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USING SERVICE LOGIC TO REDEFINE EXCHANGE IN TERMS OF CUSTOMER AND SUPPLIER PARTICIPATION

Guilherme D. Pires[1], Alison Dean[2], Muqqadas Rehman[3]

ABSTRACT

Service logic emphasises value co-creation, although mostly contending that the customer alone creates actual value. Value co-creation and co-production imply customer and supplier participation, but the literature mostly omits participation issues. This paper disentangles notions of production and co-production from the creation and co-creation of value propositions, and from the assumptions underlying value-in-use. The focus is on participation in exchange by customers and suppliers and their contributions at various stages of the value creation process.

The paper uses service logic to develop a process model of customer and supplier participation in exchange with three phases (production, negotiation and usage), explores why suppliers allow customer participation in value proposition creation, and the motivations compelling customers to participate. Understanding how supplier and customer participation impact on value proposition creation and on value-in-use, provides an impetus for improved targeting practices, enhanced supplier ability to compete, and more focused research.

[1] Newcastle Business School, University of Newcastle, Australia, 2308. Telephone: 61 2 49218698. Facsimile: 61 2 49216911 Email: guilherme.pires@newcastle.edu.au - Corresponding Author
[2] Newcastle Business School, University of Newcastle, Australia, Email alison.dean@newcastle.edu.au
[3] Newcastle Business School, University of Newcastle, Australia, Email muqqadas.rehman@newcastle.edu.au

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1. Introduction

Within turbulent and complex competitive market environments, suppliers compete by offering distinctive value propositions for customers to assess and possibly select. Competitive advantage is achieved by the supplier offering the value proposition that customers deem to be superior (Day & Van den Bulte, 2002; Tuominem, 2004; Vorhies, Harker & Rao, 1999). However, an extensive review of the literature reveals an omission with respect to a rigorous definition of a *value proposition* in a marketing context (Frow & Payne, 2011).

Used recurringly, the term remains open to interpretation, which contributes to some latitude on what is inferred from it and how it is applied. Alternatively referred to as *value conception* (Moutinho & Southern, 2010), a value proposition is variably said to convey what the product does for the customer (and sometimes, what it does not do), typically including information about pricing relative to competitors (Walker, Gountas, Mavondo & Mullins, 2012, p. 183), about the benefit(s) offered by the brand (Cravens & Piercy, 2006, p. 278) or, more explicitly, about the attributes that organisations provide to their customers ... expressed as the sum of the product or service's attributes, the customer's perception of the value of a relationship with the organisation and the organisation's image (Dann & Dann, 2007, p. 82). In summary, a value proposition has been recognised as comprising all the attributes that suppliers offer to provide to their customers, potentially creating some distinctive perception of value.

In contrast to the focus on suppliers offering a value proposition, historically all value is deemed to be created and perceived by customers (Porter, 1985; Vargo & Lusch, 2004), who turn the subjective *proposal* of value into *actual* value. Hence, the same value proposition offered by a supplier may be highly valuable for one customer and of no value at all for another. Consequently, in a rigorous sense, the concept of *co-creation of value,* while intuitively logical and appealing, is generally elusive (Grönroos & Voima, 2013). Value for the supplier is perceived by the supplier alone and value for the customer (alias customer value) is perceived by the customer alone.

Distinguishing between value and value propositions, we contend that value propositions may be co-created and co-produced via customer *and* supplier participation. Ballantyne and Varey (2006) refer to value propositions as *reciprocal promises of value*, operating to and from suppliers and customers seeking an equitable exchange (italics added). We adopt Ballantyne and Varey's (2006) definition, and use it as the basis for exploring the gap in the literature related to the process of customer *and* supplier participation in the determination of value propositions for exchange. That is, contrasting with the perception of *value*, assessed solely by suppliers or by customers**,** a *value proposition* can be variably created and produced solely by the supplier, or the supplier can be assisted by the consumer in co-creation and/or co-production (Grönroos & Voima, 2013; Vargo & Lusch, 2006; 2008). In the former case, the customer is passive and merely assesses (assigns some notion of potential value to) the proposition of value offered by the supplier, subsequently accepting or declining the offer (Prahalad & Ramaswamy, 2004b). In the latter case, the customer participates actively in the exchange process before its final assessment, either by co-creating the value proposition offered by the supplier, presumably in a value-adding way that may entail shared inventiveness and co-design, or by shared production of the core offering itself (Vargo & Lusch, 2006).

