# Customer Value Creation: A Practical Framework

## J. Brock Smith Ph.D. & Mark Colgate Ph.D.

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Creation of value for customers is a critical task for marketers, particularly when developing new products and services or starting new businesses. This paper presents a new conceptual framework for marketers to ponder when exploring ways to distinguish themselves, in the eyes of the customer, from others in the marketplace. This framework is built on the strengths of existing frameworks. Possible applications of the framework in designing marketing strategy, recognizing new product opportunities, and enhancing product concept specifications are discussed.

From a customer's perspective, customer value is what they "get" (benefits) relative to what they have to "give up" (costs or sacrifices) (Zeithaml 1988). The creation of customer value has long been recognized as a central concept in marketing (Woodruff 1997) and the fundamental basis for all marketing activity (Holbrook 1994). It has been suggested as the purpose of organizations (Slater 1997), a main key to success via differential positioning (Cooper 2001), and a precursor to customer satisfaction and loyalty (Woodall 2003). The call for more attention to this concept by Hunt (1999) has been answered recently with more work within this area. One of the critical parts of customer value research is the design of frameworks and typologies to help firms better understand value creation. Although there have been recent attempts to develop these typologies (e.g., Holbrook 2005; Ulaga 2003; Woodall 2003), there is little consistency in the approaches and none stand out as being particularly potent in the development of marketing strategy or in conducting marketing research. In this respect, we aim to build on the valuable previous work undertaken in this area to enable marketers to think more creatively about customer value creation.

The strategy literature also recognizes the importance of value creation and of value creation activities, such as value chains (e.g., Porter 1985). New product development research, for example, finds that products offering superior customer value are more successful than those that offer limited value or offer value already provided by other brands, as are those with a well-defined product concept (Cooper 2001). Little has been written in the strategy literature, however, on what value to create, when, why, and how, or what constitutes a well-defined product concept from a value perspective. Opportunity recognition and exploitation are considered definitive concepts in both new product development (Cooper 2001) and entrepreneurship (Shane and Venkataraman 2000). However, scholars have paid relatively little attention to the opportunity recognition process (Ucbasaran, Westhead, and Wright 2001) or to tools that assist in this process (Gaglio 1997).

In light of this, we present an alternative framework for marketers to assist in their efforts to create customer value; this will be useful for developing both marketing strategy and measures of customer value for marketing research. The aim of this paper is to build on the strengths of previous frameworks.

## CONCEPTUAL FOUNDATIONS

The emerging customer value paradigm and theory of the firm (e.g., Hunt 1999; Hunt and Morgan 1997; Slater 1997) suggests that firms exist to create value for others where it is neither efficient nor effective for buyers to attempt to satisfy their own needs. From this perspective, the objective of marketing is to achieve personal, organizational, and societal objectives by creating superior customer value for (exchange with) one or more market segments with a sustainable strategy.

Despite the centrality of customer value to marketing thought, customer value research is still nascent and in the early stages of conceptual development. Although popular works have focused on normative customer value creation strategies (e.g., Slywotzky 1996; Treacy and Wiersama 1993),

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preliminary academic work has focused on the importance of the customer value concept (e.g., Band 1991; Gale 1994) and definitions, conceptualizations, and typologies of customer value (e.g., Ulaga 2003; Woodall 2003; Woodruff 1997).

## Definition of Customer Value

The term *customer value* has many meanings (Woodall 2003), but two dominate—value for the customer (customer perceived value or customer received value) and value for the firm (value of the customer, now more commonly referred to as customer lifetime value). Our focus is on the former. Woodruff defines customer value as "a customer's perceived preference for, and evaluation of, those product attributes, attribute performances, and consequences arising from use that facilitates (or blocks) achieving the customer's goals and purposes in use situations" (1997, p. 141), which can be evaluated pre- or postproduct use. This broad conceptualization incorporating multiple contexts (pre- and postuse), multiple cognitive tasks (preference for and evaluation of), and multiple assessment criteria (attributes, performances, and consequences) poses significant measurement issues and may not be operationalizable (Parasuraman 1997).

Holbrook defines customer value as an "interactive, relativistic preference and experience" (2005, p. 46), which is also a bit difficult to understand and apply, but is seemingly intended to capture some of the key characteristics of customer value. These include: it is perceived uniquely by individual customers; it is conditional or contextual (depending on the individual, situation, or product); it is relative (in comparison to known or imagined alternatives); and it is dynamic (changing within individuals over time) (Ulaga 2003). Simpler definitions (e.g., Gale 1994; Heard 1993–94; Zeithaml 1988) define customer value as being what customers get (benefits, quality, worth, utility) from the purchase and use of a product versus what they pay (price, costs, sacrifices), resulting in an attitude toward, or an emotional bond with (Butz and Goodstein 1996), the product.

Although we prefer, and adopt, the simpler definition, it is still not clear whether customer value is a summative (benefits less sacrifices) or ratio (benefits divided by sacrifices) based evaluation or whether it is made with compensatory or noncompensatory decision rules (Parasuraman 1997). These, however, are empirical issues best left to investigation in customer value research. Given the complexity of the customer value construct, it may not be possible to accurately measure how a particular customer assesses the value of a product (the value proposition) at a particular point in time, although some progress has been made in this area (e.g., Sinha and DeSarbo 1998). It is possible, however, to understand the categories or dimensions on which such assessments are made and to create a customer value framework that captures the domain of the construct.

## Customer Value Frameworks

Just as there is no commonly accepted definition of customer value, there is no definitive conceptualization, framework, or typology of customer value. Some attempts have been made; and while each has its merits, none are particularly well suited as aids for either developing marketing strategy or for developing measures of customer value.

