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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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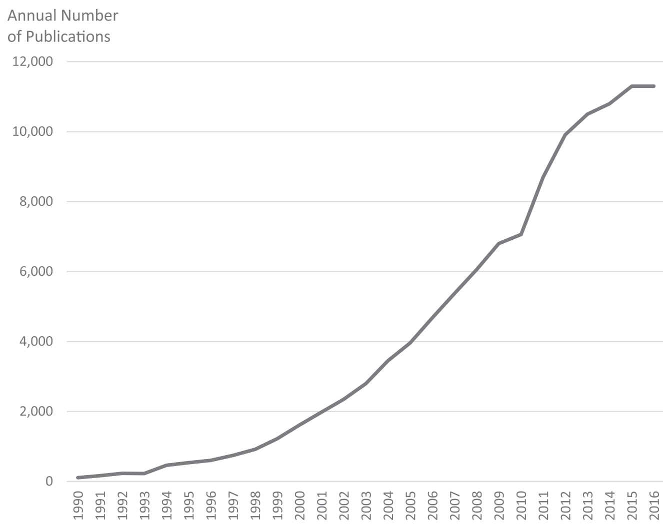


**Fig. 1.** Google Scholar search for 'customer value'.

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

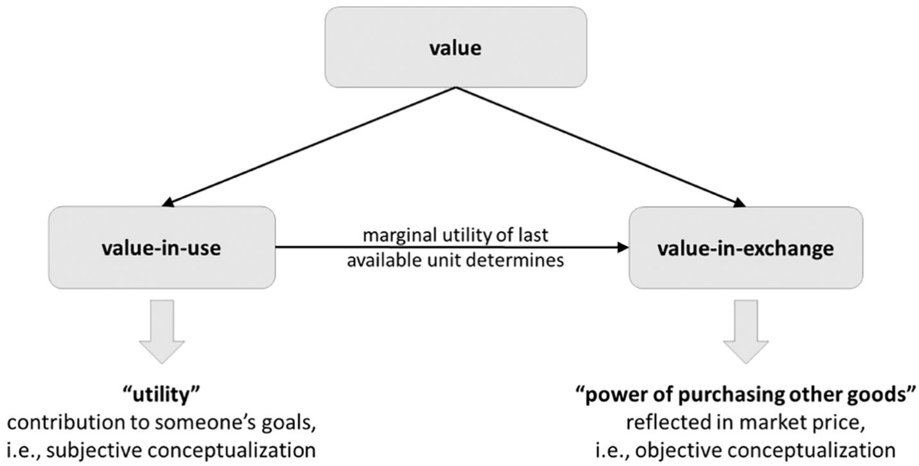


**Fig. 2.** The value paradox.

dominant logic; it emancipates the marketing discipline from its economics legacy and puts the spotlight on subjective value in use and resource integration rather than resource exchange. From this contemporary angle: (1) the customer perceives and determines value; (2) value is co-created through resource integration; and, (3) it is marketing's job to identify, prepare, and facilitate opportunities for the co-creation of value in customer's use situation. The resource integration process shifts from the *customer's sphere* to the *joint sphere*, that is, creating value in use becomes the responsibility of the customer *and* the provider firm (see Fig. 3, Panel B) and both actors share the value that is co-created in the use situation. Drawing on the fundamental distinction between value in exchange and value in use, we discuss the evolution of the customer value construct in the business-to-business marketing literature in the following section.

### 2.2. The evolution of the value construct in business-to-business marketing

Conceptualizations of customer value in industrial and business marketing mirror the evolution of the construct's general understanding and definition in economics and marketing. One can identify three consecutive phases of how scholarly definitions of customer value have evolved in the business-to-business marketing domain (see Table 1).

A first wave of scholarly research focused on transposing the construct from extant research in consumer marketing (Zeithaml, 1988) to the business-to-business marketing domain and investigated how specific characteristics of value related to this second context compared to prior definitions (e.g., Anderson, Jain, & Chintagunta, 1993). In this phase, business marketing scholars also explored similarities, differences and relationships with other important constructs in business marketing (e.g., Eggert & Ulaga, 2002; Ulaga & Eggert, 2006a).

In a second phase, scholars broadened the construct's definition by transposing its conceptual breadth and depth from a goods-centric domain (i.e. perceptions of value embedded in a supplier's product) to relationship value, i.e. value perceived in the relational ties between customers and their suppliers that facilitate exchanges of goods and services in business markets (Ulaga & Eggert, 2006a). In this stage, scholars also explored the dynamic nature of value perceptions over time (Eggert et al., 2006; Flint et al., 1997; Flint, Woodruff, & Gardial, 2002), compared relationship value to other relationship-relevant constructs (Ulaga & Eggert, 2006b), and studied variations of business customer perceptions across countries and markets (Blocker, 2011).

Finally, in a third phase, researchers began to recognize that suppliers increasingly needed to cooperate with customers for achieving joint value creation (Corsaro & Snehota, 2010; Grönroos, 2008, 2010; Payne, Storbacka, & Frow, 2008). With the growing interest inthe service-dominant logic of marketing throughout the mid-2000s (Vargo & Lusch, 2004) and a prolific and growing stream of research on servitization in business markets over the past decade (Kowalkowski, Gebauer, & Oliva, 2017; Kowalkowski & Ulaga, 2017), scholars acknowledged that value is neither embedded in products, nor exchanged in market transactions, but co-created through inter-linked activities, resources, and actors. Beyond co-creation of value within buyer-seller dyads, scholars also acknowledged the role of a wider network of stakeholders (Frow & Payne, 2011) and began to deepen our understanding of value in use as a function of market actors' resource integration capabilities (Macdonald, Kleinaltenkamp, & Wilson, 2016). In the following paragraphs, we discuss the three stages of development in greater detail.