Customer participation is defined as the degree of a customer's effort and involvement, whether mental, physical and emotional, that relate to the production and delivery of a service (Cermak, File & Prince, 1994; Silpakit & Fisk, 1985). Customer participation involves the customers' technical resources (e.g., labour and knowledge), and their functional (interactional) qualities, including interpersonal aspects such as friendliness and respect (Ennew & Binks, 1999; Kelley, Donnelly & Skinner, 1990). Customers may be required and expected to contribute to service creation, production and delivery, or may display voluntary and discretionary citizenship behaviour (Yi, Nataraajan & Gong, 2011). Participation is considered to be high, if customers are involved in service *co-creation*, that is, they contribute more than is essential for the service to proceed, with an emphasis on enhancing value, usually by increased customisation. In contrast, *co-production* of the core offering follows co-creation and enables service delivery, necessitating moderate or lower levels of participation. For example, participation is higher if customers are required to provide information or exercise some effort, as compared with simply be physically present (Bitner, Faranda, Hubbert & Zeithaml, 1997).

Customers may value positively or negatively their participation in the creation and/or production of a value proposition. For example, consistent with a positive link between customer participation in healthcare decision-making and improved psychological well-being, improved medical status, and greater satisfaction (Ashcroft, Leinster & Slade, 1986; Fallowfield, Hall, Maguire & Baum, 1990; McColl-Kennedy, Vargo, Dagger, Sweeney & van Kasteren, 2012), a patient may value the ability to ask questions and to be given the ability to choose between alternative treatment plans. In contrast, another patient may prefer being told what to do, without accepting any responsibility for which treatment to follow. Participation is highly valued in the first case, leading to possible co-creation and co-production, while non-participation is valued in the second case, and the service is simply created (and produced) by the supplier. The underlying value proposition is built on different (desired and expected) levels of participation; hence, understanding why and how customers participate is a key factor in understanding value proposition creation, customer value creation and, ultimately, what contributes to competitive advantage. Similarly, suppliers may seek to pre-determine a value proposition, or using our definition, they may wish to engage in a reciprocal process that benefits both parties during exchange. Unpacking this value proposition process, from the perspectives of both customer and supplier participation, is the essence of our contribution.

This paper is structured as follows. First, we consider the value proposition and distinguish it from customer-perceived value, and then we consider the concept of value-in-exchange and its relationship to value-in-use. Next our discussion focuses on the concepts of service logic and service-dominant logic, as the theoretical framework for redefining exchange, and finally we present a detailed process model that demonstrates options and motivations for, and implications of, customer and supplier participation in service exchange.

2. Distinguishing the value proposition from customer-perceived value

As noted above, value propositions are reciprocal promises of value, operating to and from suppliers and customers seeking an equitable exchange. However, in the past, many scholars noted that value propositions are created by suppliers to indicate the set of benefits intended to provide value for customers (Grönroos, 2006; Morris, Schindhutte & Allen, 2005, Vargo & Lusch, 2004), and they are appraised by customers alone (Lusch & Vargo, 2006; 2004; Porter, 1985; Yoon, Guffey & Kijewsk, 1993). The argument is that rational and informed customers will select the value proposition that they perceive to be superior in meeting their requirements. Also taken into account in the customers' choice decision are the sacrifices, such as monetary and non-monetary costs, they expect to make in taking advantage of the various competing value propositions.

Congruent with a utility model by Bilkey (1953) accounting for positive and negative valences, net value emerges as the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given (Zeithaml, 1988, p. 14), perceptions that may or may not match. Hence, ultimately, it is reasonable to expect that customers will choose between available value propositions based on their own assessment and expectations of value – a view endorsed in this paper that reinforces Grönroos and Voima’s (2013) inference that *value as value-in-use cannot exist before it is created (or emerges) from the usage process, where it is accumulating, and therefore cannot be assessed before usage* (p.4). However, an evaluation of the likelihood of achieving that value can be, and is, made during the value proposition stage. Further, when value-in-use is known from a prior purchase, the new value proposition is judged in the context of experience.

In a competitive market, a supplier that offers the superior value proposition has a competitive advantage (Porter, 1980) arguably grounded on some unique capability or competence the supplier possesses to effectively use its resources to serve customer needs and wants (Fahy & Smithee, 1999). This focus on supplier resources is tied to a goods logic whereby a supplier has *all the power* to provide value (Mele & Polese, 2011), and to market it to customers (Cova & Salle, 2008). Such a view is consistent with the notion of the supplier-initiated superior value proposition, when all value is customer perceived value. However, customers are a resource and they may elect to *participate* in value proposition creation, potentially providing the factor that determines superiority because of a closer match with customer requirements. Further, when customers elect to participate, their overall perceived value will likely be greater.

