Chapter -2
Conceptual Framework: Customer Value, Satisfaction and Loyalty

2.1 Customer perceived value

This chapter will review the concept of customer perceived value defined from different authors' perspective. Then the dimensions of customer perceived value offered by various authors will be discussed. Finally, the discussion will lead to customer value creation approaches.

Almost three decades ago it was noted by Porter (1985) that a competitive advantage of a firm comes from its capability to create value for its customers that exceeds the company's costs of creating it. This perception has not changed up to now as superior customer value delivery is still seen as a key to achieve and maintain competitive advantage (Landrogeuz, Castro & Cepeda-Carrion, 2011). This had led to an increased interest of researchers to analyze customer value creation process and how customers perceive value.

Kotler and Keller (2012) define customer perceived value as "the difference between customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives". They extend the concept by describing customer perceived value as the proportion between total customer value (a bundle of economic, functional and psychological benefits such as product, services, personnel, image value) and total customer costs (monetary, time, energy, psychic costs) (Kotler & Keller, 2012). According to Hutt and Speh (2007), customer value is the customer's perception and evaluation of how useful the relationship with a supplier is in terms of benefits received and sacrifices made. Furthermore, Hutt and Speh (2007) distinguish two types of benefits: "core benefits" that are core requirements for a customer-supplier relationship and "add-on benefits" reflecting attributes that are typically not required but create added value in a customer-supplier relationship. In line with previous definitions, other authors define customer value as a comparison of weighted "get" and "give" attributes or as a ratio of perceived benefits received and perceived
sacrifices. Authors highlight the word "perceived" because both benefits and sacrifices are subjective to a certain level (Christopher, Payne, & Ballantyne, 2008; Heskett, Iones, Loveman, & Sasser, 1994). According to all the definitions above, it is obvious that customer perceived value can be described as the difference between customers' perception of the benefits they believe they will derive from a purchase compared to the costs they will have to pay.

Despite the homogeneity of customer perceived value definitions, the dimensions of customer perceived value offered by authors are very diverse.

Naumann (1995) has suggested that customer's perceived value consist of 5 components: price, product quality, service quality, image and relationship between a customer and a vendor. According to Sheth, Newman and Gross (1991), five basic types of value exist that are derived from customers' needs:

- Functional value which is understood as perceived utility derived from ability to perform its functional, practical or physical purposes.
- Social value represents perceived advantage deriving from its image and symbolism the product/service provides.
- Emotional value which is described as ability to arouse feelings such as security, pleasure, enthusiasm, romance, passion, fear or guilt.
- Epistemic value is the ability of a product or service to make a person curious or satisfy his desire for knowledge or novelty.
- Conditional value is a perceived benefit acquired in the specific situation or some particular social or physical context.

Sweeney and Soutar (2001) have narrowed down customer value dimensions to three:

- Social value which reflects the enhancement of social self-concept.
- Emotional value described as the utility derived from feelings generated by the product.
- Functional value which reflects the advantage obtained from product's quality, performance and price/value received for the money.

One of the most recent studies by Smith and Colgate (2007) has proposed the following four customer value dimensions:

- Functional/ instrumental value reflects how much a product is useful, has characteristics or functions that were expected.
Symbolic/ expressive value describes the degree to which customers give product some psychological meaning (e.g. self-concept or self-worth).

Experiential/ hedonistic value is associated with the extent to which a product evokes some particular emotions, feelings and experiences for the customer.

Cost/ sacrifice value is concerned with the expenses and other sacrifices that might be associated with buying or using a product.

Differently from other authors, Ulaga (2003) has focused on customer value in specific contexts and defined eight customer value categories: the quality of a product, delivery, time to market, price of a product, costs of processing, personal communication, the expertise of a supplier and service support.

Woodall (2003) has suggested a distinct typology consisting of five forms of value for the customer:

- Net value which is described as the balance between sacrifices and benefits.
- Derived value reflects the outcomes of use/experience.
- Marketing value defines product attributes as perceived from a customer perspective.
- Sale value defines value as a reduction of sacrifice or cost.
- Rational value which is the evaluation of fairness in the balance of benefit and sacrifice.