#### 2.2.1. Early definitions of customer value in business marketing

Early conceptualizations of customer value in the business-to-business marketing domain turned towards extant definitions developed in consumer marketing and explored the construct's specificities in this particular context. Business scholars grounded their conceptualizations in earlier definitions of perceived value as an overall assessment of the utility of a product based on perceptions of a trade-off between what consumers receive and what they give in the exchange (see, for example, Zeithaml, 1988). Translated into a business marketing setting, these give and get components focused on value embedded in physical goods. At its core, customer value was conceptualized as a perceived judgement of technical product quality and price paid.

Along these lines, scholars also soon began to disentangle multiple value dimensions. In these early years, Anderson et al.'s (1993) value conceptualization can be considered as most influential for scholarly research on value in business and industrial markets in the 1990s and early 2000s – especially in North America. These authors recognized that business customers derive multiple benefits from sourcing suppliers' products in exchange for a price paid, translate those benefits into a perceived worth in monetary units, and take into account competing suppliers' offerings when making value judgements. During these years, scholars also explored the hierarchical linkages between product attributes, customer-desired consequences and ultimate goals sought by business customers (Flint et al., 1997; Woodruff, 1997).

Finally, this first phase is also marked by different views of how to incorporate price in the overall value equation. Some researchers included price as an important sacrifice dimension in their definitions of customer value as a perceived trade-off between benefits and sacrifices (Ulaga & Chacour, 2001). Others, in turn considered value and price as independent elements. As Anderson and Wynstra (2010) explain: "Price in business markets is what a customer firm pays a supplier firm for its market offering. Under these definitions, price is not a part of value, and the difference between value and price is the customer's incentive to purchase a market offering" (see also Anderson et al., 2009; Anderson, Thomson, & Wynstra, 2000).

