value propositions

Customers who are motivated by the experiential aspects of shopping appreciate retailers who create emotional value. Emotional value can be defined as the "perceived utility derived from an alternative's capacity to arouse feelings or affective states" (Sheth *et al.*, 1991, p. 161). Arnold and Reynolds (2003) conceptualize different dimensions of the experiential needs and wants of retail shoppers, or "hedonic shopping motivations." These include enjoying shopping with friends and family, bargain-hunting, and seeking adventure or relaxation. Besides being an instrumental occasion for getting the needed products, the shopping experience becomes an end valued for its own sake (Babin *et al.*, 1994; Holbrook and Hirschman, 1982). This emphasizes the role of store environment and personal service (Turley and Milliman, 2000).

The use of visual, auditory, olfactory, sensory, and even gustatory clues may be an effective way to create emotional customer value. As Carbone (2004, p. 165) states, the "discipline of designing experiences blends creativity with strategic rigor, enabling experiences to connect on a customer-defined value in a manageable and sustainable system. Clues are the heart of the system that manages experience, and creating and integrating clues are at the heart of designing experiences." He cites Disney as an example of a company that is able to orchestrate the "humanic clues" (clues provided by people) and "mechanic clues" (clues provided by the environment) to create a customer experience that creates value in its own right.

In retailing, there are many recent examples of using atmospherics and themes (e.g. flagship stores like NikeTown), as well as additional services (e.g. Wi-Fi, in-store cafés, etc.), to encourage customers to spend time and enjoy shopping. Barnes & Noble, a *Fortune* 500 company and the world's largest bookseller, provides a classic example of a company that differentiated itself with an emotional value proposition. It was among the first book retailers to pay attention to providing a comfortable ambiance. By introducing in-store cafés, the company encouraged shoppers to relax and spend their leisure time browsing the books.

Emotional value propositions can be combined with economic and functional value. Trader Joe's is an example of a grocery store that combines economic and emotional value in its value proposition. It is a place where many customers go with rational and emotional motives: to save money, to seek novelty, and to enjoy the thrill of bargain-hunting. The economic value is based on direct buying and extensive use of own brands. The emotional value results from exotic products; friendly service provided by the staff in their Hawaiian shirts; and a laid-back in-store experience featuring, e.g. a nautical theme. Byrne (2004) describes the emotional value derived from shopping at Trader Joe's:

The quality and variety of the food certainly draw me to my nearby Trader Joe's. But what really matters is the experience: the friendly and helpful staff, the smart product selection, the sense of discovery you get from finding something new on the shelf, the tasty samples that

inevitably make you buy the stuffed salmon or the creme brulée. In short, Trader Joe's makes shopping fun.

A shopping experience that creates functional and emotional value aims to be efficient and pleasurable at the same time. For example, the Ahold-owned Stop & Shop Supermarket Company has experimented with portable product-scanning systems to help customers find the products and offers easily, update and differentiate the shopping experience, and potentially make it more pleasant as well (Duff, 2006). In addition to this approach with the "personal food shopper" called the Shopping Buddy, Stop & Shop has collaborated with Starbucks and opened in-store cafés in its stores.

Symbolic customer value propositions

Customers who are motivated by self-expressive aspects of consumption appreciate retailers who create symbolic value. The symbolic value of a product or customer experience can be defined as positive consumption meanings that are attached to self and/or communicated to others (see, for example, Belk, 1988; Smith and Colgate, 2007; Solomon, 1983). According to Flint (2006, p. 352), "symbols are special kinds of social objects that stand for something; they have meaning and when used are intended to convey a shared meaning to a receiver, who incidentally can be oneself (i.e. self communication)." Symbolic value is created from representing something other than the obvious function of the product. As Sheth *et al.* (1991) note, "even products generally thought to be functional or utilitarian are frequently selected on the basis of their social value." A similar logic may apply to patronizing a retailer (Sirgy *et al.*, 2000). The sacrifices related to symbolic value include a risk of choosing a brand or patronizing a retailer that would result in negative consumption meanings.

As a value proposition, symbolic value emphasizes self-expression through socially interpreted codes embedded in consumption. For example, The Body Shop value proposition "Made with passion" is based on five company values: "against animal testing, support community trade, activate self esteem, defend human rights, protect our planet" (Body Shop, 2007). These symbolic meanings are important and self-expressive for The Body Shop customers.

Symbolic value may be combined with all other value propositions. The fourth largest (in terms of revenue) US retailer, Target, has differentiated itself successfully from the competition via profiling as "an upscale discounter" (Berman and Evans, 2007). Target creates economic and symbolic value by providing branded products in a distinctively designed store environment at attractive prices. Upscale positioning and affordable prices are communicated in the company slogan "Expect more. Pay less."

Safeway's "Lifestyle" stores illustrate a combination of functional and symbolic value propositions. These stores focus on "selling complete meal solutions to shoppers" (Wilson, 2005). In addition to this functional proposition, the in-store experience and the product presentation contribute to the symbolic value of the shopping experience. Signage and graphics, as well as cross-merchandising and lifestyle merchandise presentations with fixtures, are used in creating a branded shopping experience that appeals to the targeted customer segment.