It is obvious that customer value can be categorized by different dimensions. It also depends a lot on the market which typology is going to be applied. B2C markets and customer values differ drastically from B2B markets. Moreover, the industry specifics must also be considered when evaluating what customers perceive as valuable.

B2B bakery and confectionery market is very unique from a customers' value perspective. The core benefits or basic requirements for supplier are more or less similar in all B2B industries. But the add-on benefits are very specific for each industry. As it was said by Hutt and Speh (2007), companies should focus more on providing unique added value rather than modifying core benefits in order to enhance customer value and loyalty.

It is essential for suppliers in B2B bakery and confectionery industry to know what their customers expect, how they perceive value and what add-on benefits could be offered to them. Next chapter will review the components that authors perceive as adding value and
what are considered to be valuable for the customers in B2B bakery and confectionery market.

2.1.1 Approaches to customer value creation

The customer value creation has long been considered as a central marketing concept and the source of competitive advantage (Woodruff, 1997; Smith & Colgate, 2007). Nevertheless, customer value and its creation differ substantially in each industry. Therefore, Kotler and Keller (2012) suggest firstly starting with the value exploration process to gain understanding what customer thinks about, wants, does, and worries about. Only then they propose to proceed with value creation process utilizing all the resources and competencies available.

The company's resources or assets used to create customer value are usually divided by authors to tangible (physical) and intangible (intellectual) dimensions (Allee, 2009; Kaplan, 2004). Vargo and Lusch (2004) have introduced the operand and operant concepts to describe company's resources. They define operand resources as tangible and static goods offered to customer that the goods-centered model of exchange is based on. Whereas service-centered model of exchange is based on operant resources that are invisible and intangible assets such as core competences or organizational processes. Operant resources are seen as dynamic and infinite, opposite to operand resources that are usually static and limited (Vargo&Lusch, 2004).

Authors agree that there is an obvious trend of business market view moving from goods-dominant to a service-dominant view (Kaplan, 2004; Vargo&Lusch, 2004). According to Kaplan (2004), product-driven economy, based on tangible assets, is moving towards a service and knowledge economy, based on intangible assets that are the ultimate source of sustainable value creation. Vargo&Lusch (2004) have also noticed the thought leaders in marketing moving away from tangible goods with embedded value focusing on activities directed at static transactions. In turn, authors notice the trend to focus on active exchange relationships where value is co-created with the consumer by sharing knowledge, skills and/or services. According to Vargo and Lusch (2004), the worldview changes "from a focus on resources on which an operation or act is performed (operand resources) to resources that produce effects (operant resources)." (see Figure 2.1).
The concepts of operand and operant resources introduced by Vargo and Lusch (2004) are going to be used in this paper to describe and categorise the customer perceived value dimensions.

2.1.2 Operand Resources: Core product value

This chapter will elaborate on the operand resources concept suggesting the core product as the resource to create value for customers. The core product definition and its dimensions are to be discussed. Moreover, this chapter includes the review of industry specifics regarding the core product.

As it was mentioned above, operand resources are tangible or physical goods delivered by a company to create customer value (Vargo & Lusch, 2004). Usually authors use the term core product to describe the value created for the customer by delivering the physical or tangible goods. Core product can be viewed as the product in its most basic form. The concept of core product has already been defined by Levitt (1983) who suggested four levels of product offer: core or generic product, expected product, augmented product and potential product. According to Levitt (1983), the generic or core product is a material or physical product. The expected product is the core or generic product but supplemented with minimal purchase
conditions. At the augmented product level a company has an opportunity to gain its competitive advantage by offering additional services and benefits that are preferred and perceived as valuable by target customers. Finally, the potential product refers to the development that the product is likely to go through in the future over time. Kotler (1994) describes the five different levels of a product that are almost identical to the ones described by Levitt (1983). The only difference is that Kotler (1994) emphasizes the difference between the core benefit which is explained as the advantage the buyer actually wants and the generic product which represents the actual physical product. Brassington and Pettit (2006) see the core product as the essence of a product, the main reason it exists and is purchased. Consistently with others, a Gronroos (1997) claim that the physical good is a basic element in the offering since it is an essential condition for a customer to perceive the offered value successfully.