One way that a supplier may improve its ability to offer a superior value proposition is through customer research, such as that seeking to establish the value of a product to potential target customers within the new product development process (Tzokas, Hultink & Hart, 2004), as well as gaining an accurate understanding of the attributes customers care more about, or perceive to be of greater value to them. The growing usage of social media may assist in this aspect, facilitating greater supplier's awareness of customer needs and improving their ability to offer a superior value proposition. Another possible way is to encourage or facilitate actual customer participation or involvement in creating the value proposition. In a service context, customer participation has been found to be strongly associated with repurchase and referrals (Cermak et al. 1994).

The rationale underlying customer participation also assists in understanding why suppliers may choose to *customise* their value offerings, that is, to cultivate relationships that involve the customers in developing individualised, competitively compelling value propositions to meet specific needs (Vargo & Lusch, 2004, p. 5).

Customised value propositions are a recurring phenomenon in the marketplace. A customised value proposition is one that has been adapted to meet specific customer requirements and only those (Johnson, Christensen & Kagermann, 2008; Payne, Storbacka & Frow, 2008), in contrast to a standard value proposition that is offered unchanged and indiscriminately to all customers. For example, the Vila Gale Hotel chain allows guests to choose from a list, whatever combination of supplementary benefits they wish to enjoy for no extra charge during their stay, with different guests typically enjoying different combinations of benefits (e.g. daily newspaper plus free breakfast, late check-out plus free movies) (http://www.vilagale.pt/pages/promocoes/?categ=3). More frequently observed is customisation by high customer participation, with or without organisational socialisation (Kelley, Skinner & Donelly Jr, 1992) in the delivery of many people-processing services, such as hairdressing, custom-tailoring services, face-to-face-teaching or medical consultations.

Ultimately, value proposition customisation lets suppliers adapt their standard value offer by taking a customer's specific requirements into account, possibly through interaction and dialogue with the customer (Payne, Storbacka, Frow & Knox, 2009), arguably making their offer more valuable in that customer's eyes because it matches more closely the attributes desired by the customer. Value proposition customisation can also be interpreted as involving a deliberate facilitation process which allows for customers' more or less extensive participation, by integrating their own resources (such as intimate knowledge of their own needs and wants, likes and dislikes, expectations) with the productive resources of the supplier. The supplier benefits because of its greater ability to offer a superior, or at least perceived as better, value proposition, implying greater perceived value for customers.

Hence, an alternative interpretation of the logic of customer participation is to appreciate resource integration for its role in enhancing the supplier's ability to facilitate customers' creation of value for themselves (Tynan, McKechnie & Chhuon, 2010; Vargo & Lusch, 2008). To the extent that customers benefiting from the facilitation process reward the suppliers by purchasing from them, and possibly becoming loyal and promoting positive word-of-mouth (Cermak et al. 1994; Johnson & Grier, 2011), resource integration via customer participation can assist in creating value for both suppliers and customers, leading to competitive effectiveness and denoting a swing from a goods-centered marketing logic to a service-centered marketing logic (Bendapudi & Leone, 2003). We suggest that facilitation by suppliers is deliberate; they seek to help customers create value for themselves, a premise arguably congruent with postmodern philosophy of customer and supplier collaboration (Cova & Salle, 2008; Lusch & Vargo, 2006), and with consumer culture theory (CCT) (Arnould, 2006; Healy & McDonagh, 2012). However, it is unclear whether collaboration in developing the value proposition during exchange is the norm, a matter explored in the next section of this paper.

