Desired and received customer value models in logistics service outsourcing

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Desired and received customer value models in logistics service outsourcing

Abstract
The customer value literature offers diverse meanings of customer value concept. The significant differences among these meanings rest on interpretation or understanding of customer value. Generally, there are two major concepts of customer value. The first is desired value and the second is received value. Desired value refers to the value that customer wants to receive from product-vendor-customer interactions. Received value refers to the value that is actually experienced through product-vendor-customer interactions. Majority of research tends to focus on the received value concept. Although these two concepts are complementary, no research investigating both concepts has been conducted. This paper explores customer value in two models, the desired customer value model and received customer value model. The desired customer value model is investigated in mean-ends approach to describe relation path among logistics service attributes, benefits of logistics service outsourcing and goals of customers. The approach of relation path enables LSPs to identify the ultimate goals of customers and to understand which benefits and attributes of logistics service outsourcing can LSPs employed to achieve these goals. This can make a contribution in designing logistics services to ensure the LSPs do not only focus on logistics service attributes but also to consider the root of value by detecting the ultimate and priority goal of customers. The received customer value model is explored in the give-and-get approach that consists of attributes, benefits, sacrifices and risks of logistics service outsourcing. In this model, LSPs can understand how to maximize net received customer value.

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DESIRED AND RECEIVED CUSTOMER VALUE MODELS IN LOGISTICS SERVICE OUTSOURCING

by

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ABSTRACT

The customer value literature offers diverse meanings of customer value concept. The significant differences among these meanings rest on interpretation or understanding of customer value. Generally, there are two major concepts of customer value. The first is desired value and the second is received value. Desired value refers to the value that customer wants to receive from product-vendor-customer interactions. Received value refers to the value that is actually experienced through product-vendor-customer interactions. Majority of research tends to focus on the received value concept. Although these two concepts are complementary, no research investigating both concepts has been conducted. This paper explores customer value in two models, the desired customer value model and received customer value model. The desired customer value model is investigated in mean-ends approach to describe relation path among logistics service attributes, benefits of logistics service outsourcing and goals of customers. The approach of relation path enables LSPs to identify the ultimate goals of customers and to understand which benefits and attributes of logistics service outsourcing can LSPs employed to achieve these goals. This can make a contribution in designing logistics services to ensure the LSPs do not only focus on logistics service attributes but also to consider the root of value by detecting the ultimate and priority goal of customers. The received customer value model is explored in the give-and-get approach that consists of attributes, benefits, sacrifices and risks of logistics service outsourcing. In this model, LSPs can understand how to maximize net received customer value.

KEYWORDS
LSP, Customer Value

INTRODUCTION

Knowledge on value is important in business market management. Customer value is one of the most significant factors in the success of an organization and it is also an important source of competitive advantage for the firm (Spiteri and Dion 2004; Woodruff 1997). The orientation toward customer has encouraged many companies to deliver superior customer value as the fundamental basis for their marketing activities (Holbrook 1996; Woodruff 1997). For long term goals, customer value is necessary to achieve customer loyalty (Sirdeshmukh et al. 2002). Customer value has become strategically important to attract and retain customers and is a significant factor in contributing to the success of companies (Khalifa 2004; Slater 1997; Wang et al. 2004). In order to deliver superior value, companies should understand what customer value is; how value is perceived by their customer; which value does the customer values the most and how to translate value into performance measures. Customer value is needed in product development, pricing and distribution. Knowledge of customer value can also be used for customer enhancement (Menon et al. 2005; Parasaruman 1997; Simpson et al. 2001). More importantly, customer value varies for different countries, different relationship context and different environmental situations (Menon et al. 2005). Thus customer value needs to be investigated in different business areas, different customer characteristics and different competitive environment.
Companies and researchers have little knowledge on how to define, measure and deliver customer value (Anderson and Narus 1998; Tzokas and Saren 1999). Literature review shows that only very limited researches have been conducted to investigate customer value as a focal construct (Sinha and DeSarbo 1998; Ulaga 2001). Limited research is also found in business-to-business relationship, in particular research investigating customer value empirically and in a systematic manner (Menon et al. 2005). In order to fulfil this gap this paper aims to identify mainstream concepts in customer value and to map relationships among the identified mainstreams concepts. The rest of the paper is organised as follows. Section 2 synthesizes literatures on customer value. Section 3 identifies the customer value conceptual framework and section 4 concludes the paper.

SYNTHESIS OF CUSTOMER VALUE RESEARCH

There is no agreeable and consensus way on how value should be conceptualized. From a theoretical point of view, the question on how to conceptualize value needs further investigation (Reichheld 1996; Ulaga 2001). Value can be investigated in four major perspectives: values, desired value, value judgement and ‘value of the customer’ (Flint et al. 1997). In the first concept, value is a higher order goal of customer that guides behaviour. In the second concept, desired customer value refers to customers’ perceptions of what they want to have occurred in a specific use situation to accomplish a desired purpose or goal. The third concept of value judgment is the customer’s assessment of tradeoff between benefits and sacrifices in a specific use situation. The fourth concept, ‘value of the customer’ is the seller’s perspective of value realized through market exchange with customers (Flint et al. 1997; Ulaga and Eggert 2005).