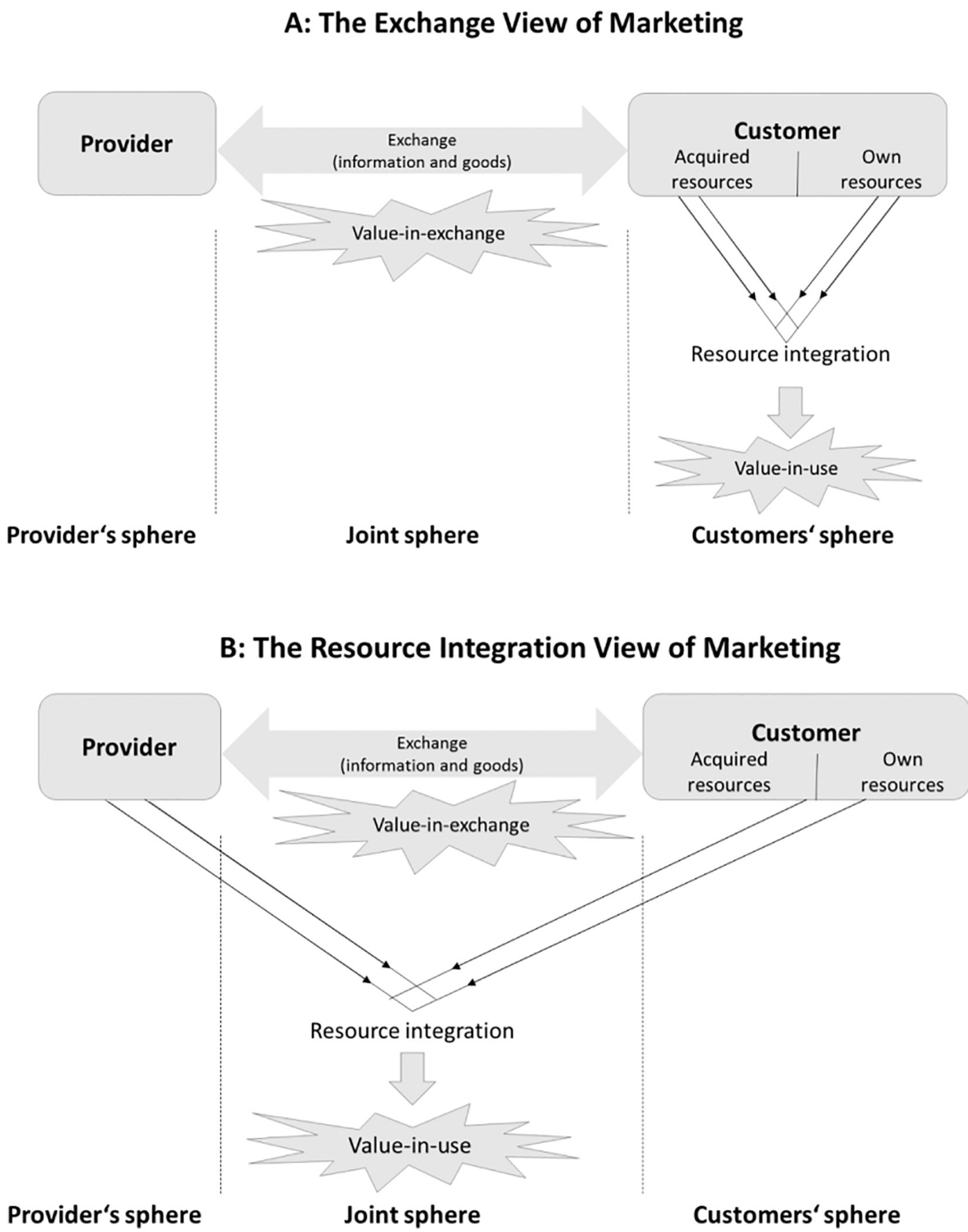


**Fig. 3.** Alternative perspectives of marketing.

*2.2.2. Broadening the definition of customer value*

An important next step in growing our understanding of customer value in business markets was to recognize that firms not only create value by exchanging goods and services in the marketplace. Rather, business relationships represented a tremendous potential for value creation in their own right. For example, privileged access to a supplier's unique resources and distinctive competencies could secure sustainable competitive advantages for customers in their respective markets. Thus, scholars began to explore value-creating dimensions of business relationships. Early work by Wilson and Jantrania (1994) conceptualizes relationship value along three dimensions; i.e. economic, psychological or behavioral, and strategic components of relationship value. Similarly, Ravald and Grönroos (1996) introduce the concept of total episode value comprising both individual exchange episode value and overall customer-supplier relationship value. As the authors explain: “we would like to use the term “total episode value”, which then could be described as a function of both episode value and relationship value (page 23).They further conceptualize episode value as a function of episode benefits and episode sacrifices, while relationship value is defined as comprised of relationship benefits and relationship sacrifices.

Throughout the 1990s and early 2000s, these and other definitions remain silent as to how individual components or dimensions should be integrated. Thus, it was not until the mid-2000s that scholars developed integrative definitions and measures of relationship value (Menon, Homburg, & Beutin, 2005; Ulaga, 2003; Ulaga & Eggert, 2005, 2006a). Studying value perceptions in key supplier relationships, these authors defined relationship value as “a formative higher-order construct that represents the trade-off between the benefits and the costs perceived in the supplier's core offering, in the sourcing process, and at the level of a

**Table 1**
Three stages of conceptualizing customer value in business marketing.

| Stage | Illustrative references | Definition of customer value |
|---|---|---|
| Stage 1 early customer value definitions | Zeithaml (1988) | "Perceived value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given. Though what is received varies across consumers (i.e., some may want volume, others high quality, still others convenience) and what is given varies (i.e., some are concerned only with money expended, others with time and effort), value represents a trade-off of the salient give and get components." |
| | Anderson et al. (1993) | "… we define value in business markets as the perceived worth in monetary units of a set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers' offerings and prices." |
| | Woodruff and Gardial (1996) | "Customer value is the customers' perception of what they want to have happen (i.e. the consequences) in a specific use situation, with the help of a product or service offering, in order to accomplish a desired purpose or goal." |
| | Ulaga and Chacour (2001) | Price as an integral part of the value equation: "A value judgement is the customer's assessment of the value that has been created for them by a supplier given the trade-offs between all relevant benefits and sacrifices in a specific-use situation." |
| | Anderson et al. (2000) | Price as separate from the value equation: "Price is not a part of value. The difference between value and price is the customer's incentive to purchase a market offering." |
| Stage 2 broadening the scope of customer value definitions | Wilson and Jantrania (1994) | "We conceptualize relationship value along three dimensions; economic, psychological or behavioral, and strategic." |
| | Ravald and Grönroos (1996) | "Total episode value … [is] a function of both episode value and relationship value." Episode value is a function of episode benefits and episode sacrifices; relationship value is comprised of relationship benefits and relationship sacrifices. |
| | Ulaga and Eggert (2006a) | Customer-perceived value in a key supplier relationship is "a formative higher-order construct that represents the trade-off between the benefits and the costs perceived in the supplier's core offering, in the sourcing process, and at the level of a customer's operations, taking into consideration the available alternative supplier relationships. |
| Stage 3 increased depth of understanding customer value | Lusch et al. (2007) | "The customer is always a co-creator of value. There is no value until an offering is used - experience and perception are essential to value determination." (p. 8). [Foundational Proposition FP 6]. |
| | Payne et al. (2008) | Customer-supplier value co-creation is comprised of three sets of processes, i.e. customer value-creating processes, supplier value-creating processes, and encounter processes. Each set of processes includes procedures, tasks, mechanisms, activities and interactions which support the co-creation of value. |
| | Macdonald et al. (2016) | "We define value in use as all customer-perceived consequences arising from a solution that facilitate or hinder achievement of the customer's goals (p. 98). […]. Business solutions are defined as "the combining of supplier and customer processes and resources through a joint resource integration process to create collective and individual value in use, which is monitored and optimized through value auditing processes" (p. 114). |

customer's operations, taking into consideration the available alternative supplier relationships" (Ulaga & Eggert, 2006a, page 128). Further, they established the construct's position in the broader nomological net of relationship-relevant constructs (Ulaga & Eggert, 2006b). The growing interest in relationship value subsequently gave rise to a multitude of publications exploring aspects as diverse as value creation through different stages of relationship lifecycles (Eggert et al., 2006), differences in cross-cultural perceptions of relationship value in business markets (Blocker, 2011; Ulaga, 2011) or differences across industries, such as wood products (Lefaix-Durand, Kozak, Beauregard, & Poulin, 2009) or industrial services (Barry & Terry, 2008), among others.

#### 2.2.3. *Deepening the understanding of value in B2B*

During the first two phases, researchers working on customer value in business markets still followed the prevalent view that value is predominantly created by the supplier, embedded in products or relational assets, and exchanged with customers and other key marketplace actors. In this *value in exchange* perspective, suppliers still represent the main driving force in the process of understanding, creating, communicating, and delivering value to customers and capturing part of the value created in form of pricing the goods and services provided. In the mid-2000s this perspective gradually shifted with the growing recognition that business customers are involved in the value creation process and they actively cooperate with their suppliers in search of joint value creation.

