CREATING CUSTOMER VALUE: BRIDGING THEORY AND PRACTICE[1]

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Today, both marketing scholars and managers appear clearly to accept that the aim of every company is to create for its customer[2] more value than its competitors. However, what remains largely unclear is how this concept should be approached. In this article, we will present an integrated approach to customer value creation, with a view to clarifying its main elements as well as three "success stories" (Dell[3], eBay and Hugo Boss) which seek to identify the underlying strategic investments needed to implement it.

INTRODUCTION

Customer Value Creation as an Integrative Approach

Subjected to the pressure of increasingly more demanding customers, with little to distinguish themselves from competitors, facing weak economic growth, and an erosion of their distinctive competencies, many companies are now seeking new means of developing and keeping a competitive advantage. The latest attempts of improvement have been largely internally focused as reflected by quality management, "reengineering", short term cost and size reductions, that mainly generated long term value destruction. The next major source of competitive advantage will probably come from outward efforts towards the consumers, as testified by many companies' calls to compete in terms of creating superior customer value (Woodruff 1997).

Consequently, it appears that to be accepted today, the end purpose of every company is to offer its customers superior value than do its competitors (Webster 1994; Holbrook 1996). However, what remains largely unclear is how this concept should be approached. Thus, the definition of the theoretical base which constitutes the concept of "customer value creation" is an essential precondition to the study of how to implement it. This base breaks up into two main "families": the "Inside-out" or internal approaches and the "Outside-in" or external approaches. Although these two approaches are based on different principles, they should not be opposed to one another but should rather reinforce each other (Achi et al. 1995; Hamel 1996). Taken together, they provide a view of two types of perspectives which are company/internal resources and company/market as an enriched customer-based approached to marketing strategy.

Since obtaining a precise vision of "customer value creation" requires a precise evaluation of its components, it is important that "customer value creation" be conceptualized correctly. We are trying to raise this challenge and this article is a first stage in this direction.

Academic and Managerial Interests in Studying Customer Value

Below we will stress the scientific and managerial importance of the subject by highlighting its relevance as well as the limits of existing research.

The intensification of competition and the increase in the level of customer demand cause company behaviors to change. They increasingly compare their performance to the competition and customers, many of them calling into question their dominant strategic framework whose main risk lies in constituting a "customer lock-on" (Vandermerwe 2000). By way of proof, France Télécom, which has

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been accused several times of abusing its dominant position (Les Echos 15/07/1999), made customer value creation its "sixth priority for 1999"; this analysis could be applied to other international companies. Thus, we are faced with a highly topical subject and even if it is a "fashionable" phenomenon, there is great interest in describing its content and understanding the reasoning behind it (Thévenet 1985).

Research on customer value creation strategies has increased significantly, mainly over the past ten years. Customer value creation came to be the basic objective that a company must strive for (Normann and Ramirez 1993; Ohmae 1988; Vantrappen 1992). But, although there is a consensus among marketers concerning the impact of customer value creation on desired company results –"word-of-mouth", repurchasing, etc.- (Reichheld 1996; Zahorik and Rust 1992), there is no general agreement on what it is or how it should be conceptualized. It seems to us that most research on customer value creation lacks a unifying framework. This inevitably creates obstacles to measuring it, implementing it inside the company and studying its relationship to company performance.

Basically, it appears that, on the one hand the adoption of the concept by companies should be put into perspective and, on the other hand, that its implications are still poorly understood due to conceptual weaknesses and the small number of empirical studies on its relationship to company performance.

The theme of customer value creation is therefore important for researchers and practitioners. The former may wonder about the conceptual differences between the constructs involved in it, their connections and their measurement, while the latter will be interested in what marketing strategies to adopt to influence consumer behavior. The aims for researchers and managers are therefore closely linked, since it is a question of providing the former with a conceptual framework to help the latter to put these constructs into practice with a view to improving company performance. This can be summed up by the following adage: "if you can't define it you can't measure it, and if you can't measure it you can't improve it".

In the face of these different observations, we think that a large part of our work must center on the study of the concept of customer value creation itself and putting its content into context, and while doing so taking into account the viewpoints of the various economic players, the competition and customers. This is one of the main contributions of our research on the scientific level. It will not merely be a question here of trying to set the language but also to apprehend the complexity of the foundations for companies underlying customer value creation.

