

# How companies adjust their value proposition over time: The role of environmental dynamics, managerial decision and learning

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**ABSTRACT:** *Despite the widely spread notion of a shift from the goods-dominant logic towards a service-dominant logic in academic literature, organizations often tend to lack awareness and thus underestimate the importance of value proposition adjustments over time. The rising importance of value proposition adjustments has shifted the focus of marketing operations away from a product-centered and towards a customer-centric approach. This paper aims to provide new insights on the impacts of managerial decisions, environmental dynamics and organizational learning on companies' value propositions over time. Furthermore, it aims to increase managers' awareness for the immense importance of adjusting value propositions and internal processes to stay competitive. It does so by comparing a single case company's value proposition adjustment approach of three distinct periods, from 2008 until 2017, by using the Temporal Bracketing Strategy for process research. The results reflect to a high degree the existing body of literature's appeal to emphasize dynamic and adaptable value propositions in order to foster customer relationships and customer satisfaction. However, the findings further link the previously underestimated impact of organizational learning over time to the value proposition adjustment process. The paper further suggests that companies should align their internal processes in accordance to their customer-centric value proposition in order to achieve the best results and that this can best be achieved by increasing companies' overall awareness for the importance of value proposition adjustments, especially when undergoing radical organizational change.*

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## Keywords

Service-dominant logic, value proposition, process dynamics, radical organizational change, value proposition adjustments, managerial decisions, environmental dynamics

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# 1. INTRODUCTION

## 1.1 Introduction to Marketing History

Throughout recent history the study of marketing has mainly focused on the distribution and exchange of commodities and manufactured products (Marshall, A. 1927). McCarthy (1960) and Kotler (1967) developed one of the most used frameworks for marketing, following the marketing mix, also known as the “4P’s” of marketing. McCarthy (1960) describes marketing as a decision-making activity, which aims at maximizing the customers’ satisfaction by targeting a specific market and by basing decisions on the marketing mix. Until recent years, the prevalent goods-dominant logic focused on the distribution of, mostly manufactured, goods and the exchange of those (Vargo S., Lusch R., 2004). In the year 2000, Sheth and Parvatiyar came up with the notion that the time has come for an alternative paradigm of marketing – a paradigm that is able to account for the steadily rising proximity between marketing actors. According to Vargo & Lusch (2004), “marketing has shifted much of its dominant logic away from the exchange of tangible goods and towards the exchange of intangibles, specialized skills and knowledge, and processes” (Vargo, Lusch, 2004, pp.1-2). They argue that there has been a shift from the goods-dominant logic of marketing to a service-dominant logic. This paper aims to grasp this modern view on marketing and tries to unveil its comprehensive implication for companies, which might not have realized the impact of the paradigm shift yet.

Although service has been around for more than a century, the notion of service, as defined by the service-dominant logic, has increasingly received attention by researchers. As the paper’s research focuses on recent data, the definition of Vargo & Lusch (2004) is used, who define services as “the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or entity itself” (p.2). Another important aspect to be aware of when researching in the field of marketing of services is the role of value propositions. According to Chandler and Lusch (2015), value propositions can be seen as invitations from actors to each other to engage in service. An in depth discussion about the static and dynamic features of value propositions and the importance of value proposition adjustments over time will be provided in the theory section.

Recent research in the field of the service-dominant logic, its impact on marketing and its interplay with the role of value propositions has led me to the topic of my own research. Moreover, the emerging importance of Internet commerce for all kinds of companies is linked to the rising relevance of the service-dominant logic. As stated by Keeney, R. L. (1999), „Internet commerce has the potential to offer customers a better deal compared to purchases by conventional methods in many situations. To make this potential a reality, businesses must focus on the values of their customers” (p.1). Another relevant branch of the corresponding literature is the increasing success of customer co-creation of value. According to Payne et al. (2008), “the customer’s value creation process can be defined as a series of activities performed by the customer to achieve a particular goal“ (p.86). Customer co-creation focuses to maximize the value-in-use for the customer instead of mere product features (Payne et al., 2008). Holbrook & Hirschman (1982) argue that consumer behavior is largely influenced by the experiences consumers have with a product. Especially in the context of this paper’s business case, the co-creation of value with customers has gained increasing importance as the case company as of late co-creates with its customers by offering them a service to individually design their products.

This service is provided on the company’s website and offers a three-dimensional configurator in which customers can design their custom, tailored to measure products.

## 1.2 Research Question

The conducted research strives to provide a better understanding of the importance of value propositions for a wide range of SME’s. To achieve this it will be analyzed how a company’s value proposition changes throughout the process of establishing an online presence. In the context of this paper, a traditional craft business will be analyzed by using the Temporal Bracketing Strategy – a sense making strategy for process research case studies. The choice to utilize this method has been made to be able to show that the change from a goods-dominant to a service-dominant logic has impact on a wide range of business fields. The research question on which the thesis will be based on and which I aim to answer is:

*“How does a company adjust its value proposition over time and what characterizes the successive stages of adjustments in terms of managerial decisions and environmental dynamics?”*

### 1.2.1 Research Objective

The aim of posing this research question is to raise awareness and give a clear understanding on which factors influence the value proposition of a company. Companies have to be aware of the importance of managerial decisions and environmental dynamics, as “specific customer value propositions must be adapted to the realities of both, the macro-and micro-marketplaces” (Williams, 2010, p.1). As value propositions are highly dynamic and impressionable by multiple factors, it is immensely relevant to adapt value propositions over time in order to stay competitive. By answering the research question this paper strives to provide a better understanding of the respective factors of influence and how companies can use this knowledge to anticipate and adapt their value propositions accordingly. Especially in the context of going through a radical organizational change, like entering the business of e-commerce, organizations have to be aware of their current state of affairs and continuously have to review and adapt their value propositions to the new circumstances. As this context is continuously changing on the basis of certain managerial decisions and environmental dynamics, companies have to make use of their organizational learning over time. Based on an analysis of the retrospective data and the current body of literature, new empirical insights about the interplay of learning, managerial decisions and environmental dynamics will be provided.

The findings of the thesis are not only relevant for the purpose of helping organizations to reorganize their value proposition strategy, but also to shine light on the research gap of the importance of value proposition adjustments. Furthermore, the insights of the research paper strive to provide a better understanding of the dynamics of value propositions in general, not only for affected organizations, but also for the academic context. By providing a better understanding of potentially influential factors in the process of changing value propositions, the paper aims to provide added value for the academic context and to further close the research gap in this field. Further research in this area can be based on the findings, making the research valuable for a wide range of academics.

## 2. LITERATURE REVIEW

### 2.1 Discussion of Value Propositions and their Static and Dynamic Features

#### 2.1.1 Goods-Dominant to Service-Dominant Logic

Although the notion of a change from the goods-dominant to a service-dominant logic has been around for quite some time in academic literature, this change is still lacking attention of major parts of the economy and society. Many companies have not noticed the paradigm shift yet – or do not realize its impacts on customer relationships. In the service-dominant logic it has become of major importance to pose an appealing value proposition to the customers. The new paradigm advocates the notion that value is not anymore embedded in things (Holbrook, 1994), as it was the standard for the goods-dominant logic. In the service-dominant logic value rather comes from business activities with management functioning as the organization of those activities (Normann, Ramirez, 1998). Kowalkowski (2011) advocates that value is not embedded in the product itself, but that interactions and relational processes with the customer are the main creators of value. These processes are ultimately brought together through the service, which is offered to the customer (Tax, McCutcheon, and Wilkinson, 2013). Another important change in definition is the way value is assessed. Instead of measuring value as the value-in-exchange, which customers receive in exchange for their financial commitment, value is measured as the value-in-use – the subjective value a customer derives from a product or service. Value-in-exchange can be defined as “the negotiated evaluation that buyers and sellers offer and receive among themselves” (Kowalkowski, 2011, p.7). It is important to note that value cannot solely be determined by the value-in-use, as this concept depends to a high degree on the corresponding actors, engaging in a value proposition. This implies that the concept of determining value based on financial figures and accounting practices remains relevant for the service-dominant logic, but is very limited in capturing value (Vargo, Lusch, 2006). Value-in-exchange thus is an “integral, although limited, part of value creation since the most relevant concept is value-in-use” (Kowalkowski, 2011, p.7). The issue with the goods-dominant logic is its focus on only the value-in-exchange, ignoring to a great extent other types of value created (Sheth, Uslay, 2007).