This changing role of customers in the value creation process is largely reflected in the S-D logic of marketing according to which value is always experienced by customers as a function of their (idiosyncratic) use situation (Vargo & Lusch, 2004). In line with S-D logic, researchers increasingly recognized the growing trend towards servitization of business markets, which has become one of the most prolific service research domains (Kowalkowski et al., 2017; Kowalkowski & Ulaga, 2017) – to such an extent that service infusion, a notion often used synonymously has been identified as a strategic research priority (Ostrom et al., 2015).

Scholars have suggested that the emergence and growth of industrial - or business-to-business marketing as a sub-area of the marketing discipline was largely attributable to the fact that underlying mainstream marketing models inadequately reflected the nature and fundamental changes occurring in business markets (Cova & Salle, 2008a, 2008b; Vargo & Lusch, 2004). In line with these changes, the progressive shift from a *value in exchange* to a *value in use* perspective represented a major third step towards deepening our knowledge of customer value in business markets.

In their seminal work on S-D logic, Vargo and Lusch (2004) focused on "service" (deliberately used in singular), i.e. a process of doing something for another party, as the primary focus of interest for understanding markets and marketing behaviors. In S-D logic, service refers to the application of competences (knowledge and skills) for the benefit of another party, which also represents a shift from thinking about value in terms of operand resources – typically tangible, static resources that require some action to make them valuable – to operant resources – usually intangible, dynamic resources that are capable of creating value. As a consequence, the locus of value creation thus moves from the "producer" to a collaborative process of value co-creation between parties. As Lusch, Vargo, and O'Brien (2007) explain: "The customer is always a co-creator of value: There is no value until an offering is used - experience and perception are essential to value determination" (Foundational Proposition FP 6).

Building on S-D logic, Payne et al. (2008) investigate how customers precisely engage in such co-creation of value. The authors develop a process-based conceptual framework for understanding and managing value co-creation and utilize field-based research to illustrate its practical application. In their research, Payne et al. (2008) find that value co-creation consists of three distinct components, that is, customer value-creating processes, supplier value-creating processes, and encounter processes. Each set of processes includes specific procedures, tasks, mechanisms, activities and interactions supporting the co-creation of value.

In their study of customer solutions in business markets, Macdonald et al. (2016) emphasize the critical role of value in use for understanding this particularly interesting area of customer-supplier value co-creation. They define value in use as "all customer-perceived consequences arising from a solution that facilitate or hinder achievement of the customer's goals" (page 97). While *value in exchange* is based on product or service attributes promised by a supplier and expected by a customer at the time of purchase, the authors explain that value in use is dependent not only on suppliers' resources and capabilities but also on those of customers and other parties involved. These parties become co-creators of value by integrating resources through activities and interactions in a broader network (McColl-Kennedy, Vargo, Dagger, Sweeney, & van Kasteren, 2012). Thus, Macdonald et al. (2016) conclude that our understanding of value creation in business market has significantly evolved in recent years: "a value proposition is not proposed by the supplier alone but is jointly designed by the supplier and the customer; it depends on the quality not only of the supplier's resources and processes but also of customer resources and processes as well as of the joint resource integration process; and the value that arises is not predetermined and simply verified (Storbacka, 2011) but is, rather, continually optimized by both parties" (Macdonald et al., 2016, page 97).

From the above discussion, it becomes clear that conceptualizations of customer value in business markets have substantially evolved over the past decades. This evolution has also impacted how scholars have understood and defined customer value propositions. In the following section, we shed further light on how the formulation and articulation of value propositions have evolved in light of the changing conceptualization of customer value in business markets.

## 3. Communicating customer value

The effective communication of value to customers and other key stakeholders represents a critical area in business-to-business markets (Anderson & Narus, 1998) and is an important research priority (Marketing Science Institute, 2014). The value proposition has evolved as a strategic tool that facilitates the communication of value (Payne et al., 2018). Despite the close conceptual link between value and the value proposition, discussions of these two concepts have largely proceeded independently. In this section, we discuss the value proposition's strategic role and trace the concept's development from a focus on value in exchange to an evolving focus based on value in use. Using these insights, we then explore the value proposition's current and future role in business markets.

### *3.1. The value proposition as a strategic tool*

Value propositions communicate how firms help their customers "get an important job done" (Johnson, Christensen, & Kagermann, 2008, p. 60). As value propositions are recognized as the firm's single most important organizing principle (Webster, 2002), we now discuss how they relate to the fundamental building blocks of strategic marketing.

Strategic marketing explores why some companies perform better than others and what role marketing plays in achieving superior results. At the firm level, superior results manifest themselves as market and financial results (e.g., sales, retention, profit, ROI) (Morgan, 2012). According to resource-based theory, superior organizational performance is ultimately grounded in firm's resources and capabilities (Kozlenkova, Samaha, & Palmatier, 2014). Resources are the "raw material" of organizational success (Peteraf, 1993). They comprise "tangible and intangible assets firms use to conceive of and implement its strategies" (Barney & Arikan, 2001, p. 138). Resources serve as input to organizational capabilities that are "information-based, tangible or intangible processes that enable a firm to deploy its other resources more efficiently and therefore enhance the productivity of those resources" (Kozlenkova et al., 2014, p. 5).

While resources and capabilities build the foundation for superior performance, they do not directly determine performance outcomes. Strategy decisions and strategy implementation mediate their impact on organizational performance. "Marketing strategy decision makers must select which available resources the firm should deploy, where to deploy them, and set and signal priorities in terms of achieving the various goals of the firm" (Morgan, 2012, pp. 109–110).