CONCEPTUAL BACKGROUND

The theoretical framework of the research borders on three fields of strategic and marketing literature. Here we will only give the main conclusions from a review of the literature which led to the implementation of the conceptual model.

General Framework: Market Orientation

The general framework of our reflection on customer value creation is based on the customer paradigm and Market Orientation which is the cornerstone of this paradigm.

The end of the '80s saw the return of the customer to the center of strategic and marketing concerns in companies (MSI 1987). These concerns became the focus of challenges that can be referred to under synonymous terms as "market-oriented, customer-focused, market-driven or customer-centric" (Deshpandé 1999, p 1). The beginning of the '90s gave rise to a desire to formalize the Market Orientation concept that was denounced by the behavioral perspective (Kohli and Jaworski 1990, 1993) and the cultural perspective (Narver and Slater 1990, 1994, 1995; Day 1994). The debate then extended to the question of whether it was more a cultural phenomenon (Narver and Slater 1990; Deshpandé et al. 1993) than a managerial one (Shapiro 1988; Ruekert 1992; Kohli and Jaworski 1990). In terms of conceptualizing Market Orientation, we will adopt the cultural perspective as it appears to be at the heart of the concept (Lafferty and Hult 2001) and crucial for companies (Day 1990, 1992, 1994; Deshpandé and Webster 1989; Deshpandé et al. 1993; Narver and Slater 1990; Workman et al. 1998).

Lastly, the analysis of the literature shows that the different definitions of Market Orientation have several points in common: they all have the customer or his needs as their starting point, they are all oriented toward the environment of the company, they all stress, explicitly or implicitly, the importance of satisfying the customer and they all suggest that the customer should not be the only subject of company concerns – other elements such as the competition must be taken into account. By its transversal nature, we feel that Market Orientation defines a general framework that is coherent with customer value creation (Tarondeau and Wright 1995).

Strengthening the Notion of Resources

The notion of resources comes from the desire to describe with precision all the company's potential, with resources being the basic elements used to define this potential (Barney 1991; Dierickx and Cool 1989; Peteraf 1990; Wernerfelt 1984). This potential has to be exploited with a view to creating customer value (Barney 1991 in Rindova and Fombrun 1999).

While it is necessary to take into account factors related to the company itself, this *resource-based view* sheds light on the ways in which the company will implement the strategies designed to create customer value. This inside-out approach is part of a line of reasoning which has led to the resurgence of a theoretical framework based on the study of resource valorization, but it does not indicate "the direction to take". Now, if competitive advantage is the result of a company mobilizing specific skills, companies need to redefine an analytical framework that will include the market context in which the company competes (Porter 1991; Amit and Schoemaker 1993).

Lastly, and while most of the research based on resources is theoretical, our method is part of a growing trend in empirical studies of them (see Henderson and Cockburn 1994; Helfat 1997; Schoenecker and Cooper 1998; Farjoun 1998) in which research on market-based assets offers a promising avenue (see Srivastava, Shervani and Fahey 1998; Srivastava, Fahey and Christensen 2001).

From the Value Chain to the Value System

In 1985, Porter used a concept developed by the "analytical school" to present the sources of competitive advantage through an analysis based on value, which he defined as "the amount that customers are willing to pay for what a firm has to offer them". Using the concepts of value chain and value system, the company will be able to pinpoint a competitive advantage and try to reinforce it. Thanks to the analysis of the value chain, it is possible to identify the activities which will create a competitive advantage for the company. The company will in turn exercise these strategically important activities cheaper or better than its competitors and will be able to manage the relationships between these activities. But, more than the value chain, the notion of value system will enable the company to work on the elements which can create customer value. The company's value chain is part of the "value system" which is made up of the value chains of the other players in the company's life cycle (suppliers, distributors, customers, shareholders, employees). By studying the transversal relationships, and notably the relationships between its own value chain and that of its customers, the company will be able to concentrate on creating value for that customer.