The core product and its created value are very industry specific. Therefore, the dimensions of core product also differ greatly from one industry to another, for instance in specific banking sector, core product dimensions would also be specific such as speed in delivery, accuracy of transactions, bank facilities and honesty of staff (Alfansi & Sargeant, 2000).

Despite the industry differences, some authors distinguish the most basic and general dimensions of a core or physical product in general. Alfansi and Sargeant (2000) distinguish quality, on time delivery and price as the main dimensions of the base level of product. Consistently, Smith (1993) describes core product features, quality, design and packaging as the main aspects of physical or tangible product. According to Prahalad and Hamel (1990), cost and quality are the standard product attributes. From the discussion above it is seen that quality and price as the main core product dimensions were mentioned by the majority of the authors.

**Figure 2.2 :** The core product value dimensions
Nevertheless, as it was mentioned earlier, the industry specifics also have to be considered when evaluating the core product and its dimensions. The bakery and confectionery industry that is going to be researched in this paper also has its product specifics. The core product offered by suppliers in this market is usually food ingredients for bakeries and confectioneries. Therefore, food ingredients will be measured as a core product in this research. Considering the discussion on the core product dimensions above and the specificity of bakery and confectionery market products, the quality and price dimensions are going to be used in the research to measure the core product value.

2.1.3 Operant resources: Service and relationship value

This chapter will elaborate on the operant resources concept and the ways operant resources are used to create customer value. Two customer perceived value dimensions - service value and relationship value - and going to be defined and their dimensions discussed. Both dimensions will be then reviewed from the perspective of industry characteristics.

As it was mentioned above, operant resources are not material or physical assets but invisible and intangible processes of a company (Vargo & Lusch, 2004). According to Constantin and Lusch (1994), operant resources are resources that produce effects such as customer value creation. According to the dominant service-centred view, based on operant resources, companies should identify and develop their core competences, expertise, substantial skills and knowledge and cultivate relationships with customers that involve them in customizing and developing the value propositions according to their specific needs (Vargo & Lusch, 2004). Therefore, the next chapters will review service value and relationship value constructs as the customer perceived value dimensions created by employing operant resources.

2.1.4 Service value

The service value has been, and will continue to be, a key construct of interest to marketers. The importance of service value emerges from consumer decision processes that are usually based on service value (Cronin, Brady, Brand, Hightower & Shemwell, 1997). Service is now considered to be even more important than the product itself and the
marketing shift from goods-dominant view to service-dominant view confirms that (Vargo & Lusch, 2004). Therefore, this chapter will concentrate on service value and the components that constitute customer service: basic service, competence and complementary service.

According to Capon (2009), service is any act, performance, or information that enhances the firm's core product. Pride and Ferrell (2010) define customer service as the value adding attempts, activities and practices that complement the core product provided by a company. Authors agree that service, in general, is intangible or operant resource that adds value or enhances the core product of a company (Capon, 2009; Pride & Ferrell, 2010; Vargo & Lusch, 2004).

However, components that constitute service are defined differently by various authors. According to Kotler and Keller (2012), "the main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair". Kotler, Tybout and Calder (2010) define the components as service outputs that include loading the goods, spatial convenience, the lead time and delivery time, assortment and its variety and basic customer service. Nevertheless, all the factors that constitute service are very situation specific. Therefore, the industry characteristics must be taken into consideration when defining service components. Considering bakery and confectionery market context in this paper, the service provided by suppliers will be grouped in three sections: basic customer service, competence and complementary service.

**Figure 2.3** Service value dimensions

![Service value dimensions](image)
Basic customer service can be described as the synergy of all the determinants affecting the procedures of making products available to the customer (Brassington & Pettitt, 2006). Some authors emphasize delivery, financing arrangements, convenient hours of operation as the main customer service constituents (Pride & Ferrell, 2010). Bittner (1995) emphasizes three most important encounters with customers in delivering service: order taking, delivery and billing. According to Brassington and Pettitt (2006), the most important factors in customer service are inventory availability, delivery and its reliability, ease of order administration, order convenience, invoicing procedure and order cycle time. From the discussion above it is apparent that delivery, order administration and billing or invoicing are seen as the most important customer service constituents by several authors.

