

Value in Service Management

- Part II: Logic of Value Co-Creation

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Exchange and Use

The concept of value in publications on co-creation in service management has a fundamentally different meaning. In this part II to "Value in Service Management" we deal mainly with value-in-use. Already Karl Marx, in his criticism of political economy, considered different concepts of value. He distinguished the value-in-exchange ("Tauschwert") from value-in-use ("Nutzwert") (Marx, 1867). **Value-in-use** is the value that **individuals assign** to products and services. Therefore, it varies from individual to individual. **Value-in-exchange** is the value at which a good is **exchanged on the market**. **Both can differ** and have an influence on the **purchase decision** of consumers (Woratschek, 2020).

Furthermore, the literature can be divided into **two different ways of thinking**. The traditional one follows the **logic of products** discussed in Part I on "Value in Service Management" (Woratschek, 2020). In Part 1, all basic approaches, despite their differences, share the common idea that **companies create value** by manufacturing products and services. In recent years, this idea has been challenged and it has been argued that value is created through the **collaboration of different actors**. This argument is central to the **logic of value co-creation** discussed in the following.

The traditional perspective of the creation of value through the activities of a company, as expressed in the **value chain** (Porter, 1980), is **doubted**, because the **customer is separated from** the process of **value creation** (Prahalad & Ramaswamy, 2004b, p. 6). Prahalad and Ramaswamy (2004b) at the same time as Vargo and Lusch (2004) ,independently argue that value is not created by one company alone.

Value Co-creation

The founders of Service-Dominant Logic (SDL), Vargo and Lusch (2004) work out in their fundamental essay that **customers do not consume** the goods at all and thus the value. According to SDL, other actors are involved in value creation in addition to the customer. For

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example, in restaurants, sports events or rock concerts, **other customers are present** and help to **determine the experience value**. In concerts and sports events, for example, **politicians** and **security services also shape the experience**. In this respect, SDL goes **beyond a dyadic relationship** between company and customer by integrating **multiple actors** (Prahalad & Ramaswamy, 2004a, 2004b). However, the various publications on value co-creation share the view that value is not expressed or embedded in the products and services, for example: „Creating an experience environment in which consumers can have active dialogue and co-construct personalized experiences; **product may be the same** (e.g., Lego Mindstorms) **but** customers can construct **different experiences**“ (Prahalad & Ramaswamy, 2004b).

The **customer** does **not only** contribute **money**, but helps to construct experiences that are created with the help of companies' products and services (operand resources) as well as **his knowledge, skills and abilities** (operand resources), so that value is co-created: "Value results from the beneficial application of **operand resources** sometimes transmitted through operand resources. Firms can only make value propositions" (Vargo & Lusch, 2004, p. 7).

The differentiation between value-in-use and value-in-exchange was introduced (newly) in Marketing & Service Management with the much-cited basics of **Service Dominant Logic** (SDL) (Vargo & Lusch, 2004), but without referring to Karl Marx. Value in SDL is **always value-in-use and always co-created (Vargo & Lusch, 2004)**. Moreover, it is **always dependent on the context**, as the above example of Lego Mindstorms shows. In SDL, context is defined „as a set of unique actors with unique reciprocal links among them“ (Chandler & Vargo, 2011, p. 40). Edvardsson, Tronvoll, and Gruber (2011, p. 327) emphasize this more precisely and argue that **value is socially constructed**: "value should be understood as **value-in-social-context** and that value is a social construction". Value is therefore only created through social interaction and is not contained in the goods.

If **value** is created through social interaction, it **cannot be used up**. It is **dynamic** because exchange processes and the role of companies and customers are subject to constant change (Edvardsson et al., 2011, p. 335). This becomes particularly clear when one thinks of the 1954 World Cup. Many people are still happy about the 3:2 and the decisive goal when Germany won the **FIFA World Cup** final against Hungary. In **entertaining conversations**, many also remember that Germany lost heavily in the preliminary round against Hungary and some can even still report the result or tell stories about the influence of the weather and Adidas football boots. Through such conversations, value is co-created with the help of the sport organisations', sport teams', referees', Adidas' and other **actors' resources integrated** in the "FIFA World Cup 1954" and the **knowledge of the conversation partners**. Although the

sporting event has long since passed, the **value is not "consumed"** and therefore not used up.

