Shaping Markets: The Role of the Value Proposition

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• Outline some contemporary perspectives of the value proposition and application to shaping markets
• Propose four propositions regarding the role of the value proposition in helping shape markets including:
  • the composition of market networks
  • the stability of market relationships
  • alignment of value in markets
  • influence in the market network
• Suggest conclusions
Some contemporary perspectives of value propositions

Value propositions:

• Are the means by which a firm offers their resources for value creation to other collaborators (Vargo and Lusch 2004; 2008).

• Value propositions are “the firm’s single most important organizing principle”. (Webster 2002).

• Connect entities in a service system and lie at the heart of how competences are shared between these entities (Maglio and Spohrer 2008).

• Provide a means for actors to interact in dialogue sharing (market) knowledge (Ballantyne and Varey 2006).

• Offer reciprocated promises of value between multiple stakeholders (Ballantyne, Frow, Varey and Payne 2011; Frow and Payne 2011)

• Value propositions may be explicit or implicit. Exemplar actor value propositions can be ‘deconstructed’ to provide new leaning for market actors (Payne and Frow 2013)
Four categories of value propositions

- value propositions that reflect *economic value* which are largely determined by price and usually require a delivery system reflecting economies of scale;

- *functional value* propositions which are often associated with attributes offering target customers’ convenience to match their specific need;

- *emotional value propositions* which reflect the experiential needs and wants of customers; and

- *symbolic value propositions* which provide self expression and identification with symbols important to chosen customers.

Source: Rintamaki et al. 2007
Supermarkets need to re-evaluate their value proposition to re-connect with customers
How Tesco offer value to customers?

Tesco developed a business model based on sustainability and 5 specific values:

• No one tries harder for customers.
• Understand customers better than anyone.
• Be energetic, be innovative and be first for customers.
• Use our strengths to deliver unbeatable value to our customers.
• Treat people how we like to be treated
The role of the value proposition:
P1: VPs influences the composition of market networks
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• Markets are composed of interconnected relationships between actors (Hakansson, Harrison and Waluszewski 2004).

• Value propositions link actors and shape expectations of value in context (Vargo and Lusch 2008) that is co-created through interaction and sharing of resources.

• Actors are attracted to relationships where value propositions offer mutually rewarding benefits.

• Value propositions influence actor’s decisions about their relationship partners, determining the composition of markets.
The role of the value proposition:
P2: VPs impact the stability of market relationships
• Value propositions attract actors to share resources.

• Long term relationships are characterized by trust and commitment (Morgan and Hunt 1994), requiring actors to fulfill expectations described in the value.

• The success of the value proposition in attracting and maintaining relationships between actors in a network, depends on the extent that the value proposition fulfills each actor’s expectation of value-in-context.

• When a value proposition is unfulfilled, relationships are unstable, causing market uncertainty and potential changes to the composition of markets.
Why Tesco’s Fresh and Easy concept is struggling in America

The world’s 3rd largest retailer, UK based Tesco, has been closing some of its “Fresh and Easy” stores in California this year. The Fresh and Easy chain was launched in 2007 with the goal to provide consumers with smaller neighborhood style stores with a variety of fresh organic and reasonably priced prepared meals.

So far Tesco have invested $2 billion and opened more than 150 stores in California and are yet to break even.
The role of the value proposition:
P3: VPs provide a balancing/alignment mechanism in markets
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- If value propositions are not perceived as mutually beneficial, one or more actors may modify their value propositions and re-shape their offering, seeking to balance reciprocated value.

- Alternatively, an actor(s) may seek new relationships in which value propositions are reciprocated and perceived as mutually rewarding. (Ballantyne et al. 2011)

- Value propositions act as a balancing mechanism for aligning offers in a market.
The role of the value proposition:
P4: VPs link interdependent relationships between market actors
• Dyadic actor-to-actor relationships are strongly interdependent with other relationships in a market network (Hakansson and Snehota 1995).

• Changes in the value propositions offered between actors in one relationship, impact the value propositions offered in other relationships.

• Redefined value propositions reshape the relationships between actors and reshape a market.
Conclusions

• Despite its prominence as one of the foundational premises of S-D Logic (Vargo and Lusch 2004; 2008) there is not a thorough examination of this concept in the extant literature. (Flint and Mentzer 2006).

• We concur with Webster that value propositions are (one of) the firm’s most important organizing principles. (Webster 2002).

• We extend this logic, suggesting value propositions serve to organize and shape markets.

• Value propositions have a potential change agent role in the shaping of markets.
Thank you!