

## VALUE PROPOSITIONS: A SERVICE ECOSYSTEM PERSPECTIVE

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## Abstract

Despite significant interest in value propositions, there is limited agreement about their nature and role. Moreover, there is little understanding of their application to today's increasingly interconnected and networked world. The purpose of this paper is to explore the nature of value propositions, extending prior conceptualisations by taking a service ecosystem perspective. Following a critical review of the extant literature in service science on value propositions, value co-creation, S-D logic and networks, and drawing on six metaphors that provide insights into the nature of value propositions, we develop a new conceptualisation. The role of value propositions is then explored in terms of resource offerings between actors within micro, meso, and macro levels of service ecosystems, illustrating with two real world exemplars. We describe the role of value propositions in an ecosystem as a shaper of resource integration offerings. Finally, we provide five foundational premises and outline a research agenda.

**Keywords:** value proposition, network, service ecosystem, collaboration, resource integration, value co-creation

## **Introduction**

Value propositions have recently attracted increased interest, especially in the context of customer-supplier interactions and co-creation (Vargo and Lusch, 2004; 2008). This perspective is distinct from early conceptualisations in the 1980s and 1990s (e.g. Kambil et al., 1996; Lanning, 1998; Lanning and Michaels, 1988), which describe value propositions in terms of positioning a firm, highlighting favourable points of difference and determining promises of delivered value. This early work considered value as a form of value delivery (e.g., Bower and Garda, 1985) and value exchange (e.g., Alderson 1957). More recent scholarship views value formation as co-created through interaction between supplier and customer (e.g., Prahalad and Ramaswamy, 2004). However, both perspectives align on two important roles of value propositions: first, in impacting relationships; and second, in shaping perceptions of value.

An important recent development in the value proposition literature is the notion of moving from a narrow dyadic, customer-supplier perspective, to a much broader one that includes multiple stakeholders, or ‘actors’ within a service ecosystem. Recent research has addressed several important themes, including how knowledge sharing and dialogue shapes value propositions (Ballantyne and Varey 2006b), the reciprocity of value propositions, and their role in ‘balancing’ stakeholder relationships (Frow and Payne, 2011), value co-creation within business-as-system (Lusch et al., 2008), and within a service ecosystem (Vargo and Lusch, 2011).

Classic stakeholder theory (e.g., Freeman, 1984) suggests that stakeholders are distinct and mutually exclusive, with a focal firm linked to a stakeholder network. This narrow approach has been criticised “for assuming the environment is static” (Key 1999;

Luoma-aho and Palovita 2010). Recently, researchers have called for a broader perspective that considers the interconnected relationships within a network, recognising that the actions of a focal firm have both direct and indirect effects on other actors. Accordingly, ecosystem theory can assist in understanding how networks of individuals and groups of individuals are connected through ‘porous boundaries’ (Bhattacharya and Korschun, 2008).

Interacting social and economic actors are linked through value propositions that enable value co-creation (Vargo and Lusch, 2010). Here actors connect with other actors using a common language of symbols, institutions and technology, purposefully integrating their resources and co-creating value. A service ecosystem perspective suggests that the system adapts to changing situations, rather than determining the nature of relationships contained within it (Kandiah and Gossain, 1998). However, the characteristics of this process and especially the role of the value proposition within an ecosystem and how it changes is largely unexplored.

The purpose of this paper therefore is to extend the concept of the value proposition beyond the customer-enterprise dyad and the enterprise-stakeholder perspectives, exploring its nature and role within the broad context of a dynamic service ecosystem. We make three important contributions. First, we define the value proposition from a service ecosystem perspective, drawing on diverse literature and metaphors that illustrate the characteristics of the concept. Second, we explore the role of the value proposition within the service ecosystem, arguing that it assists the dynamic process of resource sharing and shaping the service ecosystem. Third, we provide a new service ecosystem-based conceptualisation of the value proposition. As such, we extend previous discussions of service ecosystems pointing out how value propositions may contribute to their well-being.

The paper is structured as follows. First, following this introduction, we review relevant literature on the development of the value proposition concept. Second, we examine the nature of value networks and service ecosystems in marketing. Third, we explore the nature of value propositions within a service ecosystem, distinguishing the nature of the concept at the micro, meso and macro levels. We consider the nature of value offered, value sought and value shared among actors in a service ecosystem. Fourth, we identify several metaphors that illuminate and contextualise the value proposition concept, offering a richer picture of its features and purpose. Fifth, using these insights, we propose a new definition of the value proposition concept from a service ecosystem perspective. Sixth, we use two exemplar organisations, from the for-profit and not-for-profit sectors, to explore value proposition evolution. We review how the evolving value propositions have impacted the market relationships of these organisations and how they are now explicitly considering their value propositions within an ecosystem. Finally, we identify key aspects of value propositions within a service ecosystem, offering five foundational premises that provide guidelines for value proposition development and outline a compelling agenda for future research.

### **Development of the value proposition concept**

The value proposition concept plays a key role in business strategy (Payne and Frow, 2014). Kaplan and Norton (2001) argue that the value proposition is “the essence of strategy”, or a statement that represents the core strategy of a firm (Lehmann and Winer 2008). Moreover, value propositions are highlighted as a key research priority by the Marketing Science Institute (2010).

Although the term “value proposition” has become widely used in businesses today (Anderson et al. 2006) the term is often used in a casual, even trivial manner, without proper strategic underpinning (Lanning, 2003). This view is supported by a survey of over 200 enterprises, which identified that despite common use fewer than ten per cent of organisations have a formal process for developing and communicating their value propositions (Frow and Payne, 2014). Clearly, investigation and explication of the value proposition concept is an important topic for both scholars and marketing practitioners alike. In this section we explore the origins and evolution of the value proposition.

### ***Value proposition concept: origins and evolution***

The first discussion of the customer value proposition concept within the managerial literature appears in the work of Bower and Garda (1985) who only briefly introduced the concept. Three years later, a more detailed description appeared in an internal McKinsey Staff Paper (Lannings and Michaels, 1988). This work describes a value proposition as a promise of value to customers that combines benefits and price. Furthermore, a successful value proposition provides the means of achieving differentiation and forms the foundation for the on-going supply-customer relationships. The paper also highlights that the customer perspective of benefits requires clear articulation.

In the decade following Bower and Garda's pioneering work, there was little further discussion of value propositions until Treacy and Wiersema's (1995) contribution. These authors discuss value propositions in terms of operational excellence, customer intimacy, and product leadership. Since this important work, interest in value propositions has increased. However, as Gummesson (2008b) notes, views associated with the value-chain paradigm, assume distance between the company and its customers, suggesting a gap between a value

proposition and value realisation. As such, value propositions are largely dependent on customer inputs (Gummesson 2008b).