3. The concept of value-in-exchange and its relationship to value-in-use

Taking a view of marketing as exchange (Pyle, 1931), the core of marketing is the transaction, involving the exchange of values between two parties (Kotler, 1972) such that, *quid pro quo*, something of value is exchanged for something of value, or value-in-exchange. Following Bagozzi (1975), marketing exchanges involve both utilitarian and symbolic aspects, whereby goods are given in return for money or other goods, although noting that the motivation for the exchange lies in the anticipated use or tangible characteristics commonly associated with the objects in the exchange. Associations are important because people buy things not only for what they can do, but also for what they mean (Levy, 1959), that is, consumers can derive subjective intangible benefits from goods beyond their functional utility (Vigneron & Johnson, 1999). An interpretation of Bagozzi's reference to anticipated use involves the assumption that customers must be aware of their intention to use a product in some way before they purchase it. This means that customers must be able to perceive value-in-use, before they take value-in-exchange into account. That is, under normal circumstances, if a customer cannot anticipate any particular use for a product on offer, that customer has no incentive to enter into an exchange involving that product. Notwithstanding this logic, suggestions of a necessary direct relationship between value-in-use and value-in-exchange (Grönroos, 2008), may not be warranted. Rather, value-in-exchange may be, or may not be taken into account by customers in their perceptions of value-in-use. For example, the resale value of a car (value-in-exchange) may still be considered as a matter of importance by customers in choosing between competing value propositions for the car, although value-in-use may be the determinant choice factor. This supports Grönroos' (2008) view that value for the customer is not created by the supplier, but created in the customers' value-generating processes.

The question of the relationship between value-in-exchange and value-in-use can be further explored by reference to the integration of a supplier's resources with those of the customer in the customisation process. Customisation allows suppliers to adapt their standard value offer by taking a customer's specific requirements into account, and making their offer more valuable in the customer's eyes. However, the greater the customisation of the value offer to the requirements of one particular customer, the less standard the value offer becomes. This may cause a reduction in demand by other customers, possibly reducing the market value or value-in-exchange of the offer, while increasing value-in-use for the customer in question. It is not infrequent for suppliers to sell unwanted customised products at heavy loss. Hence, we suggest that the customisation requires suppliers to have a complex strategic vision of customer's value-in-use, to justify adapting their standard offer. This more holistic view of value-in-exchange and its relationship to value-in-use is fundamental to the ideas underlying a service process logic, or service-dominant logic, explored in the next section.

4. Service logic and service-dominant logic as the theoretical framework for redefining exchange

During the past decade, marketing scholars have embraced the concepts of service logic (Grönroos, 2006) and service dominant logic (S-DL) (Vargo & Lusch, 2004). In essence, S-DL disregards value-in-exchange by contending that products have no embedded value for those who hold them, whether suppliers or customers. Rather, value resides in the benefits customers perceive to gain from service consumption and/or ownership (Vargo & Lusch, 2008; 2004). Consumers may gain this value during a joint process of co-creation or as ‘sole value creators’ when they consume independently of the supplier (Grönroos, 2006). Vargo and Lusch (2008; 2004) emphasise the collaborative nature of value creation, focusing on goods as a means of distributing service. In pursuing these ideas of S-DL, Grönroos (2008) uses the term s*ervice logic* in preference to *S-D Logic*, based on the assumption that it represents a new logic for marketing, rather than an approach that adds weight to the service aspect of an alternative logic. In either case, this logic involves a value-creating system that requires more than one economic actor or resource integrator (suppliers, business partners, allies, customers) to put in combined efforts in order to co-produce value (Callaway & Dobrzykowski, 2009).

Looking at the value creation process from a value-in-use perspective, Grönroos (2009) identifies three key steps in value creation, namely value facilitation, value co-creation and sole value creation. The first step involves only the supplier, who is in charge of the production process. The step is called value facilitation because the supplier produces tangible and (facilitates) intangible core service offerings that can subsequently be used by customers in a value creating way. This value is only a suggested value that customers need to convert into ‘real’ value, alone in the sole value creation step.

The second step, value co-creation, implies that the supplier and customer interact to follow through on the exchange. Although not clearly articulated, this step assumes that some degree of negotiation takes place during service encounters, for example about the terms of the exchange (such as price and delivery), presumably leading to co-creation of the final value proposition to be assessed by the customer relative to other value propositions on offer. The step is called value co-creation because participation in the service encounter allows the supplier to create opportunities to engage with its customers’ value-generating processes, merging into one joint value co-creation process where both parties are active and can influence each other. Notably, this is supposed to reach beyond making value propositions only, allowing the supplier to directly support value fulfilment (or confirmation of customer expected value). Following Tynan and McKechnie (2009) this support of fulfilment may be facilitated by employing experiential, interactive, progressive, evolving and flexible marketing approaches. However, the exact means by which these outcomes arise are not addressed.

Grönroos and Voima (2013) are amongst the few scholars who contribute details to the debate about the influence that suppliers can have on their customers' ultimate perceptions of value. They re-interpret the three steps in Grönroos' (2009) model to involve three value creation spheres, namely a provider sphere (where the supplier is a sole value facilitator by means of the production of resources to be used by consumers in creating value for themselves), a joint sphere (where supplier and customer are deemed to interact in co-production and value co-creation) and, finally, a customer sphere (where the customer is an independent value creator and, notably, the supplier is identified as a value facilitator). Their discussion considers issues around the dynamic nature of the size of the spheres, with emphasis on enlarging co-creation.

