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CO-CREATIVE PRICING (CCP):

A conceptual development of consumers' participation in pricing practicing in services

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Tiivistelmä:

Keskustelu yhteisestä arvonluonnista on saavuttanut yhä laajempaa huomiota niin nykypäivän tieteellisteoreettisessa markkinointikirjallisuudessa kuin käytännössä. Suosiosta huolimatta keskustelusta on jäänyt miltei tyystin huomioimatta arvokäsitteen eräs varsin oleellinen ulottuvuus: hinta. Siitä syystä on ensiarvoisen tärkeää tutkia hinnan merkitys arvokäsitteen, yhdessä tuottamisen ja hinnan muodostamassa suhteiden kolmiossa, sillä vaihdannassa hinta on yksi arvonmuodostuksen tärkeimmistä osatekijöistä.

Toissijaisia tutkimusmenetelmiä käyttäen, tämän tutkimuksen tarkoitus on pyrkiä käsitteellistämään yhteinen hinnanluonti arvon lisääjänä. Niinikään tutkimus tarjoaa mallinnuksen niistä vallitsevista olosuhteista, jotka ovat arvon muodostuksessa välttämättömiä. Esitetty malli perustaa juurensa palvelumarkkinoinnin Service-Dominant Logic -ajattelusta, muodostaen fuusion yhdessä ARA-mallin ja markkinointikeskustelussa vallalla olevan elämysmarkkinointiajattelun kanssa.

Tutkimus edistää yhteisen arvonluonnin tieteellistä keskustelua syventämällä jo olemassa olevaa tietoa arvon muodostuksesta. Lisäksi, tutkimus edistää käytännön tietämystä esittämällä eksploratiivisen avauksen hinnoittelun dynaamisesta yhteisajattelusta haastamalla markkinoijia ajattelemaan myös hinnoittelua uudesta innovatiivisesta yhteiseen arvonluontiin perustuvasta näkökulmasta. Nykyajan asiakkaat ovat yhä halukkaampia, pystyvämpiä sekä resursseiltaan rikkaampia osallistumaan hinnoittelupäätöksiin kuin aikaisemmin.

Yhdessä tuotettu arvo hinnoittelun kautta tarjoaa vaihtoehtoisen ajattelutavan pitkään vallinneelle yritysten sisäänpäin suuntautuneelle hinnoitteluajattelulle ja esittää, että kääntämällä katse asiakkaan suuntaan, saavutetaan todellinen arvo, sellaisena kuin asiakas sen määrittelee. Tutkimuksessa esiin tuotu ajattelutapa tarjoaa uusia mahdollisuuksia vaihtoehtoisille hinnoittelumenetelmille sekä palveluinnovaatioille.

Avainsanat: Co-creation, Service-Dominant Logic, Value, Pricing, Customer-orientation, Experiential marketing

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Summary:

Co-creation debate has increasingly become a key topic in the contemporary services marketing theory and practice. Domains of co-creation and value have thus far attracted plenty of academic interest, however, there is an evident deficiency of one essential dimension of value: price. In the triangular relation of co-creation, value and price, it is of high importance to research the role of price, as it is one of the prime components contributing to the formation of value in an exchange.

Using secondary research methods, this research works towards a conceptualization of CCP and offers a model of the conditions that need to be in place for value through CCP to occur. The model builds its foundations on Service-Dominant Logic debate. Combined together with the ARA model, and the prevalent thinking of experiential marketing, the work contributes to the academic co-creation literature by adding to the knowledge of value creation. Further, it presents an explorative opening of dynamic pricing thinking for practitioners by challenging the marketers to think their pricing from an innovative co-creation based view.

Co-created pricing offers an alternative logic to inwardly focused value creation of the firm and suggests that by turning the focus on the customer, the true value, as perceived by the customer, is captured. Today's customers are increasingly willing, capable and rich in their resources to participate in pricing decisions, thereby offering an opportunity for alternative pricing methods and service innovations.

Keywords: Co-creation, Service-Dominant Logic, Value, Pricing, Customer-orientation, Experiential marketing

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1. INTRODUCTION

What is a cynic? A man who knows the price of everything and the value of nothing.

