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## Customer perspective of value for innovative products and services

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### Abstract

Innovation is an important competitive advantage for market success. Faster, cheaper, better are the keywords of the current competitive environment. For this to occur, products and services need to address customer needs in such a way as to fulfil what they expect but in the same time delight them through unexpected and attractive features. The theory of attractive quality uses the Kano methodology, a value components model, when thinking about product features in this way. Unfortunately, the Kano questionnaire mainly analyses customer satisfaction regarding an existing offer, thus a post purchase evaluation. In the case of new and innovative products or services, we do not have prior consumer value or a "standard" to compare it with. Therefore, we must rely on pre-purchase judgment. But what is desired customer value and with what concepts should it be associated with? The present paper aims to delimit customer value pre-purchase perception from post-purchase perception and determine the terms and key words which best represent the customer's perspective in this situation. The ultimate goal is to present a first conceptual step into the development of an alternative to the Kano model for the design stage of innovative products and services.

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### 1. Introduction

Innovation today represents a desired outcome for all corporate products and services. It guarantees that a specific offer will not become easily a commodity. We start product and service innovative design by thinking about customer requirements, what is of value for the customer. Value is the outcome of an evaluative judgement

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(Sánchez-Fernandez & Iniesta-Bonillo, 2006). Customers develop criteria for preference judgement due to their specific values. Understanding customer demands/needs and determining their differences seem to be the key for first time right design. According to Raharjo (2007), the cost of not having accurate voice of customer is substantially huge since it determines all the subsequent downstream processes. The interesting thing about customers is that not all product/service attributes are viewed as equally important to them; there is a non-linear relationship between performance of quality attributes and overall customer satisfaction (Lin et al, 2010). And service providers or manufacturers must understand the effects of different quality attributes in order to allocate resources to increase customer satisfaction or minimize dissatisfaction (Fynes & De Búrca, 2005).

One of the most important techniques with respect to obtaining the customer's perspective as accurately as possible is the Kano classification methodology. It categorises product/service attributes based on how well they are able to satisfy customers' needs (Shahin, 2004). The Kano assumption evaluates patterns of quality, based on customers' satisfaction with specific quality attributes and their degree of sufficiency (Bilgili, Erciş & Ünal (2011).

The Kano model uses functional and dysfunctional criteria, presenting a questionnaire in which we have two questions for each quality attribute (one in which the quality attribute is present, and one in which it does not exist). The answers to the two questions are then computed, representing a relationship between the degree of sufficiency and customer satisfaction. This relationship can be classified into five categories of perceived quality: A-attractive, O-one-dimensional, M-must-be, I-indifferent and R-reverse. Attractive quality represents a delightful feature which was not requested but positively surprises the customer. A one-dimensional attribute is requested by the client and the degree of satisfaction is proportional with its performance. If the first two categories are decisive competitive factors, must-be features are prerequisites taken for granted (Bilgili, Erciş & Ünal (2011). They are naturally understood to exist even though a high performance does not trigger satisfaction. But if not fulfilled, the customer will not be interested in the offer at all. Thus, managers need to have must-be features but do not spend too much on their improvement. Reverse features tell us that the attribute triggers satisfaction only if reversed. If too many reverse attributes appear, the questionnaire has to be reconsidered.

Even if the Kano methodology is widely used, Xu et al. (2009) argue that it has inherent deficiencies. Witell, Löfgren & Dahlgaard (2013) consider that after the emergence, exploitation and explosion phases in the development of the theory of attractive quality, new developments of the model need to emerge. In this line of reasoning the present paper aims to uncover the need for a further development of the theory of attractive quality for new products and services which determines as accurately as possible the voice of the customer by taking into account an expected customer value. The reason for this relies in the multifaceted nature of value and its connection with multiple terms.

Sánchez-Fernandez & Iniesta-Bonillo (2006) argue that the term "customer value" which plays an important role in the success of a company, suffers variations in perception. They make a clear distinction between pre-purchase customer value (expected/desired) and post-purchase consumer value (received/perceived), considering that the consumer's perception is a phenomenon that can appear in any stage of the purchase decision. Regarding new products and services, the perception of the customer is mainly a pre-purchase judgement. Due to the fact that the Kano questionnaire analyses customer satisfaction regarding an existing offer, the methodology uses a post-purchase evaluation and cannot be adequately used for new offers. The argument for this statement relies on the fact that value perceptions can be generated without the product/service being bought or used, while satisfaction depends on use experience. As Woodruff & Gardial (1996) express, "value tells an organization what to do ... while satisfaction tells the organization how it is doing", by targeting the company's current consumer and not potential clients.