### 2.1.2 Value-in-Use rather than Value-in-Exchange

Value-in-use is one of the most important concepts of value propositions, as it captures the actual value a product or service offers a customer. This precept of value definition tries to account for the overall value, which a customer is able to gain from engaging in a transactional relationship with a company. In their research, Vargo and Lusch (2008) suggest that value-in-use is “always determined by the beneficiary of service—in the unique experience of that benefit—and, thus it is inherently customer oriented” (Vargo, Lusch, 2008, p.8). This definition implies that the value of a product or service is always created “during in-use experience” (Kowalkowski, 2011, p. 7).

### 2.1.3 Definition of Value Propositions

According to Kowalkowski (2011) firms do not deliver value to the customers *per se*, they rather deliver value propositions with an inherent potential to co-create value with the customer together. Value propositions cannot be seen as static concept, as they are statements about the proposed offering by a company. Vargo and Lusch (2008) argue that every actor, receiving a value proposition, attributes a subjective and individual value to it. This makes it explicitly important for companies to take the subjectivity of value perceptions into account and that those subjective perceptions of value might not be consistent among different actors (Vargo and Lusch, 2008). In their recent work, Ballantyne and Varey define value propositions as “reciprocal promises of value, operating to and from suppliers and

customers seeking an equitable exchange” (Ballantyne, Varey, 2006, pp.334-335).

For companies to identify and communicate with relevant actors and stakeholders, value propositions play a major role as they initiate and guide stakeholder communication (Ballantyne, Frow, Varey, and Payne 2011). The role of value propositions has an impact on multiple layers of customer communication and co-creation and is not to be undervalued, both by the provider and the customer. Among others, value propositions can be seen as points-of-difference, which are those points that distinguish one organization from its closest competitors (Anderson, Narus, and Van Rossum 2006). This definition suggest that the essence of value propositions is labeling a company’s products or services with a unique, value-defining context. An example for a unique value proposition, which sticks in the consumers mind and comprises the organization’s key offerings, is the Bavarian Motor Works’ (BMW) value proposition: “the ultimate driving machine”<sup>1</sup>. The uppermost goal of value propositions is to be “directed to one convincing, ‘shattering value’ and communicated through all promotions” (Anderson and Narus, 2004, p.274). Vargo and Lusch (2008) further denote value propositions as fundamental prerequisite in the service-dominant logic, making them a central pillar for organizations, which are steering their operations with a service-dominant logic oriented view.

### 2.1.4 The Importance of Value Propositions

Because of the immense importance of customer value propositions, companies have to be very explicit in targeting the right segment. Especially those value propositions, representing the “points-of-difference” have to make sure to address the right customer segment, as they can be of relative importance to specific customer segments and thus have to be considered in the respective market context (Chandler, Lusch, 2015). Furthermore this “coincides with an emphasis on customer orientation, or customer perspective, that has become fundamental to the role that value propositions play in customer relationship management and marketing” (Chandler, Lusch, 2015, p.7). The interplay of customer orientation and customer relationships is considered of highest priority in the service-dominant logic. Value propositions are the first point of contact between a company and its customers, thus it is vital to establish a good customer relationship. A well-posed value proposition can help an organization to relate with its customers, preparing the path to successful co-creation with the customer (Chandler, Lusch, 2015). Gummesson (2008) advocates that this behavior is fostered by value propositions, as they offer solutions to the customers in ways they value.

### 2.1.5 Implications of Value Propositions

Although well maintained customer relationships are key to successful co-creation with the customer, not every customer is willing to engage in co-creation practices with a company. Rust and Thompson (2006) acknowledge that customer co-creation and collaboration is limited in nature, as each customer has a different degree of willingness to invest in a relationship with every company he or she conveys a transactional relationship (Rust, Thompson, 2006). This divergence in the degree of willingness to invest and engage in a customer-business relationship makes it even more important for companies to pose their value proposition to a specific customer segment,

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<sup>1</sup> McAdam, John: Customer Value Propositions (accessed 09.05.2017 at <http://pioneerbusinessventures.com/customer-value-proposition/>)

with paying explicit attention to the target segments individual needs. In order to create a functioning value proposition, which invites the right customers to engage with one's company, the customers have to be able to derive the promised value for their individual use (Kowalkowski, 2011). If this condition is not met, the value proposition does either not address the right customer needs (Kowalkowski, 2011) or it addresses the wrong customer segment. This notion further implies that firms should not pursue an unvarying approach to the formulation of their value propositions. In order to address each customer in accordance with his or her individual perception of value, a company has to use customized value propositions for different customer segments (Lusch, Vargo, and O'Brien, 2007). Another problem value propositions encounter is that companies often emphasize their own perspective. In order to provide a stable basis for potential co-creation, it is important that value propositions emphasize the value-in-use benefits for the customers. Woodruff and Flint (2006) argue that the behavior of companies, to focus on a one-sided provider perspective, only conveys predetermined and value-in-exchange oriented benefits.

### *2.1.6 The Four Principles of Value Propositions*

In his work "Dynamics of value propositions: insights from service-dominant logic", Kowalkowski (2011) identifies four distinct principles by which value propositions can be characterized. The principles outline the importance of the paradigm shift from the goods-dominant to the service-dominant logic by emphasizing the importance of the distinction between value-in-use and value-in-exchange. The first principle Kowalkowski (2011) comes up with is that value propositions with emphasis on value-in-use reach a wider audience and are thus more useful in addressing the various needs of different customer segments. This is in line with the aforementioned problematic of the subjectivity of value propositions. The second principle of value propositions is tied to the notion that an actor's value perception may change throughout the collaboration process, resulting from formal and informal interactions (Ring, Van de Ven, 1994). Kowalkowski (2011) suggest that the "relative emphasis of value-in-use and value-in-exchange will normally change over time during the sales process" (p.19). For companies this means to anticipate the customers' value perception in order to adjust their value propositions over the interaction period. Kowalkowski's (2011) third principle describes the discrepancy between value-in-use and value-in-exchange. He advocates that the discrepancy between the two value identifiers is lower for "performance-based contracts and other offerings with continuous financial feedback linked to value-creation processes of customers" (Kowalkowski, 2011, p.19), than for other types of offerings with discontinuous financial feedback. Another implication of value propositions is the type of relationship a company has with their customers. Thus, the fourth principle is the notion that provider-customer proximity is linearly correlated with a company's ability to emphasize value-in-use (Kowalkowski, 2011). This means that customers who are interested in a close and collaborative relationship are more likely to consider the benefits of the value-in-use perception of value. However, this principle assumes a bilateral interest in relationship investment and thus requires a high degree of engagement.

### *2.1.7 Value Proposition Intensity*

Chandler and Lusch (2015) identify another important feature of value propositions – the value propositions intensity. In their work they define value propositions as "invitations from actors to one another to engage in service" (Chandler, Lusch, 2015, p.8). Going further from this definition, Chandler and Lusch

(2015) suggest that a value proposition can have different degrees of intensity, with the intensity being a measure of how strongly a value proposition reflects an invitation to other actors. It is important to convey this relevance in one's value proposition, as a highly intense value proposition can help a company to improve its competitiveness and thus ultimately its success in the market (Chandler, Lusch, 2015). However, as mentioned before, the relevance of value propositions is subjective to each customer (Vargo and Lusch, 2008), and thus need to be critically evaluated and tailored to the specific customer segment (Lusch, Vargo, and O'Brien, 2007).

Although the academic literature regarding the service-dominant logic and especially the importance of value propositions is quite recent, their main features have already been pointed out. However, concerning the relative novelty of the topic, there still is major research to be done to further close the research gap of value proposition dynamics, especially in regard to value proposition adjustments over the long-term. The following section provides an overview of the literature's current state regarding the importance of value proposition development and adjustment over time.

## **2.2 The importance of value proposition development and adjustment**

As mentioned before, researchers in the field of the service-dominant logic have considerably outlined the nature of value propositions, including its static and dynamic features and its implications for organizations. These features have been discussed and evaluated in academic literature and further suggest that value propositions develop in accordance with the organization. This behavior of value proposition adjustment can be attributed to several reasons, which will be discussed below.

### *2.2.1 Customer-Provider Relationship*

Ballantyne et al. (2011) argue that value propositions are delivered over a time frame, which usually exceeds one single transaction. As mentioned earlier, value propositions often aim to establish a customer-provider relationship. Establishing a successful relationship needs the commitment of all actors, which takes time ranging from the first contact up to a successfully executed transaction. Furthermore the authors suggest that a "collaborative interaction is the enactment of marketing exchange" (Ballantyne et al., 2011, p.208), which inherits an extended time-logic (Ballantyne et al., 2011). This logic results in the view that value propositions enable the process of mutual value creation between provider and customer. In this context, Ballantyne et al. (2011) see "potential for co-learning and co-development of new skills and knowledge along the way" (p.208).