In an early conceptualization of consumer needs, Park, Jawarski, and MacInnis (1986) describe three basic consumer needs that reflect value dimensions—functional needs, symbolic needs, and experiential needs. Functional needs are those that motivate the search for products that solve consumption-related problems. Symbolic needs are desires for products that fulfill internally generated needs for self-enhancement, role position, group membership, or ego-identification. Experiential needs are desires for products that provide sensory pleasure, variety, or cognitive stimulation. Consumer needs, wants, and preferences underlie value perceptions. Consequently, three basic types of value are implicitly suggested by Park, Jawarski, and MacInnis (1986)—functional value, symbolic value, and experiential value. This typology, however, does not capture the cost/sacrifice aspect of customer value suggested by the simple definition, nor does it suggest subdimensions of the higher-order constructs.

Sheth, Newman, and Gross (1991) describe five types of value that drive consumer choice—functional value, social value, emotional value, epistemic value, and conditional value. Functional value represents the perceived utility of an alternative resulting from its inherent and attribute- or characteristic-based ability to perform its functional, utilitarian, or physical purposes. Social value represents the perceived utility of an alternative resulting from its image and symbolism in association or disassociation with demographic, socioeconomic, and cultural-ethnic referent groups. Emotional value represents the perceived utility acquired by an alternative as a result of its ability to arouse or perpetuate feelings or affective states, such as comfort, security, excitement, romance, passion, fear, or guilt. Epistemic value is the perceived utility resulting from an alternative's ability to arouse curiosity, provide novelty,

or satisfy desire for knowledge. Finally, conditional value is the perceived utility acquired by an alternative as a result of the specific situation or the physical or social context faced by the decision maker. This typology identifies dimensions of customer value that related to the higher-order constructs suggested by Park, Jawarski, and MacInnis (1986), but it does not specifically capture the cost/sacrifice aspect of customer value. In addition, there are other functional, experiential, and symbolic dimensions of customer value that are not captured in this framework.

More recent frameworks have focused on customer value in specific contexts. Ulaga (2003), for example, identifies eight categories of value in business relationships—product quality, delivery, time to market, direct product costs (price), process costs, personal interaction, supplier know-how, and service support. For each category, Ulaga identifies three or four specific benefits that are reflective of the category. This framework is quite comprehensive in delineating relationship value, but there are other types of customer perceived or received value in a business-to-business context.

Woodall (2003) identifies five primary forms of value for the customer (VC)—net VC (balance of benefits and sacrifices), derived VC (use/experience outcomes), marketing VC (perceived product attributes), sale VC (value as a reduction in sacrifice or cost), and rational VC (assessment of fairness in the benefit–sacrifice relative comparison). This framework is the most comprehensive of previous works, and Woodall identifies many specific types of value associated with his higher order: derived VC, marketing VC, and sale VC constructs. There is, however, considerable overlap in the categories in the sense that the same benefits appear under multiple headings. In addition, the benefits and sacrifices identified do not fully capture the domain of the higher-order value dimension and Woodall does not identify the subdimensions of customer value of which the specific benefits and sacrifices might be illustrative examples. These limitations make the framework difficult to use either for developing marketing strategy recommendations, or as a basis for developing measures of key dimensions of customer value.

Similar limitations apply to Holbrook's (1999; 2005) customer value typology (axiology) that considers the source of motivation behind a value assessment (intrinsic or extrinsic), the orientation of the value assessment (self or other oriented), and the nature of the value assessment (active or reactive). Holbrook identifies eight types of value—efficiency, excellence, status, esteem, play, aesthetics, ethics, and spirituality. Although this typology has a clear conceptual basis, it is consumer outcome and meaning focused, does not fully capture the domain of the customer value construct, and may not apply as well to business-to-business contexts.

Finally, Heard (1993–94) takes a different perspective. He conceptualizes customer value in terms of three factors—product characteristics, delivered orders, and transaction experiences—that are linked to basic value-chain activities or processes (design, production, marketing) that reflect where value is created within organizations. These factors, or sources of value, are evaluated by customers along four value dimensions—being correct, timely, appropriate, and economical. The specification of three value sources (product characteristics, delivered orders, and transaction experiences) is parsimonious, but other sources of value are created by other processes within organizations. For example, product and corporate information and, in particular, the ability to understand the features, functions, benefits, and use of a product enhance the perceived value of a product during its purchase and consumption. The physical environment in which a product is purchased or consumed is also an important source of value, particularly in the retail and service industries. Finally, transaction experiences are created through customer interactions with salespeople, other staff, and transaction systems or processes. The source of this value is the customer–employee–organization interaction. The type of value created is usually experiential, but interactions could provide functional/instrumental value (such as taking a correct order in a restaurant), symbolic/expressive value (such as being upgraded to first class on an airline flight), or even value concerned with the cost/sacrifice aspect of value (such as being served quickly or in a stress-reducing manner).

## Summary

Understanding what customers value in different contexts, and what customer value creation strategies are more (less) appropriate in particular contexts, is central to marketing strategy and marketing thought. It has been difficult to use this construct in either practice or marketing research, however, because of competing definitions and competing conceptualizations, frameworks, and typologies of customer value—none of which fully capture the domain of the construct or are particularly well suited for either making marketing strategy decisions or for operationalizing the construct. These issues need to be resolved before empirical studies can properly address key customer value research questions and improve early attempts at measurement (e.g., Lapierre 2000; Menon, Homburg, and Beutin 2005). We attempt to address these issues by integrating and extending previous works in a more comprehensive

and useful typology of customer value creation. In doing so, we adopt the marketing manager's perspective of customer value: what kinds of value can be created, and how this value can be created by an organization.

## A CUSTOMER VALUE CREATION FRAMEWORK

Drawing on, integrating, and extending previous conceptual foundations, a customer value framework is proposed that builds on the strengths of previous frameworks and mitigates their key weaknesses (as identified above). This framework (see Appendix A) adopts a strategic orientation in that the focus is on identifying categories of value that could differentiate offerings and not on identifying all of the specific benefits and sacrifices that may be perceived by consumers or customers. Our intent is to develop a comprehensive framework applicable to consumer and business contexts, and goods as well as services. The specific benefits and sacrifices considered in an overall assessment of value are known to differ in these different contexts, but we suggest that the categories of value are the same.

