

Customer Value Creation Behavior

Youjae Yi





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We all live in a service-based economy right now, and the role of customers has changed from passive buyers to active value creators. Customers are actively engaged in the value creation process, and customer value creation behavior has become an essential phenomenon. For the competitive advantage of the firm, employees need to change from exclusive service providers to value facilitators. Firms must now change their paradigm from treating customers as mere buyers to engaging customers as value creators. This book sheds insight into the essentiality of understanding customer value creation behavior for enhancing firm performance.

This book is also a comprehensive reference critically analyzing the current state of customer value creation behavior. It covers theoretical foundations, measurement, antecedents and consequences of customer value creation behavior, in addition to applications in specific and various contexts. The book also highlights the importance of understanding the dimensional structure of customer value creation behavior for accurate results of empirical research. In addition, the book also examines customer value destruction behavior or dysfunctional customer behavior.

This book challenges the conventional belief that handling customer complaints equates with handling dysfunctional customer behavior and provides useful insights for handling employees and customers.

Youjae Yi is the KT Professor of Marketing at Seoul National University (Stanford PhD). He has served as the president of the Korean Marketing Association, Korean Society of Consumer Studies, and Service Marketing Association. He has also served as the editor of *Korean Journal of Consumer Studies* and *Seoul Journal of Business*, and as co-editor of *Services Industries Journal*. He has published over one hundred articles in journals including *Journal of Marketing Research*, *Journal of Consumer Research*, and *Journal of Consumer Psychology*.



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Preface

The transformation of the world economy over the past several decades has surprisingly been characterized by the emergence of the service economy, and this transition is expected to continue at an accelerated rate. Ultimately, we all live in a service-based economy today. As a consequence, the role of customers has been revolutionized, changing from that of passive recipients or buyers to that of active value creators, with customers actively engaged in the value creation process in the service context.

Furthermore, customer value creation behavior has become an unavoidable phenomenon. For the competitive advantage of the firm, the role of employees must change dramatically, from that of complete service providers to that of partly value facilitators. In other words, using customer value creation behaviors is the source of increased firm performance.

While matters of customer value creation behavior are hot issues in all areas of business administration, most researchers and practitioners still rely on investigating the traditional passive role of customers—put simply, customer buyer behavior—and still focus on the psychology of customer buying behavior. More seriously, firms and their employees have neglected to acknowledge the dramatic transformation of the world economy into a service-based economy. As a result, the management of customer value creation behavior has not been introduced and implemented in practice. Firms must now engage in revolutionary changes. Firms have to change their paradigm from treating customers as merely buyers to engaging customers as value creators. Not surprisingly, researchers also need to examine this issue in more detail and as a top priority.

The primary objective of this book is to address that need. This volume is intended to be a comprehensive reference critically analyzing the current state of customer value creation behavior for both researchers and practitioners. As such, this book might be useful to students, professors, and professionals in practice as a manual for understanding and managing customer value creation behavior. In addition, this book comprehensively reviews the current state of knowledge about customer value creation behavior and seeks to stimulate further research and practice.

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1 Introduction

The service marketing literature has long recognized the importance of customer value creation (Grönroos and Voima 2013; Vargo and Lusch 2004). Customer value creation refers to the fact that the customer is in charge of the entire process of creating value (Grönroos and Ravald 2011). The firm merely acts as a value facilitator, although it could interact with customers and become a co-creator of value with them. However, customers perform the main value creation, and can create value through word-of-mouth in online and offline social communities (Yi and Hur 2007). For example, customers engage in value creation behavior by suggesting the menu or location of a restaurant. An advertising agency creates advertisements based on customer episodes. The mobile phone was developed from an idea advanced by customers.

However, although customers play a critical role in value creation, most previous research has focused exclusively on employees rather than on customers. Therefore, more integrated attempts to understand customer value creation behavior in the service marketing research area are clearly necessary. Unfortunately, few studies have systematically investigated customer value creation behavior in terms of theoretical and empirical research. Furthermore, theoretical research and empirical research have taken different perspectives. Theoretical research emphasizes that the firm should focus on what customers actually do in the value creation processes instead of what customer actually buy in the market (Xie *et al.* 2008). Traditional customer psychology researchers view customers simply as passive respondents. These researchers have investigated the psychological mechanism regarding customer buying behavior or decision making process, trying for several decades to open the black box where customers decide to buy things. In contrast, modern service researchers argue that customers are not passive receivers but active creators of value and that firms are facilitators of the value creation process (e.g., Payne *et al.* 2008; Vargo and Lusch 2004). However, these investigators fail to understand how customer value is created and, more importantly, how customers actively behave in value creation processes—issues that imply the use of value creation scales that define customer value creation behavior and require the development of a scale. To date, no integrated and empirically verified customer value creation behavior scale has been devised, and no comprehensive reviews of antecedents and