### *2.2.2 Organizational learning*

Whilst organizations develop over time, constantly adapting and applying learned knowledge (Fiol, Lyles, 1985); their value propositions traverse the same processes. Companies acquire knowledge over an extended time frame by constantly gathering and evaluating data about customer relationships. In his work, Mokyr (2002) comes up with the notion that knowledge is compiled of two knowledge domains. He advocates that knowledge on the one hand consists of propositional knowledge, which is abstract and generally captures a company's knowledge, and on the other hand prescriptive knowledge, which he refers to as standards and techniques of how tasks are accomplished (Mokyr, 2002). In the service dominant logic, knowledge often is referred to as operant resource. Vargo and Lusch (2008) describe operant resources as the "application of skills and knowledge [...] for the benefit of another party" (Vargo, Lusch, 2008, p.6). Resulting from this

definition, Payne et al. (2008) suggest that the knowledge firms collect from customer relationships and customer interaction, “should incorporate a deep understanding of customer experiences and processes” (Payne et al. 2008, p.89) and based on this further advise firms to design their knowledge management activities and infrastructure on the basis of the identified value co-creation process (Payne et al. 2008). Summarized this means that companies are well advised to design their knowledge management activities, and the resulting implications for process management, around their customers’ needs. By focusing on value co-creation with the customer, this customer-centric view enables organizations to align their value creation activities with the up-to-date knowledge about customer needs. Furthermore, the gained knowledge helps companies to anticipate customer needs and thus adapt their value propositions, providing them with a comparative advantage to those competitors, which are structuring their knowledge management activities around products, rather than customer processes and experiences (Payne et al., 2008). Furthermore, Woodruff and Flint (2006) stress the importance of anticipating changes customer needs, as companies thus have comparatively more time to respond appropriately. In this bilateral value co-creation process, Ballantyne et al. (2011) see potential for “revealing new value creating possibilities” (p.209).

### 2.2.3 Customers’ Value Perception

Opposed to the goods-dominant logic, the service-dominant logic advocates the view that the customer, rather than the provider determines value. As customers and customer needs are developing over time, their subjective perception of value also changes. An example for the changing perception of value is the “Lobster’s journey from prison food to fine dining”<sup>2</sup>. The article’s author explains that many factors are influencing a customer’s perception of value and these factors can change over time, altering consumer behavior (Heeraman, 2015). She further describes five factors, which influence people to pay more for the same product: “ease of purchase, product arriving quickly, lower cost of ownership, providing the buyer with prestige and result of friendly customer service” (Heeraman, 2015). Resulting from these factors companies have to adjust their value proposition over time, constantly seeking to maximize the customers’ perceived value. Without adapting their value propositions, companies are likely to experience revenue drops, as their value propositions are not matching the customers’ needs and value perception.

### 2.2.4 Customer Proximity

A further factor, stressing the importance of adjusting value propositions over time, is the importance of each single encounter between provider and customer. Payne et al. (2008) advocate that every encounter adds up, resulting in a cumulative contribution to co-created value. Based on this they suggest that companies are well advised to pursue a long-term view of customer relationships, although this view contradicts with the common short-term orientation of achieving financial goals (Payne et al., 2008). In order to represent the service-dominant logic based view of communication and long-term relationships with the customer, organizations should constantly update their value propositions and communication practices. By doing so, providers’ value propositions “reflect the length and history of the relationship and the needs of different customer segments”

(Payne et al., 2008, p.93). While long-term partners appreciate value-in-use and are actively seeking to participate in co-creation and learning activities with the company, short-term partners rather focus on the value-in-exchange and are less willing to engage in co-creation practices (Johnson, Selnes, 2004). However, Kowalkowski (2011) interjects that although greater customer relationship proximity offers greater possibility to co-create with these customers, close relationships “are not a prerequisite for innovative value propositions” (p.24). He stresses the importance of segmenting customers on the basis of both, current and potential customer proximity and the customers’ current and potential role in the long-term value creation process (Kowalkowski, 2011). By teaching customers’ different co-creation behaviors (Payne et al., 2008), the potential of greater customer proximity leading to a changed customer mindset can be increased.

### 2.2.5 Environmental Impacts

The importance of adapting and changing value propositions over time is not only based on inter- and intra-firm processes. As the economic environment is constantly changing, organizations have to be aware of current and future implications and thus have to adapt their value propositions accordingly. According to Williams (2010), “specific customer value propositions must be adapted to the realities of both, the macro-and micro- marketplaces” (p.1), as the notion of value is constantly developed and redefined by both, customers and providers. The author emphasizes the importance of understanding that the perception of value transforms throughout tough economic times (Williams, 2010), and companies have to adapt their strategies, including posing the right value propositions. As the economy and the external environment are highly dynamic and cyclical in nature (Kalecki, 2013), it is even more important to pose dynamic value propositions, as “static value propositions are ill-equipped to serve the needs of suppliers or buyers” (Williams, 2010, p.4).

### 2.2.6 Managerial decisions

In the next section the impact of managerial decisions on the value proposition will be discussed. Managing a company, taking the most appropriate decisions and managing the incorporated risk is a complex and difficult task. As mentioned before, the “growth of the emerging markets has a major impact on decision making” (Vaiman et al., 2012, p.933) and thus an impact on the value proposition of a company. The challenge, most decision-makers encounter, is that environmental dynamics are out of the managers’ influence and are thus important to predict in order to hedge the incorporated risk. Another important pillar of managerial decisions is related to the improvement of a company’s internal capabilities. Due to “globalization, shorter product lifecycles and rapidly changing customer needs” (Gröger et al., 2012, p.1), companies are experiencing higher competitive pressure. This pressure increasingly leads to managerial decisions regarding the optimization of internal manufacturing processes to be able to meet the rising relevance of short lead and delivery times (Gröger et al., 2012). By improving its internal capabilities and processes for manufacturing products and mining customer data (Gröger et al., 2012), a company further improves its ability to pose a competitive value proposition. The authors further suggest that “Business Intelligence (BI) technology is successfully applied for the optimization of workflow-based business processes, especially in the service industry” (Gröger et al., 2012, p.1). This notion fits well with the aforementioned importance of sophisticated customer relationship management in the service-dominant logic.

<sup>2</sup> Heeraman, Jeanna; 2015, *What influences consumer perception of value?* (accessed 16.05.17 at <http://www.mycustomer.com/experience/engagement/wh-at-influences-consumer-perception-of-value>)



As further advocated by Carneiro (2000), managers are, to a high degree, responsible for a company's success, as they are the ones allocating the company's available resources to appropriate departments. Managers have to differentiate "between operand resources (those on which an act or operation is performed) and operant resources (those that act on other resources)" (Madhavaram, Hunt, 2008, p.67), with the operant resources referring to knowledge and techniques. This knowledge includes information about customer needs and anticipating changes in those needs, which helps managers to pose a successful value proposition. Furthermore, management decisions are the most important factor of value proposition adjustments over time, as they combine all resources and knowledge available and based on these come up with changes to the former value proposition. As mentioned above, Kowalkowski (2011) discusses four principles of value propositions. Based on these principles, the author comes up with several managerial implications (see Appendix 3). The core statement of Kowalkowski (2011) is, that managers have to be aware of their customers' needs and must proactively engage in the communication, learning and co-creation process with key evaluators. Furthermore, managers have to properly align the company's value proposition and its available resources, as new specialized competences are likely to emerge (Kowalkowski, 2011)

### 3. METHODOLOGY

In the following section the choice of the research method will be explained and the case with focus on the case company and its history will be introduced. Subsequently, the chosen research method will be explained in depth, covering its theoretical and practical impact on the case study.

#### 3.1 Choice of Research Method

##### 3.1.1 Case study and data collection

To answer the explorative research question, empirical process research will be conducted on a single case unit. The choice of the case study as research method is based on the fact that case studies enable the researcher to in-depth examine the organization's data within a specific context (Zainal, 2007). In order to be able to conduct a detailed analysis of the collected data, one single company in the field of crafts business has been selected. According to Yin (1984), case studies can be defined "as an empirical inquiry that investigate a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (p.93). The choice of using the semi-structured interview as primary data collection method is based on the fact that background information like facts and descriptions of processes are needed to draw well-reasoned conclusions upon. Moreover, qualitative interviews are helpful in gathering retrospective data. As the research aims to dig deeper into impacts of environmental dynamics and managerial decisions, the semi-structured interview provides a clear interview guideline without taking the freedom of articulation away from the interviewee (Harell, Bradley, 2009).

