Value in Service Management -
Part I: Traditional Logic of Products

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Traditional Views in Philosophy, Economics and Business Administration

Value is a term that is viewed **very differently across** various scientific disciplines and can even be defined differently **within** one discipline. The mother of all sciences, **philosophy**, describes values as the **meaning of facts or behaviour** (descriptive term) or **how to live best** (normative term). In turn, values **control the ethical behaviour of individuals**, e.g. values can also be interpreted as a broad term for the preferences of individuals. Philosophers have made lists of what constitutes values, such as beauty, disposition, freedom, friendship, harmony, happiness, honour, health, love, morality, peace, power, security and truth (Brentano, Chisholm, & Kraus, 1969; Moore, 1959; O'Hear, 2000). These values are regarded to control individuals' behaviour, which points to the fact that values also influence individuals' buying behavior.

Companies combine input factors so that a **higher value is reflected in output**. These input factors can also be called resources. In economics, resources are usually land, labour and capital, while in business administration they are business and financial resources as well as raw materials, energy or the working time of people. In traditional business administration, as in traditional economics, it is assumed that companies create added value through an effective and efficient combination of resources. This added value is reflected in the products and services produced by a company. For this reason, we call this way of thinking a logic of products (Woratschek & Griebel, 2020) or a "goods-dominant logic" (Vargo & Lusch, 2004).

The **value** of a product **leads** to a **market price**. In any case, the **customer's utility derived by a product** is determined individually and **can differ** from the market price. However, a customer's utility **results in** his **willingness-to-pay** (WTP), which may differ from the product's price. If the consumer's WTP is **lower** than price, the **consumer does not buy** the product in question. If the **WTP is higher**, the consumer receives a **consumer surplus** compared to price.

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Traditional Views in Service Management

From this simple and plausible-sounding assumption regarding customer's utility and their WTP, complex statistical methods have been established to estimate the utility derived by a product. In service management, **conjoint analyses** - based on traditional marketing approaches - have developed from this and are frequently used in practice today to **study the customers' utility in marketing** (Baier & Brusch, 2009). Since the price can be measured as a financial figure, marketing and service management often assume that the customer's utility must be greater than or equal to the product's price. Based on this assumption, either the actual buying decisions can be observed or expressed buying intentions can be queried. The estimate is then based on the **concept of revealed preferences** (Samuelson, 1938, 1948), which means that conclusions about customers' preferences (utility) can be drawn from their buying behaviour.

The estimation model then includes all **quality-relevant features** of the product. The aim of the estimation is to determine the **relative importance of individual features** of a product, which reflects the influence of a feature on the utility value. If the price of a product is also integrated into the estimation model as a feature that reduces the utility in total, the utility of a **quality-enhancing feature can be "translated" into financial figures**. As a result, the willingness to pay for different features of a service offer is then statistically estimated, i.e. the maximum price that a consumer is willed to pay for it (Kaiser, Ströbel, Woratschek, & Durchholz, 2019).

Many authors in **service management criticise** for a variety of reasons the determination of value using utility functions. For example, a much-cited article in service management states, "Utility models … **do not address** the distinction between attributes and higher **level abstractions**. … They also presume that consumers **carefully calculate the give and get** components of value, an assumption that did not hold true for most consumers … " (Zeithaml, 1988, p. 17). Therefore, the **perceived value** is used as a term and is usually defined as the **trade-off** between the perceived quality or **benefits** and the monetary **sacrifices** (Monroe & Chapman, 1987; Teas & Agarwal, 2000).

Numerous studies deal with the conceptualisation and measurement of perceived value (Sweeney, Soutar, & Johnson, 1999; Wang, Lo, Chi, & Yang, 2004). However, the above-mentioned definition of perceived value, which is most commonly used in marketing, is criticized as being too simplistic (Bolton & Drew, 1991). Value is therefore also seen as a **multidimensional construct with functional, conditional, social, emotional and epistemic aspects** (Sheth, Newman, & Gross, 1991, p. 162). So far, no uniform measurement of perceived value has been established. If the perceived value is to be measured comprehensively, it must **include the non-financial sacrifices**, e.g. the waiting times, which usually are perceived as unpleasant, at the doctor's office.

A similar concept also underlies the **customer value**: "Customer value is a customer's perceived preference for and **evaluation** of those **product attributes**, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations" (Woodruff, 1997, p. 142). Therefore, customer value is defined from the **customer's perspective**.

In both research and practice, however, the term "customer value" is also defined from the **perspective of the supplier**. It often refers to the **financial value of customers for companies** and is also known as "**customer lifetime value**" (CLV) (Berger et al., 2002). The CLV corresponds to the discounted contribution margin (revenue minus variable cost) that a customer brings to the company throughout his business relationship. Both the historical and the expected future contribution margin are taken into account in its calculation.

As it is well known, customers are also evaluated with **ABC analyses** or **scoring models** in business administration, which can also be counted among the methods for determining customer value. These qualitative methods represent indicators of customer value from the subjective perspective of the provider. It is therefore important to know the context when talking about customer value, which can be defined on the one hand as value for the customer, and on the other hand as value of the customer for the company.

To put it in a nutshell:

1. Value as a **descriptive** term addresses the **meaning of facts or behaviour.**
2. Value as a **normative** term explains **how to live best**.
3. **Values control** individuals' buying behaviour.
4. **Companies combine input factors** so that a **higher value is reflected in output**.
5. The **value leads** to a market **price**.
6. **Customer's utility** derived by a product **can differ** from the price.
7. Customer's utility **results in** their **willingness-to-pay.**
8. If the **WTP is higher** than the price, the consumer receives a **consumer surplus.**
9. **Conjoint analyses** estimate **customers' utility** and their **willingness-to-pay**.
10. The **estimation** is based on the **concept of revealed preferences**.
11. Utility measurements are **critisised because of restrictive assumptions**.

12. **Value** is also seen as a multidimensional construct with **functional, conditional, social, emotional and epistemic aspects.**
13. **Customer value** is a **customer's evaluation of** companies' **product attributes**.
14. **Customer value** can also refer to the **financial value of customers for companies**, e.g. customer lifetime value.

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