

Value – the “Atom” of the Economy – A Conceptual Model of a New Approach for Marketing

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This is a conceptual paper about the most fundamental concept in the science of business administration, value. It traces its history, discusses the demarcation approach of the service dominant logic, arguing against it. We hold that customer co-creation is already presumed in the concept of use-value; the customer can realize the value-potential of a product or a service by satisfying experiences from the offering. Under certain circumstances relationships influence the value, often motivating temporal suspension of market relations. In other cases relationships do not give the potential for additional value and the exchange between seller and buyer continues to be a transaction.

The micro-foundations of value are searched in the social psychology of these experiences and how they build the value.

The paper suggests the need for radical re-focusing of business practices, by proposing a conceptual model based on the macro-foundations of value.

Keywords: value, exchange-value, use-value, co-production, relationship marketing

INTRODUCTION

Value is the fundamental defining concept of the economy. This paper traces the history of the concept, its psychological micro-foundations, and the implications, requiring radical changes in business practices. The scientific community of Business Administration is probably the sector of human activity that first embraced the cyclical economy, systematically recycling concepts, by trying to rebrand a phenomenon with a new name. In most cases this can be ascribed to ignorance of the origins of the concepts, but in some cases it a conscious strategy of attributing an important concept to oneself. We have discussed such recurrent rebranding of the phenomenon commonly known as destructive innovation (Philipson, 2020). The same rebranding holds for the concept of value.

THE HISTORY OF THE CONCEPTS

Value, Use-Value and Exchange Value

Ballantyne and Varey (2006) traces use-value to Vargo and Lusch (2004a), also acknowledging Bitner (1992). Sandström, Edvardsson, Kristensson and Magnusson (2008, p. 112) hold that Vargo and Lusch

(2004a) introduced a new value perspective, by coining the concept of value-in-use for the customer. They wrote that the value of a service was previously regarded as a ratio between service quality and cost. In the new perspective, value is realized when a service is used. Users of services are thus both the co-creators and the judges of service value (Sandström et al., 2008, p. 114).

Holbrook recognizes the vast legacy of the fundamental concepts: “...the basic concepts involved could be traced back through the work of (say) Sid Levy at Northwestern in the 1960s, Wroe Alderson at Wharton in the 1950s, and the economists Lawrence Abbott in the 1950s or Alfred Marshall in the early 1900s, all the way to Adam Smith in the Eighteenth Century (e.g., Alderson, 1957; Boyd and Levy, 1963; Woods, 1981).” “What these works [Pine & Gilmore, 1999; Schmitt, 1999; Smith & Wheeler, 2002; Shaw & Ivens, 2002; LaSalle & Britton, 2003] share in common – beyond their insistent emphasis on the importance of the consumption experience – is their infallible tendency...[with the partial exception of LaSalle & Britton, 2003]... to repeat the mistake that Beth and I made by forgetting or neglecting to acknowledge the previous thinkers who have pioneered the relevant concepts.” (Holbrook, 2006, p. 715)

We can add that Vargo and Lusch (2004a, 2004 b) does not even mention Normann (1984) [in Swedish, 1975].

Holbrook (2006) is citing Abbot (1955, p. 40): “What people really desire are *not products* but satisfying experiences. Experiences are attained through activities. In order that activities may be carried out, physical objects or the services of human beings are usually needed. Here lies the connecting link between man’s inner world and the outer world of economic activity. People want products because they want the *experience-bringing services* which they hope the products will render.” [italics added by Holbrook].

Bowman and Ambrosini (2000, p. 177) go further back, holding that the distinction between use value and exchange value was made by classical economists (Smith, Ricardo, and Marx). Use-value, or value-in-use, is the reason that a customer buys an offering (a product or service). It is not the offering in itself, but its potential for providing experiences of value-in-use that interests the customer.

Marx “theory chapter” for the research presented in his three volume work *The Capital*, was called *Theories of Surplus-Value*. It is three volumes of together more than 4200 pages, presenting extant research at the time. “Use values become a reality only by use or consumption...” (Marx, 1867/2015, p. 27). “As use values, commodities are, above all, of different qualities, but as exchange values they are merely different quantities, and consequently do not contain an atom of use value.” (Marx, 1867/2015, p. 28).