The research will be retrospective, as mostly data from the past will be used to generate conclusions. When conducting the research, mostly qualitative will be used. Soy (1997) suggests, "qualitative data [...] is most useful for understanding the rationale or theory underlying relationship" (p.1). The research question is formulated in a way that the results will be of theoretical nature and will thus be relevant in the academic context. Furthermore, answering the research question aims to contribute to a better understanding of the role of value propositions for SME's in general and how these value

propositions change when the company goes through an instance of radical organizational change. Greenwood & Hinings (1996) emphasize the "complexity of political, regulatory, and technological changes confronting most organizations" (p.1022) and that these radical changes rather come from the features of organizations, producing adaption and diffusion patterns rather than resistance (Greenwood, Hinings, 1996). Furthermore, process research aims to provide a better understanding of "how things evolve over time and why they evolve this way" (Langley, 1999, p.692).

##### 3.1.2 Organizational setting

The central goal of the thesis will be to try and uncover the environmental dynamics and managerial decisions involved in the adjustment of value propositions over time. For this goal, the value proposition adjustment process of a medium sized company in Germany will be analyzed. The unit of analysis for this purpose is the mentioned company and how it changes its value proposition over time, resulting from managerial decisions and environmental dynamics. The company is a medium-sized, traditional carpentry, which employs around 40 employees. According to the European Commission's definition of small and medium-sized enterprises (SME's)<sup>3</sup>, the company can be categorized as a small SME. The company's main business area is the production and sale of manufactured to dimension cupboards, shelves and boards. When first established in 1927 the business started as a regular carpentry, but until upon today has evolved to be one of the leading online businesses for tailored to measure furniture in the German speaking countries of the EU. The company is continuously aiming to attract new customers and expand the business, with the ultimate goal of continuous and sustainable growth. Since starting e-commerce in 2007, the firm currently pursues the strategy to further optimize and digitalize internal processes in order to facilitate a more time- and cost-effective production. By now, about 40% of the company's total revenue is achieved by means of online commerce, with the proportion steadily rising. This growth can be attributed to the firm's growing investment in their online platform. The company's most important competitive advantage is attained through their unique 3-dimensional online configurator, which acts as the core of the online presence. This configurator is complemented by a multitude of services, surrounding the selling process and aiming at customer proximity and retention over the long-term.

##### 3.1.3 Structure

In order to study the process dynamics, different stages of the company's value proposition throughout the process of undergoing radical organizational change will be examined. First, a general description of the whole timeline will be provided. In this description the main events will be discussed, specifically by describing the value proposition at the start of the change process and the contemporary state of the value proposition. Subsequently, a set of different points in time where major changes on the value proposition took place will be determined, followed by a general description of these value propositions. After the descriptive element of the thesis, an in depth analysis will focus on the description of what happened, the difference between prior and posterior of the event and the analysis of how these differences took place. The analysis aims to give an answer to which key events lead to adjustments in value propositions.

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<sup>3</sup> European Commission, 2003 (accessed 23.05.17 at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361>)

### 3.1.4 Temporal Bracketing Strategy

The in depth analysis of the events and actions, leading to the contemporary value proposition, is conducted by using the Temporal Bracketing Strategy. The choice for this strategy is based on its design, which is able to represent the different phases of value proposition adjustments over an extended period of time. Another factor for choosing this strategy is that it allows for only one or two detailed cases without losing the ability to generalize the conclusions, based on its internal replication possibilities (Langley, 1999). Process research aims to describe strategic change by analyzing past activities, choices and events (see Figure 1).

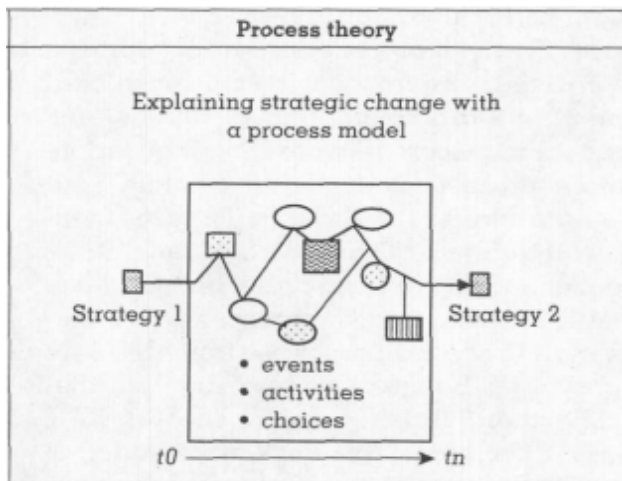


Figure 1: Process Theory (Source: Langley, 1999)

For this case study, Strategy 1 and 2 can be identified as two distinct value propositions, with the latter being an adapted version of the former. The environmental dynamics and managerial decisions are represented by the events, activities and choices in between those two value propositions. As stated by Langley (1999), the Temporal Bracketing Strategy decomposes process data by dividing them up into “successive adjacent periods” (Langley, 1999, p.703). The decomposed data enables “the explicit examination of how actions of one period lead to changes in the context that will affect action in subsequent periods” (Langley, 1999, p.703). The strategy’s aim is to bracket the whole timescale of the case into a small set of periods, in order to structure the overall description of events. Each phase is defined by continuous events taking place within, and discontinuities taking place at the phase’s borders (Langley, 1999). Langley’s (1999) research reveals that the Temporal Bracketing Strategy’s accuracy is moderate to high, “depending on the appropriateness of the temporal decomposition and the robustness of the analysis to different periodizations” (p.704).

## 4. RESULTS

The following section forms a central part of the thesis’ paper. In this section the process description is bracketed and the environmental dynamics and managerial decision of the case company, which led to the change of the value proposition, are described and characterized. Then, these environmental dynamics and managerial decisions are analyzed in order to see how the value proposition has been changed throughout the whole process. All mentioned events are in chronological order.

### 4.1 Pre-online business setting: 2007

Before starting to sell their products online, the company has been a traditional carpentry, with a traditional value chain. When a customer raised a request, a master carpenter visited the

customer, provided professional consulting, did the site measurement and based on this made an offer to the customer. If the customer decided to buy the product, the production process was started. Subsequently, the company assembled the finished product, as the process of assembly traditionally was rather complex. Ten years ago, the company started to think of new ways to sell their products to a new range of customers. At this point in time, the biggest hurdle was to find a way to reach this new range of customers, as the company previously mainly operated regionally. In the last quartile of 2007, the firm started to consider establishing an online business to achieve a greater mass of customers and thus expand the business. The first step was to reach out and find a service contractor who does the delivery across the whole country and whose employees are able to assemble the product directly on site when delivered. This strategy has the benefit of a higher convenience for the customers, as only one appointment has to be made. In the next step, the company considered different possibilities of how to conduct the customer advisory service with the best possible quality. If required, traditionally the client consulting was conducted by the company’s employees and not provided by a specific department as meanwhile. As the company is selling high-priced and complex products, they decided to conduct the customer advisory service exclusively in house by specialist personnel. According to the CEO, this decision was based on the increasing number of orders, the company’s goal to achieve the maximum level of advice quality and thus to achieve an overall high customer satisfaction. The next step towards establishing an online presence was to contract a service provider who solely provides the site measurement service. The main idea of this concept is to keep the whole process as easy and comfortable as possible for the customer. High service quality and ease of use at each point of contact with the customer are the company’s goal.