Normann and Ramirez (1993, 1998) advocated a more interactive view of the role of value propositions. In describing value constellations as complex value-creating systems of various actors, value propositions are viewed as offerings, i.e. ‘tools’ that mobilize assets and link them together to leverage value-creating processes (Normann 2001). Offerings are thus manifestations of relationships (Ramirez 1999), because the company creates them to match the customers’ value-creating processes (Normann 2001). However, value propositions are still viewed as static offerings (see e.g. Kowalkowski et al. 2012), since they are defined as ‘frozen’ value (Normann 2001).

Further work explored value propositions in terms of the types of benefits that a focal firm offers. For example, Anderson et al. (2006) argued that enterprises adopt one of three approaches to developing value propositions: (1) *all benefits* - identifying the overall benefits an enterprise can offer to customers; (2) *favourable points of difference* - identifying the differentiating benefits that are offered, relative to those delivered by key competitors; and (3) *resonating focus* – offering specific key benefits that are highly valued by select customers.

Recently, the dynamic nature of value propositions has been highlighted (Kowalkowski 2011) and interest in the concept has been reignited largely as a result of work in S-D logic (e.g., Vargo and Lusch, 2004; 2008). This is not surprising as value propositions form a central foundational premise of this logic, for example, “The enterprise can only make value propositions” (Vargo and Lusch, 2008). As value is co-created value propositions serve as a mechanism of determining expectations of value-in-use. However, much remains to be done in terms of explicating value propositions. This is where our study contributes.

Before elaborating value propositions in the context of service ecosystems in more detail, we explore the use of the concept beyond the narrow customer-enterprise dyadic perspective.

### ***Value propositions: addressing other stakeholders***

The value proposition concept is most commonly considered in the terms of a customer value proposition. For example, Lanning and Michaels' (1988) early description of the value proposition discusses how a firm's offering adds value for a customer. Other researchers such as Smith and Wheeler (2002) place emphasis on the importance of the customer experience that is inherent in a value proposition. However, as the focus of marketing activities has expanded beyond customers, scholars have broadened value propositions to include other stakeholders (Bhattacharya and Korschun 2008). We now briefly review how the concept of value proposition has been applied in this context.

Employee value propositions are principally concerned with attracting and retaining talented employees (e.g., Chambers et al., 1998; Heger 2007). Recent discussion emphasises the need for multiple employee value propositions, reflecting varying values, aspirations and expectations of different segments of the work force (e.g., Guthridge et al., 2008), although the inter-connectedness of these various propositions is unclear. From an employee perspective, value propositions set out the comparative benefits of employer organisations, describing not only contractual benefits such as wages, but also other important differentiators, including for example, the corporate brand (Bell, 2005).

The supply chain literature discusses value propositions, focusing largely on the coordinating role of value propositions with suppliers. Some authors adopt a unidirectional perspective, considering how each member of a supply chain aligns its value proposition to



the benefits sought by the next member (e.g., Bititci et al., 2004). Others consider the reciprocity of value propositions, for example, suppliers gaining information on sources of raw materials in return for their commitment to supplying high quality products at low prices (Normann and Ramirez 1993). In this context, value propositions identify opportunities for value creation between individual suppliers and a focal enterprise. In the context of supply chain management, Lusch et al. (2010) describe value propositions as dynamic and changing connectors between the company and its suppliers and customers. The most attractive value proposition will result in highest performance, but will also require constant revision in accordance with customer changes in order for the advantage to be maintained. Furthermore, value propositions for customers' customers have to be considered as well (Lusch, 2011).

In the context of other stakeholder groupings, there is relatively little discussion of value propositions despite being recommended within value creation frameworks (Ramirez, 1999). However, some implicit work on value propositions suggests their importance to key influencers, including shareholders (e.g. Kaplan and Norton, 2001), though companies are not necessarily successful in crafting such propositions (Macgregor and Campbell, 2006). Frow and Payne (2011) review the extant literature on value propositions for non-customer stakeholders and consider existing work in terms of key stakeholder market domains, including: supplier and alliance, recruitment, internal, referral, influence, as well as customer markets.

A focal enterprise can consider offering value propositions for each of these market domains that represent a subsystem of a stakeholder network. This research suggests that a process of knowledge sharing and dialogue is essential in co-creating value propositions with key stakeholders (e.g., Ballantyne and Varey, 2006a). Indeed, Ballantyne et al. (2011) suggest relationships are successfully maintained through reciprocal value propositions.

Similarly, Kowalkowski et al. (2012) explore the dynamics of value propositions through reciprocal exchange of knowledge between resource-integrating actors within S-D logic.

In sum, to date, most research on value propositions has focused on the narrow customer-enterprise perspective. Despite calls for extending investigation of the value proposition, there remains limited detailed discussion. In the next section we address the nature of networks and ecosystems as a precursor to the exploration of the value proposition concept from a service ecosystem perspective, which is considered in the following section.

### **Networks and service ecosystems in marketing**

Studying networks in marketing is not new (Wilkinson, 2001). Early work on networks in marketing initially focused on the impact of flows and interdependencies in: (1) distribution channels (Reilly, 1931; Steward et al., 1939; Breyer, 1924); (2) industrial marketing and purchasing, particularly the relations between buyers and sellers (Hakansson 1982); and (3) the business to business environment (Iacobucci, 1996; Achrol and Kotler, 1999). While this work examines the network implications for firms, especially through business to business networks, much of the discussion upholds a traditional economic view that value is created *by* firms and passed down the supply chain as goods and services *to* or *for* customers who ultimately consume its value (Porter, 1985). However, relatively recent developments in understanding how customers interact in networks (Iacobucci and Hopkins, 1992) have challenged the view that customers are passive recipients of dyadic exchange, suggesting the active engagement in ‘many-to-many’ interactions (Gummesson, 2006) within value networks.

Vargo and Lusch (2004; 2008) suggest that customers are central actors in value networks and in the process of value co-creation. This view is consistent with Normann’s

(2001) description of value constellations, which views value creation as realised through a dynamic constellation of activities that directly involve customers in the processes of production and service delivery. Through this experience, the customer interacts within a network of firms and customer communities in order to satisfy their unique preferences (Prahalad and Ramaswamy, 2004). Accordingly, markets no longer simply deliver value, but become ‘a place where dialogue among the consumer and the firm, consumer communities and networks of firms can take place’ (2004: 11). Parolini (1999) is one of the first authors to incorporate an explicit link between a network and a value propositions. Building on the work by Normann and Ramirez (1993), Parolini defines a value network as a set of activities linked together to deliver a value proposition for the end consumer.