Differences Between Products and Services

Three approaches have been proposed for the study of services, the demarcation approach, the assimilation approach, and the synthesis approach (Love and Mansury, 2007; Castro, Montoro-Sanchez and Ortiz-De-Urbina-Criado, 2011). The **demarcation approach** argues that services are distinctively different from products (Arvanitis, 2008; Hipp and Grupp, 2005), based on the intangible and interactive nature of services and holds that no comparison between manufacturing and services is possible.

The service-dominant logic holds that services are different from products (Vargo and Lusch, 2004a, 2004b). It is an example of the demarcation approach, which holds that the assumption that services have the same characteristics as products is wrong, because services have particularities (Arvanitis, 2008). According to extant literature, services are characterized by the close interaction between production and consumption (co-terminality); intangible content; the important role played by human resources; and the critical role played by organizational factors (Sirilli and Evangelista, 1998; Sundbo and Gallouj, 2000; Sarkar and Carvalho, 2005; Alam, 2006). These distinctive characteristics and rapid technological and non-technological change make innovation a of service a complex issue (Camacho and Rodriguez, 2008). Hence, it is important to verify if the manufacturing approach used during decades can be applied to services, or if service innovation is indeed so peculiar that a new approach is needed.

The **assimilation approach** suggests that the features of services are not unique and can also be applied to products (Drejer, 2004).

The **synthesis approach** attempts to cover the missing aspects of both the demarcation and assimilation approaches (Castro, 2011).

Payne, Storbacka and Frow (2008, p. 83), hold that it is central to the service-dominant (S-D) logic that the customer becomes a co-creator of value.

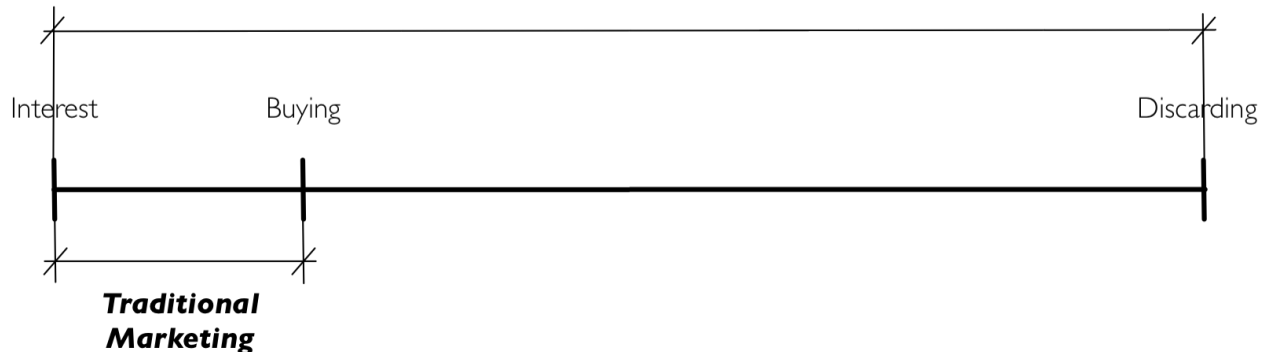
We hold that the synthesis approach is valid and that service-dominant logic, with its demarcation approach, is wrong; even for products the firm only produces the potential for customers to realize value-in-use: “A quarter of a century ago, however, Alderson (1957) drew a sharp distinction between buying and consuming... **By focusing on the configuration of activities involved in consumption, this viewpoint calls attention to the experiences with a product that one gains by actually consuming it.**” (Holbrook & Hirschman, 1982a, p. 137). [our emphasis] “...all products are services so that the distinction between services marketing and other kinds of marketing disappears.” (Holbrook, 2006, p. 715)

The synthesis approach accepts that there are differences between products and service, but hold that these are not systematic. Many services have tangible elements, e.g. the food in a restaurant or the repair of a pair of shoes. Consumption is not always co-terminal with the production of the service, e.g. the value of the shoe-repair is consumed in the continued use of the shoes. Human resources are often important for the consumption-experience of a product. The sale of a pair of jeans is influenced by the sales-personnel in the retail store. The same or similar experiences can often be given as both products or services, e.g. the streamed film on a television – a service – and the same film on a bought CD, a product.

In the fundamental aspect of how value is produced, the firm’s offering, whether a product or a service, only gives the **potential** for satisfying experiences. The customer’s experiences of using the product are made during the consumption of the product, which is extended in time, see figure 1.