### 4.2 Period 1: 2008 – 2011

The first step towards the establishment of an online presence was based on the decision to hire an agency, which developed the first version of the online shop in October 2008. As described by the CEO, the main reason for the firm to start the project of going online was his personal interest in the possibility of selling products online. After conducting research of the online market situation, the company realized that the niche of tailored to measure furniture was not completely covered yet. Olenski<sup>4</sup> describes the rise of e-commerce in the last two decades as a threat to traditional markets. As a discussion paper by the United Nations shows, the percentage of e-sales in firms in relation to total sales has risen over more than 7% from 2003 to 2009 (Appendix 2). The authors further found out that the “effects of e-sales are more substantial for small firms than for medium-sized or large firms” (Falk, Hagten, 2015, p.16), and that small companies are the least active in online commerce. However, the case company has been aware of the potential positive impacts of e-commerce and decided to act on this window of opportunity. Another positively influencing factor was the firm’s internal capability to serve the additional demand, as their internal production processes were already developed sufficiently. The combination of the mentioned managerial implications, the company’s internal capabilities and the environmental dynamics, in form of the increasing success of e-commerce, led to the decision to invest in the development of an online shop. Although multiple

<sup>4</sup> Steve Olenski: The Evolution of eCommerce, 2015 (accessed 29.05.2017 at <https://www.forbes.com/sites/steveolenski/2015/12/29/the-evolution-of-ecommerce/#59bef2257145>)

factors come together in this decision, the company's main incentive was to acquire new customers in order to increase the revenue and thus expand the business. One can argue that the decision thus was not customer need and customer relationship oriented, but rather driven by the company's interests. Critically viewed this means that, according to the service-dominant logic, the company should have adapted their value proposition with the introduction of the online shop. Another important factor when evaluating the process is the effect of organizational learning over time. When the case company developed, the value proposition was adapted subsequently, after evaluating the newly learned knowledge. This behavior is an indicator for the company's lacking awareness for the importance of value propositions.

#### *4.2.1 Period 1: Summary*

The first period of the applied Temporal Bracketing Strategy ranges from the first decision to sell their products online in 2008 to the first substantial changes to their processes and value proposition in the end of 2010. This period's value proposition had a focus, which was rather typical for the goods-dominant logic. At this point in time the value proposition can be best described as the offering of high quality, made to measure products, which can be bought online, with an emphasis on the product itself instead of all the services and processes conveying added value from the service-dominant logic's point of view. Summarized, the decision to build an online presence was influenced by the CEO's personal interest in online sales, the environmental influence of the rising success of online commerce, the company's internal capability to cover the additional demand and most importantly the company's goal to reach a wider audience and thus expand the business. In this period, the customer has not been the central focus of the value proposition and the company's approach to online marketing yet. The value proposition has not been adapted in the first period, although the company has gone through major changes. This behavior can be explained by the firm's lack of awareness of the importance of customer relationships in the service-dominant logic and its focus on the value of the product itself, instead of focusing on the value-in-use.

### **4.3 Period 2: 2011 - 2014**

Until the end of 2010, the whole communication process with the customers was manual. Each point of contact with the customers was handled individually and without automation. This strategy was time-consuming and inconvenient for both, the organization and its customers. In 2011, the company started to develop the whole communication process by implementing an Extensible Markup Language (XML) interface. By implementing the XML interface, the company's employees did not have to formulate each mail manually. At each first contact with a new customer, an XML dataset was produced and fed into the company's internal data management system. The implemented XML interface and the partly automation of the company's communication processes have been the first steps towards an incremental development of the company's customer relationship management (CRM). In the service-dominant logic, CRM is a very important tool in managing and analyzing customer relations, as a good customer relationship has multiple benefits for the company. A good customer relationship is a prerequisite for the co-creation with the customer as value propositions are delivered over a time frame, which usually exceeds one single transaction. Because of the high degree of complexity of the company's products, the company's contact with the customer usually takes place over a time frame of six weeks or more. This extended time logic fits well with the service-dominant logics emphasis on value-in-use,

rather than on value-in-exchange. By implementing the new customer relationship management system, the firm approaches the co-creation by means of the configurator. The development of the customer communication system in 2010 can thus be identified as a first adaptation of the value proposition, as the view thenceforth started to become more customer centric.

Another important change in the firm's processes in 2011 was the development of an appropriate pricing model, which could account for each individual product in the same manner. By this the company wanted to achieve a linear and consistent contribution margin. Before going online, the traditional calculation model was individual for each product, without any degree of standardization. By developing an accurate model, which is able to display the current price in the online configurator, the customer already knows how much his product will cost while he is configuring it. This is an immense improvement regarding the convenience and ease of use for the customer. The newly developed method calculates the price according to the overall production time and the exact size, adding the needed standardization for the configurator. By implementing a standardized and automated pricing model the company not only improved their internal processes, they further improved the convenience for the customer. According to the CEO, the idea behind this decision was to change the pricing model from an individual solution approach towards a standardized process. The accuracy and currency of the price is of highest importance for the firm, because either the customer or the company is worse off if the price does not represent an accurate value. Although the customers benefit from this as well, the primary rationale for this decision was to further optimize the company's internal processes. Parallel to the development of an appropriate pricing system, the internal construction processes have been standardized. This has been achieved by the development of a scalable modular design with predefined rules of construction. By implementing this system, the company could drastically improve their job preparation processes, which further enhanced their production efficiency.

Besides these two major changes in the turn of the years 2010/2011, the company experienced steady growth and no urgent need to implement further changes throughout the next two years. However, in the last quartile of 2013 the firm decided to expand their business by starting to sell their products B2B. According to the CEO, the company wanted to use their online product configurator as an asset to offer to smaller companies and contractors. Although they invested a lot of time and money, hired a B2B marketing manager and multiple trade agents, the outcome of all efforts was "disillusioning" (CEO schrankwerk.de, 2017). In the third quartile of 2014, the company eventually shut down their approach to B2B and thenceforward solely focused on B2C. This chain of events marks the end of the second period, as the outcome of the failed B2B attempt was the company's main motive to start investing in a company-internal marketing department.

#### *4.3.1 Period 2: Summary*

Based on these empirical findings one can argue that the second period, ranging from 2010 to 2014, is the company's first step towards a more customer centric approach, and has been caused by three distinct managerial decisions. First, the company started to automate their communication processes with the customers; second, they updated and developed their pricing and construction models based on the need for standardized pricing and job preparation processes; and third, the impact of the failed attempt to use their online configurator as B2B asset. The first two events are significantly influenced by different managerial decisions towards a more customer-oriented



approach. Although the company started to develop their internal processes and thus achieved improved customer communication, the main reason for these decisions was not customer-based, but process-improvement-based. The failed B2B attempt can be partly attributed to the environmental dynamics of the B2B market, which ultimately influenced the management's decision to stop investing in B2B and apply pressure on the B2C market by substantially increasing the respective marketing investment. The value proposition in this period incrementally developed in a more customer centric direction, as the company laid greater focus on customer communication and customer relationship. An example for this is their service to assemble the furniture once before delivery as an additional quality check without extra costs for the customer. However, the value proposition in this period was adapted rather passively through the influence of certain managerial decisions, and not adjusted actively and consciously.

#### **4.4 Period 3: 2014 - 2017**

Compared to the first two periods, this period is the most important one regarding changes in the company's market position, their internal processes and their value proposition.

In the end of 2014 the company realized that it is not enough to sell a good product, but one has to invest great efforts in marketing to increase growth. Since the last few years the company drastically increased the speed of updating their internal communication and data flow processes. In this period, their online shop is directly attached to their customer relationship management (CRM) system. By now everything works highly automated, which immensely decreases the data processing time and thus saves many the company's financial assets. These savings can be invested otherwise, especially in their new online marketing department. Until 2014, the company's online marketing (SEO & SEA) had been outsourced to an online agency, which incurred high cost and the problem of only partly attention of the agency's employee. These issues led to the managerial decision to establish a house-intern marketing department, supported by the online agency. This has the benefit of developing in house competencies in online marketing and cost- and time-efficient development of the company's marketing strategies. The new online marketing department continually optimized SEO landing pages, keywords and the company's overall online marketing position, but according to CEO, although the company's growth has increased over the past few years, it has not reached its full potential yet. Thus, in 2015 the company contracted with a new supplier, which had the benefit of mutual ideas and feedback on ways to optimize the production processes, saving time and costs. For example, their supplier bases could be improved after benchmarking the suppliers' conditions and the process optimization and standardization led to an increased product quality. The hereby-accrued savings then have further been invested in the company's doubled online marketing investments, which accounted for 15-20% of their total revenue. However, the outcome of the firm's customer analysis has undoubtedly shown that their online marketing effort increasingly reaches those customers who are explicitly searching for tailored to measure furniture and already know of the product niche's existence. According to the CEO, in 2017 the company realized that the awareness of the possibility to buy tailored-to-measure furniture online is not yet present in most consumers minds, even for those who are extremely online affine. The company now wants to evoke this need in the consumers' minds by investing in performance TV advertisements. This management decision was based on the

fact that the online marketing curve flattened and on the little awareness for this online product category.