Within the value network, actors are continuously involved in planning, searching, selecting, negotiating, and evaluating a raft of value propositions available to them. Through this experience, customers are active, well-informed, connected and empowered (Prahalad and Ramaswamy, 2004). This process of co-creation of value converts the market into a place where dialogue among the customer, the firm, customer communities and networks of firms takes place (McColl-Kennedy et al., 2012).

According to Prahalad and Ramaswamy (2004), within a value network, the roles of the company and the customer converge. They ‘are *both* collaborators and competitors, collaborators in co-creating value and competitors in extracting economic value’ (p.11). This convergence demonstrates the ‘inseparability of business and society’ (Granovetter, 1985), and exemplifies that all economic behaviour is embedded in a network of interpersonal relationships and therefore the social and economic values are subject to evaluation. As *both* firms and customers interact within ‘interdependent webs of relationships, their conduct is guided by social rules, sensitivity to the opinion of others, obedience to the dictates of

consensually developed systems of norms and values and internalised through socialisation of codes of social conduct,' (Granovetter, 1985: 483). Within value networks, firms benefit from entering exchange interactions with the aim of building long term relationships with customers that extend beyond episodic, one-off economic transactions.

Scaling up the level of analysis from micro to macro perspectives, it is clear that value networks exist within the structure of a 'marketing system' (Layton, 2011). Accordingly, a marketing system can be described as a 'network of networks' where interactions between networks at higher and lower levels of aggregation are influenced by social forces (Edvardsson et al., 2011). These forces include social roles, social structures and the reproduction of social structures through the purposeful action of actors embedded in value networks.

### **Dynamic service ecosystems**

The terms "network" and "ecosystem" are used interchangeably (e.g., Battistella et al., 2012; Chesbrough, 2007; Kudina et al., 2008; Yiu and Yau, 2006). Recently there has been a more generic conceptualisation of economic and social actors who create value in complex systems in what Vargo and Lusch (2011) term 'service ecosystems' and what Maglio and Spohrer (2008) term 'service systems.' As Wieland et al. (2012: 13) argue, 'a system view differs from a network view in that each instance of resource integration, service provision, and value creation, changes the nature of the system to some degree and thus the context for the next iteration and determination of value creation.' To address this higher-level system, Vargo and Lusch (2011) define service ecosystems as: 'relatively self-contained, self-adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange' (p.15).

Within a service ecosystem, exchange occurs because no one actor has all the resources to operate in isolation, and so therefore is required to participate in resource integration practices, even in the face of sometimes competing and conflicting priorities and preferences. The service ecosystem thus becomes a ‘value-creating system’ (Normann, 2001) that operates as a complex web of interdependent relationships between actors concerned with finding resources that are useful, learning processes that can be sustained, and in maintaining meaningful relationships through economic and social exchange. Customers have diverse motives for engaging in resource integration practices, and increasingly, wish to co-create personalized experiences, sometimes using the same resources, but creating unique and phenomenologically determined value for themselves (McColl-Kennedy et al., 2012).

Within a service ecosystem there are arguably three levels - micro, meso and macro. Value propositions operate within each level, between the levels and also serve to shape the levels. At the *micro level* of the value network, the *interactions between buyers and sellers*, firms and customer communities are central. The exchange practices between ‘individuals, who specialise and exchange their services for services of others, as they seek to improve their stake in life can be observed in value networks.

At the *meso level*, the focus of analysis shifts to the focal *firm*. Firms can collectively be seen as entities guided by a set of rules, concerned with the co-ordination and efficient distribution of commodities and commercial services. The actions of a firm are undertaken to achieve efficient service flows and are governed by regulations and ethics. The firm’s exchange practices may include competing or cooperating across several dimensions including price, quality and resource availability (Layton, 2011).

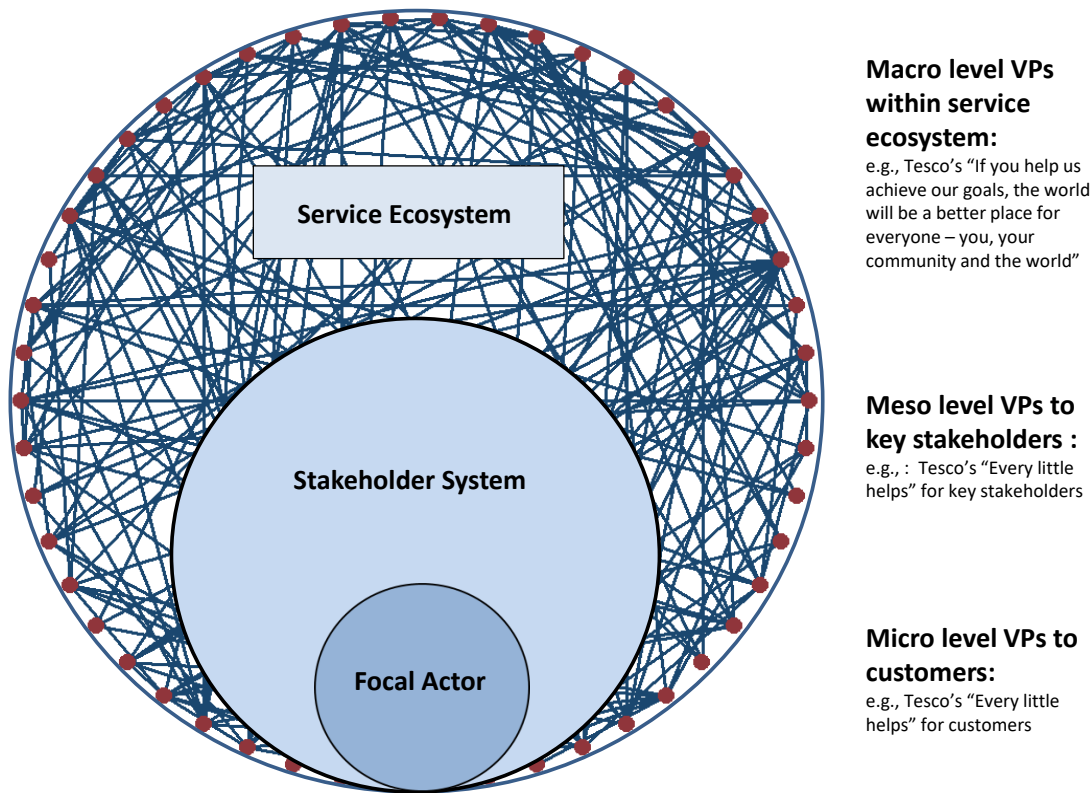
At the highest level, the *macro level*, the focus is on the *market*. Markets are defined as a set of institutional arrangements, which according to Vargo and Lusch (2006), from the

perspective of a grand theory of marketing, even ‘society can be viewed as a macro-service provision institution and ... within a market-driven society, markets emerge to serve humankind’.