**FIGURE 1
THE CONSUMPTION TIMELINE**

Consumption of the Use-value



Source: Own

Co-Creation of Value

“...the user is always involved in the co-creation of value (Prahalad and Ramaswamy, 2000), and that value will not be gained until the customer uses the service (Vargo and Lusch, 2004b).” (Sandström et al., 2008, p. 116) “Central to service-dominant (S-D) logic is the proposition that the customer becomes a co-creator of value.” (Payne et al., 2008, p. 83)

“...we concur with the view of Woodruff and Flint (2006) that relatively little is known about **how** customers engage in co-creation.” (Payne et al., 2008, p. 83). [our highlight]

SATISFYING EXPERIENCES

Typically, firms have produced the offering and left to the customer to realize the experiences that the offering can give. The realization of the value that the customer gets out of the offering, is not given by the offering in itself. That it only has the potential to give certain experiences, has come to be recognized as the co-creation of value (Prahalad and Ramaswamy, 2004a, 2004b; Payne et al., 2008).

The customer is not buying to buy, but to use. But firms historically put all their effort in getting the customer to buy. If they were adhering to a relationship management approach, they might later – directly or indirectly – ask the customer if she was satisfied. They cross their fingers that the customer manages to realize the potential of the offering, but they seldom help the customer to enact the use-experience in the ultimate way. "... traditional consumer research has focused almost exclusively on the choice process that generates purchase decisions culminating in actual buying behavior. Thus, brand purchase is typically viewed as the most important behavioral outcome of the information processing model." (Holbrook and Hirschman, 1982, p. 137). "In exploring the nature of that overall experience, the approach envisioned here departs from the traditional positivist focus on directly observable buying behavior and devotes increased attention to the mental events surrounding the act of consumption." (Holbrook and Hirschman, 1982, p. 137)

The success of the iPhone is to a large extent due to the iTunes store, where customers are helped to realize potentials, in the form of third-party applications, music, or films, which even Apple did not anticipate.

As a consequence, marketing has moved from just influencing the buying process, to recognize that it potentially can influence the value that the customer experiences after she has bought it. This began in services, where production and consumption are often concurrent. To some extent it has also become part of the marketing of products, such as the app stores that increases the value of an already bought smartphone. But for most products, such influence during the consumption timeline is very limited, When did Wrangler address the customers that have already bought its jeans? Except for inducing them to buy another pair?

The experience of the consumption builds expectations of future experiences, influencing whether to buy the same or another product from the same firm, or to look for a competitive offer. For the satisfaction of many needs the customer has accumulated many experiences. However, these do not build knowledge, just sense, or tacit knowing. Few offerings are discussed with others, Hence, the perspective of the other does in most cases not enter into the decision process of the consumer. Except for capital goods, such as a car or a refrigerator, for which information is often processed and sometimes discussed, explicit knowledge doesn't enter into consideration. This in contrast to industrial customers, for which several people are often involved in the purchasing decision.

The so-called consumer culture theory (Arnould and Thompson, 2005) holds that consumers chose products as identity markers, to "dress up their identity". This is relevant for a limited range of products, for a limited range of consumers, who would buy clothes or jewelry that are normally not within their budget range. Sometimes such products are bought second hand or by restricting themselves severely from satisfying other needs. You cannot readily discern if such seemingly frivolous consumption choices are an exposition of such proposed identity dressing. The choice could be made without bothering about the concerns of others. Of all the values sold in the market, such identity dressing is marginal as a general phenomenon, as 60% of US consumers earn less than 40.000 USD; hence the room for such spending is very limited. That said it could be extremely important for a specific brand.

DOES RELATIONSHIPS MANAGEMENT CHANGE ANYTHING? – THE DIFFERENCE BETWEEN THE VALUE OF TRANSACTIONS AND RELATIONS

This is a reflection on how value theory can explain the emergence of relations in markets and hence also one reason why there is an inherent drive towards monopolistic competition in capitalism.

Transactions

For a transaction to take place, the buyer has to value the offering (v_b) more than the price, p (including other efforts). Thus, what she has to pay for the offering must have less value than the potential of positive experiences by consuming the offering, $v_b > p$. The seller at the same time has to value the price, p , he gets for the offering, more than the value, v_s , he might have by keeping the offering, either for his own use or for potentially later sell it for a higher price; hence $p > v_s$.

