VALUE EXCHANGE IN CUSTOMER RELATIONSHIPS

1. Introduction

Technological development has multiplied social and business networks of relationships diminishing geographical barriers. In every day relationships, personal values affect emotional and economic decisions according to conscious or unconscious behavioral evaluations. Values are embraced in a human behavior and always influence decision making process in the consumption patterns of satisfying needs and preferences, varying on different occasions and financial resources of consumers (Vinson et al., 1977). Therefore, capability of identifying customer value including ability of creating it and providing to the customer on superior level increases firm’s competitive advantage. From marketing point of view, customer’s value perception depends on a nature of relation. Traditional marketing was based on a simple redistribution model of goods and services. In its pure form, this model was transaction oriented and value was provided through acquisition of goods and services for money in single episodes. On the other hand, relationship marketing emphasized value at its core which is created for a customer in a relationship process over longer period of time (Grönroos, 2000). As a result, relationship marketing requires more involvement and deeper customer commitment in order to deliver greater value than is gained over a single act of purchase in traditional marketing (Grönroos, 2004). As a matter of fact, the concept of value in marketing has been researched over the years from different perspectives, mainly as a value delivered from a firm to the customer or opposite.

2. Theoretical Approach of Value

Clearly, definitions of a value vary in their form and nature. For example, Tzokas & Saren (1999) concluded that consumers create value in a consumption process following their attitudes, motivations, and behavior through competition and collaboration among themselves. In this meaning, consumers through consumption decisions express their own identity either to distinguish themselves from others or present their associations with the desired group. Since, consumers differ in habits, and lifestyles a value of products is reflected in their purchase preferences of goods and services, as presented in the equation below.

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CONSUMER’S PROFILE  =  VALUE PROFILE

Figure 1. Value Approach Presented by Tzokas & Saren

Source: own compilation.

For a purpose of transforming obtained knowledge and experiences about perceived value profile of each party – firm and its customers should establish a dialogue platform to enforce a relationship between them. As suggested by Collins (1999), value is displayed in the potency concept of an assortment to be fulfilled. In his terms, potency is perceived as a set of utilities shaping value through available assortment – a collection of added value elements, which are summarized in the Figure 2. Consequently, potency of an assortment fluctuates according to three situations: firstly – needs’ satisfaction, secondly - adjustment of potency through mutual transfer of value, thirdly – participation in external events. Finally, potency development stimulates relationship which transfers value over longer period of time.

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POTENCY = VALUE = ASSORTMENT
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Figure 2. Collins’s Value Approach

Source: own compilation.

In driving Grönroos’es (2004) relationship concept forward, a value is created in a two-way contact between customer and a firm. In the end, with the partial customer involvement in the process, a perceived value is created for both parties. When the creation process is conducted successfully by a firm according to the customer’s standards, than the core delivered value is transformed into a customer’s perceived value. Although, consumers’ perception of price, quality and value are essential to their purchase decisions, each of these factors is perceived individually and has a different impact on the importance scale in each shopping behavior. Based on an exploratory research of consumers’ values and quality perceptions obtained from three lines of beverages, Zeithaml (1988) presented four consumer classifications of value - as a low price, product’s assets, quality reflected in price, and input versus output, as depicted below.

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6 Ibidem, Grönroos, Ch., 2004.
His concluding definition of value for the customer is expressed in a perceived value, delivered with the total recognized evaluation of product’s consumption in accordance to input and output perceptions. Very often value corresponds to exchange expressed in unspoken components. The ability of providing a superior value to the customer by a firm also became a means for a differentiation. The standard strategy implemented by the companies to increase customer perceived value focuses usually on company’s own needs rather than on customer’s needs. This method is ineffective as an increase in customer’s perceived value is not achieved, additionally generating unnecessary and extra costs for both parties participating in a relationship. Another possible disadvantage for a company is a constant concentration on developing and introducing new complementary services in addition to the core products. Both of these unsuccessful activities are time and resources consuming, without any positive effect in a change of consumer perceived value, as well as company’s profits (Ravald & Grönroos, 1996). These authors drew conclusions that customer perceived value of any good or service corresponds with the buyer’s individual value chain – a sequence of activities performed by this buyer, as displayed in Figure 4.