The framework identifies four major types of value that can be created by organizations—functional/instrumental value, experiential/hedonic value, symbolic/expressive value, and cost/sacrifice value. The framework also identifies five major sources of value—information, products, interactions, environment, and ownership—that are associated with central value-chain processes. The resultant 4 × 5 table is useful for describing and documenting customer value creation strategies and serves as a tool for opportunity recognition and product concept specification. It also provides a foundation for measuring or assessing value creation strategies.

We describe the framework briefly below and direct the reader to Tables 1 through 4 for a more comprehensive positioning of this framework relative to others in the literature.

### Types of Value

Each of the four major types of value has key facets or dimensions. These are discussed below with illustrative examples of specific benefits or sacrifices in that category and illustrative examples of firms that focus on creating that type of value.

Functional/instrumental value is concerned with the extent to which a product (good or service) has desired characteristics, is useful, or performs a desired function. As suggested by Woodruff (1997), three key facets of func-

tional/instrumental value are (1) correct, accurate, or appropriate features, functions, attributes, or characteristics (such as aesthetics, quality, customization, or creativity); (2) appropriate performances (such as reliability, performance quality, or service–support outcomes); and (3) appropriate outcomes or consequences (such as strategic value, effectiveness, operational benefits, and environmental benefits). The face validity of this conceptualization is seen in its application. Some firms, such as Rubbermaid, focus mainly on creating appropriate features and attributes that translate into customer benefits. Others, such as Ford, Sony, and McDonald's, focus on performance, while pharmaceutical companies such as Pfizer or Bayer focus on appropriate outcomes or consequences. Numerous aspects of value creation relating to each of these three dimensions have been considered in the literature and illustrative examples are provided in Table 1. Table 1 does not document all of the research related to functional value creation. We found most of the prior research has focused on value derived from the purchase and use of the products. This is also observed with respect to experiential/hedonic, symbolic/expressive, and cost/sacrifice value (Tables 2, 3, and 4). Areas in the tables where there is little extant research suggest areas where the scope of customer value research could be fruitfully expanded.

Experiential/hedonic value is concerned with the extent to which a product creates appropriate experiences, feelings, and emotions for the customer. Some organizations, such as most restaurants and some retailers, focus on sensory value (such as aesthetics, ambiance, aromas, feel/tone). Most organizations in the travel and entertainment industries focus on creating emotional value (such as pleasure/enjoyment, play/fun, excitement, adventure, and humor). Other organizations, such as toy or game companies, professional service organizations, and many business-to-business organizations, focus on social–relational value (such as relational or network benefits, bonding/connectedness, personal interaction, developing trust or commitment, and responsiveness). Finally, some firms, such as Disney, America Online, and some travel and hotel companies, focus on epistemic value (such as curiosity, novelty, knowledge, or fantasy). These and other illustrative examples of the category are provided in Table 2 with references to the literature.

Symbolic/expressive value is concerned with the extent to which customers attach or associate psychological meaning to a product. Some products (luxury goods, for example) appeal to consumer's self-concepts and self-worth—that is, they make us feel good about ourselves—either in possession (e.g., buying a new outfit) or in giving (e.g., giving diamonds to a spouse, as suggested by DeBeers). Holbrook

**Table 1**
**Functional/Instrumental Value Literature**

| | Value Aspect | Reference |
|---|---|---|
| | • Correct/accurate attributes | Woodruff (1997) |
| | • Appropriate performances | Woodruff (1997) |
| | • Appropriate outcomes | Woodruff (1997) |
| Related Concepts | Functional value | Sheth, Newman, and Gross (1991) |
| | Use value | Woodall (2003) |
| | Utilitarian value | Woodall (2003) |
| | Practical value | De Ruyter and Bloemer (1999) |
| | Material value | Richins (1994) |
| Sources of Value | | |
| Information | • Correct/accurate attributes | |
| | Supplier know-how | Ulaga (2003) |
| | • Appropriate performances | |
| | • Appropriate outcomes | |
| Products | • Correct/accurate attributes | |
| | Excellence | Holbrook (1999; 2005) |
| | Product quality | Ulaga (2003) |
| | Quality | Woodall (2003) |
| | Customization | Woodall (2003) |
| | Product characteristics | Woodall (2003) |
| | Aesthetics | Holbrook (2005), Walters and Lancaster (1999) |
| | Flexibility | Lapierre (2000) |
| | • Appropriate performances | |
| | Efficiency | Holbrook (1999; 2005), Möller and Törrönen (2003) |
| | Performance quality | Woodall (2003) |
| | Reliability | Lapierre (2000) |
| | Value of core service | Liu, Leach, and Bernhardt (2005) |
| | • Appropriate outcomes | |
| | Effectiveness | Möller and Törrönen (2003) |
| | Volume | Walter et al. (2003) |
| | Safeguards, security | Walter et al. (2003), Woodall (2003) |
| | Operational benefits | Woodall (2003) |
| | Financial benefits | Woodall (2003) |
| Interactions | • Correct/accurate attributes | |
| | Personal interactions | Ulaga (2003) |
| | • Appropriate performances | |
| | Service/service support | Ulaga (2003), Woodall (2003) |
| | • Appropriate outcomes | |
| Environment | • Correct/accurate attributes | |
| | • Appropriate performances | |
| | • Appropriate outcomes | |
| Ownership/Possession | • Correct/accurate attributes | |
| Transfer | • Appropriate performances | |
| | Delivery | Ulaga (2003) |
| | • Appropriate outcomes | |
| | Strategic value | Wilson and Jantrania (1995) |
| | Time to market | Ulaga (2003) |

(1999; 2005) considers this part of "spirituality"—a relationship with oneself—but Holbrook considers spirituality to be "other oriented"—in which we view appeals to self-concept and self-worth to be "self-oriented," making this dimension of symbolic/expressive value conceptually distinct. Other products (such as music, comfort foods, and vacations, among many others) have personal meaning—associations with people or events that only have meaning to a particular consumer (such as an association with Tide detergent because their mother used it). Products can also provide