Finally, Nordstrom emphasizes emotional and symbolic dimensions in its value proposition. Nordstrom relies on the upscale store atmosphere, branded products, and exclusive service in making shopping more pleasurable and meaningful. A recent marketing campaign (although it was also criticized) addressed the symbolic value proposition in particular with the slogan "Reinvent yourself" (Baar, 2000).

Conclusions

A competitive customer value proposition is more than a brand slogan; it is a strategic concept that ties the customer and company perspectives together for value creation and competitive advantage. Customer value propositions should represent the complete customer experience (Selden and MacMillan, 2006), and reduce customer perceived risk by guaranteeing the service promise (Kandampully and Butler, 2001). We believe the orientation based on customer value propositions that is presented in this paper tackles important issues related to service management and marketing and contributes to their resolution by concentrating focus on customer-defined needs and desires and hence orchestrating the company around delivering on its promises. On the basis of our framework, we conclude that:

- identifying customer value propositions begins with understanding the key dimensions of customer value that motivate the targeted customers;
- development of customer value propositions benefits from hierarchical evaluation and combining of economic, functional, emotional, and symbolic customer value dimensions; and
- evaluation of the competitiveness of customer value proposition is based on the suitability of the company resources and competencies required for delivering on the proposition to gain competitive advantage.

Although the customers might not consciously perceive value as being hierarchically constructed, from a retailer's perspective it is often easier to identify a competitive value proposition when the utilitarian dimensions of value are considered first. For example, when we use Tesco to illustrate functional value, or Stop & Shop's pilot store experiments with technology and in-store cafés to illustrate a combination of emotional and functional value, we understand that neither of these companies is untouchable in terms of price competition. In fact, both companies have competitive pricing as well. However, for them, pricing is more likely a point of parity than a point of difference.

From the competitive advantage point of view, an economic value proposition is based on economies of scale, and the role of customers often is seen through isolated transactions. A service-centered logic applies to value propositions based on more fully developed dimensions of customer value: the benefits of specialized competencies or services are exchanged, in a contrast to traditional goods-centered logic, where the exchange is based on the goods themselves (Vargo and Lusch, 2004).

In creation of functional value, much of customer needs can still be anticipated by concentrating on the right products and on effective and innovative shopping process design. But emotional and symbolic value propositions require diverse capabilities and deeper understanding of customers (Khalifa, 2004). Creating utilitarian value is a prerequisite for many retailers, to get customers to visit their store in the first place, but the more abstract dimensions of value might keep them coming back again and again (Berry, 2001; Carbone, 2004).

Managerial implications

The competitiveness and managerial relevance of a customer value proposition is measured in its ability to attract and serve targeted customer segments and guide the organization towards a common goal. We believe that a hierarchical perspective on customer value propositions – like the one presented in Figure 1 – helps managers to:

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- identify, design, crystallize, and implement competitive customer value propositions;
 - align operations, human resources, marketing communications, and the whole business model around creation of real customer value;
 - sense and respond to the changes in consumer behavior through deeper understanding of relativistic customer value needs; and
 - differentiate between a “ticket to play” and a real source of differentiation and competitive advantage: because economic and even functional value propositions tend to change from points of difference into points of parity over time, points of difference nowadays are found more often in the emotional and symbolic dimensions of customer value.

An efficient customer value proposition taps into what customers experience and consider relevant – what creates real value for them. From the retailer’s perspective, this takes place during the customer experience, in direct and indirect contacts and encounters with a company (Meyer and Schwager, 2007). Only rarely are customers able to break down their needs and desires (of which some are unconscious), let alone compare all competing options objectively. They need something that helps them to categorize the offerings into those they like and those they do not. That is why companies should concentrate on one or two points of difference that best create value for the targeted customer segments and differentiate the company from its competition (Anderson *et al.*, 2006).

Future research

This conceptual paper is based on established literature on customer value and competitive advantage. Although much of the research cited here (e.g. Slater and Narver, 1994; Webster, 1994a; and Woodruff, 1997) recognizes the link between the two streams of literature (customer value is a key source of competitive advantage), the framework presented in this paper contributes to the literature by emphasizing the hierarchical nature of customer value dimensions in assessing the competitiveness of CVPs.

Besides extending the retailing context and using empirical data to measure and model the conceptual relationships depicted in the framework, there are other avenues for future research. Recently, emotional and symbolic dimensions of customer value have aroused interest in consumer behavior and marketing management. However, conceptual and empirical research concerning the resources and competencies on which these value dimensions are based is still scarce.

Measuring the gap between expected and received service quality is a well established field of research. Similar logic could be applied in researching the gap between customer and company perceptions of economic, functional, emotional, and symbolic value propositions.

Connecting customers with the company is a topical challenge, especially for many B2C companies. Research comparing the level of commitment or customer loyalty created by companies with different types of value propositions might aid in evaluating the effectiveness of economic, functional, emotional, and symbolic CVPs.

The challenge of differentiating by means of a distinctive and meaningful customer value proposition becomes even more important when companies do business via multiple channels and/or manage their business as a part of larger value networks.

This calls for research into how customer value propositions are affected by this increasing complexity facilitated by multiple channels and service providers.

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