Based on the mentioned massive economics and the company's goal to further accelerate their growth, the management decided to develop a completely new online shop. As the company currently repositioned themselves and recognized the need for change, the company consulted a marketing consulting agency. Based on flexibility and programming issues with the old online shop, the consulting agency advised to completely renew the online shop and abandon the old one. Since 2016, the company uses the open-source online shop system with an embedded three-dimensional configurator. The company hired an external agency to do the programming because they set high up-to-date requirements like drag-and-drop and mobile suitability. As the interview has shown, these requirements have been set because the company wants its customers to play with the configurator; "Gamification was the keyword on which the configurator should be based on" (CEO schrankwerk.de, 2017). The decision to completely rebuild their online shop was a proactive management decision towards an adapted and developed value proposition and another important step towards the customer relationship oriented direction. As stated by the CEO, the company wants to fulfill the customer's wish as exact as possible. He further adds that the opportunity for customers to playfully experience this is a great tool in the value co-creation process with the customer. The decision further improves the customer involvement and thus playfully engages the customer in the company's value proposition. The company's current value proposition focuses on the manufactured to dimension as a central aspect. They offer tailored to measure quality furniture, which is twenty-four seven available online, including the option of on site measurement and the option of assembly on site by a professional. In their value proposition they further emphasize that the whole process chain is carried out by a single source.

The company's closest competitors are another factor for the adapted value proposition, as external benchmarking revealed that offensive marketing is a very effective tool. In order to stay competitive, the value proposition had to be adapted to attract customers and fulfill their needs. An example for this is their strategy to always provide best quality advice by having only professional personnel in their customer advisory service. This professional advisory service in combination with their sample product service is aimed at a more convincing value proposition, which emphasizes customer relationships. The company has become more aware that satisfied customers spread word-of-mouth, which is a good source of advertisement as well. It further has realized that a greater than expected proportion of the customers are repeat customers, which is another indicator for high customer satisfaction. Furthermore, repeat customers do not take the same acquisition effort by the company, which saves costs.

The third period is further influenced by a change in the company's target customers. This change does not result from a specific management decision, but rather adapted throughout the process of developing internal processes, and especially their value proposition. The company initially set the customer segment of 40 to 60 year old consumers as their target as this customer segment usually is more able to afford the company's high-priced products. However, since starting to invest 15-20% of the online shop's revenue in online marketing in 2014, the company recognized a substantial change in their clientele. The initial value proposition in 2008 was targeted at those customers, who rather lay emphasis on the product instead of the whole transactional process. Since the company increased their marketing investment in the end of 2014, and further

started to focus on social media marketing, the experienced change in their clientele can thus be partly attributed to the change in their value proposition. By now, almost 60% of the firm's customers are below the age of 45, which is a drastic change compared to their initial target segment in 2008. Furthermore, the proportion of mobile users has drastically increased throughout this period. The CEO attributes this development to the deliberately increased mobile suitability of the new online shop and configurator. However, the addition of new products like side- and low boards to the product range also had an impact on the company's overall clientele. As these products are rather cheap and have a high ease-of-use and mobility, the affordability is considerably increased for younger consumers. Another factor for the change in the company's customer segment is the technologically and demographically influenced trend of a different use of furniture. Instead of buying bookshelves, most of today's population is using sideboards to place their electric devices like a TV or sound system upon, which can be attributed to a change of lifestyle. Concomitant with these changes is the environmental impact of the increased use of the Internet over the last years.<sup>5</sup> For the company this not only resulted in an increase of their growth rate, it further had an unforeseen impact on their customer segment, which again had influence on their value proposition. According to the CEO, the company wants to keep its value proposition promise to maximize customer satisfaction.

#### *4.4.1 Period 3: Summary*

Regarding changes in the company's internal processes and especially their value proposition, the third period has to be distinguished from the former two. The trigger for the company's changed emphasis of their value proposition can be attributed to the management's realization of the paradigm shift in 2014. From this point onwards, the company increasingly started to restructure their internal communication and production processes and their customer relationship management. Furthermore, they drastically enhanced the marketing investments and developed a house-internal marketing department to be more flexible and develop in-house competencies. As mentioned earlier, the company did this based on their actively adjusted value proposition towards a service-dominant logic approach. By improving their processes through benchmarking with their new supplier and competitors, the company was able to economize a lot of costs. These cost savings, the changes in the company's customer segment and the company's goal to further increase their growth led to an important managerial decision regarding their online shop. The company decided to convey their new value proposition to their customers by introducing a new, more customer centric online shop. The new three-dimensional configurator is purposefully aimed at meeting customer needs and a high overall customer satisfaction by playfully engaging the customers in a mutual value co-creation process. Influenced by demographic and technological changes in the company's environment, the company's value proposition awareness increased immensely over the course of this period. The firm used the new configurator as means to communicate and convey this change in their value proposition to their customers.

## **5. DISCUSSION**

The next part of the paper evaluates and reflects upon the empirical findings. The results are compared to the existing literature and in parallel, new and rather unexpected insights are unveiled. As mentioned earlier, value propositions have to be

adapted over time in order to fit the current state of both, the macro- and micro-marketplaces (Williams, 2010). The research was aimed at providing new insights on which factors have a direct impact on these value proposition adjustments, especially focusing on managerial decisions and environmental dynamics. The paper initially assumed that by adapting their value propositions according to the service-dominant logic's view, companies are able to gain a comparative advantage in acquiring new customers and retaining current customers over time. The retrospective process data of roughly ten years could be divided into three distinct periods in which the company gradually adapted their value proposition.

The first period is significantly different compared to the other two, as the company completely lacked awareness for the paradigm shift and the importance of value propositions in customer relationships. Although the company went through major changes in this period, the value proposition remained value-in-exchange centered and can be rather seen as a representation of the company's perspective instead of a co-creation invitation to the customer. In this period the company's growth was distinctly less than in the second and third period. This is in consensus with Kowalkowski's (2011) first principle of value propositions, which implies that value propositions with a focus on value-in-use reach a wider audience. Vargo and Lusch (2008) further argue that value propositions are a central pillar for organizations and that their operations have to be aligned accordingly. As the case company did not align their operations according to the service-dominant logic and did not adapt their value proposition, the first period remained rather unsuccessful. This period already shows the importance of aligning managerial decisions and value propositions in terms of reaching the right audience with the right offer. This notion is in accordance with Chandler and Lusch's (2015) emphasis on the interplay of customer orientation and customer relationships in the service-dominant logic. When taking the first step in establishing an online presence, companies have to review and compare their current state of operations with their value proposition. The findings show that especially the online environment is shaped by the service-dominant logic and companies who want to start e-commerce have to be aware of this and the accompanied importance of value propositions. Quite unlike initially expected, the company did not adapt its value proposition simultaneously to the launch of the first version of their online shop. As mentioned before, this behavior can be attributed to a lack of awareness of the paradigm shift, which became increasingly relevant in the online environment.

In the second period the company incrementally adjusts its value proposition for the first time after launching the online shop. As mentioned earlier, these adjustments can be attributed to two distinct management decisions. First, the company implemented a new customer relationship management system, which was aimed at improving the company's internal processes. Although the company's economic interests led the primary incentive for this decision, it further enabled the company's ability to engage and communicate with their customers over the long term. The company's attempt to co-create with the customer could thus be improved by an increased customer-centric focus. This is in line with the extended time-logic of value propositions and customer relationships (Ballantyne et al., 2011). By improving their CRM system, the company could increase the "potential for co-learning and co-development of new skills and knowledge along the way" (Ballantyne et al., 2011, p.208). Furthermore, the literature emphasizes the importance of each single encounter with the customer in co-creation practices (Payne et al., 2008), which could be improved drastically as well. The

<sup>5</sup> Internet Live Stats: Internet Users (accessed 01.06.2017 at [www.internetlivestats.com](http://www.internetlivestats.com))

second management decision to implement an improved pricing model for the configurator was also aimed at improving the internal processes. However, this managerial decision was not only aimed at the optimization of firm internal processes, but furthermore at improving the convenience and ease-of-use for the customer while using the configurator. This decision was consciously aimed at improving the customers' experience and thus added value to the company's value proposition. It can be argued that this added value was aimed at increasing the value-in-use for the customer, which further indicates an increased awareness for the importance of value propositions with a focus on value-in-use. According to the literature, this is especially important when pursuing a long-term customer relationship with the goal of co-creating with these customers (Johnson, Selnes, 2004). Moreover, the improved ease of purchase for the customer has a positive impact on the customers' perception of value, which is identified as crucial for the success of value propositions in recent literature (Heerman, 2015). By further emphasizing the value-in-use the company was able to increase the provider-customer proximity (Kowalkowski, 2011). The third decision to expand the business by using their configurator as a B2B asset has failed after a short period. Although this event did not have a direct impact on the company's value proposition, it was the key motive and initiator of the next period. As macro- and micro-marketplaces have substantial effect on customer value propositions (Williams, 2010), the company adapted their value proposition and became considerably more aware of the importance of dynamic value propositions in a highly dynamic external environment. Although the company still rather focused on the optimization of their internal processes in this period, the outcome of the managerial decisions led to the adaptation of the company's value proposition towards a more service-dominant and customer-centric direction.