With this distinction in mind, Sánchez-Fernandez & Iniesta-Bonillo (2006) are discussing also the different meanings of the term "consumer value" and "customer value", by emphasizing that consumer value refers to a post-purchase assessment (we need to consume an offer to become a consumer) and customer value generates a series of expectations for the potential customer (pre-purchase judgements). Therefore, in the case of new innovative products and services, we consider adequate to use the term customer value.

Due to the fact that the Kano model and its associated methodologies are used for a post-purchase evaluation of the customer (received/perceived value), new products and services need a pre-purchase customer value (expected/desired value). These different customer value perceptions, distinguished by Potra & Izvercian (2015), need to be taken into consideration together with the most important customer value approaches and corresponding components, when designing new innovative offers. The ultimate goal of this conceptual research is to thoroughly

discuss the customer perspective of value and present a theoretical encompassing concept which has the potential to represent a starting point in the development of a new methodology, an alternative to the Kano model in the special case of new products and services.

## 2. Customer Value Perceptions and Approaches

Customer value, according to Lemon et al. (2001), is the source of all values: a competitive advantage (Spiteri and Dion 2004), the basis in marketing activities (Holbrook 1999) and a predictor of customer behavior (Smith Gooding, 1995). Customer value is determined by customers' perception, not by suppliers' assumptions or intentions (Woodruff & Gardial, 1996). But customers' perception can vary depending on the situation (Holbrook, 1999), on the subjectivity of the customer (Woodruff & Gardial 1996), on the complexity of the construct (Ravald & Gronroos 1996) or on the changes suffered with time (Van der Haar, Kemp, & Omta 2001). Thus, the ambiguous interpretations (Van der Haar et al., 2001) have led to different uses and misuses of the customer value concept.

The present research aims to discuss the various customer value approaches, perceptions, connected terms and meanings for uncovering the right customer perception of value in new innovative offers' situation.

Scholars and practitioners alike agree upon the fact that we have three major customer value approaches: the benefit/sacrifice approach, the means-end approach and the experiential approach, each with specificities and limitations. But innovative offers rely, as argued earlier, on the customer's pre-purchase evaluation. Thus, a customer value approach must match a pre-purchase perspective. According to Potra & Izvercian (2015)'s classification of four customer value perspectives, we have: desired value, creation of value, value appropriation and perceived value. The first and the last are solely referring to the customer. If desired value envisages mainly the benefits customers seek from products and services in order to accomplish their goals, perceived value concerns the perceived worth of the received benefits. Hence, desired value is used in pre-purchase evaluation and perceived value in post-purchase judgments.

The right customer perception of value must take into consideration also: the multitude of related constructs value is related to, the existing conceptualizations and value types. In this line of reasoning, we present in Table 1 the three customer value approaches with their main traits and limitations, related perspectives and the value types they concern.

Table 1. The comparison of customer value approaches with related perspectives and natures.

Customer value approach	Main traits	Limitations	Value type/nature discussed	Customer value perspective
<b>1. Benefits and sacrifices approach</b>	the judgment of value results from a trade-off in positive consequences ( <b>benefits</b> ) or desired outcomes and negative consequences ( <b>sacrifices</b> ) or costs (Woodruff & Gardial, 1996)	- classifies under benefits and sacrifices both the offering's characteristics and the consequences of engagement with the offering and fails to assist in understanding the sources of value (Klanac, 2013) - treats the customer only as a rational individual, being questionable in the light of experiential aspects of customer activities (Korkman, 2006; Helkkula & Kelleher, 2010)	the total benefits consists of <b>utility value</b> and <b>psychic value</b> (Groth, 1994; Khalifa, 2004)	- benefits and costs are defined in terms of consumers' <b>perceptions</b> in the activities of acquisition, consumption, and maintenance, as well as consumers' <b>expectations</b> of personal values satisfaction before buying (Huber et al., 2001)
<b>2. Means-end approach</b>	defines value as a customer perceived preference for, and evaluation of those product attributes, attribute performances, and consequences that arise from use and that facilitate or	uses questionnaires and interviews to tackle customer cognition but fail to capture customer experiences through direct observations of customer activities (Khalifa, 2004)	a brand that satisfies customers' practical needs delivers <b>functional value</b> , whereas a brand that satisfies customers' self-expression needs delivers <b>symbolic value</b> (de	moving up and down the customer value hierarchy explains both <b>desired</b> and <b>received value</b> (Woodruff, 1997)