### **Value propositions and the service ecosystem**

Having reviewed nature of networks, ecosystems origins, and development of the concept in the customer and other stakeholder domains, we now consider value propositions from a service ecosystem perspective. Essentially, we argue that a discussion of value propositions should move beyond consideration of an enterprise’s relationships with customers and other proximate stakeholders, because a service ecosystem includes more entities than a stakeholder system. As Leith (2013) argues , ‘an ecosystem differs from a stakeholder system in that it includes entities not generally viewed as stakeholder groups, such as ‘anti-clients’, criminals (part of a police force ecosystem), activist groups and competitors. This wider perspective is illustrated in Figure 1.

**Figure 1: The Focal Actor, Stakeholder System and the Service Ecosystem**



Within relationship marketing literature, Gummesson (2008a) is one of the few scholars who views relationships beyond a consideration of direct stakeholders to include those he terms 'special', 'mega' and 'nano' relationships'. This broader perspective has become important because of the increasingly networked and systemic nature of exchange and co-creation. However, as Wieland et al., (2012:13) note, "the full extent of the interconnected, massively collaborative, and systemic nature of value (co)creation seems to be often unappreciated and not well understood". In Figure 1 and in our subsequent discussion we adopt the terms 'actor' and 'actor-to-actor' relationships, rather than the terms 'stakeholder' and 'stakeholder relationships' to reflect the *dynamic* aspects of ecosystems. Wieland et al. (2012:13) argues that "an actor-to-actor (A2A) orientation is essential to the ecosystem perspective". We agree with Leroy et al. (2012) that actor groupings differ substantially in terms of the focus of their value propositions and their resource offerings.

Here, in describing value propositions at the macro ecosystem level, the term actor is appropriate as we emphasise the value sharing and shaping role rather than any specific resource focus.

Within a service ecosystem there is a complex set of value offered and value sought by different actors. Springman (2012) argues that in an ecosystem value is co-created by different actors and is shared between them. Not all actors will be treated equally. For example, some will be in a position to negotiate a more favourable value exchange than others, and thus the focus of a business's strategy is balancing the value co-created and extracted from each group so that overall growth can be sustained.

The importance of adopting an ecosystem perspective becomes apparent when specific industry contexts are considered. For example, companies such as Microsoft and Intel, are not only concerned with the closest and most obvious actors - customers such as Dell and Lenovo, but also with whole range of intermediaries, value-added resellers, application developers and important end users, including corporate customers. Accordingly, the well-being of this ecosystem depends on value propositions that support this web of relationships.

Table 1 provides examples of the value offered, value sought, and value shared amongst specific groups of actors within a service ecosystem. While value exchange is most obvious with customers where a customer proposition is usually articulated, the discussion earlier suggests that the concept of value exchange applies to *all* actors in the ecosystem. The role of the value proposition within an ecosystem moves from a proposal of a resource offering between actors, to shaping of resource integration between actors within the system. As such, the resource offering of each actor has implications for the offerings of other actors. For example, changes in a value proposition offered by one supplier has implications on the



resources an enterprise will seek from another supplier and on the overall offering an enterprise makes to its customers. Accordingly, value propositions serve to shape resource integration within the entire service ecosystem. As Lanning (2003, 8) points out the enterprise ‘must determine its own role in working with other players in the chain to deliver the appropriate value proposition to be the primary actor in the chain.’ To illustrate, Table 1 outlines the various offerings from the different actors, the respective value sought, and value shared in shaping an ecosystem.

### **Defining the value proposition within a service ecosystem**

Until now, within S-D logic and service science literature, the concept of the value proposition has not been explicitly defined (Grönroos and Voima, 2013). Vargo (2012) suggests that ‘Developing more effective value propositions for participating in beneficiaries’ resource integrating, value-creating practices, through service’ is an essential requirement for innovation. Consequently, defining the value proposition concept in the broader context of a service ecosystem represents an important issue that needs to be addressed in marketing theory. To assist in clarifying the characteristics of value propositions, in this next section we consider various metaphors that help illuminate the concept. Then we review current definitions of value propositions and identify specific elements. Finally, we use these insights to propose a new definition in the context of ecosystems.