To provide a competitive advantage for a customer in value, a company’s task is to identify customer’s needs that are in line with customer’s value chain. Another phase is to set strategy objectives for the process to beneficially fulfill this hybrid combination

of needs and value chain. The core objective for a company in relationship marketing is to obtain customers and maintain relations with them, by value-adding strategy. When in particular micro-environment a relationship between at least two parties (company, suppliers, market intermediaries, customers) is mutually beneficial, than an intention to sustain and cultivate this relationship is valuable for both parties involved (Wilson & Jantrania, 1994; Grönroos, 2004). This added value is considered as value of the core product increased by additional services, improved product quality in order to enhance customer satisfaction which reinforces already established relationship and forms loyalty. Why value is extremely crucial for a customer relationship? The answer to this question is with regard to a chain reaction of value as an important constituent of relationship construct which determines customer satisfaction through quality need, including price. Consequently, in case value added is not customer oriented and loyalty will be unlikely reached (Ravald & Grönroos, 1996). What is more, when relationship is satisfactory close enough for participants, it is likely for a customer to evaluate this relationship as a whole rather than based only on a separate product. In a relationship context customer perceived value is developing over longer period of time. Grönroos (2004) structured the value process of relationship marketing into three stages. Firstly, due to the fact that in a competitive global economy customers have an easy access to comparable quality of various goods and services. Companies are required to increase the customer perceived value of the core product by additional services not only to gain competitive advantage but what is even more important, to create a value of the core product at all. What is more, customer contribution to a relationship with another party is reflected in price which is paid on the product delivery.

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\text{CPV} = \frac{\text{Core Solution} + \text{Additional Services}}{\text{Price} + \text{Relationship}}
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\textit{Figure 5. First Stage in the Value Process of Relationship Marketing}

Source: own compilation.

However relationship costs for the customer refer to psychological, physical, and time dimensions that occur over time. In this case customer perceived value is a customer’s evaluation of an exchange deriving from ratio of potential benefits and potential sacrifices (Petterson & Spreng, 1997), as presented in Figure 5.\textsuperscript{11} The potential benefits are a combination of integrated in product physical and service attributes, and when required - technical support. This sort of additional sacrifice may increase or decrease according to the situation status confronted by customer. Second context in customer perceived value is calculated as a combination of core value and added value factors. It is important to underline that added value is presented in either positive or negative context, as in Figure 6.


\textsuperscript{10} Ibidem, Ravald, A., Gronroos, Ch., 1996.

As a core value of an offering may be decreased by delayed or wrongly executed supporting services that in fact subtract from the core basic value creating in addition negative added value. A faster and more effective solution for the company to reduce or eliminate negative added value is to concentrate all the possible resources on improving existing added value performance rather than creating a new added value. In a suitable situation core value of an offering may be extended to compensate the value decrease of existing services that are negatively perceived. The ultimate option as suggested by Gummesson (2000) for the value to be either created or improved is through partners’ collaboration in a network of relationships. The final stage of customer perceived value is captured in terms of episode and relationship. Grönroos (2004) describes components of enhancing customer perceived value on an episode basis (product elements, quality, brand / image, information, exchange of, information, supporting services).

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\text{CPV} = \text{CORE VALUE} \pm \text{ADDED VALUE}
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*Figure 6. Second Sage in the Value Process of Relationship Marketing*

Source: own compilation.

In the long term relationship the beneficial structure of these episodes is in the second place in comparison to the existing relationship. After a few successful transactions emotional components evolve constituting credibility which is the outcome for the rest of the performance, actually increasing relationship value. The effect of value adding components in a long-term relationship is of a deeper meaning, as pictured in Figure 8. Since the customer is convinced that company is able to satisfy customer’s needs and wants, and is assured that a company will fulfill all the promises, a chance for repurchase is increasing.

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13 Ibidem, Grönroos, Ch., 2004
These positive transactions establish a credible relation, in which trust is developing, followed by emerging credibility. The emotional customer’s bonds to the company are strengthened with the feeling of safety reducing the sacrifice for the customer. On the other hand, security minimizes purchasing risks. In the end, when the expectations of the customer and the responsibility of the company are met, a mutually profitable relationship for a supplier and customer evolves. Sheth & Parvatiyar (1995) present relationship in terms of choice reduction by customers. Relationship engaged customers seek for a loyal membership with particular supplier and therefore are not interested in committing themselves to competitive suppliers. However, relationship value can have a negative effect. If in the customer versus supplier discourse value destructors occur than a relationship existence from customer’s perspective might be questionable. Nevertheless, customer may continue maintaining a relationship with a supplier but only due to obtained connections, acceptable price level, and convenient location or provided technology. Therefore it is essential to separate episode value from relationship value, what unfortunately may be difficult for a customer to be perceived and treaded in this manner (Ravald & Grönroos, 1996; Grönroos, 2004). For example Ulaga’s and Eggert’s (2006) research on business-to-business relationships, presented that relationship value is always prior to relationship qual-

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Value exchange in customer relationships

ity. These authors concluded that value has a greater influence on satisfaction in the first place followed by commitment and trust. Value also determines a relationship quality in case customer intends to leave a relationship. An alternative for creating a value, as suggested by Monroe (1991) is either by increasing the benefits or reducing the sacrifice. These two elements are mutually dependent, where the increase of the first element should reduce the second one. In the first meaning, supporting services are added to the core product quality to increase customer benefits. This second approach should force company to understand customer’s value chain to reduce customer-perceived sacrifice by increasing purchase convenience or lowering the actual price.