One interpretation of the service process forwarded by Grönroos (2009) is that suppliers facilitate customers' value by providing goods and core service offerings that can be adjusted, presumably a priori, by customer's participation in the value proposition creation process, at the supplier's discretion. Customer assessment of all the competing value propositions would then involve perceived value that has been facilitated by the various suppliers involved, plus any other customer perceived benefits associated with their participation in the development of the offering and anticipated value-in-use. However, ultimate benefits are likely to be outside those suppliers' knowledge and control (hence the third step is identified as sole value creation by the customer). We contend that customers' perceptions of their sole value creation is the *raison d'être* for the exchange and, therefore, fundamental for value proposition selection by the customer (Prahalad & Ramaswamy, 2004a). In discussing the customer sphere, Grönroos and Voima (2013) note that such lack of control has the potential to question the whole process of creation of a superior value proposition through the participation and collaboration of suppliers and customers during exchange and, ultimately, the supplier's success in the market. Understanding participation in exchange therefore emerges as a critical factor in contemporary marketing theory.

5. Process model of customer and supplier participation in exchange

As noted above, the implicit assumption of value-in-use, sole value creation, or the customer sphere, is that the supplier has no role to play at all – it involves the customer alone. But Grönroos and Voima (2013) discussion and our argument of facilitation, do not clarify why this must be the case, given possible alternative interpretations of what customer participation in creating the value proposition actually entails. Customers will not be oblivious of the use they will make of the product they seek to purchase (the needs and wants they seek to satisfy) until after purchase takes place. Rather, customer participation in the exchange process may not only be influenced by the nature of the relevant service activity and degree of tangibility of the service-product, but also by a conscious attempt by customers, to influence (customise) the chosen value proposition. This exertion of influence may, or may not, be deliberately facilitated by suppliers. In this context, it is important to consider why suppliers may allow customers to participate in value proposition creation, as well as what compels the customers themselves to participate. This aspect is discussed after an elaboration of the process models for customer and supplier participation in exchange, developed in this paper, shown as Figures 1 and 2, and discussed in turn.

Figure 1 here

Figure 1 shows a model of the exchange process involving three phases: production, negotiation, and usage, loosely corresponding to Grönroos' (2008) perspective of value facilitation, value co-creation, and sole value creation steps, discussed earlier. Beyond nomenclature choices, Grönroos' value facilitation step seemingly excludes customer influence on what is produced (i.e., omits moment **A** in Figure 1), although what is produced is subject to assessments of value by the customers in the value co-creation step corresponding to the negotiation stage that starts with moment **B**. In contrast, the production phase in Figure 1 recognises the potential for supplier facilitation, allowing for possible customer participation and value proposition customisation. From both perspectives, the supplier is in control of the first two phases, which combine to create the value proposition that is assessed by consumers relative to competing value propositions on offer (moment **C**). Customers may or may not elect, or be allowed to participate in the production or the negotiation phases, or both. Accordingly, suppliers may or may not allow customers to co-produce the core service in the production phase, and may or may not allow adjustments in supplementary benefits in the negotiation phase. Any participation by customers on the definition of core or supplementary benefits pertaining to the exchange is interpreted as value proposition customisation.

Corresponding to the sole value creation step in Grönroos (2008) model, the usage phase in Figure 1 is also fully controlled by the customer, but allows for suppliers' possible continued facilitation of value-in-use. The model identifies five moments of possible *customer participation* in an exchange:

1. Prior to the production phase - shown as **A** and corresponding to the idea generation (ideation) or product concept development point;
2. During the production phase;
3. Following the production phase and preceding the negotiation phase - shown as **B**;
4. During the negotiation phase; and,
5. Following the negotiation phase and prior to the usage phase - shown as **C.**

Finally, the model identifies two moments when *the supplier may participate* in value-in-use, moment **C** and during the usage phase that follows, allowing for extended facilitation by the supplier, involving initiatives designed to support customers' value-in-use activities.