Value propositions capture the essence of marketing strategy decisions and signal strategic priorities to the supplier organization and its customers. Against the backdrop of firms' resources and capabilities, value propositions delineate the superior contribution to their goals that targeted customers can expect from engaging with the supplier firm. Value propositions distill fundamental resource deployment and market selection decisions that are the cornerstones of strategic marketing (Rayport & Jaworski, 2004). Seen through this lens, the customer value proposition is more than an operational advertising concept; it is a statement constituting the firm's core strategy decisions (Lehmann & Winer, 2008). Beyond capturing the essence of strategic marketing decisions, value propositions can also be instrumental for marketing strategy implementation, an aspect that has received limited attention in the literature so far (Payne et al., 2018). Value propositions offer strategic guidance that may improve marketing program alignment and resource deployment processes within a supplier firm (Morgan, 2012).

When communicated towards targeted customers, value propositions can sharpen the firm's positional advantage, which is the proximate reason for superior performance and reflects "the relative (to alternatives available to customers) value actually delivered to target markets as a result of the firm's marketing strategy decision implementation efforts, and the cost of accomplishing this to the firm" (Morgan, 2012, p. 111). While positional advantage is a firm-related concept, that is, it describes the superiority or inferiority of a firm relative to its competitors; it emerges through customers' perceptual processes that are influenced by value propositions.

Fig. 4 locates value propositions at the core of strategic marketing. It summarizes the chain of effects that leads from resources and capabilities to organizational performance and highlights the pivotal role of value propositions within this process. Value propositions play a key role for transforming organizational resources and capabilities into superior firm performance. They capture the essence of marketing strategy decisions, impact marketing strategy implementation, and improve firm's positional advantage.

### *3.2. The evolution of the value proposition concept*

#### *3.2.1. The value in exchange perspective of the value proposition*

The concept of a proposition in marketing had its origins in advertising and the formulation of a unique selling proposition (Reeves, 1961). This early precursor to the value proposition emphasized communication to customers, but this communication message was typically unidirectional, via advertising, highlighting one compelling product feature or benefit that was not offered by competitors.

The value proposition concept originated in the 1980s in work

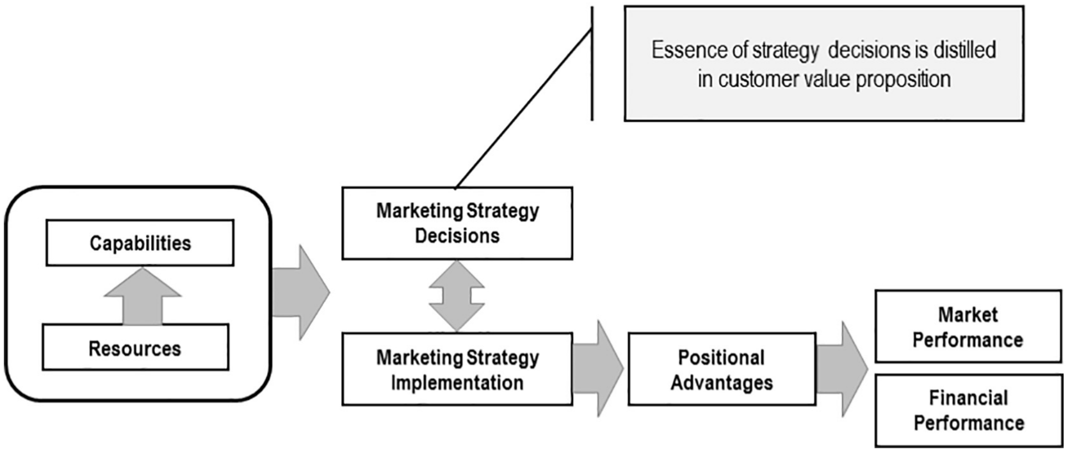


**Fig. 4.** Customer value proposition is at the core of strategic marketing.

undertaken by strategy consulting firm McKinsey & Co. who considered how the business system framework, a forerunner of the value chain concept (Porter, 1985), could be applied to provide improved customer engagement. Lanning and Michaels (1988) provided the first explanation of the concept, which included three key components of a value delivery system: choose the value proposition, provide the value proposition and communicate the value proposition. These authors emphasized both the value proposition's strategic role and its communication role "a business is a system for superior value delivery: *choosing* a superior value proposition, and *echoing* it through the business system by *providing* and *communicating* it. And managing this delivery is top management's primary job." (p. 1, emphasis in original).

Webster (1994) adopts a similar *delivery-based* and *supplier-determined* perspective suggesting the value proposition is concerned with "how firm proposes to deliver superior value to customers" (p. 60). Other authors, including Kambil, Ginsberg, and Bloch (1996) and Kaplan and Norton (2001), embrace this value in exchange perspective, which consists of a market offer of a product that is "embedded" with value, and the enterprise concerned with delivering that value to the customer (see Fig. 5). With this approach, the customer can be seen as a passive recipient of this value, representing an "inside-out" (Day, 2011) viewpoint on the part of the supplier.

The common theme of this conceptualization is that of a *market offer* based on considerations of firm resources with little consideration of the implication of relationships with the customer and other stakeholders. The customer is viewed a passive recipient of value that accrues from one or more relevant benefits, which competitors do not offer. In this context, the value proposition is viewed as "communication-as-transfer", which involves a one-way offer of value, without substantive dialogue about this value taking place between supplier and customer.