3. Importance of Value to Customer

Service quality and perceived value are significant predictors preceding level of satisfaction according to Cronin et al. (2000). Results of their research model evaluated support for the positive and significant evidence linking service quality, service value and satisfaction to consumers’ behavioral intentions. Certain favorable behaviors (increased purchasing volume, paying premium prices, and spreading positive opinion about the company) signify customer satisfaction and indicate existence of bonds with company. Additionally, positive customer’s intentions and future plans (willingness of recommending company or service to others, repurchase, expressing a preference for the company over others) reflect customer’s positive commitment to the relationship. These two dimensions influence relationship strength and lead to customer’s loyalty. On the contrary, manifestation of dissatisfaction usually occurs in consumer’s complaining behavior (compensation from seller, legal action, and negative opinion) cause customer negative attitude. Despite negative commitment customers still may response in loyalty and decide to remain with the company due to high switching costs. Another aspect of satisfaction is directly connected with customer’s perception of relationship relevance. On one side for some customers commitment in the relationship is of minor importance and respectively level of satisfaction is rather indifferent to them. On the other side, relationship commitment is significant to other customers and consequently satisfaction is treated as very vital factor in the overall relationship. However in both situations of either negative or positive commitment loyalty is still indicated because of bonds with company, regardless of attitude and relationship’s length (Zeithaml et al., 1996; Storbacka et al., 1994).

Satisfied customers value maintaining the relationship, which results in commitment building and increases bonds with the company, positively influencing relationship strength. De Canniere et al. (2010) captured the construct of relationship strength through

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the intensity of antecedent behavior based on its reliability and duration between customer and the company. The extension of these bonds affects relationship strength and lead to more positive purchase intentions and buying behavior.\textsuperscript{20} The strength of interaction between customer and the company in the relationship depends on the third component besides satisfaction, and commitment – trust. Generally, among many researchers trust is being defined as confidence in an exchange partner’s consistency and reliability attached to future rewards. This suggests that trust affects the relationship threefold: in reducing the perception of risk, increasing the confidence, and reducing the transaction costs of an exchange process. In other words, the predictable behavior of an exchange partner on either side guarantees stability in the future performance (Crosby et al., 1990; Ganesan, 1994; Morgan & Hunt, 1994).\textsuperscript{21} The combination of all these related constructs encompasses evaluation of strength in the exchange performance. Drawing further on the literature (Storbacka et al, 1994; Anderson & Narus, 1990; Palmatier et al., 2006; Morgan & Hunt, 1994), relationship strength is closely linked with communication and loyalty, which are complimentary to trust. Communication is crucial in transactional exchange between company and customer but in relational context its relevance is even greater in terms of established partnership. From relational point of view, communication is recognized more as an act of sharing meaningful information and not as an act of information exchange. Sharing adequate amount and quality of information at desired frequency requires cooperation from both partners. The overall efficiency of information sharing is judged on past cooperation experiences defined as complementary coordinated actions. This state of formal as well as informal information flow between partners leads to mutual benefits. Active involvement of both partners in the coordinated actions by helping to resolve conflicts, generate new opportunities, create equal situation from both perspectives. Better communication facilitates trust, and vice versa – accumulation of trust leads to better communication. Critical episodes can be perceived as functional and productive consequences between partners. Strongly developed trust is likely to handle conflict with positive result, mainly due to the fact of mistake acceptance from either side which can only strengthen relationship. In case conflict increases or is unsuccessfully resolved, harmful tensions may escalate disagreement ending relationship immediately and negatively influence customer’s trust including decrease of commitment.\textsuperscript{22} As previously stated either one of favorable, complaining or neglecting behaviors constitute respectively positive, negative or neutral commitment to the relationship. In each case of these inconsistent but meaningful behaviors customer maintains its loyalty with the company. According to Storbacka et al. (1994) and Palmatier


(2006) a decision to remain with the company and an expectation of continuity reflected in repetitive purchase behavior presents customer’s loyalty as a multidimensional construct of evaluating:

- Attitudes – relational bonds and ties with the company.
- Intentions – analysis of perceived alternatives.
- Seller’s performance – perception of exit barriers through switching costs.\(^\text{23}\)

In essence, based on the above arguments, authors such as Donaldson & O’Toole (2000) support perspective that relationship strength consists of two constructs - behavioral processes reflected in social bonding and economic ties. The intensity of interaction between partners and measurement of these both constructs determine the structure of the relationship.\(^\text{24}\) Additional factor affecting perception of relationship strength refers to relationship investment. Company is in a better position to collect information on consumer perceptions and adequately target at relevant customer’s purchase patterns with relationship-focused marketing strategies. Therefore contribution of time, effort and other resources invested in the relationship by company from consumer’s context are usually devoted to the set of regular customers who expect these practices. Unfortunately, in case relationship is terminated all previously invested resources cannot be recovered. Perspective of relationship investment emphasizes expectations of reciprocation by retaining a relationship with regular customers. Effectiveness of perceived relationship investment encourages both partners to eliminate risk barriers and create positive atmosphere as a result of reciprocal behavior (De Wulf et al., 2001; Palmatier, 2006).\(^\text{25}\)

Longevity stems mainly from relationship strength which is based on antecedent behaviors during the relationship. The intensity of favorable, complaining or neglecting behaviors is expressed in reliability of efficient communication facilitating trust. Strong relationship appears to influence compatibility between partners in building long relationship that results in desired outcomes. Another alternative link to this construct is a path leading from strong relationship to short lasting relationship. In this sense customer is unsatisfied with the existing relationship and feels motivated enough to make an effort to terminate the relationship. Negative commitment generates weak relationship leading to short relationship duration as a consequence of low relationship involvement although expected outcome was achieved. Despite weak relationship strength due to lack of its importance to customer, relationship is continued either because of bonds or time required to find a new partner or lack of perceived alternatives. It is important to underline that the most favorable option for both partners is obviously the case of strong and at the same time long lasting relationship. This fulfillment is reflected in positive connections between satisfaction and long relationship duration which indicate purchase intentions. The longer customers remain with the company, loyalty increases and the purchase of additional services can be expected consi-


dering positive word-of-mouth communication (Anderson & Narus, 1990; Storbacka et al., 1994; Zeithaml et al., 1996; De Wulf et al., 2001).26

The above focus stresses the importance of retaining the existing customers that requires less effort from the company and is more cost and satisfaction efficient in pursuit of mutual benefits. Long lasting relationship increases value of relationship itself and influences profitability. After a breakthrough of manufacturing companies measuring quality costs per customer in 1980s, service companies followed the same path but with the beginning of 1990s. The framework of relationship profitability chain incorporates basic sequence of five links - beginning with perceived value which leads to customer satisfaction influencing relationship strength that results in relationship longevity and finally affects customer relationship profitability. The aim of these four antecedent “ingredients” with their additional side aspects is to achieve company’s customer profits. However, according to Reichheld and Sasser (1990) profits are mainly generated by customers over long period of time but above all by reducing customer defections. These authors proofed a strong connection between customer defection impact on quality which powerfully influence company’s profits. In terms of competitive advantage, reasons causing customers to leave the service company are capable of affecting profits more intensively even in comparison to economy of scale, market share, and unit costs. Therefore the longer customer’s relationship with the company is profits radically increase. Only by maintaining on average 5% of company’s customers improves profits by nearly 100%. Defected customers not only generate costs due to previous heavy acquisition expenditures but are also a loss of future revenues. Apparently, capturing a cost of lost customers who most likely will not come back would improve investments’ evaluations designed to maintain these customers. Instead of concentrating on current costs or margins from one-time sale, companies should consider expected returns on investments in both – a long-time customers and gathering feedback from defecting customers. On one hand side with regard to value, loyal customers generate more profits each year and on the other defected customers help companies to manage continuous improvement. In both cases gaining information from these two customer groups carries value in reducing company’s costs and adjusts processes regularly for the purpose of future performance. Firstly, in order to reduce defection rate to some extend company should identify source causing defections and define it. The next step to be undertaken is to measure defections and analyze provided information. This challenging task requires resources and sometimes investments enabling collection of adequate information. Sometimes difficulties may occur in identifying some customers as they are anonymous to company, involving out of ordinary methods to achieve this assignment. Nevertheless, the key issue is to track customers who have already terminated their relationship with the company or are nearly ready to leave this relationship. For this purpose special IT systems are necessary and investments engaging sophisticated technology. Even more critical is the fact of obtaining information about customers because some companies do not dispose collected data up to date. Why identification of defection causes is so crucial? The primary focus on falling defection rates supports rise of profits. In result spotted customer defections:

• Deliver precise feedback on reasons for terminating relationship.