Furthermore, it is interesting to observe that Porter looked into the mechanisms for creating customer value and the customer's perception thereof. According to him, "a firm creates value for the customer that justifies a surcharge (or preferably an equal price) by using two mechanisms: cost reduction (financial cost, psychological cost, etc.) for the customer and an increase in performance". These costs arise from the way the company's value chain is connected to its customers' value chain. Thus, it is not only a question of determining what the customer wants and to deliver him a "value proposition" (see Lanning 2000), but also to make sure that the customer perceives this value. Porter then uses the "value signal" notion to designate the criteria that the customer uses to deduce the value created by a firm. The company objective is therefore no longer limited to creating customer value but also to making the most of the perception that the customer has of the value offered. We will not go into the discussion around the term "value" here, but we should point out that marketing research following Porter's work has underlined a lack of consensus on this central marketing concept (Grisaffe and Kumar 1998), be it on the level of its interpretation (Sivakumar and Raj 1995) or in terms of the benefits it may provide (Zeithaml 1988; Chang and Wildt 1994), just as certain authors (Gale 1994) "criticize" the conceptual frameworks proposed by others (Zeithaml 1988).

Thus, we consider that the framework for creating customer value presupposes, firstly, non-mechanical organizational processes and, secondly, a systemic approach which considers the company as an open system which receives information from the market and generates economic signals through an appropriate response. The resulting conceptual model is presented in the following section.

PROPOSITION OF AN INTEGRATED CONCEPTUAL MODEL

Our conceptual model consists in observing the antecedents and consequences of customer value creation. Our goal is to shed light on descriptive and explicative factors that are interrelated in a dynamic where "non-rational" components have their place. In an environment characterized by strong uncertainty, it would seem that the normative models do not provide satisfactory explanatory value and risk locking decisions for change into a self-perpetuating process.

Customer value creation, conceptualized as a process, is part of the "marketing strategy implementation issue" and aims at responding to the "strategy formulation/implementation dichotomy" (see Piercy 1998).

The model's presuppositions are that customer value creation plays a unique role in the "market space" (see Rayport 2000) once it has the attention of managers, competitors and consumers. Managers look for mechanisms to differentiate their product offers in the "market space" and to provide their customers with the "highest level of satisfaction" so as to increase the retention rate and loyalty, considered the single most important source of long-term performance (Heskett et al. 1994; Jones and Sasser 1995). It generates a set of economic signals (perceived quality, price, etc.) which are observed by the competition to forecast major strategic changes in the quest for new sources of growth, and openings in the company's competitive world are often opportunities for launching new products. Consumers watch the same economic signals for information that can enable them to make purchase decisions. Lastly, legitimacy places the company within a shared system of beliefs and norms which includes the various players in the market thanks to the reputation it has made for itself (Rao 1994).

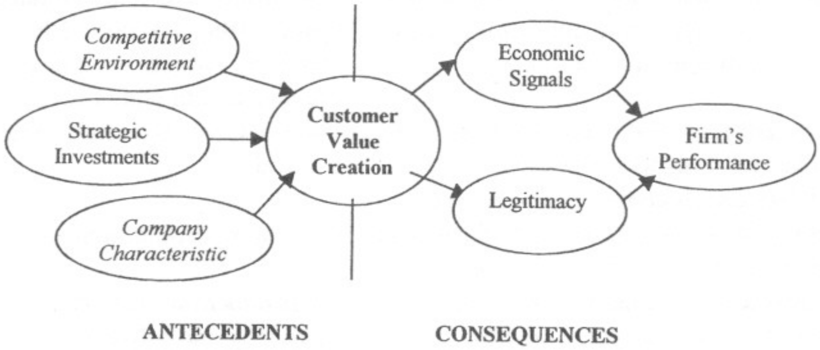
We explain the choice of different levels of analysis because we feel that they provide us with "tracking" through finer variables and a more exact evaluation of performance (Aaker and Jacobson 1994). It will then be possible to bring together both subjective and objective measurements (Ittner and Larcker 1998) of firm's performance insofar as a high level of satisfaction improves company's financial performance by increasing loyalty among current consumers, reducing price elasticity, lowering marketing costs through positive "word-of-mouth", reducing transaction costs and improving the company's reputation (Anderson, Fornell and Lehman 1994; Fornell 1992; Reichheld and Sasser 1990).