The situation is based on an asymmetric valuation of the value of the product. Hence, in order for the transaction to take place, the value of the product must be higher for the buyer than for the seller, or $v_b - p > 0$ and $v_s - p < 0$; hence $v_b > v_s$.

Relations

The 4Ps are presumed to be based on a faulty understanding of the relation to the consumer:

“...the marketing mix and its Four Ps constitute a production-oriented definition of marketing, and not a market-oriented or customer-oriented one...” (Grönroos, 1997, p. 324). If co-operation between seller and buyer give added value, as Grönroos (1997) holds, this added value, ∂v , is created; at a cost that increases the price (in money and/or costs for both sellers and buyer) with ∂p . This added value and added costs are shared between the buyer and seller in such a way that the buyer gets a percentage, a , of the added value and b of the added costs. The seller gets a percentage of the added revenues, $1 - a$, and $1 - b$ of the added costs. In order for a relationship to be built, a win-win-situation (see game theory) must be created meaning a situation where $\partial v > \partial p$. For the buyer the following has then to be true:

$$1. \quad v_b + f\{\partial v * a\}_b > p + \partial p * b$$

and for the seller:

$$2. \quad p + \partial p * (1 - b) > v_s + f\{\partial v * (1 - a)\}_s$$

The buyer has to get:

$$3. \quad f\{\partial v * a\}_b > \partial p * b, \text{ or } f\{\partial v * a\}_b - \partial p * b > 0$$

and for the seller:

$$4. \quad \partial p * (1 - b) - f\{\partial v * (1 - a)\}_s > 0.$$

By mathematical modeling it can be shown that a saddle point often can be established for building value by relations between the parties, essentially replacing the market with temporal organized planning, eventually an organized supply-chain. This can be the case when the consumer appreciates the small talk with the shoe-repair man, which becomes part of the experience, or when the new functionalities of a new computer from the same brand gives innovations motivating loyalty. More often it is the relation between two companies, where the seller gives the buyer values increasing the value proposition to the end customer. This is the situation that Grönroos (1997) presumes is now a generalized reality. But often this is not the case and strict transactional market relations are preferred (Zineldin & Philipson, 2007).

THE MICRO-FOUNDATIONS OF VALUE: EXPERIENCES BASED ON SENSORY CUES AND EMOTIONS

Use Value

The customer is not buying to buy, but to use. But as discussed above, firms often put all their effort in to get the customer to buy. They might ask if the customer was satisfied. They cross their fingers that the customer manages to realize the potential of the offering, but they seldom help the customer to *enact the use-experience* in the best way.

How Does These Experiences Develop in the Mind of the Consumer?

The higher mental functions are built of the cognitive and emotional dialectics from action, to *experience*, and *reflection* over such experiences (Vygotsky, 1962). Human experience is diverse and individual. Hence, the associations are not the same from one individual to another. The experiences are conscious and unconscious. They are accumulated in the human memory. Tacit knowing could be said to be the mass of these associations. Such *accumulation of experiences* does not build knowledge, but sense, or *tacit knowing* as suggested by Polanyi (1961, 1962, 1968); a “Gestalt”, The sense of a word is the aggregate of all psychological facts [Gestalt] that arise in our consciousness, provoked by the word (Wertheimer, Brett, King, Peckler and Schaefer, 1992). Polanyi (1962, p. 604) is drawing on Gestalt psychology in his attempt to establish the logic of tacit knowing. *Unconscious tacit knowing* is not accessible for the individual herself. It is not in, what Polanyi (1962) calls, focal awareness. It must be revoked, by means unknown to the individual and it is even more difficult, if not completely impossible, for another person to provoke the making conscious of such knowing (cf. the role of the psychotherapist). Intuition fills the gap left open in the dynamics of tacit knowing (Polanyi, 1962, p. 322).

Sensory cues evoke *mental imagery* based on earlier experience (Holbrook, 1982, p. 112). This imagery is the essence of tacit knowing. “...*the experiential perspective focuses on cognitive processes that are more subconscious and private in nature. Interest centers on consumption-related flights of fancy involving pictorial imagery (Richardson, 1969), fantasies (Klinger, 1971), and daydreams (Singer, 1966).*” (Holbrook and Hirschman, 1982, p. 136).