In the first and second concepts, researchers assume that customer view products as a bundle of benefits (Day 1990). Customers are more attracted in what benefits they can obtained from product rather than features of a product or service (Hooley 2008). Consumer values and customer desired value describe people’s valuation of product possession or consumption (Lai 1995). Consumers buy product for the product benefits that will satisfy their needs. However, benefits alone do not fully explain customer choice. Customers also consider sacrifice in both monetary and non-monetary terms. This state implies that the evaluation judgment perspective is also necessary in the buying process. The evaluative judgment perspective refers to the third concept. In order to understand customer behaviour, valuation and evaluation perspectives are critical (Huber et al. 2001). The concept of values is more abstract than the concept of customer desired value. For practical implication in business-to-business context, understanding customer desired value and customer received value has a significant implication. Thus we need research that uses comprehensive model of customer value which integrates customer’s desired value before purchasing and customer value evaluation after purchasing (Holbrook 1996). The fourth concept describes the seller point of view about the net value of customer for seller. This concept does not relate directly to the understanding of value from the customer perspective.

We have identified two major research foci that can be classified into valuation and evaluation perspectives as shown in Table 1. For valuation perspective, the terminology employed in this paper is customer desired value (CDV) whilst for evaluation perspective the terminology used is customer received value (CRV). CDV refers to the value that customers want to receive from products/services and their providers whilst CRV refers to the value that customers actually experienced through specific product-customer interactions (Flint and Woodruff 2001).
TABLE 1
THE CLASSIFICATION OF VALUE RESEARCH

<table>
<thead>
<tr>
<th>Preference (Valuation Perspective)</th>
<th>Evaluation (Evaluation Perspective)</th>
<th>Multi Dimension Constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Park et al. 1986); (Sheth et al. 1991a); (Lai 1995); (Butz and Goodstein 1996); (Holbrook 1996); (Flint et al. 1997); (Woodruff 1997); (Huber et al. 2001); (Smith and Colgate 2007)</td>
<td>(Zeithaml 1988); (Monroe 1990); (Bolton and Drew 1991); (Dodds et al. 1991); (Heard 1993); (Lai 1995); (Butz and Goodstein 1996); (Anderson and Narus 1998); (Sinha and DeSarbo 1998); (Sweeney and Soutar 2001); (Ulaga and Chacour 2001); (Walter et al. 2001); (Heinonen 2004); (Menon et al. 2005); (Callarisa Fiol et al. 2009)</td>
<td>(Flint et al. 1997); (Lapierre 2000); (Huber et al. 2001); (Eggert and Ulaga 2002); (Ulaga 2003); (Woodall 2003); (Sanchez-Fernandez and Iniesta-Bonillo 2006); (Gounaris et al. 2007); (Smith and Colgate 2007)</td>
</tr>
</tbody>
</table>

Customer Desired Value (CDV)

CDV is the value that customer perceives to be what he or she wants to have happened in a specific use situation. Specifically, CDV is the entire bundle of product attributes and resulted consequences which the customer wants to have happened. This value is created by the product when the product benefits achieve customer desired and end states of existence or goal (Flint et al. 1997). CDV refers to goals or standards and reflect customer’s desire. Information on customer’s desire is needed to develop marketing strategy. Customer’s desire is reflected within customer’s expected benefit. Customer’s expected benefit can be fulfilled through creating product or service attributes. In simple word, there are linkage between customer desired value, product or service benefits and product or service attributes. In order to investigate this linkage we can use means ends theory (Gutman 1991). This theory assumes that consumers associate their decision and behaviour with goal achieved (Huber et al. 2001). The goal achieved is derived by multiple consumption values. Researchers identify multiple and different consumption values. For instance, Sheth (1991b) identifies five consumption values involving functional values, social values and emotional values whilst Ulaga (2003) proposes eight consumption values consisting of product quality, delivery, time to market, direct product cost, process cost, personal interaction, supplier know how, and service support. These differences show that different business characteristic will have different consumption values.

Customer Received Value (CRV)