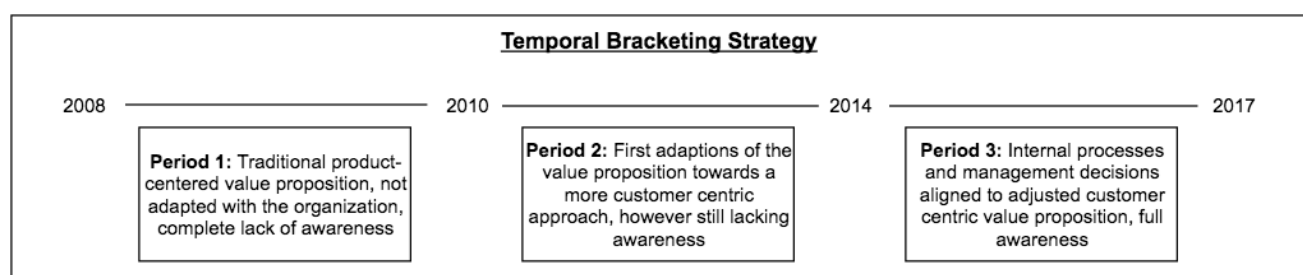
The third period is distinct from the first two, as the company's management decisions and internal developments are aligned to meet the newly gained awareness for the importance of value propositions. The company's management took a multitude of decisions regarding process optimization of their internal processes and by this was able to engender cost savings, which could further be invested in their substantially incremented online marketing. These cost savings could be acquired by improving the CRM system, conducting the online marketing in-house instead of by an agency and external benchmarking with a new supplier and the closest competitors. According to Gröger et al. (2012), by continuously optimizing the company's internal capabilities and processes, firms are further improving their ability to pose a competitive value proposition. Another factor for the increased speed of the company's value proposition adjustments is the change in their customer segment, which can be attributed to the aforementioned technological and demographical change in the way the Internet and furniture is used. As the perception of value is constantly developing in both, customers' and providers' minds (Williams, 2010), these environmental changes also have an impact on value propositions, as these constantly have to be adapted to meet the changing needs. However, in the service-dominant logic the customer determines the notion of value, and in order to stay competitive, companies have to adapt accordingly. The

combination of the multitude of different managerial decisions and environmental impacts, the company's increased awareness for the importance of value propositions due to the paradigm shift (Vargo, Lusch, 2004), and the resulting emphasis on customer relationships and customer satisfaction, led to the development of a new online shop, whose design is aimed at meeting these parameters. These developments are in accordance with Heerman's (2015) notion of the importance of the ease of purchase and friendly customer service, and represent a proactive management decision towards an adjusted value proposition. Instead of pursuing a product-centered, bottom-up approach to the company's value proposition as initially, the new configurator represents their value proposition as a customer-oriented approach. This approach is also reflected in the company's adapted alignment of their internal processes and management decisions according to its adjusted value proposition and its increased awareness of the paradigm shift. The findings are rather unexpected, as the literature emphasizes the importance of value propositions and presuppose companies' awareness of the paradigm shift. Especially in the context of companies going through radical organizational change, like establishing e-commerce, I expected the company to adapt its value proposition according to the new circumstances. However, the results show that organizational learning over time plays a major role in value proposition adjustments and has been underestimated in previous literature.

The analysis uncovered interesting insights, leading to an answer to the research question. While the company was going through radical organizational change, the initial adjustment approach was rather passive, due to the beneficial state of the company's current environment and the decision to expand the business. Based on the increased awareness for value propositions, evoked by the organization's constant learning experiences, the company was able to realign its internal processes. Furthermore, specific managerial decisions regarding value proposition adjustments have caused the realignment towards a competitive and customer-centric value proposition. These decisions were based on the gradually gained knowledge about the customer's changing perception of value and the increasing importance of intangibles and services around the product, especially in the online environment. Each stage of adjustment is characterized by slight differences in terms of managerial decisions and environmental dynamics. However, it can be concluded that the combination of organizational learning over time and changes in a company's environment foster the management's awareness for value propositions. Moreover, companies continuously develop their value propositions along the radical organizational change process, increasing their adjustment velocity in parallel to enhanced knowledge about their suppliers, buyers and competitors.

## 6. CONCLUSION

The paper aimed at investigating the role of environmental dynamics and managerial decisions for a company's value proposition adjustment over time while going through radical organizational change. It analyzed and discussed these impacts by conducting a single unit case study on an SME that launched its website in 2008. The research particularly aimed at



narrowing the gap in existing literature about the increasing importance of value proposition adjustments due to the shift from a goods-dominant to service-dominant logic for small and medium-sized enterprises, which has not been extensively discussed yet, owing to the topic's novelty. The previously discussed findings are to a high degree in line with the current body of literature as the frequently advocated shift in paradigms is reflected in the paper's results. Although a wide range of implications of value propositions is covered in existing literature, this paper could uncover new insights on the process of value proposition adjustments over time. The research approach to generate these findings was based on the Temporal Bracketing Strategy – a process research method using retrospective process data of a single case study unit.

It can be concluded that the awareness for the paradigm shift is especially important in the online environment, as it substantially differs from traditional offline business in terms of customer needs and customer relationships and thus in the way companies have to pose their value proposition. When going through radical organizational change, companies initially tend to lack awareness for the paradigm shift and the corresponding importance of adjusting their value proposition towards a more customer-oriented approach. This initial lack of awareness results in a rather passive adaptation approach to the value proposition, with a remaining focus on the optimization of internal processes. Positive influences of the external environment and managerial decisions considerably foster the organizational learning process, which further increases the companies' awareness for the immense importance of value propositions in customer relationships. The increased awareness results in an increased focus on the value proposition and thus in the proactive realignment of the internal processes in accordance to the adjusted value proposition. In conclusion these proceedings emphasize the important impact of organizational learning on value proposition adjustments over time.

## **7. MANAGERIAL IMPLICATIONS**

The research observed the impacts of a company's external environment and its managerial decisions on its value proposition adjustments over time. The previously discussed findings arise certain managerial implications, which allow for a generalization based on the applied research method. The following section discusses the arising managerial implications and proposes strategies that can help similar companies to deal with their value proposition adjustments over time.

As the paper is based on the notion of the service-dominant logic, the first suggested managerial implication presupposes an existing acceptance for the paradigm shift. Companies have to be aware of the change from goods-dominant to service-dominant logic and have to align their value proposition accordingly in order to convey a competitive value proposition. The paradigm shift implies a changed view from company-centric to customer-oriented, which needs to be a central pillar of understanding for companies, as interactions and relational processes with the customer are the main creators of value (Kowalkowski, 2011). Another important managerial implication is to use the knowledge of the paradigm shift to adapt the company's value proposition from a product- and firm-centered approach towards a value-in-use focused, customer-centric approach, with paying particular attention to customer relationships and the customers' needs. By using this strategy companies are able to bypass the problem of posing value propositions that solely convey predetermined and value-in-exchange oriented benefits (Woodruff, Flint, 2006).

Based on the adapted value proposition companies are well advised to align their internal operations and decision-making activities according to their value proposition. Companies should leverage the gained knowledge of the aforementioned importance of organizational learning to design their knowledge management activities and infrastructure around the identified value co-creation process (Payne et al., 2008). By doing so, companies are able to emphasize their customer-oriented value proposition throughout the whole value creation process, which provides a thorough basis for a successful value co-creation process with their customers. The findings further suggest that companies should approach a dynamic approach to their value proposition, as "static value propositions are ill-equipped to serve the needs of suppliers and buyers" (Williams, 2010, p.4). By posing a dynamic value proposition companies are able to target multiple customer segments simultaneously, providing them with a useful tool in establishing a mutual value-co creation process with their customers. Moreover, dynamic value propositions entail the benefit of being adjusted more easily to the company's development over time. The awareness for the paradigm shift provides another managerial implication, which focuses on the timeframe of value proposition adjustments. When going through a radical organizational change, like the launch of an online shop, companies are well advised to adjust their former value proposition to the new circumstance prior to the first contact to the customer. As customer relationships are of major importance in the service-dominant logic, companies should provide the basis for a long-term relationship by engaging their customers in a mutual long-term-oriented value co-creation process. This notion is of particular importance as value propositions in the service-dominant logic are long-term and value-in-use-oriented (Kowalkowski, 2011) and are delivered over a time frame, usually exceeding one single transaction (Ballantyne et al., 2011). Furthermore, each encounter with the customer cumulatively adds up, resulting in a cumulative contribution to co-created value (Payne et al., 2008).