**Table 2**
**Experiential/Hedonic Value Literature**

| | Value Aspect | Reference |
|---|---|---|
| | • Sensory value | |
| | • Emotional value | Sheth, Newman, and Gross (1991) |
| | • Social/relational value | Sheth, Newman, and Gross (1991) |
| | • Epistemic value | Sheth, Newman, and Gross (1991) |
| Sources of Value | | |
| Information | • Sensory value | |
| | • Emotional value | |
| | • Social/relational value | |
| | • Epistemic value | |
| Products | • Sensory value | |
| | Aesthetics | Holbrook (1999; 2005) |
| | • Emotional value | |
| | Play | Holbrook (1999; 2005) |
| | Enjoyment | Woodall (2003) |
| | Affective arousal | Woodall (2003) |
| | Humor | Woodall (2003) |
| | • Social/relational value | |
| | Relational support service | Liu, Leach, and Bernhardt (2005) |
| | Behavioral value | Wilson and Jantrania (1995) |
| | Service/support | Lapierre (2000), Ulaga (2003) |
| | • Epistemic value | |
| | Knowledge | Sheth, Newman, and Gross (1991), Woodall (2003) |
| | Novelty | Sheth, Newman, and Gross (1991) |
| | Curiosity | Sheth, Newman, and Gross (1991) |
| | Fantasy | Sheth, Newman, and Gross (1991) |
| Interactions | • Sensory value | |
| | • Emotional value | |
| | Trust | Lapierre (2000) |
| | Solidarity | Lapierre (2000) |
| | • Social/relational value | |
| | Personal interaction | Ulaga (2003) |
| | Relational benefits | Ravald and Grönroos (1996) |
| | Network benefits | Möller and Törrönen (2003) |
| | Reliability | Lapierre (2000) |
| | • Epistemic value | |
| Environment | • Sensory value | |
| | • Emotional  value | |
| | • Social/relational value | |
| | • Epistemic value | |
| Ownership/Possession | • Sensory value | |
| Transfer | • Emotional value | |
| | • Social/relational value | |
| | • Epistemic value | |

a means of self-expression—products such as Calvin Klein fragrances, Roots clothes, a Volkswagen Beetle, or Body Shop lotions allow consumers to reflect or express their personalities, tastes, and values. Still other products focus on social meaning—how others see us. Branded products such as BMW, Rolex, and Lee Valley Tools are purchased because of their prestige, status, or image. Finally, some products (such as roses on Valentine's Day) have conditional meaning—symbolism or meaning relating to sociocultural-ethnic events and traditions. One might argue that personal meaning is a subset of conditional meaning. We see value in their separation. Conditional meaning is culturally based, and marketers can develop strategies to appeal to broad segments. Personal meaning is person specific, and although marketers often try to cultivate individual meaning (Campbell Soup Company's advertising campaigns often

**Table 3**
**Symbolic/Expressive Value Literature**

|  | Value Aspect | Reference |
|---|---|---|
|  | • Self-identity/worth |  |
|  | • Personal meaning | Holbrook (1999; 2005) |
|  | • Self-expression | Woodall (2003) |
|  | • Social meaning | Sheth, Newman, and Gross (1991) |
|  | • Conditional meaning | Sheth, Newman, and Gross (1991) |
| Related Concepts | Intrinsic value | Woodall (2003) |
|  | Desired value | Oliver (1999) |
|  | Possession value | Richins (1994) |
| Sources of Value |  |  |
| Information | • Self-identity/worth |  |
|  | • Personal meaning |  |
|  | • Self-expression |  |
|  | • Social meaning |  |
|  | • Conditional meaning |  |
| Products | • Self-identity/worth |  |
|  | • Personal meaning |  |
|  | Spirituality | Holbrook (1999; 2005) |
|  | Personal benefits | Woodall (2003) |
|  | Personal circumstances | Sheth and Parvatiyar (1995) |
|  | Nature of customer | Sinha and DeSarbo (1998) |
|  | • Self-expression |  |
|  | • Social meaning |  |
|  | Status | Holbrook (1999; 2005) |
|  | Esteem | Holbrook (1999; 2005) |
|  | Association | Woodall (2003) |
|  | Image/brand name | Lapierre and Deneault (1997), Parasuraman (1997) |
|  | • Conditional meaning |  |
|  | Conditional value | Sheth, Newman, and Gross (1991) |
|  | Situational circumstances | Sheth and Parvatiyar (1995) |
| Interactions | • Self-identity/worth |  |
|  | • Personal meaning |  |
|  | Ethics | Holbrook (1999; 2005) |
|  | • Self-expression |  |
|  | • Social meaning |  |
|  | • Conditional meaning |  |
| Environment | • Self-identity/worth |  |
|  | • Personal meaning |  |
|  | • Self-expression |  |
|  | • Social meaning |  |
|  | • Conditional meaning |  |
| Ownership/Possession | • Self-identity/worth |  |
| Transfer | • Personal meaning |  |
|  | • Self-expression |  |
|  | • Social meaning |  |
|  | • Conditional meaning |  |

focus on childhood memories or family relationships), it is much more difficult to do so. These and other illustrative examples of symbolic/expressive value are provided in Table 3 with references to the literature.

In addition, to try to maximize, or at least realize value benefits, consumers and customers also try to minimize the costs and other sacrifices that may be involved in the purchase, ownership, and use of a product. Cost/sacrifice value is concerned with these transaction costs. Some firms, such as Wal-Mart, Amazon.com, and most financial institutions, focus on minimizing economic costs, such as product price, operating costs, switching costs, and opportunity