BRIDGING THEORY AND PRACTICE: THREE "SUCCESS STORIES"

The observation of real cases is enlightening when looking at the links between conceptual interests and managerial practices. It is thus very interesting to describe the behavior of certain companies which have placed customer value creation at the heart of their marketing strategy.

We have built up this case study method in the form of a "cascade" to try to demonstrate that customer

FIGURE 1



value creation has spread in time in concentric circles. From Dell, which is our basic model, to eBay and Hugo Boss (even though the "restructuring" of the latter began before the founding of eBay). Each of these companies has its own features as well as points in common.

Dell Computer Corp.

Dell Computer Corp. and eBay, Inc. have both gotten rid of intermediaries in order to establish direct contact with each of their customers or to put their customers into direct contact amongst themselves. By notably taking advantage of the Internet technology, these companies have placed their customers at the heart of their concerns and have systematically made them benefit from any cost reductions or quality improvements that they have made.

The vision? That of an unconventional, charismatic leader, Michael Dell, who reinvented the production-demand scheme.

From the customers' needs to the Dell model: It is no longer a question of selling computers but rather of defining customized computer systems directly with the customer. The principles of the Dell "Direct Model" are: 1. Know your customers, 2. Know what they want and don't want, what they like and don't like, and what they value the most, 3. Know what you can do to make them more efficient in their work (Dell 1999).

Competitive advantages: Dell has created a process for the simultaneous management of perceived quality and cost "through what could be called a virtuous cycle of competitive advantage". This leads to a reinforcing back-loop phenomenon (Achi et al. 1995) with, at the start, the use of direct-sales techniques (telephone, then Internet): the savings made on jobs which do not create any value for the targeted customers (elimination of intermediaries) are automatically reinvested in those which do create value (use of higher-quality components). This improvement in quality makes it possible to reduce the cost of certain services (on-line or on-site maintenance) and also contribute, in turn, to an improvement in the quality perceived by the customer

Customer predominance: Like its leader, the entire company is "dedicated" to the customer: "... convinced that a cost/price advantage is not lasting, ... an understanding of the needs of each customer becomes, for all company departments – from production ... to sales – the central point of all meetings, training and employee education programs" (Dell 1999).

Customer participation in production: Direct sales enable the company to link production to customer demand and to reduce lead time. Whatever the purchasing channel used (Internet or telephone), the customer participates in setting up his own computer system. In 1991, an analysis of customers in the computer industry showed that Dell gave greater satisfaction than its competitors due to the ability of the customer to participate in the production process (Dell 1999).

Cost management: Dell's costs are approximately 50 percent lower than those of its competitors, which gives it a structural commercial advantage (the

Internet greatly amplified this until certain competitors adopted this method) thanks to a sales system free from any time-consuming sales intermediaries who might increase costs.

A decrease in cash flow needs due to a very low level of stocks of finished products and raw materials. Dell has a system of supplies, production and distribution that is one of the most efficient in the sector and which makes it possible to eliminate stocks of finished products, thus reducing component stocks and maintenance costs.

Prices: Customers benefit from part of the savings that the company makes. The company also has a great deal of leeway if a competitor starts a price war.

To sum up Dell's success, it can be said that it is based on the creation of value for each customer segment, through products and related services. By eliminating activities which do not contribute to customer satisfaction and by investing in other activities, Dell has been able to quickly offer customers systems that are more powerful, richer and more functional, at the same price or for less, while providing better service.

eBay, Inc.

eBay, the symbol of the direct sales market, has become the champion in Internet auction sales by facilitating exchanges between people and thus pinpointing a latent need. Based on the "C-to-C" (Consumer-to-Consumer or "Peer-to-Peer") approach, its founders and managers have built, since 1995, a company which groups together a community of several million repeat users. eBay is the world's number one on-line auction site and boasts more than 30 million members.

The vision? eBay has, in a way (like Decathlon in French sports retailing) "democratized" access to auctions, which had traditionally been reserved to a small number of individuals, and its success may constitute a model for a new transaction system that can be extended to other fields, thanks to the Internet.

A value system that is the source of competitive advantage: eBay has created a veritable "market space" (see Rayport 2000) with no perceptible frontiers, which is transparent for the various players, and in which supply is adjusted to demand, thanks to a dynamic, interactive price setting method.

Customer predominance: Total.