• Provide objective company insight which is unavailable to current customers.
• Support solutions for winning back customers who are leaving.
• Indicate uncompetitive products or services, and worthless promotions.

Finally, after analysis of identified customer behaviors service-quality investments should be profit oriented. Unfortunately, in some unprofitable customer cases attempt of any further investments in attracting them should be discontinued.

Customer defection insight presents a real cost of losing a customer and possibilities of retaining them to increase company’s profits. In the light of pervious arguments oriented on reducing customer defection, another point of view stressed by Reichheld and Sasser (1990) presents trend of profits generated by customers over time. In driving their concept forward, they captured value of loyal customers who raise profits steeply in case typical relationship lasts on average seven year as depicted in Table 1.

![Table 1 Profitable Customers over Time](image)


Obviously, at the very beginning of the relationship one-time acquiring costs of new customers in form of advertising, promotion are unavoidable. If relationship continues, customer base profit in the first year is on the stable level and consequently in the next six years of relationship. During the second year and following ones, as customers become accustomed to and satisfied with the service provider, profits from increased purchase rise, generating higher balances. As purchase constantly rises, operating costs start declining due to customers’ greater direct experience with the company’s offer and learning process over the fourth year. Positive word-of-mouth influences profits as free recommendations from loyal customers increase in the forthcoming year. Usually with long time customers companies gain extra profits from premium prices. This mostly occurs when trust developed and customers are willing to pay extra for confidence in business. These profits generated by loyal customers over time not only provide steady income but also save additional costs.

in acquiring new customers. The value of the customer doubles form five years to ten when quality improves when defection rate falls. As stressed by De Cannière et al. (2010) the length and regularity of relationship strengthen the relationship and have positive impact on buying intention enhancing profits sharply over longer period of time.\textsuperscript{28} Concluding, the above issues present an insight toward an effort devoted to measure value of relationship through profits. With the focus on better relationship management in the ability of identifying opportunities, company is able not only to develop a relationship in terms of its length and future profits but also radically reduce relationship costs.

4. Final Remarks

In the light of above arguments, development of the relationship paradigm posed an aggregated concept of value reflected in quality consisting of various elements. This complex phenomenon involves interaction of satisfaction, trust, and commitment. Therefore, when these three constructs are present at the same time, effective performance supports increased productivity, and promotes efficiency of the relationship. From this perspective, interrelation of each construct consolidates relationship stability and serves to multiple relationship functions. Their key objective is to encourage marketers to preserve relationship maintenance by cooperating with customers in line with willingness to invest time and resources in the relationship, including acceptance of potential risks. In this sense, the strength of interaction between these elements leads directly to long-term relationship expansion, generating mutual profits over time. The concept of total relationship marketing embedded in value reflected in quality summarizes its definition as an interaction in network of relationships.

5. Literature


\textsuperscript{28} Ibidem, De Canniere, M.H., De Pelsmacker, P., Geuens, M., 2010


Summary

The aim of this paper is to present various theoretical approaches of value in terms of customer relationships. While customers are value sensitive, debate has emerged around complementary issues of relationship construct. The first involves the quality as a predictor preceding level of customer’s satisfaction, followed by trust and commitment. Finally, satisfied customers value maintaining the relationship, which results in commitment building and increases bonds with the company, positively influencing relationship strength.

Keywords: relationship, value, quality, trust, satisfaction, commitment, customer

WARTOŚĆ, JAKO ELEMENT WYMIANY W RELACJACH Z KLIENTAMI

Streszczenie

Celem niniejszego opracowania jest zaprezentowanie różnorodnych podejść teoretycznych w zakresie wartości w relacji z klientami. Zważywszy na dużą wrażliwość klienta w ujęciu wartości, wrosło zainteresowanie wokół zagadnień uzupełniających kwestię kształtowania relacji z klientami. Pierwsze zagadnienie dotyczy, jakości poprzedzającej poziom satysfakcji klienta, następnie zaufania i zaangażowania. W rezultacie zadowoleni klienci cenią podtrzymywanie wartości relacji, co w konsekwencji prowadzi do budowania zaangażowania, zwiększając tym samym więź z firmą, wpływając pozytywnie na siłę tej relacji.

Słowa kluczowe: relacja, wartość, jakość, zaufanie, satysfakcja, zaangażowanie, klient

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