**Table 1: Illustrative value offered, value sought and value shared, shaping an ecosystem**

Actor	Value offered	Value sought	Value shared shaping an ecosystem
Employee	<ul style="list-style-type: none"> <li>• Pay (premium/fair)</li> <li>• Equity in business</li> <li>• Job security</li> <li>• Training and Career path</li> <li>• Work-life balance</li> <li>• Pride in job / Community status</li> <li>• Health and safety</li> </ul>	<ul style="list-style-type: none"> <li>• Staff loyalty</li> <li>• Championing company</li> <li>• Ideas for improvements</li> <li>• Involvement, commitment</li> <li>• Productivity</li> </ul>	<ul style="list-style-type: none"> <li>• Shared purpose/</li> <li>• Shared vision</li> <li>• Shared identity</li> <li>• Flexibility</li> </ul>
Customer	<ul style="list-style-type: none"> <li>• Product /service performance</li> <li>• Choice</li> <li>• Convenience</li> <li>• Responsiveness</li> <li>• Security</li> <li>• Feel-Good</li> </ul>	<ul style="list-style-type: none"> <li>• Retaining existing customers</li> <li>• Broadening/ deepening relationships</li> <li>• Recommendations to prospects</li> <li>• Expansion of customer base</li> <li>• Improving customer profitability</li> <li>• Ideas for improving service</li> </ul>	<ul style="list-style-type: none"> <li>• “One stop shop”</li> <li>• Access to ecosystem actors’ goods and services</li> <li>• Reduced costs</li> </ul>
Supplier	<ul style="list-style-type: none"> <li>• Volume guarantees</li> <li>• Price (premium / fair)</li> <li>• Payment terms / Contract length</li> <li>• Status (platinum, etc)</li> <li>• Information sharing</li> <li>• Recommendation</li> </ul>	<ul style="list-style-type: none"> <li>• Supply security</li> <li>• Supply prioritization</li> <li>• Cost savings - supply chain integration</li> <li>• Cost savings – price paid</li> <li>• Information sharing</li> </ul>	<ul style="list-style-type: none"> <li>• Shared knowledge</li> <li>• Integrated supply chain with ecosystem actors</li> <li>• Reduced risk, time, cost and offers flexibility.</li> </ul>
Partner	<ul style="list-style-type: none"> <li>• Performance</li> <li>• Status (platinum, etc)</li> <li>• Information / IP sharing</li> <li>• Recommendations / introductions</li> <li>• Shared marketing</li> <li>• Training</li> </ul>	<ul style="list-style-type: none"> <li>• Partner performance</li> <li>• Status/accreditation enjoyed</li> <li>• Information received</li> <li>• Recommendation / introductions</li> <li>• Shared marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Shared knowledge</li> <li>• Access to partner relationships across ecosystem</li> </ul>
Shareholder	<ul style="list-style-type: none"> <li>• Risk profile</li> <li>• Returns profile (capital growth, dividend etc.)</li> <li>• Profits growth</li> <li>• Economic value added</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder loyalty (as appropriate for private, private equity, public ownership)</li> <li>• Support for further fundraising</li> <li>• Premium valuation</li> <li>• Referrals / introductions</li> </ul>	<ul style="list-style-type: none"> <li>• Shared risk</li> <li>• Shared knowledge</li> </ul>
Society	<ul style="list-style-type: none"> <li>• Ethical behaviour / example</li> <li>• Investments in sustainability</li> <li>• Carbon usage reduction</li> <li>• Compliance (match/exceed)</li> <li>• Charitable support</li> <li>• Staff development</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced reputation</li> <li>• Lower risk of regulatory investigation / savings on mandatory investigations</li> <li>• Support from government</li> <li>• Regulatory benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Shared purpose</li> <li>• Shared</li> <li>• Sense of well-being</li> <li>• Less reactive and more proactive behaviours</li> </ul>

Source: Adapted from Springman (2012)

### Contextualising value proposition through metaphors

Since the time of Aristotle, metaphors have been recognised as a means of creating understanding, emphasising parallels between familiar and unfamiliar concepts, and viewing

one context in terms of another. Importantly, metaphors open up our thinking (Mintzberg et al., 1998). Zaltman et al. (1982) observed that marketing relies more heavily on the use of metaphors than do other areas of social science enquiry, assisting in shaping and structuring ideas, illuminating the issue under consideration (Tynan, 2008) and assisting individuals to think differently (Thibodeau and Boroditsky, 2011). More than that, metaphors have the power to shape reality (Kendall and Kendall, 1993) leading to new ways of understanding (Ridley, 2011). Metaphors can enhance our comprehension of a situation and frame our understanding in a manner that can add new understanding and insight (Morgan, 1986, p. 13). Accordingly, we identify six metaphors that help illuminate specific characteristics of value propositions, and relationships between actors. These metaphors are: (1) promise; (2) proposal; (3) invitation to play; (4) bridge connecting our worlds; (5) wild card; and (6) journey destination, as summarised in Table 2.

***Promises and proposals.*** The metaphors identified in Table 2 demonstrate that value propositions operate at all three levels of the service ecosystem. A promise and a proposal describe how value propositions might operate at the *micro* level because they align most closely with the *integration of defined resources to achieve defined benefits* by specific focal actors. A promise is distinguished from a proposal because it is unidirectional: a promise of value to be delivered to a potential customer. Promises are also explicit. As such, promises are either accepted or rejected by non-active customers. In contrast, reciprocity between active actors is implicit within a proposal (Ballantyne and Varey, 2006). The operation of promises and proposals at the *micro* level is also suggestive of stable market relationships where there is high congruence between the value proposition and the value in context experienced by relational actors.

**Table 2: Value Proposition Metaphors**

Metaphor	Perspectives highlighted by the metaphor
<p>Value Proposition as a 'Promise'</p> <p><i>Micro level</i></p>	<p>Martinez (2003) defines a value proposition as "an implicit <i>promise</i> a company makes to its customers" to offer a particular combination of values." Other authors suggest such a promise is much more explicit. 'A value proposition is a promise – one the company makes to customers about which benefits it will deliver for a given price' (Gattorna, 2003, p. 58).</p> <p>Promises are therefore explicit and can be used to form specific representations by the firm as in, for instance, a sales brochure or an advertisement. Promises imply an active role for the actor providing the promise but an inactive, or passive, role for the recipient of the promise.</p>
<p>Value Proposition as a 'Proposal'</p> <p><i>Micro level</i></p>	<p>Holttinen, (2011), drawing on Korkman et al. (2010) and Vargo and Lusch (2004), argues that value propositions are firms' <i>proposals</i> of how customers can derive value from integrating the firms' offerings with other resources.</p> <p>Ballantyne and Varey (2006b) argue that value propositions should be considered as reciprocal 'promises' of value.</p> <p>Reciprocity implies active roles for all actors.</p>
<p>Value Proposition as an 'Invitation to play':</p> <p><i>Meso level</i></p>	<p>The concept of an '<i>invitation to play</i>' is a key principles of interactivity (Polaine, 2010), that draws on an expression used by Pesce (2000). It involves encouraging an actor to engage through touch points with other actors. A prototype of an offering or value proposition may be used as an 'invitation to play'. Within a network or ecosystem such prototypes "should turn customers, clients, colleagues, and vendors into collaborators" (Schrage, 1999).</p>
<p>Value Proposition as a 'Bridge connecting our worlds'</p> <p><i>Meso level</i></p>	<p>The use of a <i>bridge</i> as a metaphor relating to value propositions appears to be more commonly used in a managerial context. For example, one consulting firm proposes that building a good value proposition can be compared to building a bridge. "The analogy we draw is that notably a bridge is built from both sides, as too should a value proposition be formed between a provider and a buyer – an offering from the provider on one side and value drivers (wants and needs) of the buyer (channel) on the other... The right to travel across the bridge with respect to delivering value .... is always being relevant ...." (Beyond 19 Partners, 2013). In considering how to create a unique value proposition, McClure (2013) proposes that different types of 'bridge' need to be built for different types of customers.</p>
<p>Value Proposition as a 'Wild card':</p> <p><i>Macro level</i></p>	<p>Value propositions can also be considered in the context of the metaphor of a '<i>wild card</i>'. The term 'wild card' has a number of meanings including in card games where a particular playing card may be substituted for any other card, or with respect to potential low-probability, high-impact events that may occur. It is used widely within the computing and software sector (e.g., Boehm, 2005). In this context, Lisle argues that strategic planning, value propositions and wild card analysis constitute three strategic imperatives for corporate growth. Such wild card analysis involves gaining awareness of the potential of disruptive, disintermediating, playing-field altering, opportunities and threats (Lisle, 2008)</p>
<p>Value Proposition as a 'journey destination'</p> <p><i>Macro level</i></p>	<p>Value propositions can be viewed as an envisioned future destination point towards which enterprises might <i>journey</i>. A Value Proposition may emerge through a dynamic process of knowledge sharing and dialogue, which may require vertical or horizontal integration of actors within the service ecosystem, or both, to achieve. The destination is likely to represent innovation in terms of value or beneficial outcomes.</p>