**Table 4**
**Cost/Sacrifice Value Literature**

| | Value Aspect | Reference |
|---|---|---|
| | • Economic costs | Walter et al. (2003) |
| | • Psychological costs | Woodall (2003) |
| | • Personal investment | |
| | • Risk | Grönroos (1997), Sweeny, Soutar, and Johnson (1999) |
| Sources of Value | | |
| Information | • Economic costs | |
| | • Psychological costs | |
| | Learning costs | Woodall (2003) |
| | • Personal investment | |
| | Search costs | Woodall (2003) |
| | • Risk | |
| Products | • Economic costs | |
| | Price/direct costs | Ulaga (2003) |
| | Operating costs | Woodall (2003) |
| | Delivery and installation | Woodall (2003) |
| | Training and maintenance | Woodall (2003) |
| | • Psychological costs | |
| | Convenience | Woodall (2003) |
| | Cognitive difficulty/stress | Lapierre (2000) |
| | • Personal investment | |
| | Human energy/effort | Woodall (2003) |
| | • Risk | |
| Interactions | • Economic costs | |
| | • Psychological costs | |
| | Relational/relationship costs | Lapierre (2000), Ravald and Grönroos (1996), Woodall (2003) |
| | Equity | Bolton and Lemon (1999) |
| | Conflict | Lapierre (2000) |
| | • Personal investment | |
| | Process costs | Ulaga (2003) |
| | Time | Woodall (2003) |
| | • Risk | |
| Environment | • Economic costs | |
| | • Psychological costs | |
| | • Personal investment | |
| | • Risk | |
| Ownership/Possession | • Economic costs | |
| Transfer | Opportunity costs | Woodall (2003) |
| | Disposal costs | Woodall (2003) |
| | • Psychological costs | |
| | • Personal investment | |
| | • Risk | |

costs. Organizations such as auto malls, retailers such as Sears, and courier companies such as FedEx focus on convenience and minimizing psychological or relational costs. Psychological–relational costs include cognitive difficulty/stress, conflict, search costs, learning costs, psychological switching costs, and psychological relationship costs, such as attachment. Firms such as 7-Eleven, Dell, and most Internet businesses try to minimize the personal investment of customers—the time, effort, and energy consumers devote to the purchase and consumption process. Finally, retailers such as Target, manufacturers such as Ford, hoteliers such as Marriot, among many others, attempt to reduce the risk (personal risk, operational risk, financial risk, or strategic risk) perceived by customers in buying, owning, and using a product, through the use guarantees, warranties, flexible return policies, and third-party endorsements. These and other illustrative examples of cost/sacrifice value are provided in Table 4 with references to the literature.

## Sources of Value

Five key sources of customer value are captured in the framework shown in Appendix A—information, products, interactions, environment, ownership/possession transfer. These sources of value are created by a variety of "value-chain" processes and activities within and between organizations (e.g., Porter 1985), some of which are also illustrated in Appendix A.

Information is created by value-chain activities associated with advertising, public relations, and brand management (such as through packaging, labeling, or instructions). It provides functional/instrumental value by informing and educating customers; experiential/hedonic value, such as sensory or emotion-based value, through advertising creatively; symbolic/expressive value by drawing associations and interpreting meaning; and cost/sacrifice value by helping consumers make more informed and faster decisions.

Products are created by value-chain activities associated with new product development, market research, research and development, and production. They directly provide functional/instrumental value (such as safety features on a Volvo); experiential/hedonic value (such as the package of sensory, emotional, relational, and epistemic experiences offered by Club Med); symbolic/expressive value (such as Campbell's focus on developing personal meaning with the brand); and cost/sacrifice value (through the product price and augmented product considerations that reduce involvement, investment, and risk).

Interactions between customers and organizations' employees or systems are created, or enhanced, by value-chain activities relating to recruitment and training, service quality, and operations (Vandenbosch and Dawar 2002). Such interactions provide functional/instrumental value, such as service timeliness; experiential/hedonic value, such as relational bonds; symbolic/expressive value, such as the prestige of privileged interactions; and cost/sacrifice value, such as reducing the personal investment required to purchase or use a product.

The purchase or consumption environment is created by value-chain activities such as facilities management, interior design, and merchandizing. The purchase or consumption environment can provide functional/instrumental value, such as lighting that makes it easier to read product labels, and experiential/hedonic value, such as music that makes shopping more enjoyable. It can also provide symbolic/expressive value, such as holiday decorations that appeal to cultural traditions, and cost/sacrifice value, such as a shopping location that has ample and convenient parking.

Finally, ownership/possession transfer is facilitated by value-chain activities concerned with accounting (such as payment and billing), delivery (such as product picking, packing, shipping, and tracking), and transfer of ownership (such as contracts, copyright agreements, and titles). Processes involved with transfer of ownership and possession provide functional/instrumental value, such as timely delivery; experiential/hedonic value, such as customer satisfaction with the fulfillment process; symbolic/expressive value, such as enhanced product meaning by providing tasteful gift wrapping; and cost/sacrifice value, such as peace of mind provided by automated product tracking systems.

## FRAMEWORK APPLICATION

The framework for customer value creation strategies serves as a tool for (1) describing a generic marketing strategy, (2) enhancing product concept specifications, (3) identifying value creation opportunities, and (4) developing measures of customer value. These will be discussed in order.

### Marketing Strategy

The framework is useful for describing generic marketing strategies, understanding positioning, and identifying sources of competitive advantage.

Consistent with the work of Treacy and Wiersama (1993), the four types of value depicted in the framework suggest four value creation strategies. Firms such as 3M, Volvo, Nike, and Rubbermaid, which compete by superior creation of functional/instrumental value, follow a product-leadership (product-innovation) strategy and invest and excel in value creating processes relating to new product development, market research, quality, and technology research and development. These firms place an emphasis on continuous innovation and time to market, tend to have loose-knit, organic, and team-oriented structures, and promote an entrepreneurial and creative culture with a willingness to experiment and take calculated risks (Treacy and Wiersama 1993).

Firms such as Club Med, Nordstrom, and Disney, which compete by creation of superior experiential value, follow a customer responsiveness (or customer intimacy) strategy and typically invest in, and excel at, customer service, customer support technology, flexible manufacturing, market research, and facilities (Treacy and Wiersama 1993). These firms place an emphasis on customer relationships and service quality and provide tailored or customized solutions to narrowly defined market segments.

Firms such as The Body Shop, Gap Inc., Lexus, and Hallmark, which compete by creation of superior symbolic/expressive value, follow a brand image/brand equity strategy and typically invest in, and excel at, advertising and public relations, product quality, and customer service and support. These firms often structure and define their business around a "family" corporate culture, place an emphasis on stakeholder relationships, and promote and reward creativity and novelty.