Co-production and Loyalty: A system that is self-managing and self-enriching through co-production by the various players (Maître and Aladjidi 1999: "eBay was the first site to create a discussion forum where web surfers could share their experiences, and on their credibility as sellers (regarding meeting deadlines, packaging and transport). Sellers who receive excellent comments are given 'good points' by the buyers. This helps to make transactions easier and more credible, and also brings about loyalty to the site. On the other hand, a 'problem' seller is rapidly detected and excluded from the circuit without the company having to intervene.").

Products and related services: eBay continually strives to broaden its exchange platform by creating new categories of objects to buy/sell as well as new services (chat forums, hosting personal pages to present objects, on-line search capacities, quick processing). The company invests heavily in R&D to constantly improve the site's technical performance and ergonomics.

Cost management: eBay is only an intermediary between people involved in transactions. The result for the company is a considerable reduction in structural overheads, as it does not have to cover inventory risks and logistics costs (Maître and Aladjidi 1999: "The only risks that remain come from disagreements which may arise between the parties in a given transaction. So far, eBay has protected itself from this minimal risk by imposing a code of good conduct, a method for amiable resolution of disagreements and a relatively dissuasive 'antifraud' service."). This has enabled the company to generate large margins and thus be profitable.

A reduction in general and administrative costs ... eBay has outsourced part of these functions (personnel costs, infrastructure maintenance, etc.) in order to concentrate investments on those activities which influence customer's perception of quality (see Products and Related Services).

...for more investment in Marketing/Sales: The reduction in costs for activities which do not influence customer's (targeted) perceived quality enables eBay to focus its efforts on extending its community of members and strengthening the brand name (targeted communication campaigns, building partnerships with sites with huge traffic, advertising in traditional media, etc.).

A decrease in cash flow needs which is the result of one simple principle: eBay does not sell anything and therefore has no inventory, providing a clear cost advantage over the companies traditionally competing on the Internet (much lower cash flow needs than the competition).

Prices: The eBay model is based on a simple principle of rates: the prices must not dissuade people from joining the community. Maître and Aladjidi (1999) emphasize the diversity and low level of its pricing method, which is based on micro-subscriptions (a very low registration price for ads for the seller and a small commission on transactions made, between 1.5 and 5 percent depending on the type of object exchanged).

Auction companies have always existed, but have never achieved such performances. Above and beyond the system used to bring people into contact, i.e. the Internet, eBay provides a model for reconfiguring the interface with clients. The model is so efficient that, with the merger-absorption of the i-bazar site, the company has almost total market occupation. Therefore the main risk could lie in creating a monopoly situation and "customer lock-on" (Vandermerwe 2000).

Hugo Boss AG

The case of Hugo Boss illustrates the way in which one dominant sector - luxury goods – not traditionally concerned with creating customer value, has managed to embrace the concept. A status symbol in the '80s, the brand was not prepared to resist the economic crises of the early '90s and the return to austerity. They could have taken the risk of lowering the product range, but instead the brand embarked upon a different sort of risk: to expand from Haute Couture to ready-to-wear while remaining in the luxury sector. The question was then how to respect the brand's contract so that it continued to reassure the customer with an image of style and quality. The answer is by taking an interest in its customers and how to satisfy them now and in the future.

Hugo Boss: Is creating customer value compatible with luxury?

Luxury goods are designed for a clientele that is sensitive to the quality and unique character of the product and for whom price operates as a reassuring signal. The brand is one essential element in the Hugo Boss line and has always signaled top-of-the-line products. If this market is protected by the brand, it is because the brand is the vehicle for considerable added value in the eyes of the customer.

The vision? From fashion to the customer, a break with Hugo Boss's past and with the sector's traditions ("If you work for a long time in a certain industry, then the danger is that you feel the same way as everyone else and there are things you will never do because they are crazy or wrong. I believe that many of the things we have done over the past year would not have been possible if I had come from the industry. They would have been seen as either too dangerous or crazy.", P. Littmann CEO Hugo Boss AG).

