Article

Customer Value Is Not Just Created, It Is Formally Managed

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Abstract

The definition of customer value and its conceptualization can be complex. There is a confusion in the term itself but also in the sequence of creating, quantifying, and capturing value. This article intends to clarify the difference between the three steps of customer value management. It posits that customer value management needs to be a formal process in organizations and that this process needs to be formally managed as well. In order to do so, organizations need to focus on the development of customer value management capabilities across the three stages of the customer value management process: creation, quantification, and capture. Customer value is not just created. It needs to be managed.

Keywords

Customer value, value creation, value quantification, value capture

We all talk about value. It is mentioned on every website, on every company brochure and on every booth at trade shows. Google Scholar returns 6.6 million hits from a search on the term *value.* It is likely one of the most used words in business (Liozu et al., 2012). For some of us, value is financial or economic, while for others it is relationship-based or perceptual (Ulaga, 2003). Marketing and sales practitioners discuss value in the context of buyer–seller interactions (Narayandas & Rangan, 2004). Strategy scholars focus on the extraction of value from the firm's value resources (Bowman & Ambrosini, 2000). The bottom line is that we all define and understand value differently. This is why value is so difficult to comprehend, to operationalize and to improve (Liozu, 2016a).

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Is value created, captured, exchanged or appropriated? That is a good question, one that is still debated in various literature streams and widely discussed in firms' practitioner circles. Scholars might be aware of these differences, but in the field of practice, it is another reality. Of course, the answer to the question is not that simple. Two critical factors influence it: How do you define value, and value for whom?

We write this short position article to repeat, reinforce and rationalize the concept of customer value and to propose a process for managing customer value holistically and sustainably. We highlight the need for practitioners to manage customer value formally through the institutionalization of a value management process and not just through the management of a value creation process. We conclude by stating that customer value cannot just be created; it must also be quantified and captured. Thus, there is a need to clarify and promote the key concepts in scholarly and practitioner circles.

Positionality Matters

In questions of value, positionality matters. Where you stand in the organization and what goals you have influence your conceptualization of customer value. We propose three critical positions:

From a strategic management standpoint, value creation is a central concept in the literature (Lepak, Smith, & Taylor, 2007). Much of the strategic management literature stresses the importance of value creation for a firm's profitability (Aspara & Tikkanen, 2013). Within the value creation construct, scholars define two types of value that can be created: use value and exchange value (Bowman & Ambrosini, 2000).

For strategy and human management scholars, value might be created for business owners or shareholders (Lepak et al., 2007; Porter, 1998). Value is, therefore, related to shareholder and/or stakeholder value. Firms' resources are assumed to be valuable (Amit & Schoemaker, 1993). They become valuable if they either enable a firm to better meet or fulfil customer needs (Bogner & Thomas, 1994) or allow a firm to meet customer needs at a lower cost than the competition (Peteraf, 1993). Barney (1991, p. 106) proposes that 'resources are valuable when they enable a firm to conceive or implement strategies that improve its efficiency and effectiveness'.

For marketing, sales and pricing strategy scholars, value is created for customers along the value chain (Priem, 2007; Ulaga, 2003). Value might represent an exchange between sellers and buyers among players in the value chains, thus, highlighting the need for better relationship quality (Avila & Dodds, 1993; Lindgreen & Wynstra, 2005). Much of the literature focuses on the exchange of value created against pricing (Anderson & Wynstra, 2010; Hinterhuber, 2004). The focus moves from predominantly internal to a balanced discussion on how internal programmes can benefit customers and improve the value exchange (Anderson & Narus, 1998). Scholars in this area, thus, focus on the quality of the buyer–seller relationship, highlighting the need for the two actors to collaborate in order to create competitive advantage and achieve superior results (Ulaga, 2003). The concept of relationship value is rooted in business and service marketing (Anderson, Jain, & Chintagunta, 1993, p. 5), where value means 'the perceived worth in monetary units of the 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 alternative suppliers' offering and prices'. From this position, therefore, value is exchanged and sellers focus on capturing the value they create for customers (Ulaga & Eggert, 2006).

Therein lies the confusion. What value is depends on who it is created for and who is in charge of the value creation process. Three theoretical positions exist with three diverging scholarly views on what value means and who value is created for: resource-based view of the firm, value exchange and relationship value.

Value Creation or Value Capture?