Firms such as Wal-Mart, Dell, Amazon.com, and Southwest Airlines, which compete by creating superior cost/sacrifice value, follow an operational excellence strategy. The firms that compete on price and convenience typically focus on efficiency and effectiveness goals, invest in, and excel at, purchasing, manufacturing, and distribution processes. They tend to have a top-down emphasis on standard operating procedures and are tenacious at minimizing intermediate processing steps and overhead.

Few firms create just one type of value, and our framework extends the work of Treacy and Wiersama (1993) by suggesting the subtypes of value that can be created from different value creating processes. Our framework can thus be used to describe the value creation strategy of an organization. Starbucks, for example, creates functional/instrumental value mainly via appropriate features and attributes (product quality, customization, hot drinks for cold days, and cold drinks for warm days). They create experiential/hedonic value mainly via sensory value (aesthetics, ambiance, and aromas), emotional value (pleasure or enjoyment), social-relational value (by providing comfortable spaces where friends and colleagues can interact), and epistemic value (such as novelty flavors and information about coffees). Starbucks creates symbolic/expressive value through personal meaning (many Starbucks' customers consider their relationship with Starbucks as personal, if not spiritual), self-expression (the ability to personalize the beverage and experience), and social meaning (there is some status in the brand name). Finally, with respect to cost/sacrifice value, Starbucks creates economic value (an affordable luxury) and reduces psychological costs (they are very convenient to find).

Also consistent with the work of Treacy and Wiersama (1993), it is difficult for organizations to be "world class" at creating more than one of the higher-order value categories, as they require different resource investments, organization structure, and culture; but organizations need to be competitive in the value offering across all four dimensions as most customers are thought to use a compensatory model in making brand choices. Although not yet investigated empirically, anecdotal evidence suggests (consider most

industry leaders such as Starbucks above) that organizations with a more comprehensive value creation strategy (greater breadth or depth of value creation) will outperform competitors with less rich value offerings—so long as the value offered is desired and cost effective to create.

## Positioning and Product Concepts

The framework provides a relatively easy way for organizations to document their value creation strategies—for individual products or for the organization as a whole. For example, Appendix B documents the value creation strategy of the Sharkey's Cuts for Kids franchise.

Sharkey's mainly offers experiential/hedonic value to the children of upper-middle-class parents through its hairstyling products and environment. Sensory value is created through the purchase/consumption environment (colorful cartoon themed decor, television programs, music, video games, mini arcade, and retail store), as is emotional value (play, fun, excitement, and enjoyment). They create social-relational value through "glamour girl parties" (pampering and friendship bonding), "karaoke nights for moms" (network benefits and personal interactions), and special certificates and photos for first haircuts. Epistemic value is created through the novelty of themed chairs (such as a Harley-Davidson motorcycle, a Barbie car, and a sparkling Mercedes) and through the novelty of different hairstyling, and particularly in the glamour parties that feature different makeup and "updos." Sharkey's creates functional value in terms of appropriate outcomes through their haircutting service product (good-looking styles) and interactions with employees and systems (no tears). They create symbolic/expressive value through self-expression (different hairstyles, and some locations offer art classes for kids), and to some extent, personal meaning in the karaoke nights by means of a personal recording of the songs sung. The main cost/sacrifice value created is a reduction in the psychological cost (stress and conflict) of getting a child's hair cut (making it easier for both the parent and child) through personable staff and the purchase/consumption environment.

By delineating the value creation strategy of an organization using the framework, marketers can clearly define product concepts, a new product key success factor (Cooper 2001). By mapping all of their brands onto the framework, organizations can illustrate their value creation portfolio. Used as part of an industry analysis, the framework helps marketers illustrate their value creation positioning relative to key competitors, similar to the "customer value maps" proposed by Gale (1994)—recognizing that the framework

may need to be applied to specific market segments to achieve an appropriate product–market match comparison. By illustrating gaps in the value creation strategies of an industry, the framework is useful for identifying value creation opportunities—either for new products or for how the product concepts may be enhanced to produce a richer value proposition. For enhanced product concepts, marketers could ask themselves, for each cell in the framework, whether it would make sense (financially and competitively) to create additional value in each area. Sharkey's, for example, does not appear to offer much value through information-related processes. They could create greater epistemic value (knowledge) by means of information dissemination relating to active and healthy lifestyles for kids. There is also little value created through interactions with employees or systems. Greater functional/instrumental value could be created in terms of appropriate outcomes (safeguards) via product sources by letting kids and parents "see" different hairstyles on their own heads using video technology. It is recognized, of course, that gaps in the value map may indicate value propositions for which there is no demand or market.

### Competitive Advantage

Not only does the framework help describe product concepts and positioning strategies but it also helps marketers specify sources of competitive advantage—which value creation processes they are going to focus on to create the value on which they plan to compete. For example, much of the value offered by Starbucks concerns (1) the purchase/consumption environment where they have developed expertise in facilities management, interior design, and merchandizing, and (2) interactions with customers, supported by expertise in recruitment and training, service quality, and operations. Similarly, much of the value created by the Sharkey's franchise is also in the purchase/consumption environment and customer interactions. This is to be expected with consumer services. For goods, one might expect greater focus on value creating processes relating to product development and manufacturing. In business-to-business contexts, there may be greater focus on the value created by means of interactions (social-relational value) and ownership transfer activities (distribution, logistics, etc.).

### Marketing Research

The framework also provides some direction for operationalizing the customer value creation strategy construct. Such a construct could be viewed as having four main facets or

dimensions relating to the four types of value described. A battery of questions could then be developed for each dimension and subdimension based on the key sources of value. (See Appendix C for an illustrative example of questions that capture the four main types of value from product sources, examples of questions for the other sources are available from the authors on request.) Items could then be summed across sources of value to create formative indices of functional/instrumental, experiential/hedonic, symbolic/expressive, and cost/sacrifice value, similar to a "balanced scorecard" approach (e.g., Kaplan and Norton 1992). Alternatively, the framework could be used to assess the customer value creation strategy of an organization by means of content analysis of business plans, marketing plans, communication plans, or other documents and materials that describe marketing activity. Appendix D illustrates a coding scheme for such content analysis that could be used to create summed scales of functional/instrumental, experiential/hedonic, symbolic/expressive, and cost/sacrifice value creation.