- Oscar Wilde, Lady Windermere's Fan, 1892, Act III -

This thought provoking paradoxal quote by Oscar Wilde (1854-1900), the British novelist and play writer, indicates the superficiality of a man who merely concentrates on price rather than the substance of an offering. Following Wilde's quote, in his quest for the best price the man disregards the importance of content that could make him truly content. As a result, the man becomes a cynic.

Although two centuries has turned and time has passed, the message still prevails and in the light of current academic marketing literature, it is now even more valid than ever. It is not my task nor is it the function of this research to evaluate one's cynicism, but the notion of a man who values price over content has almost completely plagued the contemporary trade. The whole delivery chain appears to be fixated on price where producing cheap is the most common denominator.

If we look around us we see that the business setting today, including services, is incontestably competitive. As a result of global competition, changing markets, and new technologies (Normann & Ramirez 1993: 65, Etgar 2008: 99), the management of any business are on a constant lookout for new innovations to beat their competition and to outperform their rivals they must increase their competitive advantage (Woodruff 1997: 139). For a business to increase its competitiveness it must develop a set of capabilities that enable it to consistently deliver superior value to its customers (Slater & Narver 1994: 22). The management asks itself how is this transformation dealt with at best, what local decisions ought to be made to help resolve this complicated issue? Maybe some new thinking is required?

1.1 Gaining competitive advantage in expanding service industry settings

First we need to clarify what we mean by referring to service and what is meant with an offering of a service provider. In this study we look at value creation in a service setting as defined by Mary Bitner, Amy Ostrom and Felicia Morgan (2008) who refer to: "service offerings provided for and / or co-created with customers such as professional service, retail, financial, telecommunication, healthcare, and many others" (Bitner *et al.* 2008: 68). The study also draws from Stephen Vargo and Robert Lusch's (2008a) definition of service (singular) as: "a process of doing something for another party – in its own right, without reference to goods and identifies service as the primary focus of exchange activity" (Vargo & Lusch 2008a: 255). Joseph Pine and James Gilmore (1999) define services as "intangible activities customized to the individual request of known clients" (Pine & Gilmore 1999: 8).

The term "Offering" in co-creation literature is often referred simply to as value proposition made by a firm. I, along with many other scholars, find it to be too vague and request for a more detailed classification in its contents. The general classification is the division of offerings into *products* (Bowman & Ambrosini 2010) and *services* (Bitner *et al.* 2008) that are offered by a firm to its customers. But it is also more than that. It can be *knowledge* (Allee 2000a: 37) as well as *processes* rather than finished products (Vargo & Lusch: 2008a/b). In economic terms, an offering is fundamentally something distinctive that delivers competitive advantage (Lapointe & Cimon 2009: 43) that the customers appreciate and are happy to pay for (Dryburgh 2009: 18). This research adopts the view of Richard Normann and Rafael Ramirez (1989) via Rafael Ramirez (1999: 54) who offer a detailed breakdown on offering, always consisting of the following five elements:

- *physically tangible entities* ('goods');
- *human activities* ('services' and 'self-service') carried out by and shared among, at least, supplier and customer *persons*;
- *risk*-sharing and *risk*-taking formulae among interacting parties;
- access to, or usufruct of, *systems* and infrastructure; and
- *information*, manifested orally, tacitly – often based on previous experience, or in written or numeric or other symbol systems

As implied by Ramirez (1999), there is no longer a need to make a separate distinction between goods and services thinking when talking about an offering, but can be organized under one provision. A similar remark is also made by Christian Grönroos (2008) stating that “from a consumption and value creation perspective, there may not be any fundamental differences between goods and services” (Grönroos 2008: 301). Evert Gummesson (1995) via Stephen Vargo and Robert Lusch (2004: 328) has argued “customers do not buy goods or services: they buy offerings which render services which create value”. Stephen Vargo, Robert Lusch and Fred Morgan (2006: 39) believe that we are witnessing a convergence of services and goods towards a unifying logic of exchange where service plays a more central role. Therefore, now that we are confident in knowing what the term offering contains in more detail, from now on we can apply it to denote the general logic of providing an offering to a customer.