The starting moment for customer participation is likely to depend on whether the exchange process is initiated before or after production of the core product and by whom. Consider the extreme case of an off-the-shelf tangible product high in search qualities, such as a grocery product, produced before being made available for sale and sold under a self-service regime. The supplier initiates the exchange process but may not intervene at all in negotiations, beyond possible consideration of competing value propositions prior to moment **B** (involving a production decision and respective terms of exchange). Customer participation is likely to start at moment **B**. The customer identifies the product to be considered and proceeds to the negotiation phase (comparing products and terms of exchange *vis a vis* competing value propositions), with a variable degree of supplier participation if any, and culminating in moment **C,** where a transaction decision is made. Upon a positive purchase decision, the customer proceeds to the usage phase with no other contact with the supplier, even for payment purposes. Extended facilitation is limited to eventual product guarantees and unlikely to cater for value-in-use considerations, of which the supplier is oblivious, but often pre-empts via advertising.

In a more individualised situation, if a physical product such as a picture frame is being produced by initiative of the supplier, for subsequent distribution to retailers, direct customer participation is likely to start at moment **B**. The negotiation phase might involve interactions about adjusting the value proposition for matters such as price, delivery, terms of payment and guarantees, or it might involve changes to the core product itself (Lusch & Vargo, 2006). This phase is also potentially very important in allowing the supplier to collect crucial intelligence during the service encounters on what might constitute superior value-in-use for the customer.

Moment **C** represents the point at which customer takes ownership of the product embodying the service, ready for the usage phase. This is a critical point in the exchange process because it may determine whether the exchange is completed with the parting of ways of the supplier and of the customer, or whether extended value-in-use facilitation through supplier participation is, in fact, initiated. The usage phase can indeed be seen as the moment of truth for the supplier (Normann, 1984), because this is when the customer's expectations are confirmed or disconfirmed, revealing the supplier's ability to retain the customer in the future. Supplier participation may involve, for example, the provision of after sales service as a differentiator but also as a means to find out more about what actually constitutes value-in-use for the customer, and possibly enable further facilitation.

If the customer is the initiator of the exchange process, whether involving tangible or intangible products, the production and negotiation phases are likely to be reversed, as shown in Figure 2, with customer participation taking place before (in the negotiation phase) and during the production phase. This is commonly the case for exchanges involving intangible products and in business-to-business or business-to-consumer exchanges of tangible products. In such cases, the customer may need to choose a supplier from the set of available suppliers by comparing available value propositions (moment **A**), as well as negotiate the terms of exchange prior to production. The decision to proceed to the production phase is taken at moment **B**, and customer participation may be expected to occur during the production phase.

Figure 2 here

For example, consider a customer who approaches a furniture manufacturer to have an item produced, such as a table, according to a plan. The service here is not the table itself. Rather it is the benefit the customer expects to accrue from using (or owning) the table after purchase. Hence production may follow successful negotiation (participation at moment **A**) and the customer may have only minor participation during the production phase, for example, consultation regarding minor changes, and potential delivery times. Customer participation may involve extensive exchange of information between customer and supplier on how the customer plans to use the product, opening an opportunity for the supplier to follow up and assist with any problem during the usage phase (or extended facilitation). Clearly, provided there are no customer concerns with the product that is delivered (such as poor workmanship, incorrect dimensions and excessive delivery delays), supplier participation in the usage phase depends on the service strategies put in place by the supplier.

Alternatively, if the supplier is the initiator of the exchange process and the product of concern is characterised by a high degree of intangibility, customer participation will depend on the process nature of the service activity. Customer participation will be higher in the case of people processing services requiring a high degree of involvement, such as hairdressing or dentistry services, while it will be potentially lower for information processing services, such as accounting services. While some degree of negotiation may take place, it is common for it to be settled by tacit acceptance by the customer of the practice fees required by the supplier. Production and consumption may be simultaneous with frequent exchange of information, including detail about value-in-use, supporting possible supplier participation with extended facilitation in the usage phase.

A two-way-knowledge-sharing approach benefits customers and suppliers during the service exchange process (Johnsen, 2012). However, variations in customer and supplier participation in exchange depend on whether the initiator of the exchange process is the supplier or the customer, and at what point initiation occurs. Therefore, it is important to consider why suppliers may allow customers to participate in value proposition creation, as well as what compels customers to participate in the value proposition creation process.