### CONCLUSIONS

Customer value creation is a central marketing concept that has been underinvestigated (Hunt 1999). The customer value creation strategy framework developed in this paper offers a useful tool for specifying and illustrating value creation strategies, illustrating brand and organization positioning, identifying opportunities for new value creation propositions, and suggesting enhancements to the value propositions of existing products.

In addition to these contributions, the framework also suggests directions for future research. For example, it leads to the following questions: Under what conditions are some types of customer value creation more or less appropriate than others? Under what conditions are some value migration strategies (patterns and progressions of value creation) more or less appropriate than others? Are some sources of value more or less strategically important than others?

Other value creation observations suggest other testable propositions. Symbolic/expressive value, for example, appears to be more difficult to create (fewer firms follow a brand image/brand equity strategy than other value creation strategies), but it may provide more sustainable competitive advantage. Most start-up businesses compete by creating functional/instrumental value or cost/sacrifice value. Would start-up performance be enhanced by more complex value creation strategies? If a firm started with a focus on functional/instrumental value, what type of value should they next try to add to the product concept?

These research questions need to be tested in order to provide sound prescriptive advice to organizations wanting to improve their customer value creation strategies. The customer value creation framework presented here provides some assistance in this task by extending and integrating extant conceptualizations of customer value creation. Future work is required to develop measures of customer value creation strategies consistent with this framework.

Being able to differentiate new products and services is at the heart of marketing. Without a unique position, businesses (and their associated products and services) struggle to survive let alone thrive. Being creative about creating customer value can enable marketers to be more successful in discovering opportunities. Our goal, with the presented framework, is to provide some structure to this creative process.

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# APPENDIX A
## Customer Value Creation Framework

| Sources of Value | Types of Value | | | |
|---|---|---|---|---|
| | Functional/Instrumental Value | Experiential/Hedonic Value | Symbolic/Expressive Value | Cost/Sacrifice Value |
| | • Correct/accurate attributes<br>• Appropriate performances<br>• Appropriate outcomes | • Sensory<br>• Emotional<br>• Social/relational<br>• Epistemic | • Self-identity/worth<br>• Personal meaning<br>• Self-expression<br>• Social meaning<br>• Conditional meaning | • Economic<br>• Psychological<br>• Personal investment<br>• Risk |
| Information | Information informs, educates, and helps customers realize performance and outcomes. | Copy and creativity can provide or enhance sensory, emotional, relational, and epistemic experiences. | Can position a product, help consumers identify with the product, help them make associations, and interpret meaning. | Helps consumers evaluate alternatives; make more informed, faster, and less stressful decisions; helps lower prices by greater competition. |
| Products | Products directly provide features, functions, and characteristics that allow performances and outcomes. | They provide sensory (e.g., restaurants), emotional (e.g., Six Flags) relational (e.g., board games), and epistemic (e.g., Disney Land) experiences: augmenting goods (e.g., IKEA) or as the focal product (e.g., Club Med). | Products enhance consumer self-concepts (e.g., Mac cosmetics), provide personal meaning (e.g., Campbell's soup), offer self-expression (e.g., Gap clothes), and provide social meaning (e.g., Hallmark cards). | Product price and augmented product considerations, such as operating costs, assembly, ease of use, warranty, and service terms, help to reduce costs and sacrifices. |
| Interactions (with employees and systems) | Sales call frequency and duration, service interactions and responsiveness, and interactions with systems (such as the telephone, billing, or customer support system) provide or enhance desired performances and outcomes. | Service attributes, such as staff politeness, friendliness, or empathy, create sensory, emotional, relational, and epistemic experiences for customers, as do service recovery, customer support, and other systems. | Staff and system interactions can make customers feel better about themselves and provide personal meaning to customers; privileged interactions support status and prestige. Equity policies can enhance sociocultural meaning. | Interactions with people and systems (such as electronic data interchange) add to or reduce the economic and psychological cost of a product and increase or reduce the personal investment required to acquire and consume the product. |
| Environment (purchase and consumption) | Furniture, fixtures, lighting, layout, and other decorative features and attributes of the purchasing or consumption environment contribute to functional/instrumental value by enhancing or detracting from product performances and outcomes. | Features and attributes of the purchasing or consumption environment such as music, ambiance, and atmosphere can create sensory, emotional, and epistemic experiences for customers. | Where a product is purchased or consumed can provide personal, social, or sociocultural meaning and can enhance self-worth and expression—a cup of coffee at an outdoor cafe may have more symbolic value than coffee at home. | Contributes to the economic cost of a product (e.g., popcorn at a movie theater), psychological cost (such as finding parking downtown), personal investment (how much searching is required), and risk (personal safety). |
| Ownership/Possession Transfer | Correct, accurate, and timely fulfillment processes (such as order taking, picking/packing, and delivery) provide functional/instrumental value. | Fulfilling delivery promises and how a product is delivered (such as the presentation of a meal) can enhance the customer experience—as can pride of ownership and product potency (future potential). | How a product is delivered (such as gift wrapped or via a ceremony) and by whom (such as the manager of a car dealership) can create symbolic value. | Can be enhanced with payment terms, delivery options, return policies, billing accuracy, order tracking systems, access to supplier personnel, and dispute resolution procedures. |