The significance of services sector is growing. The world’s economy is becoming a large array of services. Only two centuries ago, work on farms constituted round 90 per cent of the labour in the United States. Today, the number has dropped to under 3 per cent and they still have an even larger population to feed. While productivity has grown million fold, labour has decreased. The International Labour Organization (2007) reported that services sector has for the first time grown to be bigger in terms of employment than either in the manufacturing or agricultural sectors worldwide. (Spohrer & Maglio 2008: 239.)

Extreme competitive environment results in perfect competition where the product is standardized and the profit margins are reduced to a minimum (Lapointe & Cimon 2009: 42). The idiosyncrasy of mature markets is price-based competition (Nagle & Hogan 2006: 279) and many, if perhaps most, markets today are mature enough to feature intense price-based competition (Bertini & Wathieu 2010: 86). In addition, the services sector is found to be lacking innovation in service design (Bitner, Ostrom & Morgan 2008: 66). Any outcome of firms operating in such highly competitive, matured markets, and lacking innovation in its design leaves very little room for improvement — and in the end leads to stagnating profits. In an environment where a firm is unable to innovate and redesign its offering, the firm often makes a mistake in using the price as its main differentiator. Under the pressure of this hyper-competition there is truly a need for some new service innovation and rethinking. C.K. Prahalad and Venkat Ramaswamy (2003: 16) stress that: "Managerial attention must shift dramatically to focus on the experience space (not products and services) as the locus of innovation." Likewise, Jim Spohrer and Paul Maglio (2008: 238) call for "need for service innovations to fuel further economic growth and to raise the quality and productivity levels of services". This is even more important in the matured economies where co-production mainly takes place (Etgar 2008: 99). Neeli Bendapudi and Robert Leone (2003) bring a broadened view on co-creation debate by reminding that thus far the marketing literature has largely focused on the economic implications of co-production trend and has not addressed customer's potential psychological responses to participation (Bendapudi & Leone 2003: 14). This research addresses the customer not only in economical terms as "homo economicus", but also recognizes the customer as an emotional individual, seeking psychological stimulus in an exchange.

1.2 Adapting to societal changes

Some major changes have taken place in society during the shift from the industrial to the post-industrial society. In the era of industrialization, production moved away from households into factories separating production and consumption. The consumer was traditionally seen as a separate entity from the marketer, the target of marketing functions performed by the marketer (Wikström 1996: 359) and the marketer's role was to generate and fulfil demand (Vargo, Lusch & Morgan 2006: 34). The consumer was placed opposite to the production and was seen as a destroyer of value (Firat & Venkatesh 1995: 242: Ramirez 1999: 49). Tangible resources, value embedded in produced goods and transactions, were the focus of dominant logic of that time (Vargo & Lusch 2004: 1).

A recent turn in the dominant logic of marketing has proposed that the consumer and the marketer are not separate actors, but perform various activities jointly in a co-operative manner. The interaction between the firm and the consumer is becoming the locus of value creation and value extraction (Prahalad & Ramaswamy 2004: 5) bringing benefits that are both productive and strategic (Wikström 1996: 359). "Customer productivity becomes as important a criterion as internal and supplier productivity. For whatever the customer does not do, or does not do well, represents a business opportunity, for oneself – or for one's competitors" (Ramirez 1999: 59).

Moving away from the Goods-Dominant emphasis of industrial economy towards post-industrial society, the customer has adopted a new role in the markets. That is from being a passive audience to taking on the role of an active, informed, connected, and empowered player (Payne, Storbacka, Frow & Knox 2008: 380, Prahalad & Ramaswamy 2004: 6). In this postmodern society of today, the customers are revealed as both producers and consumers who determine what is of value (Ballantyne & Varey 2008: 12). The shift of power from sellers to buyers in the digital economy has given rise to the phenomenon of reverse marketing, where customers cease to be product and price takers and become co-creators of product and price (Legarreta & Miguel 2004: 269). Companies can no longer act independently from customers (Lawer & Knox 2006: 122).