## **8. LIMITATIONS OF THE STUDY AND FUTURE RESEARCH**

As mentioned earlier, the research was aimed at displaying the importance of value proposition adjustments for a wide range of SME's. The chosen research method allows for a generalization, as the bracketing of the retrospective data into significantly distinct periods provides a reliable basis for analysis. However, single unit case studies are limited in terms of robustness as they focus on only one case and thus make it hard to draw generalized conclusions. By using qualitative, semi-structured face-to-face interviews as data collection method and a process research design with internal replication possibilities, the paper tries to overcome these limitations. As the study is explorative, discovering empirical insights on the basis of a case study, future research can focus on the causal relationships of the used variables. The qualitative findings of the research can be further used to provide a basis for qualitative research in other business contexts with different dynamics. One of the key findings of the study is the previously undervalued impact of organizational learning on value propositions, meaning that the causal relationship of these two variables is another future research opportunity. Although the findings are strongly based on the case company's business context, they are to a high degree corresponding with the theory about value propositions and can thus be likewise relevant for organizations in different business environments.

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## 10. APPENDICES

### Appendix 1:

#### Table about Managerial Implications of the four Principles of Value Propositions

Table 2. Managerial implications of the four principles

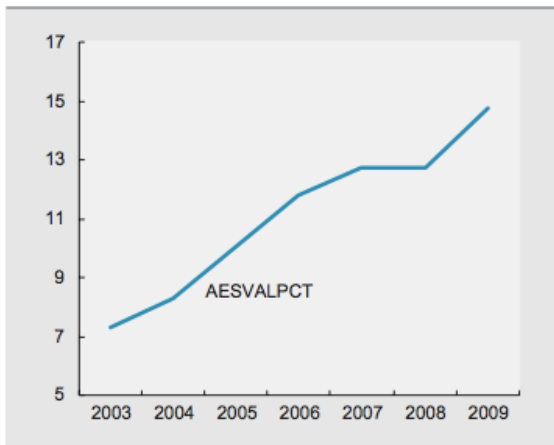
Principle	Managerial implication
<i>Principle 1: Value propositions with an emphasis on value-in-use are more likely to address the needs of multiple evaluators than those with an emphasis on value-in-exchange.</i>	<ul style="list-style-type: none"> <li>Identify the evaluators in the buying centre and their role as user, payer, buyer, and so on.</li> <li>Maintain information about the political landscape in the customer's organisation generally and buying centre specifically, to understand customer priorities.</li> <li>Engage in communication and dialogue, particularly with key evaluators.</li> </ul>
<i>Principle 2: The relative emphasis on value-in-use and value-in-exchange will normally change over time during the sales process.</i>	<ul style="list-style-type: none"> <li>Recognise dynamic procurement patterns and the extent of changes in 'objectification' of value-in-exchange during different stages in the sales process.</li> <li>Diagnose the steps in the sales process that are aimed at the particular customer and type of offering, and identify the evaluators that are involved in each.</li> <li>Be alert and ready to respond quickly.</li> </ul>
<i>Principle 3: The discrepancy between value-in-use and value-in-exchange is lower for offerings in which value-in-exchange manifests itself as continuous financial feedback linked to value creation for customers than for other types of offerings.</i>	<ul style="list-style-type: none"> <li>Though the potential value of performance-based agreements can be easier to communicate than traditional offerings, operational and financial risks are transferred to the provider, so the benefits and risks for both actors must be kept in mind when crafting a value proposition.</li> <li>Because new offerings are likely to demand specialised new competences, a proper alignment should be achieved between a value proposition and the resources available.</li> </ul>
<i>Principle 4: The closer the relationship between customer and provider, the more the emphasis of the value proposition can be placed on value-in-use.</i>	<ul style="list-style-type: none"> <li>Segment customers based on the closeness of the relationship; review the value emphasis in current offerings, and determine the potential for shifting it towards value-in-use emphasis, thereby increasing customers' inclination to engage in the relationship.</li> <li>Embed systematic listening skills in the sales process and develop the ability to adapt to customers.</li> <li>Identify the extent to which a customer is willing to adapt its processes and routines to the provider.</li> </ul>

Source: Kowalkowski, C. (2011). Dynamics of value propositions: insights from service-dominant logic. *European Journal of Marketing*, 45(1/2), 277-294.

### Appendix 2:

#### Graph about the Development of E-Sales in Firms in Relation to Total Sales

**Chart 7**  
**Development of e-sales in firms**  
**in relation to total sales**  
*(Per cent)*

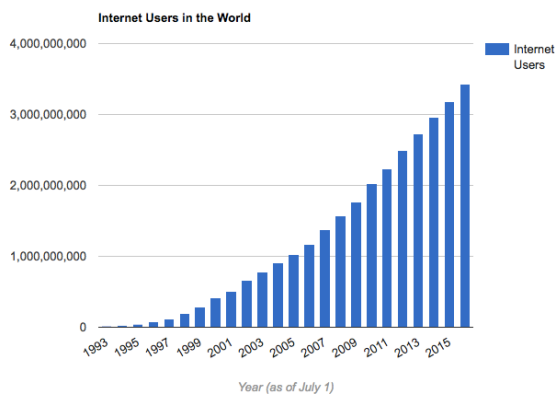


**Source:** ESSLait Micro Moments Database.  
**Note:** Average for 12 countries: Austria, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Slovenia, Sweden and the United Kingdom. France and Poland are excluded due to gaps in time series. In 2010 the question relating to variable AESVALPCT measuring e-sales as a proportion of total sales became voluntary to include in the EU-harmonized questionnaire.

**Source:** M. Falk, E. Hagten, (2015). *E-Commerce trends and impacts across Europe*

### Appendix 3:

#### Graph about Internet Users Worldwide



**Source:** Internet Live Stats

([www.InternetLiveStats.com](http://www.InternetLiveStats.com)):

Elaboration of data by International Telecommunication Union (ITU), World Bank, and United Nations Population Division.

### Appendix 4:

#### Semi-structured Interview Guideline-Questions:

1. Do you know what a value proposition is?
2. What is the current value proposition of your company?

- 2.1. How did this value proposition emerge?
3. Does the company emphasize a well-posed value proposition?
  - 3.1. If yes, why does the company emphasize a well-posed value proposition?
4. When did the company start to sell their products online?
  - 4.1. What was the reason for the decision to establish an online shop?
  - 4.2. Was the reason for this rather based on a managerial decision or on influences of the external environment?
  - 4.3. Why has this point in time been chosen?
5. Which business-related events have been the most important ones in the past 10 years?
  - 5.1. Did these events have an (direct or indirect) impact on the company's value proposition?
    - 5.1.1. If yes, in what way did these events influence the value proposition?
  - 5.2. Why have these events taken place? Were they rather based on managerial decisions or external dynamics?
6. What was the company's state-of-affairs before launching the online shop?
  - 6.1. What was the value proposition before establishing e-commerce?
7. Which influential events and decisions have taken place between the launch of the online shop and today?
  - 7.1. Why have these decisions been made?
  - 7.2. Which occurrences have been the most important one's for the company?
  - 7.3. How has the value proposition changed after these occurrences?
  - 7.4. Were the changes in the company's value proposition proactive adjustments or rather a passive adaption?
8. Which role does competition play for the company?
  - 8.1. Did the competition have a specific impact at a certain point in time for the company?
9. Which role do the customers play for your company?
  - 9.1. Does the company emphasize the importance of satisfied customers?
  - 9.2. Does the company emphasize a long-term relationship to its customers?
  - 9.3. Which services does the company offer its customers?
    - 9.3.1. Why specifically these ones?
    - 9.3.2. Which benefit does the company derive from these?
  - 9.4. What is your customer's opinion of your 3D-configurator?