Most value research employs evaluation perspective. In this perspective, customer’s received value has diverse meanings. Some researchers interpret this value as consumers’ perceived value when providers deliver low prices. On the other hand, some researchers refer this value as trade off between quality and price. However, the concept that is widely used is one that describes differences between benefits and sacrifices perceived by customers (Mazumdar 1993; Ravald and Gronroos 1996; Slater 1997; Zeithaml 1988). This perspective is a cognitive or rational model of decision making. In this perspective, CRV is interpreted as outcome of an evaluative judgment; CRV refers to the result of trade-off between benefits and sacrifices. Perceived benefit can be sourced from product performance, quality of service, staff delivering service and brand image (Lindgreen and Wynstra 2005). The combination of product, service attributes and relationships support customer value in the use of product (Ravald and Gronroos 1996). Lapierre (2000) identifies direct benefits in seven dimensions such as alternatives solutions, product quality, product customization, responsiveness, flexibility, reliability and technical competence.
Perceived sacrifice involves all costs that the buyer offers when making a purchase such as purchase price, acquisition costs, transportation, installation, order handling, repairs and maintenance, risk of failure or poor performance (Ravald and Gronroos 1996). Cost can be classified into monetary and non-monetary cost (Bolton and Drew 1991; Zeithaml 1988). Monetary cost comes from the price that customer pay to purchase the product and other cost for possessing the product involving installation, insurance, maintenance, acquisition and operation cost (Menon et al. 2005). The non-monetary cost consists of cost of time, psychological costs of risk taking and human energy cost effort (Cronin et al. 1997). The cost of time refers to the amount of time required for the acquisition or consumption. Customers encounter risk when they face with uncertainty or potential negative consequences of consumer activities. Finally, the human cost refers to the degree of difficulty of operation and cognitive energy (Lai 1995).

Research in this area can be divided into two classifications based on the number of constructs describing CRV. Firstly, CRV as a dimensional construct and secondly CRV as multi-dimensional constructs (Lin et al. 2005; Sanchez-Fernandez and Iniesta-Bonillo 2007). In a dimensional construct, value is measured by a set of items that evaluate consumer’s perception of value. This construct can be influenced by the effects of multiple antecedents. In this view, value does not an aggregate concept formed from multiple antecedents. In this perspective, value is conceived with a utilitarian approach (Sanchez-Fernandez and Iniesta-Bonillo 2007). The second perspective conceives perceived value as a multi-dimensional construct that consists of several dimensions (Holbrook 1996; Huber et al. 2001; J. N. Sheth et al. 1991b; Sweeney and Soutar 2001). Park (1986) refers value to three consumer needs consisting of functional needs, symbolic needs, and experiential needs; whilst Sheth (1991a) employs functional value, social value, emotional value, epistemic value and conditional value to describe values that drive consumer choice. Heard (1993) identifies value in three constructs which are product characteristics, delivered orders, and transaction experiences. Holbrook (1996) uses eight types of value such as efficiency, excellent, status, esteem, play, aesthetics, and spirituality. On the other hand, Ulaga (2003) proposes eight classifications of value involving product quality, delivery, time to market, direct product cost, process costs, personal interaction, supplier know-how and service support.

CONCEPTUAL FRAMEWORK OF CDV AND CRV

In order to comprehensively understand customer value, we propose to conduct exploratory study and confirmatory research (see Figure 1). Exploratory research aims to identify customer expected benefits (EB). The similar expected benefit can be classified into expected benefit bundle (Sweeney and Webb 2007) to achieve certain customer desired value (CDV) which refers to values or customer goals. Expected benefit should be translated to product or service attributes. From exploratory research, we obtain information about EB and the product or service attributes that can fulfil the customer benefits.
Confirmatory research is used to examine the contribution of received benefit bundle (RBB) and received sacrifice bundle (Jones et al. 2000) into CRV. RBB is reflected through received benefit (RB) whilst received sacrifice bundle (Jones et al. 2000) is reflected through received sacrifice (RS). RB is similar item with expected benefit (EB) except in the way assessment is done. Received benefit (RB) is evaluation judgment of customer with provider’s product or service while expected benefit is valuation perspective of customer. For illustration, we will use the following to briefly describe logistics service outsourcing context. Some benefits of using logistics service provider (LSP) are reduced asset, reduced inventory level, access latest technology; access expertise, skill, and knowledge; access to material resources and improved data access (Cho et al. 2008; Ghodeswar and Vaidyanathan 2008; Selviaridis and Spring 2007). These benefits are expected benefit (EB) which can be classified into expected benefit bundle (Sweeney and Webb 2007), namely ‘access to resources’. This EBB is used to achieve customer desired value (CDV), namely ‘thrift’. This customer desired value refers to ‘economical values’. After researcher identifies expected benefit, they can translate the benefits into product or service attributes.
Furthermore, researcher can identify received benefit bundle (RBB) in customer evaluation judgment, in this case is ‘thrift’. The ‘thrift’ construct is reflected through items of received benefit (RB). Next, researcher can identify the contribution of each received benefit bundle (RBB) and received sacrifice bundle (Jones et al. 2000) to customer received value (CRV).

CONCLUSION

Generally, the literature shows that researchers lack agreement about the value definition and conceptualization. Current theories are not adequate to identify how value is created and what motivates customers in exchange. Some researchers view customer value as a subjective concept and is a result of interactive process between product or service and customer. Some researchers agree that perceived value refers to an exchange between what the customer receives and what the customer give. We have also found that there is lack of consensus in terminologies and conceptualization employed to describe value. This fact shows that value is a complex, subjective, and dynamic concept (Sanchez-Fernandez and Iniesta-Bonillo 2006). There are two major value conceptualizations: value in valuation and evaluation perspectives. Both concepts have a relationship which can be used to describe customer value comprehensively.

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