#### 3.2.2. *The transitional perspective of the value proposition*

The value proposition concept evolved further through a transitional phase (see Fig. 5), which is characterized by some appreciation of the customer's value–in-use, yet continues with a logic of value delivery. Following earlier research on customer experience (e.g., Holbrook & Hirschman, 1982), Lanning extended his early conceptualization and defined a value proposition based on the experiences that an organization creates for its customers. A value proposition is

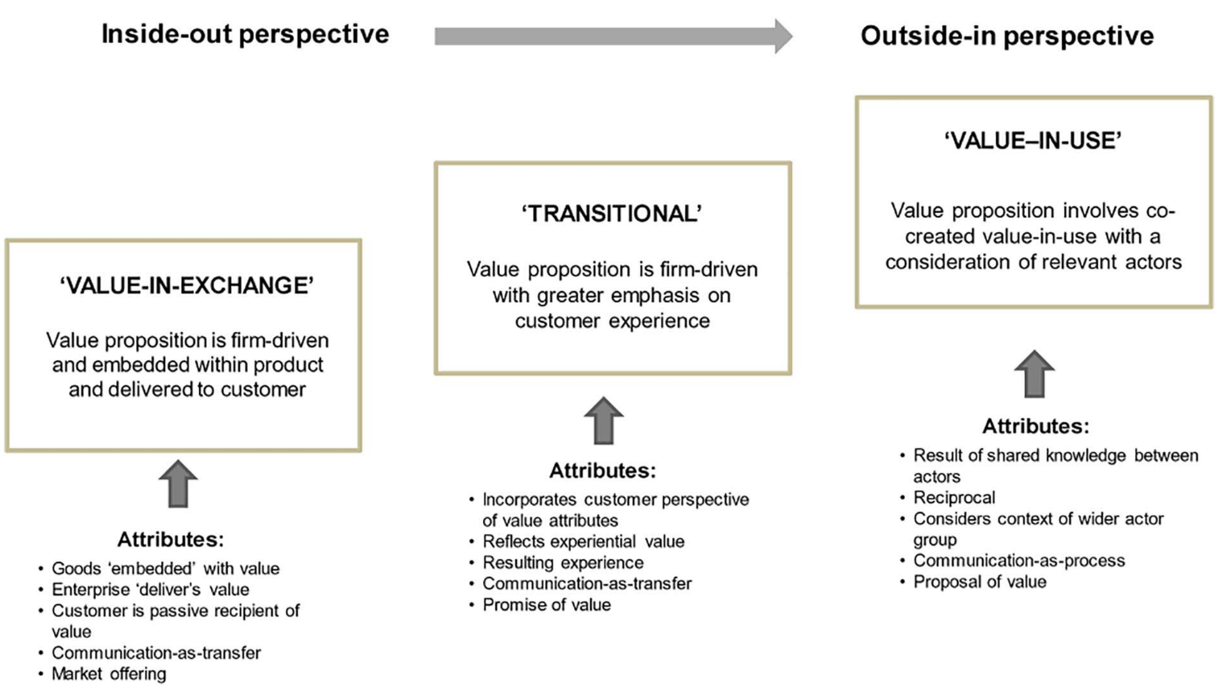


**Fig. 5.** Alternative perspectives of the value proposition.

“the entire set of resulting experiences […] including some price, that an organization causes some customers to have” (Lanning, 1998, p. 55). With this perspective, experience is not limited to the purchase act but includes all interactions between the customer and the provider, that is, “the value proposition describes the total customer experience with the firm and its alliance partners over time, rather than that communicated at the point of sale” (Molineux, 2002, p. 63).

While other authors also emphasize customer experience in the context of value propositions (e.g., Berry, Carbone, & Haeckel, 2002; Morgan & Rao, 2003; Smith & Wheeler, 2002), more recent discussions attempt to consolidate different views. Here, authors suggest that customer experience incorporates an evaluation of the product or service functional attributes, customer motivation and individual preferences (e.g., Edvardsson, Tronvoll, & Gruber, 2011).

The key characteristic of this transitional view is its deeper recognition of the experiential nature of value. Authors place greater emphasis on understanding the customer's perspective and experiences, bringing it closer to a value in use perspective, yet the concept remains in a communication-as-transfer mode. A strong unidirectional emphasis continues, where the firm determines the value and the value proposition then sets out a *promise of value*. This transitional nature is reflected in Anderson and his colleagues' work on customer value in business markets. For example, Anderson, Narus, and Van Rossum (2006), develop a practical approach for assessing customer's value in use relative to competitors, yet they remain within a value delivery logic that stresses the importance of demonstrating and documenting how superior value is being delivered to the customer: “Suppliers … must document the cost savings and incremental profits … their offerings deliver to the companies that have purchased them” (p. 97).

#### 3.2.3. The value in use perspective of the value proposition

Recent work grounded in S-D logic challenges the traditional notion that value can be delivered to the customer and explores value propositions from a value in use perspective (see Fig. 5). S-D logic emphasizes shared learning and co-creation within an ecosystem of actors. This reflects an “outside-in” (Day, 2011) approach where the value proposition sets out a *proposal of value* that aims to initiate dialogue and interaction accruing to the customer before, during and after the usage experience (e.g., Ballantyne & Varey, 2006a; Skålén, Gummerus, von Koskull, & Magnusson, 2015). Frow et al. (2014) point out that a promise is typically unidirectional and may be either accepted or rejected by customers; by contrast, a proposal implies reciprocity between engaged actors (Ballantyne & Varey, 2006b). A value proposition can be viewed as an “invitation to play” with enhanced knowledge sharing between supplier and customer (Frow et al., 2014). Seen through this lens, the value proposition's purpose is to initiate a proposal, or invitation, which facilitates the co-creation of experiences and knowledge that contributes to learning processes (Payne et al., 2008).