5.1 *Why customers are allowed to participate in the value proposition creation process*

The reason why suppliers allow, encourage or require customers to participate in creating the value proposition is that customers are aware of their own needs and preferences, which enables effective conversion of the value proposition into value-in-use (Payne et al. 2008; Prahalad & Ramaswamy, 2004b; Zeithaml, 1981). Other reasons range include the reduction in the risk of new product failure (Hoyer, Chandy, Dorotic, Krafft & Singh, 2010), complaint avoidance tactics such as appointment and reservation systems to avoid excessive waiting periods (Jones & Dent, 1994), or seeking customer confirmation on the service that is actually required, for example, to avoid an undesirably short haircut, or a well-done steak being delivered when a rare cooked steak is preferred. Also relevant are productivity, efficiency and service performance enhancing tactics, such as the fostering of self-service (Bitner, Faranda, Hubbert & Zeithaml, 1997; Fitzsimmons, 1985; Lovelock & Young, 1979), and strategies for increasing customer satisfaction, such as personalised service encounters or value offer customisation.

In the case of professional services, characterised by credence qualities, value offer customisation may involve encouraging customers to participate by co-producing customized services closely aligned to their needs and preferences, hence creating more opportunities for enhanced value in the usage phase, and possibly including more satisfying interactions between service providers and customers (Chan et al. 2010). In the case of a service such as postgraduate online teaching this may involve, for example, the facilitation of student discussion forums.

Allowing customers to participate and customise offerings also enables strategic service differentiation relative to competitors' value offers. This strategy allows positive price effects to emerge in several ways. First, it provides the potential to successfully charge premium prices and, second, it facilitates avoidance of compromise discounting, by providing customers the service they love instead of just the service they like. Finally, it enables price-based competition, by the supplier being the first one to provide the customers with the products they love (Clemons & Nunes, 2011).

A customised value proposition can also attract non-price benefits for the supplier, including a better ability to deal with capacity related issues. This effect is due to customers' voluntary involvement in the service delivery process, whereby convenience is sacrificed for a better fitting product and customers will demonstrate greater willingness to wait for a longer time (Wang, Wang, Ma & Qiu, 2010).

The final consideration with respect to customers being allowed to participate, concerns supplementary benefits. These benefits may be part of the final value proposition offered by the supplier and assessed by the customer, if they are perceived to add to customer perceived value in the usage phase. In particular, after-sales service may promote repeated service encounters (or an extended service encounter), affording the supplier an opportunity to attend to customer needs even after an exchange is typically concluded.

5.2 *Why customers are willing to participate in the value proposition creation process*

Customer participation in value creation activities may allow customers to benefit from cognitive, social integrative, personal integrative, and hedonic or affective benefits (Nambisan & Baron, 2009). Cognitive benefits relate to information acquisition and strengthening of the understanding of the environment, possibly ensuring process efficiency and efficacy of the outcome, as well as enhanced perceived control of the service they require (Babin & Babin, 2001; Bolton & Saxena-Iyer, 2009). Social integrative benefits relate to strengthening customers' ties with relevant others, while personal integrative benefits relate to strengthening self-credibility, status, and confidence. Hedonic, affective or emotional benefits relate to strengthening aesthetic or pleasurable experiences such as the joy of contributing and a sense of self-expression, pride and altruism (Hoyer et al, 2010).

Notwithstanding the wide scope of benefits noted above, a major motivation for customers to participate in value proposition creation ensues from the combination of globalisation strategies with quickly evolving and convergent information and communications technology (ICT). Arguably this combination is empowering customers to search for, and to find reliable alternative sources of supply (Pires, Rita & Stanton, 2010). Customers may have both more choice and enhanced access to trustworthy and reliable information sources. Hence, customers are better informed and more knowledgeable, more confident, and perhaps, more demanding about the competing services available to better satisfy their needs and wants, even if they have not previously consumed the particular service. These customers know what they want and have higher performance expectations, being unwilling to settle for less, such that they will only select the value proposition they perceive as superior (Clemons & Nunes, 2011). In order to obtain all their expected benefits such customers may be more willing to participate in core service co-production and value offer customisation.

6. Conclusion

To reconcile arguments of value co-creation with the widely held tenet that all value is created by the customer alone is a matter of great complexity that pervades contemporary considerations of the merits of adopting a new way of thinking about marketing in terms of S-D Logic or service logic. While customer and supplier participation in exchange is a major requirement for customer value creation, in order to enable the integration of a supplier's resources with those of the customer in the customisation process, the former has received much less attention in the literature than the latter. This paper presented a simple process model of customer and supplier participation in exchange with three phases (production, negotiation and usage) and two major configurations, depending on whether the exchange process is initiated by the customer or by the supplier.