Considering authors’ opinions on customer service and the specifics of bakery and confectionery market context, the term basic service in this paper is going to be used to describe customer service processes such as delivery, ordering ease, invoicing and specification issuing procedures. Delivery refers to the proper product delivery in terms of speed and accuracy of the delivery process. Ordering ease reflects the ease for a customer to place an order with a company (Kotler & Keller, 2012). Invoicing and specification issuing procedures refer to fast and precise documentation according to requirements (Brassington & Pettitt, 2006).

The second service value constituent described in this paper is competence. Despite the various terms existing in literature (e.g. competence, core competences, distinctive competencies, etc.), this study will employ the general term "competence".

Capon (2009) defines competences as skills, knowledge and other capabilities the firm possesses. Kotler & Keller (2012) understand core competencies as areas of special technical and production expertise. According to Coyne, Hall and Clifford (1997), core competence is a connection of skills, expertise and knowledge of the employees that enables the company to perform their tasks and accomplish results at a high standard. In line with other authors, Hutt and Speh (2007) describe core competencies as the superior technical and organizational skills of the organization with a focus on what creates value from the customer’s perspective. According to Prahalad and Hammel (1990), a core competency is the company’s communal learning about the management of different production knowledge and skills. Christensen (2010) has used the term "distinctive competences" and emphasized it as one of the important
inputs in creating value for the customers and gaining competitive advantage. With reference to all the definitions above, competence can be described as skills, knowledge or expertise of the organization that are used to create service value for customers.

Nevertheless, competence and its constituents differ greatly from one industry to another. According to Cravens, Grant, Ingram, Laforge & Young (1992), competence of a supplier comprises of technical supplier's know-how of products and production processes, and awareness of the customer's organization, competitors, markets and industry. Considering the descriptions of competence and specifics of bakery and confectionery market, supplier's competence as one of the service value constituents in this paper will include sharing product knowledge and skills with customers, providing them technical support, consultant services, practical help and seminars.

As mentioned above, the third component of service value in this paper is complementary service. Little academic examination in the literature is found on the concept of complementary service, especially in B2B context, although it has been extensively used across a range of industries. The concept of complementary service has been characterized using various terms, including complementary selling, companion selling, complementarities, complementary product or augmented product offering (Polonsky et al. 2000). Steinfield, Bouwman and Adelaar (2001) describe complementary service as a way for a company to differentiate itself and enhance customer value by expanding inventory with complementary products. Mai, Yang and Chen (2011) used the term complementary product explaining it as a product that increases the value of a core product when both of them are used together by consumers. Amit and Zott (2001) have employed the term complementarities to describe complementary products and services offered by a company, or the extension of company's product range with complementary products that are directly related to a core product of a company and create customer value. The term augmented product offering was widely used by many authors to describe the total offering of a company or a package of core product complemented by surrounding, peripheral services or goods (Ravald and Gronroos, 1996; Kotler and Keller, 2012; Riel, Lemmink, Streukens & Liljander, 2004). Polonsky et al. (2000) has employed the companion selling concept and defined it as a process of selling the customers an item that largely supplements their purchased product.
Complementary service in this paper adopts the notion that it is a type of individual customer service reminding, informing and selling customers the additional products that they might need that broadly complement the core product they are buying (Polonsky et al. 2000). In case of bakery and confectionery market, the complementary to food ingredient supply service is offering the extended range of products that customers need in a production, presentation and selling processes. The range might vary from the equipment and tools used in a production process to product presentation, decoration and packaging materials. The food ingredient suppliers in bakery and confectionery B2B market in Lithuania used the terms service articles and decorations to describe the complementary product categories offered next to the core product. The customer are familiar with service articles and decorations terms, therefore, they are going to be used in this paper to research the complementary services offered by food ingredient suppliers.

2.1.5 Relationship value

The previous chapter reviewed the service value as one of the ways to create customer value. This chapter will concentrate on relationship value as a customer perceived value dimension created by employing operant resources in a company. Customer relationship management, its dimensions and industry characteristics are going to be discussed.