In contrast to the unidirectional perspective that prevails within the traditional value in exchange view, value propositions that are grounded in value in use set out reciprocal benefits offered *to* and *from* and are co-created *with* suppliers and customers (Ballantyne, 2003; Brunn, Jensen, & Skovgaard, 2002). Anderson et al. (2006) provided a detailed case study of how a leading supplier of specialty resins used in coatings for commercial buildings developed a new value proposition as a result of a deeply co-creative process. Kowalkowski, Ridell, Röndell, and Sörhammar (2012) explain the resource integration process that lies at the heart of co-creating value propositions and Skålén et al. (2015) extend these ideas by considering practices inherent in value propositions.

A further characteristic of this perspective is the recognition that business markets operate within an ecosystem of actors or stakeholders. Ballantyne, Frow, Varey, and Payne (2011) point out that the integration of resources involves the engagement of multiple actors and networks of actors and Corvellec and Hultman (2014) discuss how value propositions are not limited to immediate exchange, but occur in ongoing interactive networks where actors participate in different ways.

In sum, viewing value propositions through the lens of value in use extends the concept beyond the traditional notion of a value delivery offer or promise that perceives value as embedded within the product. The value in use perspective views the value proposition as a proposal that seeks the co-creative engagement of actors, sharing chosen resources, acquiring valuable knowledge and contributing to mutually rewarding outcomes.

### 3.3. The value Proposition's role in communicating value in business-to-business marketing

Following our review of the literature, we now draw attention to four priorities regarding the value proposition's role in communicating value in business markets: (1) adopting the value in use perspective, (2) determining appropriate segment granularity, (3) quantifying the value proposition, and (4) engaging reciprocally with relevant actors.

#### 3.3.1. Adopting the value in use perspective

We described earlier how the value construct evolved through several phases. Although we subsequently identify three similar perspectives of value propositions, research in this area has not proceeded in such a distinct manner, with current scholarly work and practice not collectively embracing the value in use-perspective. In business markets the locus of responsibility for the value proposition requires shifting in accord with the changing perspective on value—from supplier delivered value in exchange—to jointly co-created value in use. However, it should be acknowledged that not all products require knowledge sharing, negotiation, and resultant understanding. A more traditional value in exchange approach may be appropriate for commodity products, such as nails, paper clips, or bottles of water for a canteen, where they are of minor importance to the business customer.

#### 3.3.2. Determining appropriate segment granularity

Despite a long tradition of considerable attention being placed on market segmentation within business markets (e.g., Griffith & Pol, 1994; Plank, 1985; Wind & Cardozo, 1974), there has not been corresponding emphasis within the literature on value propositions. In Lanning and Michaels' (1988) original conceptualization of the concept emphasis is placed on segmentation. However, within the value proposition literature there is relatively little emphasis on segmentation (for exceptions see Lanning & Phillips, 1992; Rayport & Jaworski, 2004; Anderson et al., 2006). In business markets, value propositions can be formulated at different levels of granularity: the firm level, the customer segment level, and the individual firm level (Payne et al., 2018). Managers are faced with a complex task when assessing value dimensions and addressing customers segments with different priorities. Further, there are difficulties in coordinating value propositions at different levels, due to the involvement of different decision-makers. A firm level value proposition is typically formulated by senior management, segment level value propositions by the marketing department, and individual customer level value propositions by the key account team. In particular, substantial development and coordination effort is required and there are costs involved in developing multi-level value propositions (Terho, Haas, Eggert, & Ulaga, 2012). There are a number of examples from practice within the literature to guide managers in in the development of granular value propositions (e.g., Anderson, Kumar, & Narus, 2007; Frow & Payne, 2014; Payne et al., 2018), but more examples are needed to guide managers in this area.

#### 3.3.3. Quantifying the value proposition

Hinterhuber (2017) explains a key difference between business markets and consumer markets — in consumer markets, explicit quantification of value is typically not necessary. However, in business markets, purchasing managers are frequently required to quantify the value of different offers (Plank & Ferrin, 2002). For example, an Ernst and Young (2002) survey of 100 IT purchasing executives showed that 81% of buyers expected suppliers to financially quantify their value propositions. A further study (McMurchy, 2008) of 600 IT purchasing executives found the inability to quantify value propositions and clarify the resulting business impact were key supplier weaknesses. Several studies of business markets (Anderson et al., 2007; Hinterhuber, 2008; Hinterhuber, 2017) indicate that most companies have difficulty creating value propositions that provide quantifiable benefits to their customers. Further, Hinterhuber's (2017) quantitative study of 131 US sales and account managers found that "value quantification capabilities substantially and positively influence firm performance" (p. 10). Thus value proposition quantification in business markets is a key consideration in effective value communication.

#### 3.3.4. Engaging reciprocally with relevant actors

Business markets operate within a complex network of relationships, potentially involving many ecosystem actors. However, value propositions have largely been developed and used to communicate value as one-way messages from supplier to customer. As Kowalkowski, Kindström, and Carlborg (2016) note, with very few exceptions "the buyer – supplier dyad remains the focus of research into value propositions … [However, a] dyadic perspective may be too limited to comprehend contemporary value cocreation phenomenon" (p. 282). There are two important considerations here.