	block the customers in achieving their goals and purposes in use situations (Woodruff, 1997)		Chernatony et al. 2000)	
<b>3. Experiential approach</b>	treats customers not only as thinkers but also as feelers and doers (Holbrook & Hirshman, 1982).  ventures beyond customer perceptions and looks into what customers do and how they feel (Klanac, 2013)	offers weak insights into the way offering’s characteristics drive customer value and of the manners they could be managed to increase it, plus it focuses on experiences on a high-level of abstraction that is difficult to transfer into a practice (Klanac, 2013)	<b>utilitarian and hedonic</b> experiences can be placed on a higher level of abstraction than in the case of the benefit-sacrifice approach where the focus is on more concrete concepts such as saving time or effort (Klanac, 2013)	customer value is defined as an interactive, relativistic and preference experience that <b>results from customer activities</b> (Holbrook, 1999; Steenkamp & Geyskens, 2006)

The benefit and sacrifices approach merges both the offering’s concrete characteristics and the consequences of engagement with the respective offering, which are merely abstract and stem from the offering’s characteristics (Klanac, 2013). Thus, the customer value perspective is referring to desired but also perceived value. In thinking about new offers, we focus on the first perspective. Desired value in this case, according to Huber et al. (2001), encapsulates all the customer’s expectations before use/buying. And the value types discussed here are utility and psychic value, from the expected benefit side.

Utility has been described by Oliver (1999) as strictly a cognitive concept which relates to usefulness, hedonic quality, pleasure, and even satisfaction. Many scholars have included this construct in the definition of customer value (Afuah 2002; Huber, Herrmann,& Morgan 2001), referring to any benefit which contributes to the offer and allows the customer to achieve his or her goals (Van der Haar et al., 2001). In this case, value is associated with utility or the concept of added-value (Afuah, 2002; Hunt & Morgan, 1995). But utility alone is not able to define the complexity of customer value (Sánchez-Fernandez & Iniesta-Bonillo, 2006).

The means-end approach distinguishes three levels of value: the attribute characteristics, the consequences (result of use) and desired end-states, which correspond to personal values and are an outcome of the above mentioned consequences. Woodruff (1997) considers that this second approach explains again both the desired and perceived value perspectives. If we are to center our attention on the desired value dimension, this approach confirms like the first one, the necessity of a pre-purchase judgement regarding the characteristics of the new offering. Customer’s expectations in this case refer to practical and self-expression needs, which translates into functional and symbolic value (de Chernatony et al., 2000).

As we clearly see here, customer value is related not only with a cognitive nature (utility, functionality), but also with a more emotional (affective) one. Babin & Kim (2001) and Park (2004) defend the complexity of customer value, arguing that customers appreciate both its cognitive and affective nature.

Even if it is mainly focused on perceived value, the third customer value approach verifies what we have expressed above, that customer’s evaluation of the offering’s characteristics must be completed by his or her impressions (feelings) in each particular case. The pre-purchase evaluation could therefore verify both the cognitive and the emotional aspect of value. But how can we do that? What concept integrates best the customer’s perception of functional and emotional value in a new offer?

### 3. Added Value, a Multidimensional Construct

Chang & Dibb (2012) argue that customer value is preferential due to the fact that consumers’ initial evaluation of value lead to emotional reactions (attitudes, subjective reactions) which drive behavior and determine the consumer to act. According to them, desired outcomes determine cognitive processes and emotional responses which produce an effect, the purchase decision.