There is no absolute distinction between conscious and unconscious knowing. As the individual’s experience grows and deepens, old experiences retreat to the background and new ones take the foreground. Neither is there a garbage can at the end of this displacement, other than dementia. Subdued unconscious knowing can come to the foreground again, provoked by new experiences or tacit inferences to old ones. The distinction between explicit, conscious, and unconscious tacit knowing is therefore fuzzy. Knowing emerges through the network of interactions and is distributed and mediated among the interacting humans and their tools (Cole and Wertsch, 1996, cited after Lipponen, 2002, p. 74).

The Role of Emotions

“*Using a hedonic consumption perspective, products are viewed not as objective entities but rather as subjective symbols. The researcher is concerned not so much with what the products as with what it represents. Product image, not strict reality, is a central focus; consumer emotive response, rather than just semantic learning.*” (Hirschman and Holbrook, 1982, p. 93). [our highlight] The need to work out suitable procedures for investigating the consumer’s emotional experiences must therefore be considered a challenging but fascinating task along the road toward a fuller understanding of the experiential aspects of consumption (Holbrook, 1982, p. 116).

Vygotsky believed that affect and intellect are not two mutually exclusive poles, but two inseparable mental functions (Levykh, 2008, p. 85). He emphasized that culturally developed emotions are socially constructed and internalized. They play a key role in shaping motivation and thought (Levykh, 2008, p. 92, p. 94; Mahn and John-Steiner, 2002, p. 46). The individual emotional experience seems to be foundational (consciously, subconsciously, and unconsciously) to the person’s perception, attention, memory, decision-making, behavioral mastery, and overall world orientation (Levykh, 2008, p. 84). Motivation is the mediation between emotions and thought. Motive gives birth to thought, to the formation of thought itself,

to its mediation in internal words, to the meanings of external words, and finally to words themselves (Mahn and John-Steiner, 2002, p. 55).

Knowledge

The development of knowledge is not a purely individual act. The use-value or value in use is the experience of the satisfaction with the product in use or the service. To learn is not an individual act, not even the individual's learning is done in isolation; it needs "the other". Knowledge and learning are to a large extent only achieved within a community of practice. (Philipson & Kjellström, 2020, p. 13). As explicit knowledge is harbored in the brain, it is associated with tacit knowing, and hence even explicit knowledge is intrinsically tacit! (Polanyi, 1962),

Knowledge is developed together with others, but not so simplistic as saying that learning involves becoming "...a member of a community of practice through apprenticeship." (Kolb and Kolb, 2005, p. 200), or as simple as to observe and be part of a practice, as Nonaka (1991, p. 98) seems to believe. It is the result of the *negotiation of meaning* in a community of practice, by internalizing the experiences of other; *getting a more objective experience*. This negotiated understanding becomes *explicit knowledge*.

When the experiences or the practice in the community is complex, this negotiation of meaning requires *objects as mediators*, based on Vygotsky (1962, 1987, 1993, 1994, 1997a, 1997b, 1998, 1999), Polanyi (1961, 1962, 1969), Ferguson (1992), Star (2010), and Henderson (1999), and criticizing Nonaka (1991, 1994), Nonaka and Takeuchi (1995), and Nonaka, Toyama and Konno (2000) we discussed *how* tacit knowing is transformed to knowledge in Philipson & Kjellström (2020). – Although, such knowledge is only what is considered common knowledge, not knowledge in the scientific sense.

Customer Choice

In most cases customer choice is not based on reflected externalized knowledge, but on the sense of satisfaction with the accumulated experiences of offerings from the same company and similar offerings from other companies. These experiences are *embedded* in the mass of all the individual's experiences. In most cases the decision is not only not made on reflected knowledge, it is not even a conscious process, where these historic experiences are evaluated, but the result of unconscious "intuition". Even in the cases where we consciously reflect whether to buy the offering, it is seldom based on knowledge externalized by interaction with others to find meaning of our knowing.

Industrial Buyers' Choice

Investment in machinery and strategic components are often the decision of project teams, in which they externalize their individual tacit knowing (Philipson & Kjellström, 2020). For less strategic components, heuristics are often used for decision-making (Busenitz and Barney, 1997). Such heuristics can be the result of historical organizational learning processes or the intuitional biases of the individual taking the decision. Hence, we hold that there is no qualitative difference between how consumers and industrial buyers make choices. However, the share of decision-making based on rational externalized knowledge is higher in the choice of industrial buyers.