There is also lots of confusion among scholars and practitioners between the concepts of value creation and value capture. In many instances, what scholars refer to as value creation is actually value capture—strategies that ensure that a maximal portion of value is captured or appropriated by the firm itself, in the form of profits, rather than by other chain members or competitors (Aspara & Tikkanen, 2013; Bowman & Ambrosini, 2000). Value creation and value capture are, therefore, different concepts and this is the heart of this position article. Contemporary terminology makes this distinction more often and takes into account value creation for existing products and services, novel value creation programmes and innovation programmes that create novel and superior value for buyers (Priem, 2007). It also distinguishes between value creation and value capture in the context of exchange value.

Over the past few years, pricing and value management scholars have added the second step of value management: value quantification or value assessment (Liozu, 2017). The basic premise of this step is that the value that a seller creates needs to be quantified in financial terms to be exchanged, shared with and captured from customers (Liozu & Hinterhuber, 2012). Scholars propose techniques and best practices for conducting value assessments (Hinterhuber & Snelgrove, 2016; Johansson et al., 2015; Keränen & Jalkala, 2013). While the concepts of value quantification and value modelling are not new, what is new is that more articles are being written on the subjects, and these articles help clarify the value management process by adding a necessary step between value creation and value capture in the context of value exchanged and relationship value for customers (Liozu, 2016a).

In this article, we take the position of value and pricing management scholars and embrace the definition of value we proposed earlier. We deliberately ground this article in the conceptualization of customer value which is established and exchanged between a supplier and a buyer. In this context, customer value is created by firms for their customers either through existing products and offerings or through novel value propositions. The value created for customers must be quantified before it can be captured through price.

Customer Value Needs to Be Formally Managed

What gets measured, gets managed.

—Peter Drucker

We posit that, like any process, customer value needs to be formally and intentionally managed. Customer value management includes three steps that form a sequence that cannot be broken (see Figure 1). All three steps require a formal process and the development of strong capabilities. The process begins with value creation activities designed for and with customers. Generally speaking, these activities or initiatives are managed by innovation and marketing teams with the support of business development and sales teams in the field (Aspara & Tikkanen, 2013). During this first step, value for the customer is created but can also be co-created as partnerships and collaborative projects. In both instances, customer value is identified and potentially created. It is not yet extracted or captured. Following this first step, marketing and pricing teams need to zoom in on the second step of the value management process, which is value quantification (Liozu, 2016a).

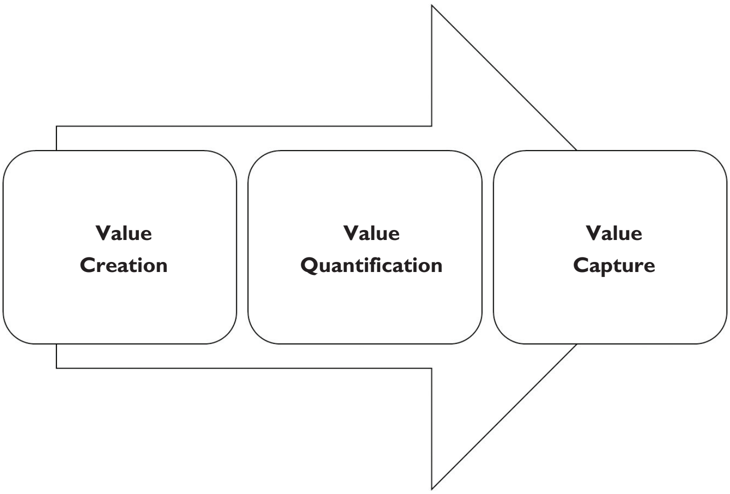

Figure 1. The Value Management Sequence

Source: Author's own.

Value quantification is an essential step in the process and is most often neglected or forgotten (Fox & Gregory, 2004). The goal in this step is to assess and quantify the value potentially created for the customer. This external quantification process, in the form of value-in-use analysis, total-cost-of-ownership calculations, life-cycle costing models or customer value models, is essential to calculating the value pool generated by a supplier and potentially shared with customers (Hinterhuber, 2008; Hinterhuber & Snelgrove, 2016). This, of course, requires testing and validation with the customer that value is indeed created and eventually delivered. Because one cannot capture something which is not measured, value quantification has received increased attention in scholarly and practitioner publications in the past 24 months. After the customer value pool is clearly calculated, the last step of the value management process is value capture. At this stage, prices are set within the value pool in combination with cost and competition information. Pricing and marketing teams can, therefore, decide how much value can be captured through price premiums versus competition and how much value can be shared with customers. That process of sharing and exchanging happens during the value capture process through the hard work of value-based selling and negotiation for value (Anderson, Kumar, & Narus, 2007).