*Invitations to play and bridges. Invitations to play and bridge connecting our worlds*

both operate at the *meso* level and emphasise that firms within the stakeholder network need

to *adapt and attract the resources of collaborators to achieve beneficial outcomes*. In both cases, there is the implication that resource collaboration will result in the achievement of beneficial value that is greater than the sum of the resources applied separately. These metaphors demonstrate how actors might modify their resources and the resultant value propositions as they seek to achieve reciprocal value sharing. They are relevant to explaining how actors might develop new relationships that are mutually rewarding (Ballantyne *et al.*, 2011, Truong *et al.*, 2012).

***Wild card and journey destination.*** At the *macro* level value propositions are described as the *wild card* and the *journey destination*. These metaphors evidence how value propositions might start to shape the development of the service ecosystem, in both relational and resource terms. Here the focus is on value propositions as a *means to envision beneficial outcomes*. This desired state can only be achieved through collaboration, with the value proposition setting out the potential opportunities that are offered within the ecosystem. The advancement of the field of medical science provides many examples of these metaphors in practice.

### **A new conceptualisation**

Drawing on insights from the metaphors discussed above together with existing representations and definitions of value propositions, we propose a new definition of the value proposition from a service ecosystem perspective. Acknowledging that the value proposition has similarities with the concept of product positioning Webster (2002) considers this latter concept as more limited and “essentially a communications strategy” (p. 62) (see Ries and Trout 1972). In contrast, the value proposition represents the fundamental essence of strategy because it involves a commitment of resources. We argue that value propositions

are a strategic imperative for organisations with finite resources, determining how to apply those resources and achieve the most beneficial outcomes. We define a value proposition as “*a dynamic and adjusting mechanism for reaching an agreement on how resources are shared within a service ecosystem*”. Using this definition, we now discuss the application of value propositions within service ecosystems. Importantly, we demonstrate how the evolution of the value proposition evidences changes in strategic direction.

### **Illustrations of value proposition evolution in service ecosystems**

In this section we review how value propositions have evolved within two organisations in the for-profit and not-for-profit sectors. These two illustrations demonstrate the evolution of value propositions through the three broad stages described previously: value propositions to customers (the micro level); value propositions to key stakeholders (the meso level); and value propositions within the service ecosystem (the macro level). Value propositions may be implicit or explicit.

#### **Exemplar 1: Tesco plc**

Tesco plc provides an illustration of how an enterprise has developed its value propositions, focusing initially solely on the customer and evolving later to offering attractive value propositions to each key stakeholder. More recently, Tesco has adopted a more macro perspective, aligning its value propositions to sustainability objectives that have implications throughout its ecosystem. Tesco plc operates more than 5,300 stores and employs over half a million people around the world.

*Phase 1: Value proposition to customers:*

*Phase 1: Value proposition:* The original founder of Tesco, Jack Cohen, adopted a simple implicit value proposition: “We pile them high so we can sell them cheap,” and this served the company well up to the early 1990s. However, at this time, the competitive landscape intensified in the UK grocery market and increasingly customers were demanding higher quality and variety across food product ranges. The entry of discount grocery chains eroded Tesco’s distinctive value proposition, causing the retailer to reconsider its positioning within the competitive market. Tesco was losing customers and this loss of revenue impacted not only the value propositions that the company could offer to customers, but also there were implications for value propositions offered to other important stakeholders. For example, no longer could Tesco offer shareholders “A great return on your investment,” as profits were declining. Also, Tesco could not confirm job security for employees, as the retailer was faced with cost cutting.

Tesco recognised the need to redefine its strategic objectives and reconsider its core value proposition. To do this, the company required detailed understanding of typical customer profiles. Market research at the time revealed that a broad range of customers shopped at Tesco, seeking better value products and a great customer experience. Tesco appreciated that achieving these goals, required in-depth knowledge of each individual customer and their shopping habits every time they entered a Tesco store.

The launch of the Tesco “Clubcard” in 1995 allowed the company to gain these in-depth insights into their customers. Every time a customer shopped in a Tesco store, details of their purchases were recorded and mapped on to their specific profile. Using this information, Tesco could redefine the shopping experience offered to customers, focusing on

excellence in customer service, variety and value. The retailer offered a value proposition to customers captured in the slogan “*Every little helps*”.

*Phase 2: Value proposition to key stakeholders:* Tesco turned to its stakeholders, appreciating that the promise to customers could only be fulfilled through nurturing these additional critical relationships. Each stakeholder group needed to support the Tesco promise. For example, suppliers needed to offer the best quality, variety and prices. Tesco committed to support them in achieving this aim, for example providing them with access to their massive data bank of customer insights. In 1998, Tesco launched the Tesco Information exchange system, allowing electronic data exchange across the supply chain. This allowed Tesco to work with its suppliers, managing inventory, minimising stock outs, developing products that related to customer demands and improving every aspect of the customer shopping experience.

Engaging the commitment of dedicated employees was also vital to the retailer and Tesco embarked on extensive training programs and an improvement of working conditions. Tesco encouraged recruitment from a wide demographic, recognising that customers liked employees who they could relate to. The store developed an innovative shift system that encouraged Mums to work during school hours and retirees to re-enter the work force for short shifts. Across all stakeholder markets, Tesco and its stakeholders shared reciprocal value propositions. The value proposition: “*Every little helps*” now related to multiple stakeholders and also indicated the reciprocal offer from stakeholders to Tesco’s. The retailer recognised that creating value propositions with each stakeholder group was important to realise its strategic ambitions.