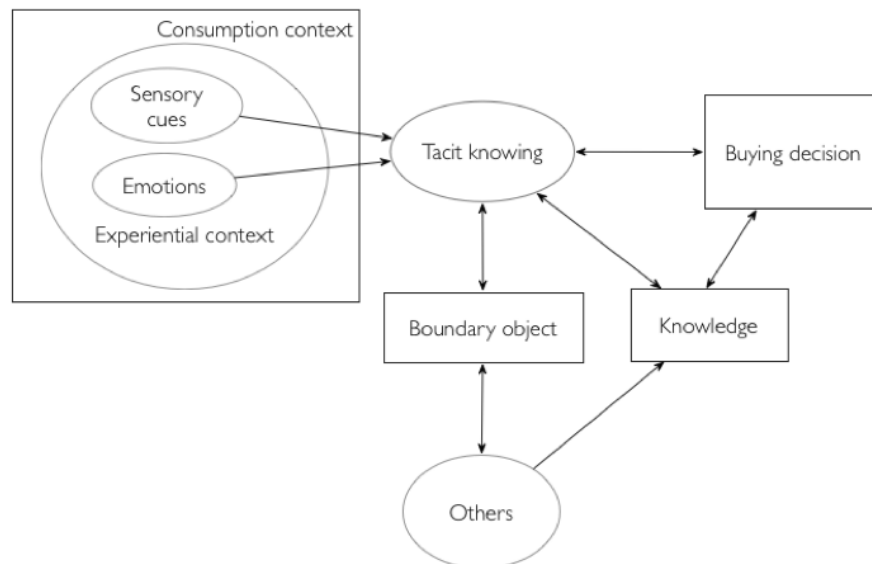
A CONCEPTUAL MODEL

- Value is the most fundamental concept in the science of business administration.
- The firm produces an offering, a product or a service. In exchange for this offering, the firm realize an exchange value.
- The offering gives the customer the potential to realize use-value from the offering. This use-value is realized by satisfactory experiences of consuming the offering.
- Sensory cues and emotions at the moment build these experiences.
- Accumulated experiences build tacit knowing, the sense of things and phenomena.

- Knowing is externalized in social processes. These social processes are within one of the many communities of practice, of which we are members.
- Negotiating meaning in those communities of practice makes it possible to build common, or externalized, but not scientific, knowledge.
- Our consumption experiences are the sum of the instances of experiences of consumption, extended during shorter or longer time.
- Our decisions to buy an offering are the result of our conscious and unconscious making of those decisions, based on previous experiences and sometimes, but often not, of the reflection on those experiences together with others.

In figure 2 our conceptual model is shown. The consumption gives rise to experiences based on sensory cues (visual, tactile, etc.) and the emotions evoked in the moment of consumption. These experiences build tacit knowing of the consumption of the product and other similar products. In many cases this tacit knowing is directly determinant for future buying choices. By letting this tacit knowing meet others tacit knowing with the help of boundary objects (the product, pictures of the product, evaluation forms, etc.) and involving oral or written dialogue, gestures, or sketching, a negotiated explicit knowledge can be developed and become part of the buying decisions.

**FIGURE 2
CONCEPTUAL MODEL**



Source: Own

IMPLICATIONS

Value is the concept that is the foundation of economy, occupying much the same “space” in the understanding of the economy as the atom in chemistry. It is fundamental to understand this concept and its psychological micro-foundations to understand why and how the customer, whether a consumer or an industrial customer, is satisfied during and after the consumption of the product or service. Marketing, innovation, engineering, and production has almost exclusively been occupied with producing or creating the offering, while seldom reflecting on whether the customer can realize the value potentials of it. Such a re-focusing will necessitate radical change in business practices.

Rethinking of the way marketing is done can be framed in the following questions, most very different from those marketers usually pose themselves:

- How can sensory cues and emotions be embedded in offerings?
- How can we help the customer to realize these cues and emotions?
- Can we help the customer in learning how to get the most out of the offering?
- Can communication be used to help them realize the potentials embedded in the offering? – As if Levi would be advertising: this is how you wash your jeans to get them in shape as new.
- Can incremental value-adding offerings be made, by us or third parties, thus augmenting the consumption experience? – cf. the AppStore or the iTunes Store.
- Can we connect customers for common learning about our offerings? – Providing evaluation forms for use together with others? Can we stimulate third party evaluations?

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