It was premised that, under normal circumstances, customer participation in a product exchange requires early identification by the customer of benefits from the ownership and/or usage of that product. Hence, value-in-use might be confirmed in the usage phase but must be conceived, at the latest, when the purchase (exchange) decision takes place. The paper also developed a rationale for customer and supplier participation in the exchange process that can assist in understanding how the value notion at decision time is formed. Importantly from the marketer's point of view, the paper identifies that, when appropriate, customisation of the value proposition, by customers themselves, is a logical means to manage a customer's value formation.

With the exception of exchanges initiated by the supplier, which may exclude the customer from the production phase, other scenarios suggest customer participation is possible in every phase, and generally exclusively during the usage stage, when value-in-use, the value that matters, is actually created. This exclusivity is a threat for suppliers because their limited knowledge about the criteria used by customers limits control over customers' selection of the superior value proposition, questioning their ability to compete with other firms who have embraced resource integration via customer participation.

Discussion of the model supports the suggestion that the integration of customer and supplier resources, which occurs in the production and negotiation stages, may also operate in the usage stage, albeit in a reverse sense. Where this occurs, control is on the customer's side and the supplier needs to develop extended facilitation strategies for their participation in the customer's value-in-use and therefore perceptions of overall value.

The paper highlights the importance for marketers of understanding how supplier and customer participation impact on value proposition creation and, ultimately, on value-in-use priorities. This provides an impetus for more focused future research, namely in identifying the factors that can allow prediction and control of customer participation at each stage, as well as understanding the facilitation and extended facilitation processes. It is in the interest of suppliers, within competitive markets, to learn as early as possible (perhaps by refining their listening skills), the value-in-use expectations that underlie customer participation in exchange.

Finally, from a practitioner perspective, an effective understanding of the economics of customer and supplier participation may also lead to improved targeting practices and possible competitive advantage. Thus, the paper suggests a shift in thinking, to re-define exchange in terms of dual perspectives on resource integration.

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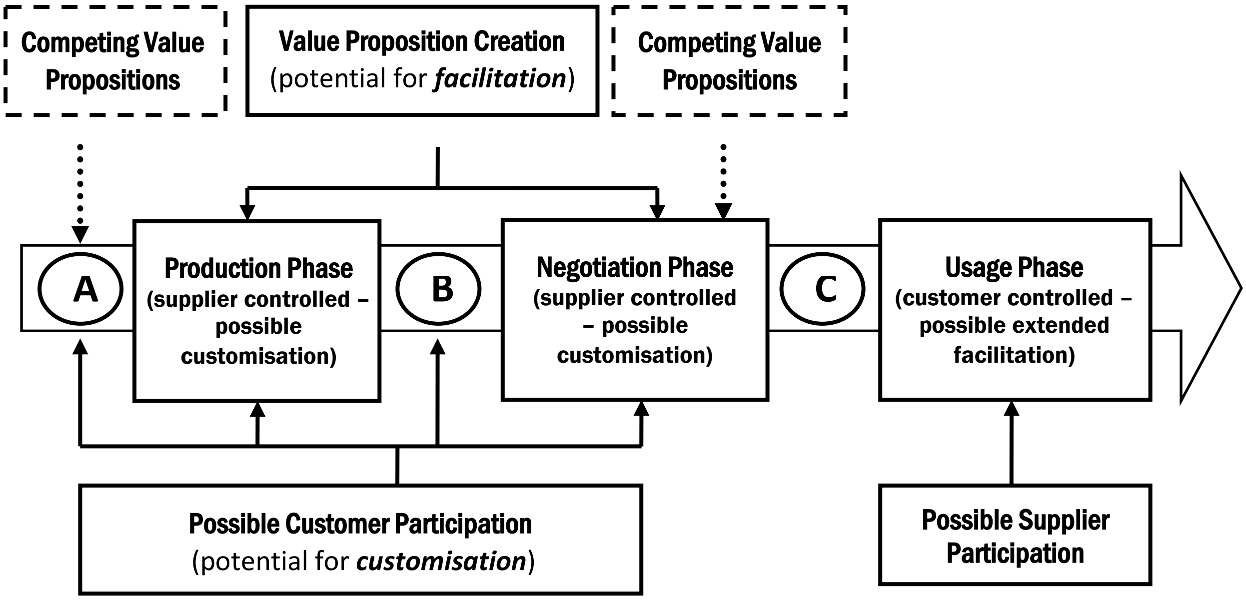
Figure 1: Process model for participation in supplier initiated exchange



Note: In the case of intangible products and tangible products where the process is initiated by the customer, the production and negotiation phases may occur in the reverse order or simultaneously, since these products are often purchased before they are produced.

Figure 2: Process model for participation in customer initiated exchange