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consequences of customer value creation behavior have been performed. Furthermore, researchers need to examine the negative aspect of customer value creation behavior—dysfunctional customer behavior, or customer value destruction behavior (Plé and Cáceres 2010). Customers could accidentally or even intentionally misuse resources provided by the firm, with potentially enormous negative effects.

Without doubt, given the managerial importance of customer value creation behavior, more theory and related empirical research are needed, and a review of theories that justify customer value creation behavior is in order. Furthermore, the antecedents and consequences of customer value creation behavior as well as customer value destruction behavior warrant investigation. Instructions on how to order a Wendy's hamburger provide an example of one company's approach to customer value creation behavior:

When the Wendy's Hamburger Chain first appeared in Europe, customers were surprised to receive instructions on how to buy a burger. A leaflet was distributed to customers who had joined the line. "At Wendy Restaurants we don't tell you how to have your hamburger. You tell us. The order-taker will want to know what size of hamburger you would like. A glance at the menu will help you make up your mind. With cheese or without? Then you've a choice of what goes on top. Mayonnaise, ketchup, pickle, fresh onion, juicy tomato, crisp lettuce, mustard. Choose as many as you like—or have the lot—all at no extra charge."

(Bateson and Hoffman 2011: 264)

In addition, astute management of customer value is critical (Yi and Hur 2007). Yi and Hur (2007) extend the management of customer value by proposing three dimensions of customer value: value for the customer, value of the customer, and value by the customer (see Figure 1.1). Value for the customer refers to the

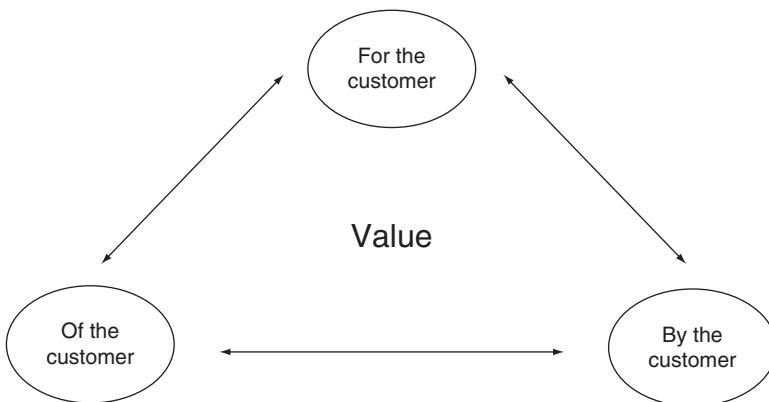


Figure 1.1 Three dimensions of customer value (source: Adapted from Yi and Hur 2007).

value offered for the customer, and it is the typical meaning of customer value in practice. Value of the customer means how valuable the customer is to the firm, and it is often called customer lifetime value (CLV) or customer asset. Value by the customer refers to the fact that value is created or enhanced by the customer. Value by the customer is directly related to customer value creation behavior, a main theme of this book.

Importantly, customer satisfaction management and customer value management may differ. From the practitioner's perspective, the following questions are often raised: (1) Does customer satisfaction really guarantee the success of our firm? (2) How can the firm differentiate its service from that of competitors that also pursue customer satisfaction? (3) Do the revenues of the firm justify the cost of customer management? (Yi and Hur 2007).

Many firms still focus only on their customer satisfaction score or ranking without adequately considering the profit of the firm. Two cases offer examples of unsuccessful customer satisfaction activities. A number of years ago, the Subaru Company failed to increase its sales volume despite its success in increasing customer satisfaction. In a second illustration, the Wallace Company in Houston, Texas, received the Malcolm Baldrige National Quality Award in 1990, but was so unprofitable that the firm closed three years later. In both examples, although customer satisfaction increased, firm performance decreased. Clearly, the lesson is that firms need to focus on customer value, not just customer satisfaction.