The marketing shift from goods-dominant to service-dominant and thereby from tangible to intangible resources made the relationships, interactivity and connectivity with customer’s central processes of a company. According to Vargo and Lusch (2004), companies should develop and cultivate relationships with customers by involving them in developing personalized, competitively compelling value propositions to meet their particular needs. One of the tools that is most often used to create relationship value for customers particularly in business-to-business marketing is customer relationship management (Christopher et al., 2008).

The customer relationship management (CRM) concept is being used to reflect a number of different perspectives. From the marketing and management perspective CRM can be viewed as a tool helping in identification, selection, acquisition, development and retention of increasingly loyal and profitable customers. From the informational industry perspective
CRM is seen as a software or customer database that helps a company to administer customer relationships in an organized way (Cuthberston & Laine, 2004). In this paper CRM will be analysed from the marketing perspective.

Hutt and Speh (2007) define CRM as a cross-functional process helping to achieve a continuous communication with customers via all the contact and access points available including the customized treatment of the most valuable customers ensuring the marketing efforts success and customer retention. Christopher et al. (2008) describe CRM as a strategic plan to improve shareholder value through long-term profitable relationships delivery for customers by uniting IT and relationship marketing strategies. According to Christopher et al. (2008), CRM gives the unique opportunity to better understand customers and implement relationship marketing strategies by using gathered information and data. Landroguez et al. (2011) perceive CRM as the company's actions that are focused on creation and maintenance of long-term relationship with customers in order to gain their satisfaction and loyalty. Consistently with other authors, Barosso and Martin (1999) believe that CRM is about creating and maintaining long-lasting relationships with customers in order to evolve continuous improvement in customer value delivery.

Authors have characterized a great deal of CRM capabilities and dimensions. Cuthberston and Laine (2004) have emphasized customer knowledge reflecting individual customer requirements, the data collection process and customer contact as the most important CRM capabilities. Hirschowitz (2002) believes that interaction with customer and customer insight are the most valuable outcomes of CRM. According to Sin, Tse, Heung and Yim (2005), one of the CRM components is key customer focus which allows customer-centred marketing, identification of customer lifetime value, personalization and interactive co-creation marketing. Zinnbauer and Eberl(2005) state that CRM enables interaction between the company and customer, creation of personalised customer offers and customer perceived consistency of the interaction with a company. According to Yim, Anderson and Swaminathan (2004), companies using CRM are focusing on key customers, organizing entire company around CRM, managing customer knowledge throughout organisation and implementing technology based on CRM.

Despite its wide capabilities and described dimensions, CRM has to be adjusted to industry and its specifics in every case. Therefore, it is important to discuss the most
applicable CRM dimensions that enable suppliers creating relationship value in B2B bakery and confectionery market. One of the most crucial capabilities of CRM in this specific market is the knowledge and insight of customers and their profiles that enables a better understanding of customers and their requirements (Cuthberston & Laine, 2004; Lin & Su, 2003; Hirschowitz, 2002). Moreover, the knowledge of customers' requirements allows a supplier to create customer-specific tailored solutions according to their needs (Sin et al., 2005; Kundisch, 2001). One more CRM capacity that is important in B2B bakery and confectionery market is a close and frequent interaction with customers which allows quick suppliers' response to their requests (Hirschowitz, 2002; Hayes, 2008).

### 2.2 Customer satisfaction

Previous chapters have reviewed the independent variables, whereas this chapter will focus on one of the dependent variables of this study - satisfaction. Firstly, the definitions of customer satisfaction by various authors are going to be reviewed. Then the dimensions and measures of customer satisfaction are going to be discussed from the industry perspective.

According to Kotler and Keller (2012), satisfaction is "a person's feelings of pleasure or disappointment resulting from comparing perceived products' performance (or outcome) in relation to his or her expectations". Authors elaborate that customer is dissatisfied if expectations are not fulfilled by the performance; satisfied in case the performance matches customer's expectations; and delighted or highly satisfied if his expectations are exceeded by the performance (Kotler and Keller, 2012). In line with Kotler and Keller (2012), Woodroof (1997) defines satisfaction as the customer's feelings in response to evaluations of his/her experience with a product. Perreault and McCarthy (2002) perceive customer satisfaction as the extent to which a company fulfils the needs, desires and expectations of customers.

