Chapter 9
Value Creation

ABSTRACT

The ultimate goal of price value chain analysis is building an organizational capability for developing sustainable response in the market as well as among the consumers. This chapter highlights that the price-value chain is directly associated with the profit and growth of the company that is stimulated by customer preferences on price and brand loyalty. The customer satisfaction is largely influenced by the quality of price, perceived use value of products and services, and the value for money with reference to the prices offered by the firm. Hence, the price-value chain is created by customer satisfaction, perceived use value, loyalty, productive employees of the firm, and competitive advantage in price offerings. Approaches for measuring the customer value as an intangible factor, which has a significant role in influencing the buying decisions is also discussed in this chapter.

CUSTOMER LIFETIME VALUE

The customer value is an intangible factor which has significant role in influencing the buying decisions. The customer value broadly includes psychometric variables like brand name, loyalty, satisfaction and referral opinions. The customer lifetime value is built over time by the business firms which also contributes to the individual perceptions of the customers and augments their value. The new school of business thought and contemporary researchers have emphasized that to maximize the lifetime value of customers, a firm must manage customer relationships for the long term. In a disagreement to this notion a study demonstrates that firm profits in competitive environments are maximized when managers focus on the short term with respect to their customers (Villanueva *et al.,* 2004).

Intuitively, while a long term focus yields more loyal customers, it sharpens short term competition to gain and keep customers such that overall firm profits are lower than when managers focus on the short term. Further, a short term focus continues to deliver higher profits even when customer loyalty yields a higher share-of-wallet or reduced cost of services from the perspective of the firm. Such revenue enhancement or cost reduction effects lead to even more intense competition to gain and keep customers in the short term. The

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findings of the study suggest that the competitive implications of a switch to a long term customer focus must be carefully examined before such a switch is advocated or implemented. Paradoxically, customer lifetime value may be maximized when managers focus on the short term.

There have been limited studies that have discussed the impact of convergence of product services offered by a firm to the new products towards generating customer value over time. However, some of the studies find no evidence of absolute convergence, while a few find evidence of conditional convergence, *i.e.* convergence having controlled for differences in technological and behavioural parameters (Kenny and Marshall, 2000). The lack of evidence of absolute convergence leads to the lowering of perceived use value of the new products and further results into the lowering the returns on the aggregate customer value in terms of repeat buying (*b'*) and market coverage (*s*) for a firm in a given time. However, most of the convergence studies are aimed at proving or rejecting the neoclassical growth model and hence there is need to take the 'product' as the unit of measurement of customer value.

It has been observed that there is an increase in the number of customer goods and services offered in recent years suggesting that product-line extensions have become a favoured strategy of product managers. A larger assortment, it is often argued, keeps customers loyal and allows firms to charge higher prices. There also exists a disagreement about the extent to which a longer product line translates into higher profits keeping the customer value higher. The academics, consultants and business people speculated that marketing in the new century would be very different from the time when much of the pioneering work on customer loyalty was undertaken (Churchill 1942; Brown 1953; Cunningham 1956, 1961; Tucker 1964; Frank 1967). Yet there exists the scope for improving the applied concepts as there have been many changes over conventional ideologies. A study using market-level data for the yogurt category developed an econometric model derived from a game-theoretic perspective explicitly considers firms' use of product line length as a competitive tool (Dragnska and Jain, 2005). On the demand side, the study analytically establishes the link between customer choice and the length of the product line and includes a measure of line length in the utility function to investigate customer preference for variety using a brand-level discrete-choice model. The study reveals that the supply side is characterized by price and line length competition between oligopolistic firms.

As the competition is increasing in the global marketplace firms are shifting to innovative business management strategies to create better customer value. Many traditional operations strategies such as just-in-time lean manufacturing and off-shoring strategies need to be modified to strategically fit into the global competitive scenarios. Firms must engage the business operations protocol in reference to enhancing the customer value through flexible operations and overcome the consumer and market oriented myths that often decelerate the business growth of a firm. Considering issues such as cost cutting, product characteristics, and information technology the flexibility is the key for companies towards innovating their operations and supply-chain strategies and competing successfully in turbulent times (Simichi-Levi, 2011).

The value of corporate brand endorsement across different products and product lines, and at lower levels of the brand hierarchy also needs to be assessed as a customer value driver. Use of corporate brand endorsement either as a name identifier or logo identifies the product with the company, and provides reassurance for the customer (Rajagopal and Sanchez, 2004). A perspective from resource-advantage theory (Hunt and Morgan, 1995) is used to formulate expectations on the degree to which the use of information on customer value, competition and costs, contributes to the success of a price decision. It is argued that the success of these practices is contingent on the

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