In summary, value for customers is first created, then quantified using formal methods, then captured through price-setting and price-getting activities (Hinterhuber & Liozu, 2012). This value management process is essential to a firm's go-to-market strategy. It involves all the key players and functions of such a strategy, beginning with innovation teams and ending with sales teams, as shown in Figure 2. The management of customer value requires a strong discipline across all functions orchestrated by value management teams or a chief value officer (Liozu, 2016b) as well as across the three steps of value management. Easier said than done!

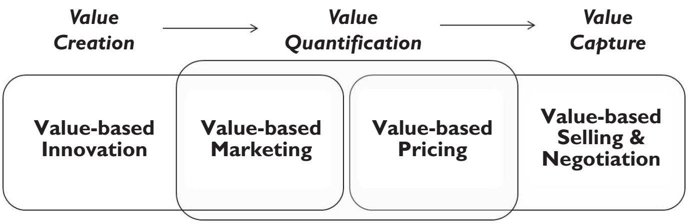

Figure 2. Value as a Discipline across Go-to-Market Functions

Source: Author's own.

The capabilities needed to manage customer value holistically and sustainably have to be institutionalized in firms and in the management of business models, as shown in Figure 3. Value becomes the firm's *raison d'être* and is tightly linked to strategic innovation and profitability. We often present this model as the 3M model of value management (Liozu, 2015b). It begins with a robust strategic innovation process to create value and generate differentiation versus the competition. This differentiation is then measured and quantified to improve value capture and pricing power. Value-based pricing can improve profitability, and some of it gets reinvested in the innovation process. It is a wheel that keeps on turning and allows for the long-term sustainability of firm profitability. In this model innovation, marketing, pricing and sales work together to manage customer value at the heart of the go-to-market strategies.

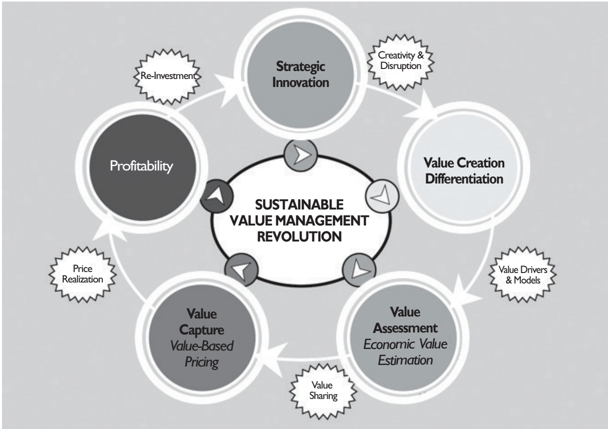

Figure 3. Managing Value Sustainably

Source: Author's own.

Customer Value Management Capabilities

Value champions, those companies that manage value holistically, take years to develop their internal capabilities. Reaching the required level of cultural readiness and discipline might take several years (Liozu, 2015b). It is often referred to as a transformational journey. The management of customer value and the three-step sequence often demands the development of internal capabilities to manage these steps with the same level of discipline and confidence. What capabilities am I referring to? For example, the process of value creation cannot happen with the use of some of the most progressive cutting-edge tools and techniques (see Figure 4 for a list of some of these).

<u>Value Creation - Discovery of Customer Hidden Needs</u>

1. Lead User Meetings, Panels, & Councils
2. Customer Advisory Boards,
3. Community of Euthousiasts & Brand Evangelists
4. Market & Technology Radars
5. Signal Analysis from Near & Far Industries
6. Customer Operations Process Mapping
7. Customer Journey Mapping
8. A Day-in-the-life of a Customer Brainstorming
9. Customer Observations & Ethnographic Research
10. Process Workflow Studies

Figure 4. Value Creation Tools and Techniques

Source: Author's own.

Engaging in customer-value-creating efforts often means discovering customers' unmet needs that a firm can uniquely respond to and organize to exploit. Creating differentiation and therefore value requires a high level of uniqueness and robust voice-of-customer programmes (Anderson et al., 1993; Liozu & Trevenen, 2013). Customer intimacy is a common characteristic shared by innovative firms and value champions such as 3M, Lego, Starbucks, Hilti, Miele and others.