The core concept of value is derived from an analysis of both customer satisfaction (benefit) and cost. Customers evaluate their value on the basis of benefit versus cost (Ramirez 1999; Zeithaml 1988). The costs of customers extend beyond the monetary price to include the cost of usage (e.g., effort expended). For example, a customer will evaluate the value of an automobile, not just in terms of the purchase price but also in terms of the cost of maintenance, time, effort, and other psychic access costs. That is, the total cost of ownership (TCO) matters in the evaluation of value. Firms thus have to differentiate themselves in terms of customer value beyond customer satisfaction. In addition, all activities of the firm should contribute to increasing both the performance and the value of firm (Yi and Hur 2007). Customer value creation behavior is also essential to value for the customer and value of the customer, especially as customer engagement is important to the generation of value creation behavior. As the theory of engagement in psychology holds that customers are more attached to service they create, the firm should do its best to elicit value from the customer.

In sum, customers play a critical role as value creators, with employees providing the information on how customers can create value. Prahalad and Ramaswamy (2000: 80) argue that "customers are fundamentally changing the dynamics of the marketplace. The market has become a forum in which consumers play an active role in creating and competing for value." As the firm shifts its perspective to viewing customers as active value creators (or co-producers) rather than a passive audience, the relevant question changes from "what can we do for you" to "what can you do with us?" (Bendapudi and Leone 2003; Wind

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and Rangaswamy 2000). Firms must learn from and collaborate with customers to create value that meet their individual needs. Norman and Ramirez (1993) even argue that the goal of business is not to create value for customers but rather to mobilize customers to create value. From this perspective, everything depends on customers.

Figure 1.2 shows how the remainder of this book develops this argument. This book is organized into nine parts. Chapter 1 has introduced the topic of customer value creation behavior and is designed to help readers understand the necessity of investigating this behavior. Chapter 2 examines various theoretical foundations of customer value creation behavior, which is explained from an interdisciplinary theoretical perspective. Chapter 3 explores conceptualization and measurement issues of customer value creation behavior. Without a rigorous analysis, it is almost impossible to fully understand the nature of customer value creation behavior. This chapter applies and examines the newest methodology. Chapter 4 discusses the antecedents of customer value creation behavior. Through an integrated literature review, this chapter guides readers toward a better understanding of the mechanisms of customer value creation behavior. Chapter 5 discusses the consequences of customer value creation behavior. This chapter discusses what effects customer value creation behavior can bring about.

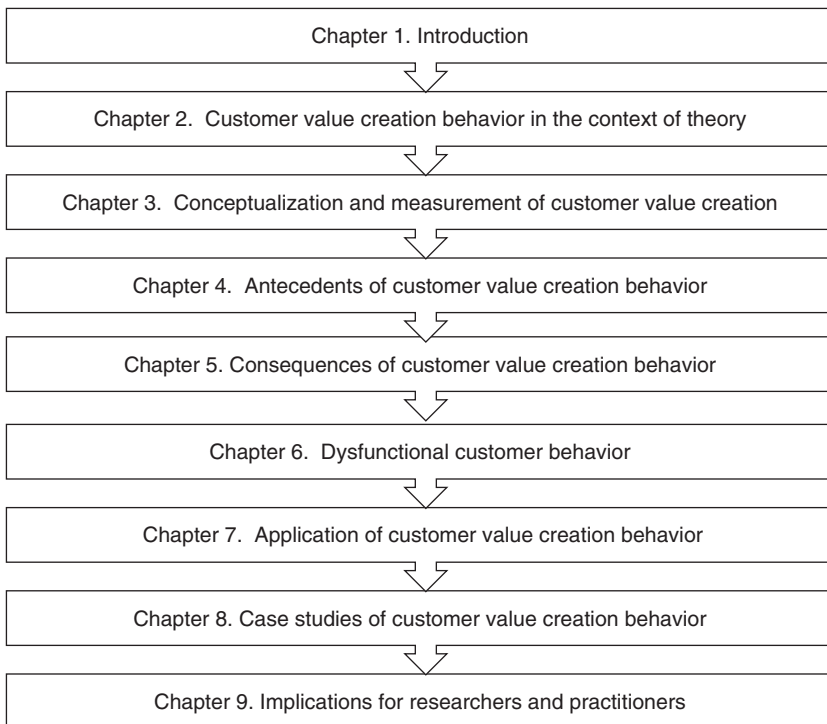


Figure 1.2 Flow chart of the book.