**APPENDIX B**

**Framework Application: Sharkey's Product Concept**

**Types of Value**

| Sources of Value | Functional/Instrumental Value | Experiential/Hedonic Value | Symbolic/Expressive Value | Cost/Sacrifice Value |
|---|---|---|---|---|
| | ◆ Correct/accurate attributes<br>❖ Appropriate performances<br>𝛌 Appropriate outcomes | ◆ Sensory<br>☐ Emotional<br>❖ Social/relational<br>𝛌 Epistemic | ◆ Self-identity/concept<br>☐ Personal meaning<br>❖ Self-expression<br>𝛌 Social meaning<br>■ Conditional meaning | ◆ Economic<br>☐ Psychological<br>❖ Personal investment<br>𝛌 Risk |
| Information<br>• Marketing communication<br>• Brand management | | | | |
| Products (goods/services)<br>• Actual | 𝛌 Good-looking styles | 𝛌 Novel styling<br>❖ Glamour girl parties<br>𝛌 Glamour girl parties<br>❖ Karaoke nights<br>☐ Colors, sounds<br>𝛌 Entertainment variety<br>❖ First cut services | ❖ Hairstyles<br>☐ Song recordings | |
| • Augmented | | | ❖ Art classes | |
| Interactions<br>• Employees<br>• Systems | 𝛌 No tears | | | ☐ Personable staff |
| Environment<br>• Purchase and consumption | | ◆ Decor<br>☐ Cartoon characters<br>◆ Theme chairs | ■ Cartoon characters | ☐ Low-stress environment |
| Ownership/Possession | | | | |
| Transfer<br>• Fulfillment<br>• Accounting/legal | | | | |

**APPENDIX C**
**Illustrative Scale Measures**

| | | | Types of Value | |
| Sources of Value | Functional/Instrumental Value | Experiential/Hedonic Value | Symbolic/Expressive Value | Cost/Sacrifice Value |
|---|---|---|---|---|
| | • Correct/accurate attributes<br>• Utility<br>• Appropriate performances<br>• Appropriate outcomes | • Sensory<br>• Emotional<br>• Social/relational<br>• Epistemic | • Self-identity/concept/worth<br>• Personal meaning<br>• Self-expression<br>• Social meaning<br>• Conditional meaning | • Economic<br>• Psychological<br>• Personal investment<br>• Risk |
| Products<br>• Actual<br>• Augmented | • This organization competes by offering products with the right features or attributes.<br>• This organization competes by offering products with superior performances or outcomes.<br>• The packaging of this organization's products is useful in its own right.<br>• This organization has a reputation for making useful products.<br>• This organization has a reputation for making quality products.<br>• This organization competes mainly by offering useful products to their customers.<br>• This organization is known for its technological innovation.<br>• The products offered by this organization sell well because they work. | • The products of this organization are fun, interesting, or exciting to use.<br>• A big part of the appeal of this organization's product(s) is the ambiance, feel, or aesthetics experienced.<br>• The products of this organization help develop or enhance social relationships.<br>• A key benefit of the products offered by this organization is that they facilitate interaction between people.<br>• This organization's product packaging is quite attractive.<br>• This organization competes mainly by offering a desired experience to their customers.<br>• There is a strong knowledge or educational component to the products offered by this organization.<br>• The products offered by this organization have strong sensory appeal.<br>• This organization competes mainly by offering outstanding customer experiences. | • The product(s) of this organization help enhance consumer self-concepts.<br>• The packaging associated with this product has its own symbolism.<br>• The product(s) of this organization allow consumers to express their own attitudes, interests, or opinions.<br>• The brand(s) of this organization have strong personal meaning to me (to many people).<br>• A main benefit of the products offered by this organization is the ability for customers to express or reflect their own beliefs, values, or personalities.<br>• The brand names of this organization are considered by many to be prestigious or reflective of status.<br>• The products offered by this organization are sometimes associated with particular holidays, celebrations, events, or traditions.<br>• This organization has a reputation of being socially responsible. | • A key benefit of the products offered by this organization is their low cost.<br>• The product warranty, service terms, or return policy of this organization helps to reduce the perceived risk of its purchase.<br>• The packaging of the products offered by this organization is hard to dispose of.<br>• This organization promotes flexible return policies, strong warranties, or other guarantees or promises that are aimed at reducing the perceived risk of buying and using their products.<br>• This organization has a reputation for being difficult to do business with.<br>• The products offered by this organization are positioned as being a "good deal."<br>• The products offered by this organization are known for being easy to use. |

## APPENDIX D
## Measures for Content Analysis

Use the following codes in the margins of documents to indicate the creation of functional/instrumental, experiential/hedonic, symbolic/expressive, or cost/sacrifice value creation. Sum the unique expressions of value creation within each major type of value created.

### Functional/Instrumental Value

F1: (FU)   Compete by creating useful products.
F2: (FA)   Compete by creating correct/accurate attributes.
F3: (FP)   Compete by appropriate performances.
F4: (FO)   Compete by appropriate outcomes.
F5: (FV)   Value-chain activity/resource allocation consistent with functional value creation.

### Experiential/Hedonic Value

E1: (ES)   Compete by creating sensory value or appealing to the senses.
E2: (EM)  Compete by creating appropriate emotions (fun, pleasure, excitement, relaxation, etc.).
E3: (ER)   Compete by facilitating social relationships (bonds, attachments, togetherness).
E4: (EE)   Compete by creating epistemic value (knowledge, novelty, fantasy).
E5: (EV)   Value-chain activity/resource allocation consistent with experiential value creation.

### Symbolic/Expressive Value

S1: (SS)   Compete by enhancing self-identity, self-concept, self-worth.
S2: (SP)   Compete by creating personal meaning.
S3: (SE)   Compete by facilitating self-expression.
S4: (SM)  Compete by creating social meaning (status, prestige, image).
S5: (SC)   Create value by providing cultural meaning, enabling customers to better celebrate cultural, religious, or other holidays or events.
S6: (SV)   Value-chain activity/resource allocation consistent with symbolic value creation.

### Cost/Sacrifice Value

C1: (CE)  Compete by offering economic value (low prices, value in use, life costs).
C2: (CP)  Compete by minimizing psychological investment of customers (ease of use, ease of doing business, simplicity, availability, accessibility).
C3: (CI)   Compete by minimizing personal investment of customers (time, effort, energy).
C4: (CR)  Compete by minimizing customer risk (personal, technological, strategic).
C5: (CV)  Value-chain activity/resource allocation consistent with cost/sacrifice value.