According to Kotler and Keller (2012), customer satisfaction can be measured by a number of methods. Customer satisfaction can be tracked directly by periodic surveys. Monitoring the customer loss rate is also one of the methods that could be done effectively by contacting customers who have stopped buying or switched to another supplier to learn the reasons. Finally, mystery shoppers could be hired by a company to pretend potential
buyers and give a feedback on their experience, advantages and disadvantages in buying the product from a company and competitors (Kotler& Keller, 2012).

Despite the variety of customer satisfaction methods, this study will use the customer survey to measure customer satisfaction. Asking the right question is essential in customer satisfaction surveys (Reichheld, 2003), therefore industry characteristics must be taken into account to achieve the most relevant results. Considering B2B bakery and confectionery market specifics and authors discussion on customer satisfaction, this study will apply the most widely used customer satisfaction measures on the survey: general satisfaction with the provided services (Caruana, 2002; Lam, Venkatesh, Erramilli, & Murthy, 2004), meeting customer's expectations with the provided services (Kotler& Keller, 2012; Lam et al., 2004) and satisfaction with the collaboration with a supplier (Lam et al., 2004).

2.3 Customer loyalty

This chapter will review the literature on loyalty concept that is the second dependent variable of this study. Firstly, loyalty concept will be defined. Then the dimensions and measurements of loyalty offered by various authors will be discussed. Finally, loyalty will be reviewed from the industry characteristics perspective.

Although there is no universally agreed definition, customer loyalty can be defined as a customer's engagement with a company and willingness to continue doing business with a company permanently (Zineldin, 2006). According to Oliver (1999), loyalty is "a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational differences and marketing efforts having the potential to cause switching behavior".

Mostly in literature loyalty is viewed as a multiple construct consisting of three dimensions: behavioural loyalty, attitudinal loyalty, and cognitive loyalty.

Behavioural loyalty is interpreted as the type of customer behaviour such as repeat or continuous purchasing from the same supplier or the act of recommendation (Yi, 1990). Behavioural was the first and mostly used dimension of loyalty by researchers. Even though
current definition of loyalty includes more than just a behavioural dimension, some researchers still focus only on behavioural dimension of loyalty (Gremler & Brown, 1996). The study by Rauyruen and Miller (2007) has suggested that behavioural loyalty could be maintained by company's efforts to enhance customer satisfaction and design excellent service systems.

Attitudinal loyalty is described by Fournier and Yao (1994) as different feelings that create a general attachment to a product, service, or organization (Gremler & Brown, 1996). The criticism of behavioural loyalty by Day (1969), arguing that loyalty develops as a result of a conscious effort to evaluate competing brands, has led to the increased attention to attitudinal loyalty by authors and became an important loyalty dimension (Gremler & Brown, 1996). Attitudinal loyalty can be created and maintained by focusing on relationship building and creating customer's trust, commitment and again providing excellent service systems (Rauyruen & Miller, 2007).

In addition to behavioural and attitudinal loyalty, some researchers define the cognitive dimension of loyalty. It is explained as the "first choice" of a customer among alternatives or as the first brand, store or supplier that comes up to customer's mind when they make a purchase decision (Ostrowski, O'Brien & Gordon, 1993; Newman & Werbel, 1973). This suggests that a truly loyal customer will not consider or actively seek for alternative firms to purchase from (Gremler & Brown, 1996).

According to Gremler and Brown (1996), these three loyalty dimensions define a loyal customer as the regular user of one service provider or supplier, who has positive feelings toward the organisation and does not consider using alternative provider.

The three loyalty dimensions are usually used when measuring customer loyalty. Considering the B2B bakery and confectionery market characteristics and the three loyalty dimensions discussed, loyalty in this study will be measured using four factors that reflect all three loyalty dimensions discussed above (Zeithaml, Berry, & Parasuraman, 1996): continue doing business with the supplier, considering the company to be the first choice to buy services, recommending the company to others, and having positive feelings about the supplier.
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