Segmentation and positioning: A portfolio of 3 brands, each with a precise target and specific positioning with Hugo Boss as the umbrella brand: 1. Boss by Hugo Boss ("The classic business look for the man who is fashionably discreet"); 2. Hugo by Hugo Boss ("Softer lines, informal and relaxed, for the man interested in fashion"); 3. Baldessarini by Hugo Boss ("Top quality, hand-crafted in Italy for the man who can afford whatever he wants"). Brand architecture with a construction that is the opposite to what many of its competitors have: it avoids discounts (nearly 30% of total sales) which, while creating a certain short-term attraction, end up irremediably harming the mother brand in the long run.

A general reduction in costs: Starting in 1991, the company undertook drastic reductions in its costs: "raw materials" (-17 percent), personnel (-18 percent) and debt (50 percent).

Concentration on value-creating activities: Hugo Boss controls the quality of its textiles but outsources production to more qualified partners. By subcontracting that which least influences quality or is less perceptible by the customer, the company can concentrate on the essentials. The cut (thanks to investments in high-tech) creates immediate value for customers, looking for both "standardization" and a top of the line product. And achieving this balance constitutes one of the company's central capability. In this way, Hugo Boss increases customer loyalty and reduces costs. Distribution is a major challenge, as it concentrates a large share of add-on elements to customer value. Therefore it is not surprising to see the company "rationalizing" its distribution system and opening its own boutiques.

Prices: The 3 lines have precise price positioning that is consistent with their segmentation.

Rationalization a posteriori.

When observing the history of the main and oldest companies in the luxury sector, it appears that the brand is both the main resource and the main competitive advantage for these companies, but also the first barrier to entering this sector. The conflict between the short term and the long term could characterize the problems facing companies in the luxury sector today: maximizing value created in the short term risks destroying value created in the long term. Many of these companies have been unable to solve this dilemma: how do you create today's performance as well as the conditions for tomorrow's performance?

A company that divests itself of all activities that do not contribute to creating short term customer value has misunderstood some of the lessons learnt from companies that create value, having invested in activities that create value as well as in activities that encourage it. Hugo Boss has used these principles to develop the "Boss Woman" collection, whose future is expected to be very bright (UBS Warburg 2001).

CONCLUSION

This article has tried to give the outlines of a strategic and marketing reasoning based on environmental intelligence (market) and stresses a dynamic conception of the process of customer value creation through the reinvention of forms and sources of such value. It presupposes redefining the company's frontiers through a constant process of construction and de-construction of competitive advantages.

Lastly, we propose to define "customer value creation" as a company's ability to offer the customer a perceived relative value (combination of perceived relative quality and perceived price – the "market price") greater than the competition's, given the products on offer that he has access to (Tournois and Montebello 2001). At this stage, it is important to point out that, by the concept of creating customer value, we do not mean an independent unit with its own laws nor a receptacle for meanings, many of which lie outside the perspectives and intentions of managers. It is considered as "transcending" the worlds of consumption, market segments and audiences. Value Creation can thus be considered on a more global level as a system which brings together variables affected by managerial decisions and behavioral responses from the competition, customers and financial markets. Apprehended both integratively and transversally, customer value creation should help companies to legitimize their action and to share it with internal and external players ("stakeholder approach").

Today, it is interesting to consider the company as a portfolio of resources (mainly intangible) which have to be protected-regenerated-valorized within a general framework which is Market Orientation, with a view to providing the customer with superior value than the competitors. But strategies which aim at creating customer value require considerable investment and emphasize a distant horizon. These features are even more salient when we consider that the process is based on resources which imply the construction, acquisition and reinforcement of skills, a very long-term process. Thus, "the investments, the risks taken and the time needed to reach supremacy in the field of fundamental capabilities/competencies are so great that they can only be achieved through the involvement of the entire company" (Hamel and Prahalad 1994). This mobilization of company actors around a common organizational culture centered on the goal of creating ever superior value for customers is a slow, progressive process whose source lies in the Market Orientation. This quest for a long-term competitive advantage and the quest for immediate value for shareholders are no longer conflicting objectives. As Vantrappen (1992) pointed out "it is only by creating value for the customer that the firm will create value for its shareholders".

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1 Part of this paper was presented at the MMA Spring Conference in Chicago 12-14 March 2003.

2 The terms "customer" and "consumer" are used interchangeably in this article.

3 The three "success stories" were writeen in collaboration wtih Professor M. Montebello from the IAE of Aix-en Provence.