*Phase 3: Value proposition within the ecosystem:* Tesco operates within a complex ecosystem with value propositions that connect this web of relationships. Entering the 21st Century, Tesco has gained massive global strength, operating in 13 countries with significant success (their recent demise in the US and Japan are exceptions). Tesco is keen to share its success and recognises the responsibility that comes with global leadership. The retailer has a commitment to become a zero carbon business by 2050 and acknowledged that to achieve this goal requires redesigning its value propositions throughout its service ecosystem of relationships.

For example, achieving these sustainability goals requires the support of suppliers and their communities, ensuring that they use environmentally friendly procedures through all stages of production and logistics. The company offers attractive trading arrangements to suppliers who share their sustainability goals. Tesco requires suppliers to state clearly on packaging the carbon footprint of each product, encouraging customers to build their awareness and track their carbon usage. Customers are encouraged to support Tesco, for example through increased use of internet shopping, reducing car usage and carbon emissions. Employees are educated to support the sustainability goals, with the promise of “Treat people how we like to be treated”. In the investment community, Tesco offers attractive opportunities for socially responsible investors. The retailer aims: “to be seen as the most highly valued business in the world”. Achieving these promises requires engaging the commitment not only of stakeholders, but the global community in which Tesco operates. Tesco states: “By operating responsibly, we not only benefit and secure the future of our business, but we can bring real benefits to the communities in which we operate” (Tesco Annual Report, 2012).

Tesco operates within a service ecosystem with the value proposition offered to each actor impacting on others within a broad web of actor relationships. Their implied value proposition is “If you help us achieve our goals, the world will be a better place for everyone – you, your community and the world”. Poor alignment of one value proposition causes a rebalance of others. For example, Tesco recently announced that operations in the US are closing, with resulting significant financial losses. This failure has contributed to poor profit performance, impacting promises implied to shareholders. Tesco claims to have realigned its business, “setting the business on the right track to deliver realistic, sustainable and attractive returns and long-term growth for shareholders”. To achieve this goal, the company is reassessing every aspect of the consumers’ shopping experience, supporting its promise of providing customers with “the best shopping experience”, retraining employees and closely aligning suppliers to its goals. The company aims to rebalance relationships through carefully re-crafting value propositions throughout its ecosystem.

### **Exemplar 2: Care Connect**

Within the healthcare sector, innovative service providers are responding to the shift in consumer-directed care by offering new value propositions that are co-created, reciprocal and dynamic. For example, a leading Australian provider of aged care services, Care Connect, has realigned its service model from an expert prescribed perspective to person-centred practice, which recognises that consumers prefer to be treated as individuals, to have choices, and to have their specific needs and desires understood and addressed. Care Connect is a non-denominational, not-for-profit, registered charitable organisation with facilities in three states across Australia. They provide services and support to help individuals to remain independent and engaged in their community. Care Connect’s mission is to support frail aged

person, people with a disability and carers to live independently at home and in the community (Care Connect 2013).

*Phase 1: Value proposition to customers:* In line with its new focus to be person-centred, Care Connect has developed a new value proposition to its clients and potential clients. Its new My Life, My Choice, My Way™ service model shifts control away from case managers so that clients have more choices and make their own decisions. Service processes are designed to adapt to clients' needs and enable them to determine which providers they prefer to receive support from.

Care Connect's approach is collaborative, working not only with end users but with many service providers and suppliers. They claim to be committed to providing a respectful service that values the rights of each individual and their support network. Each client has her/his own case manager, who is the client's single point of contact. Case managers are skilled professionals who will visit individuals in their own home and keep in touch by phone. Case managers work with clients to determine what the individual client wants and helps them plan specific needs-based preferences. Specific services may include personal care/showering assistance, home maintenance, laundry, help with meals, in-home respite and social outings.

*Phase 2: Value propositions to key stakeholders:* To maximise client choice and service options, Care Connect has partnered with national and state-based peak body associations, hospital networks, primary care providers and specialist community organisations in over 80 local market networks across Australia. These networks of government agencies, community organisations and specialist providers cover the spectrum of aged care, disability, mental health, transitional care, preventative care, dementia and respite services. As a result, Care Connect has been able to collaborate with hundreds of

quality-tested providers who have a similar philosophy towards aged care to customise value propositions to meet specific client needs.

Using a case management and brokerage business model, Care Connect engages these providers using service level agreements to negotiate quality standards, service processes and care practices. It also provides back-end support systems and services to small to medium sized providers to assist them with meeting growing regulatory and compliance obligations and customer expectations. The value proposition offered is “best of broad shared services at a competitive price.”

For employees, the new customer value proposition represents a change in key attitudes and behaviours that are required to deliver the best outcomes for clients. In an industry dominated by low skilled personal care workers who receive relatively low incomes, the Care Connect employee value proposition has centred around increased training, support and technology that improves service processes, care practices and working conditions.

*Phase 3: Value proposition within the ecosystem:* In the highly regulated and competitive healthcare sector, Care Connect has recognised that the tightening of government funding for aged care means that operators must innovate or they will be unable to continue to operate in a viable manner. At the same time, it knows that innovation lies in developing services and systems that are aligned to the government’s new policy of enabling Australians to age at home, rather than in nursing homes, and to have greater input into the support they require in order to stay in their own homes. In response, it aims to be “Australia’s leading community care organisation, actively sought for its innovation, care leadership and community participation” (Care Connect 2013).

Within its ecosystem, the Care Connect value proposition has had an effect on other actors within the web of industry relationships. Government funding has been redirected to

community care programs, forcing many competitors to adopt a similar person-centred approach to Care Connect. Long established competitors now represent potential partners who can benefit from the increased resources that each actor has to offer. Community organisations who are unable to meet new government reporting standards view partnerships with Care Connect as a pathway for ensuring they can continue to represent their ‘community of interest’ into the future. At the same time, Care Connect has to ensure that it continues to develop and refine its value proposition in a constantly changing environment.

## **Discussion**

This paper contributes to the value proposition literature delineating the role of value propositions from an ecosystem perspective. While some recent research has examined value propositions from the viewpoint of multiple stakeholders (Ballanyne et al. 2011; Frow and Payne, 2011; Kwan and Muller-Gorchs, 2011; Murtaza et al., 2010), this current research appears to be the first exploration of value propositions from a broader service ecosystems perspective. We have explored the nature and role of value propositions from a service science perspective and developed a new definition of value propositions. We propose five foundational premises designed to guide development of value propositions in service science.