In 2016, the Strategic Account Management Association (SAMA; www.sama.org) conducted a quantitative survey with 418 members on the topic of value realization with a focus on value management capabilities (SAMA, 2015). For this survey, they developed a value capabilities instrument composed of the three dimensions or steps of value management and 15 items in total (see Table 1).

Table 1. Value Management Capabilities

Customer Value Management Capabilities **Value Creation**
We develop initiatives with our accounts that solve their pains and generate sources of increased profitability.
We increase the benefits & value experienced by our accounts
We work closely with our accounts to uncover hidden opportunities for growth and differentiation in the market place.
We create innovative offerings and solutions for our accounts
We create innovative value propositions that challenge industry specific business models, roles, and relations
Value Quantification
We quantify differentiation value for all relevant drivers of our value proposition
We use value tools (calculators, scorecards) to quantify the economic value delivered to our accounts
We conduct value-in-use analysis to identify value data that demonstrate the differentiation of our offerings
We perform total cost of ownership (TCO) calculations versus key competitors' offerings
We establish internal mechanisms to track the economic value we create for our accounts.
Value Capture
We intend to capture a large proportion of the economic value created for our accounts
We have a strong preparation process before pricing negotiations
We handle pricing objections by systematically communicating quantified value messages to our accounts
We have a discipline pricing strategy that maximizes the value we can capture from the market place
We justify our pricing premium versus competing offerings by using quantified value documentation (value files/scorecard).

Source: Author's own.

The 418 SAMA members surveyed and rated themselves against their competitors on these 15 items using a scale of 1 to 7 (1 = *much worse than competition* to 7 = *much better*). Key results included the following:

- Respondents engaged in significantly more value creation than value quantification and value capture activities. They reported significantly higher scores for value creation items than for other items.
- The lowest capability scores were in value quantification and specifically in the use of formal methods such as Total Cost of Ownership (TCO) calculators and value-in-use analysis.
- Regression analysis highlights that the biggest drivers of value capabilities levels in firms are value capture activities, suggesting that value capture is the mechanism necessary to capture created value.
- Regression analysis also suggests that all three steps are important to explaining firm profitability. The top three drivers of EBIT (Earnings Before Interest and Taxes) are pulled from the three steps of value management. This suggests a need for balance and for mindfulness when managing value.

This SAMA study reinforces the need for more academic research in the area of value management capabilities and for managing the three steps in the sequence. We are encouraged by the emerging stream of research on the topics of value quantification and value-based selling. These new projects might help us understand value capture once customer value is quantified. The notion of value pool calculation (Hinterhuber, 2008; Liozu, 2016a) is essential to relationship value and to the exchange between value and price with customers. More research is indeed needed.

Conclusions

This position article introduces the concept of sustainable customer value management and reinforces the need to manage the three steps of the customer value management process. We feel that we have touched on some of the critical points that might explain some of the confusion with the concept of customer value.

Our first point is there needs to be more clarity among practitioners and scholars on the definition of customer value, value creation, value capture and the emerging concept of value appropriation.

Our second key point is the fact that, in the context of the marketing and sales literature, customer value is not just created. It is first created, then quantified and finally captured through price. The word *creation* does not integrate the steps of quantification and capture, as rightly stated by Aspara and Tikkanen (2013). These are different constructs and activities. You can create all you want, with or without the support of your customers, but you still need to quantify how much value you have created and then decide how much you want to keep and how much you want to share. Without managing the whole process, you leave it to customers to decide how they will capture the value you promised, and it is then up to your sales force to devise a sales plan to capture something in return (Liozu, 2016a).

Our third key point is that value management needs the development of strong value capabilities across the board and at every stage of the process: creation, quantification and capture. All three steps are important in the process and, therefore, long-term sustainable capabilities are required in the forms of tools, techniques and methods, but also mindset and competences.

This article touches critical concepts at a high level. We did not intend to provide deep explanation of these concepts are they are well covered by the extant literature. The goal of this article was to promote the need for more research and more understanding around the topic of customer value. You might say that we have strong feelings about the need for formal customer value management. We do. As a practitioner-scholar in the areas of customer value and pricing, We would like to make sure we use the right words for the right constructs so that we can increase the adoption and assimilation of these concepts and practices.

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