The first consideration is seeking deeper engagement through the use of reciprocal value proposition, which are co-created through dialogue, knowledge sharing and negotiation (Ballantyne et al., 2011). One means of making communication more actionable is to adopt these authors' approach to crafting reciprocal value propositions by use of the following format: ""If we …" (stated in terms of benefits promised for the beneficiary), "will you …" (stated in terms of the benefits promised for the focal company)" (p. 206). During the negotiation and crafting of reciprocated value propositions, enterprise and customer learn from each other (Skålén et al., 2015) and build shared competence (Maglio & Spohrer, 2008). In B2B markets, consideration of the use of reciprocal value propositions is especially relevant.

The second consideration involves reviewing the role of a broader range of actors when formulating value propositions. Lindgreen et al. (2012) point out that a key aspect of co-creation "is to see value in the wider stakeholder and network context" (p. 209). There is now a developing literature that reflects the importance of value propositions for these stakeholders, or ecosystem actors. Frow et al. (2014) examine value propositions in the context of micro, meso, macro levels of the ecosystem, discussing how two organizations have progressively shaped their value propositions to encompass the broader issues within their ecosystem. Ballantyne et al. (2011) provide examples of reciprocal value propositions for six key stakeholder groups, or market domains, and Frow and Payne (2011) undertake a review of the development of value propositions within these market domains. As Mish and Scammon (2010, p. 15) note "A distinctive feature of such value propositions "is that they are offered not *to* stakeholders but to customers *for* stakeholders".

## 4. Discussion and research directions

Our work examines how the concept of value and its communication, through the value proposition, has changed over time in business markets that are characterized by deep, complex customer relationships. Here, competition may be severe with suppliers struggling to clearly differentiate their products and services. Communication of value through carefully crafted value propositions can differentiate a supplier, potentially conveying those attributes that offer a unique customer solution.

The evolution of the value concept has largely been mirrored, though independently, by changes in the way value is communicated between suppliers and their customers. In this article we trace changing perspectives of value, from value in exchange to a value in use, relating this shift to developments within the conceptualizations of the customer value proposition. We highlight the role of the customer value proposition as a strategic tool for communicating value, originally developed to set out a supplier's superior offering and price. We note recent developments, which highlight the integration of supplier, customer and even ecosystem resources. We relate this changing emphasis of value and its communication to the context of B2B, noting that here, customer value propositions address different levels of granularity with customers increasingly involved in their design and management.

Our work makes three important contributions to understanding value in the context of B2B markets. First, we link changes in the conceptualization of value to how value is communicated in a B2B context, noting the evolving role of the value proposition as a strategic tool. Here, the emphasis on communicating the value in exchange that is delivered to customers has shifted to value in use that is co-created with customers. Supplier and customer jointly develop the value proposition and share the responsibility of co-creating value in use through their joint resource integration.

Second, we note that in B2B markets, appreciating value and how it is communicated requires a granular approach. In particular, value and the associated value propositions can address three main levels: a company level; industry or market segment level; and, a customer level. Each level requires increasing customer insights and therefore harnesses the active involvement of customers in revealing their value priorities and then the design and implementation of relevant value propositions. In the context of B2B, the value proposition not only communicates value, but is also a means of creating a dialogue that determines a unique customer solution. In depth understanding of value occurs when supplier and customer share deep insights and together carefully craft and manage their joint value propositions.

Third, we identify an ecosystem perspective of value, explaining how this relates to communicating value in a B2B context. This broader view moves the focus of value from supplier-determined to include implications of other interacting actors. In a B2B context, value in use results not only from supplier and customer interactions, but includes those other actors within the ecosystem. Value propositions in an ecosystem are linked together, as the interactions between actors change the availability of resources and the offers that are made. For B2B suppliers, consideration of their own and customer resources must be coupled with understanding those of a broader range of actors.

Managerially, our work contributes in two important ways. First, we explore the specific importance of value and value communication in managing B2B relationships. From a customer perspective, we suggest that quantifying the value of different offers to a customer forms an important criterion when selecting suppliers. Likewise, from a supplier perspective, identifying potential value at a granular level is critical when prioritizing management resources. Acquiring and assimilating detailed customer and supplier knowledge is essential for effective B2B relationships and requires sophisticated learning processes (Payne et al., 2008). Managerial responsibility for value identification and communication occurs at different levels including the firm level of the leadership team, industry sector groups at a marketing department level, to the sales and key account managers at the customer level.

Our second managerial implication relates to the role of B2B suppliers. A value in exchange focus implies focusing on delivering the core offer and managing discrete customer relationships. However, a value in use focus suggests the role of B2B suppliers is to manage the integration of supplier and customer resources. Instead of focusing on managing a discrete relationship, the supplier's role involves assimilating knowledge shared within an ecosystem and is reflected in value in use of each actor.

This conceptual work suggests several important areas for further investigation. First, we identify that value in use is determined through co-creation processes in a broad network of actors (McColl-Kennedy et al., 2012). As yet, there is limited investigation that addresses the nature of these processes and specifically how value in use of each actor is linked together. From an ecosystem perspective, value in use requires understanding a complex network of relationships and how these relate to idiosyncratic value of an individual actor.

A second topic that requires investigation is how value and value propositions at different levels of granularity are linked together. We indicate in our discussion that B2B firms should consider multiple value propositions that reflect increasing levels of personalization. How value and its communication are related both between and within the different levels has yet to be explored.

A final topic is to understand more deeply how value is identified and then appropriate value propositions are developed in B2B markets. We suggest that supplier and customer work together to share value insights and craft reciprocal value propositions that reflect a value in use perspective. We suggest that this process is especially important in a B2B context, as the dialogue required for developing this detailed, two-way understanding forges stronger relationships. However, investigating this design process requires further attention.

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