First, rather than view value propositions as one-sided, dyadic firm to customer, it is clear from the emerging literature in service science and in the exemplars provided that value propositions are co-created, reciprocal and dynamic. For example, suppliers can gain information on sources of raw materials in return for their commitment to supplying high quality goods and services at low prices (Normann and Ramirez 1993). As such, value propositions identify opportunities for value co-creation between individual customers, focal

firm and other suppliers. Indeed, Lusch et al. (2010) describe value propositions as dynamic and changing connectors between the company and its suppliers and customers. The most attractive value proposition will result in highest performance, but will also require constant revision in accordance with customer changes in order for the advantage to be maintained. Ballantyne et al. (2011) highlight reciprocal nature of value propositions and similarly, Kowalkowski et al. (2012) explore the dynamics of value propositions through reciprocal exchange of knowledge between resource-integrating actors within S-D logic. Hence:

***Foundational Premise 1: VPs are a co-created and reciprocal mechanism through which actors offer and attract resources.***

All actors in the service ecosystem have stocks of resources. Exchange occurs within the ecosystem because no one single actor has all the resources needed to operate in isolation, and so therefore each actor is required to participate in resource integration practices, even in the face of sometimes competing and conflicting priorities and preferences. Finding resources that are useful to the individual actor is important. Actors can offer their resources and seek the resources of other collaborators, through a process of negotiation between and among actors. Actors have diverse motives for engaging in resource integration practices. Participating actors must be able and willing to contribute their resources to others to recognise and realise the value proposition. Fundamentally, actors co-create value from an array of resources (McColl-Kennedy et al. 2012). Hence:

***Foundational Premise 2: VPs arise from value potential inherent in actors' resources.***

The IMP literature considers markets as networks of interconnected, long-term exchange relationships between independent actors (e.g., Håkansson, Harrison and Waluszewski, 2004). Value propositions serve to determine the composition of networks, as

they connect actors attracted by expectations of value that is co-created through their interactions. Value propositions serve to link actors, moulding their expectations of value-in-context (e.g., Vargo, 2008; Chandler and Vargo, 2011), that is, co-created through interaction. The success of the value proposition in attracting and maintaining relationships between actors in a network depends on the extent that these value propositions fulfil each actor's expectation of value-in-context. As such, the value proposition provides a market shaping mechanism of determining the composition of a network and the nature of market interactions. Hence:

***Foundational Premise 3: Value propositions influence the composition of networks, specifically determining which actors choose to engage together to shape the nature of market interactions.***

We have argued that a value proposition within an ecosystem moves from a proposal of a resource offering between actors, to shaping of resource integration between actors within the system. As such, the resource offering of each actor has implications for the offerings of other actors. This implies change in the system. For example, changes in a value proposition offered by one supplier has implications on the resources an enterprise will seek from another supplier and on the overall offering an enterprise makes to its customers. Accordingly, value propositions may evolve over time and serve to shape resource integration within the entire service ecosystem. Therefore we posit:

***Foundational Premise 4: Value propositions may change over time and shape resource integration within the service ecosystem.***

If actors do not perceive value propositions as mutually beneficial, then changes may occur in the market. One option for actors is to modify their value propositions as they seek to achieve reciprocal value sharing. In this instance, value propositions serve to balance the

mutual exchange and co-creation of value, shaping actors' offerings. A second option for actors involves developing new relationships in which value propositions are reciprocated (Ballantyne et al., 2011; Truong, Simmons and Palmer, 2012) and mutually rewarding. Both options consider value propositions as a mechanism for aligning offers and impacting the nature of the market. Hence:

***Foundational Premise 5: Value propositions act as a balancing/alignment mechanism in markets.***

#### **Future research agenda**

Although the concept of the value proposition has been in existence for nearly 30 years (e.g., Bower and Garda, 1985) there remains a general lack of scholarly research on value propositions. From our research we identify a number of further opportunities to explore value propositions, in part revealed by some limitations of the current study. Some of these research opportunities relate to value propositions more generally and some address the ecosystems perspective of value propositions specifically.

First, empirical studies that identify the extent to which enterprises formally develop value proposition are required. Some initial research by Frow and Payne (2013) suggest that only a small proportion of enterprises have a formalised process of value proposition development. However, there are no substantive studies which address this topic in the extant literature. While all enterprises have a value proposition, these are often implicit rather than explicit. We contend that having an explicit process of value proposition development is more likely to ensure a competitively superior value proposition.

Second, detailed study needs to be carried out in order to explore how value propositions are developed and how they evolve over time within the specific context of a



given service ecosystem. This work could focus on the respective roles of organisations, customers, suppliers and stakeholders. Understanding the respective actors' stocks of resources employed and the mechanisms used to integrate the various stocks of resources would seem to be a fruitful avenue for future research.

Third, the literature does not sufficiently emphasise the importance of the reciprocal nature of value propositions. While some recent research has addressed this issue (e.g., Ballantyne et al., 2011; Truong et al., 2012), there is a need to explore in-depth what is reciprocated by the various actors in service ecosystems, and under what circumstances value is reciprocated and under what circumstances value is not reciprocated.

Fourth, whilst scholars point to the link between superior value propositions and organisational performance, this topic has not yet been subject to empirical research. Research could investigate links between value propositions and satisfaction of the respective actors, and their well-being, of all actors including but not limited to customers/client well-being and organisational well-being.

Finally, an interesting aspect of value propositions that has attracted limited investigation to date involves considering how potentially damaging interactions and resource integration may result in value co-destruction. Value propositions that describe a firm's offering can attract actors wishing to share their resources with beneficial outcomes. However, in some instances, they may draw inappropriate resource-sharing actors, resulting in value co-destruction (Ple and Caceres, 2010) and the subsequent disruption of the ecosystem in which they are engaged. These ideas point to the important role of value propositions in supporting the network of relationships in an ecosystem, signalling those resource sharing relationships that are likely to promote the well-being of the ecosystem and

offering an early warning signal of potential threats to its survival. In addition, value propositions that attract a range of resources and successfully maintain diversity may play a key role in the well-being of the ecosystem (Cardinale et al., 2008).

## **Conclusion**

Despite frequent reference to value propositions in S-D logic and the apparent recognition of the criticality of value propositions to business, a thorough examination is lacking (Flint and Mentzer, 2006). Moreover, there is little understanding of their application to today's increasingly interconnected and networked world. In this paper we explored the nature of value propositions, extending prior conceptualisations by taking a service ecosystem perspective. Following a critical review of the extant literature in service science on value propositions, value co-creation, S-D logic and networks, and drawing on six metaphors that provide insights into the nature of value propositions, we developed a new conceptualisation. Using two real world exemplars we explicated the role of value propositions in an ecosystem as a shaper of resource integration offerings. Finally, we provided five foundational premises and outlined a compelling research agenda.

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