Kotler (2000) is another scholar who describes a value equation based on the benefits and sacrifices (costs) approach, emphasizing that the benefits envisaged are functional and emotional in nature. When conceptualizing

value, several authors have discussed functional and emotional dimensions (Sheth, Newman & Gross, 1991; de Ruyter et al., 1997; Sánchez et al., 2006). Even if in their conceptualizations we can retrieve other constructs as well, overall, the functional (the price / value for money derived from the product) and emotional (feelings or affective qualities generated) dimensions are the most prevalent value dimensions described in the literature (Chang & Dibb).

Finally, Butz & Goodstein (1996, p.63) offer a definition of customer value using the two constructs: “the emotional bond established between a customer and a producer after the customer has used a salient product or service produced by the supplier and found the product to provide an added value.” Even if their definition is intended for perceived customer value, they introduce a new term, namely *added value*. This concept is seen as encompassing both functional and affective constructs.

The concept of added value has different interpretations in literature, starting from its original meaning as additional services to a core solution till today when it is seen as a means for differentiating an offer in the marketplace. McCracken (1993) describes it as a brand’s significance for consumers when describing their actual and aspirational selves. Ravald & Grönroos (1996) present added value from the benefit/sacrifice approach as manipulating the components of customer value (increasing benefits and in the sale time working on reducing sacrifices). De Chernatony & McDonald (1998) define added value as the attributes that are both relevant and welcomed by customers.

De Chernatony, Harris & Dall’Olmo (2000) finalize their study by stating that added value is a multidimensional construct which includes functional and emotional benefits perceived by customers, in relation to the competition. But how can we measure added value? What are the key words associated with this concept?

Kaufman (1998) argues the principal value elements used in value studies can be classified in: esteem value or "want" (ownership desire), exchange value or "worth" (interest and situations for use) and utility value or "need" (performance/physical characteristics). According to Kaufman (1998), each decision to acquire products/services includes one or a combination of all the above value elements, where the sum of the elements results in a purchase decision.

Regarding esteem value, Schneider & Bowen (1999) express the fact that by boosting the customer's *esteem*, it is likely to generate customer delight. Naumann (1995) already linked added value with customer delight, by defining the first concept as going beyond what is the expectation. In this line of reasoning, Khalifa (2004) argues that value can be magnified if customers' esteem and self-actualization needs are diligently satisfied. Bhat & Reddy (1998) describe the future satisfaction of the customer depending on the practical needs which deliver functional value and on the self-expression needs which deliver symbolic value. Thus, Kaufman(1998)’s utility value (“need”) can be associated with the functional value of the added value concept, while the esteem value (“want”) refers more to the emotional construct we have discussed. What about the exchange value (“worth”) ? Humphreys & Grayson (2008) understand exchange-value as value created through design, knowledge production or original feedback that can be co-opted by a company and resold for surplus value. The “worth” of an offer appears to represent the value extracted by the company from the offer, in a post-purchase phase and cannot be applied to the pre-purchase customer value judgment.

#### 4. Conclusions

The theory of attractive quality has been one of the most discussed models in quality management due to its inherent purpose as to rank and distribute the different roles quality attributes play for customers. The Kano methodology is able to comprehensively analyse user demands and to come up with the relevant requirements for product design. It provides a unique way of distinguishing the impact of different customer perceptions (the voice of the customer) on total customer satisfaction in product or service continuous development, after usage. Thereby, this model has been designed as a tool for post-purchase consumer judgment.

After the present literature analysis, we can conclude that in the design stage of new innovative products and services we need a pre-purchase customer evaluation as a first step towards the classification of the offer’s characteristics (quality attributes). Such a classification helps managerial decision making from the very first design sketch to delineate on what attributes to focus upon and where to assign additional costs. In this case the actual Kano



model provides no appropriate results. A new development of the theory of attractive quality is needed for the special case of new first time right design.

The present paper extracted the first concepts a new model needs for measuring the value perception of the customer before use/purchase, from relevant literature. It established that the added value concept encapsulates both the functional and emotional value all customers require for a delightful experience. The key words associated with added value are: “need” and “want”. If the Kano methodology focuses on perceived value by using the preferential words “like/dislike” for customer satisfaction/dissatisfaction, the two elements of added value are extremely useful in developing a new-built model for capturing desired value.

Further research should focus on indicating what kind of questions a value added questionnaire must present and shape in detail the evaluation table for the responses as to finally present a thorough classification for pre-purchase customer judgment.

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