Moreover, the value is **always subjectively determined** by the beneficiary of the integrated resources. Every actor evaluates the FIFA World Cup 2954 differently. Beneficiaries weigh the benefits and sacrifices in a co-creation process and therefore value is always **multidimensional**.

The different value concepts in service management including part I (Woratschek, 2020) are shown in Figure 1.

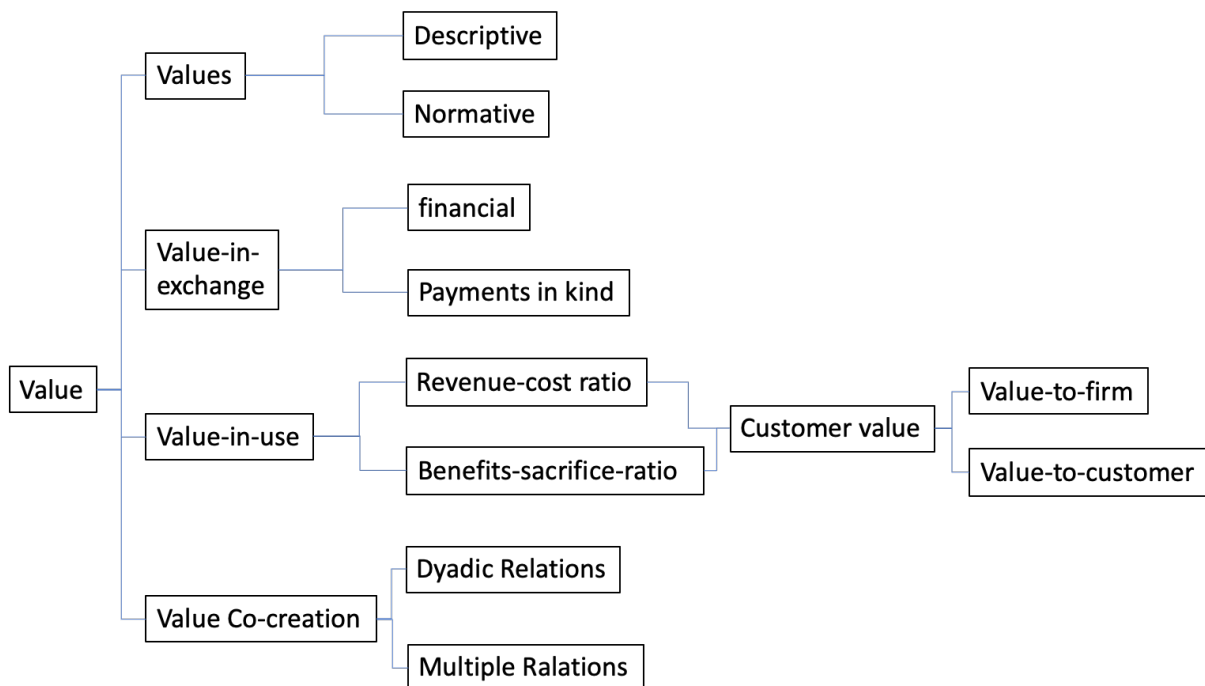


Figure 1: Value concepts in service management

To put it in a nutshell

1. **Value in service management** can be value-in-use or value-in-exchange.
2. **Value-in-use** is the value that **individuals assign** to products and services.
3. **Value-in-exchange** is the value at which a good is **exchanged on the market**
4. In contrast to the **logic of sport products**, according to the **logic of value co-creation** value is not created by the activities of single actors, e.g. by a manufacturing company.
5. Value is always created by **multiple actors**.
6. Value is **always value-in-use** and **always co-created** as well as **always value-in-social context**.

7. Value is **dynamic** subject to constant change.
8. Value is **always subjectively determined** by the beneficiary.
9. Value is **multidimensional**.

Video

For a deeper understanding in the lens of the logic of value co-creation, please watch the video on Prof. Woratschek's YouTube channel. SMAB Clip "Value in Service Management":

<https://youtu.be/l3QsXhON3g4>



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