Our current economic thinking is based on industrial logic of predictability and regularity (Boivin & Roch 2006: 411, Normann & Ramirez 1993: 65) where economic thinking "desires to be compatible with the "scientific" and mathematical prerequisite of the natural sciences" (Vargo, Lusch & Morgan 2006: 33). Industrial transformation resulted in many changes in our society. For the past four centuries we have known our society as modern, indicating the following settings: "(1) the rule of reason and the establishment of rational order; (2) the emergence of cognitive subject; (3) the rise of science and an emphasis on material progress through the application of scientific technologies; (4) realism, representation and the unity of purpose in art and architecture; (5) the emergence of industrial capitalism, and (6) the separation of the sphere of production, which is institutionally controlled and public, from the sphere of consumption, which is domestic and private" (Firat & Venkatesh 1995: 240). Here, a pattern emerges that when contemporary economic activity is constrained to the quantifiable and predictable conditions set by modernism, it becomes inflexible, unable to adjust to the changing dynamic conditions of its new surroundings, the postmodern society.

As proposed by Fuat Firat & Alladi Venkatesh (1995) describing modern society, the strength of economics lies in forecasting, but with the change from a "logic of goods" to a "logic of service" (Vargo & Lusch 2004: 3), rigidity has lost its importance in retailing:

> *"For retailers, decisions on what to sell and at what price have lost much of their strategic resonance, because the same or similar products and services can be obtained from competitors at prices that leave little or no room for adjustments. Hence, the decision of how to sell – what kind of customer experience is offered – becomes a relevant strategic question from the competitive advantage point of view."* (Rintamäki, Kuusela & Mitronen 2007: 622).

1.3 Challenging the dominant thinking in pricing

The antidote for cynicism is to make the customer concentrate on the real value of the content and steer him away from emphasizing the price. What is there to innovate in terms of pricing? As brought out by Timo Rintamäki *et al.* (2007), it is the aspect of *how* to sell, accounting for the customer's *experience* at the point of value extraction. As paradoxical as Wilde's quote, the way to steer the customer's attention away from the price is to use the last thing you want to be decisive: the price (Bertini & Wathieu 2010: 86). It is Marco Bertini and Luc Wathieu's (2010) proposal to use price to diminish the salience of price in a transaction. A need has risen to engage customers as co-equal problem solvers, to let the customers create value that is unique to them (Legarreta & Miguel 2004: 269). Further, all services create *experiences* — good, bad or indifferent — every time a customer interacts with companies and their offerings (Berry, Carbone & Haeckel 2002: 88, Bitner *et al.* 2008: 69, Rintamäki *et al.* 2007: 622), but on the other hand, not all people are equally affected by every consumer experience (Walls, Okumus, Wang & Kwung 2011: 18). Managing offerings that are pleasing to experience is a way for a service provider to differentiate from the competition (Bitner *et al.* 2008: 70).

Following Bertini and Wathieu's (2010) suggestion to use price as the medium to steer attention away from nominal exchange value, we turn into the discussion on co-creating value with customers. When co-creating unique value, the customer is an integral part of value creation with the service provider, being always the co-creator of value (Vargo & Lusch 2008b: 3). The future of pricing and revenue models will be impacted by the inclusion of the customer (Ng 2010: 276). Co-creating price (CCP) would therefore mean collaboratively solving a mutual problem – that of pricing – emerging in an exchange between the service provider and the customer. It is therefore imperative to research the level of impact and bring deeper understanding to how value is increased through co-creative practices in pricing.

CCP provides an alternative view to the dominant thought of predictable pricing and its stability, modes of thinking emphasized in industrial logic. Pricing has become a stagnated variable in a non-stagnated environment and if the environment is increasingly dynamic, why should the prices be confined into measures of adynamic thinking? Price is one of the last boundaries managers have not had the courage to think anew. Indeed, a call for an alternative view on pricing practices is needed. The value this research provides managers is the notion that by allowing the customers participate as co-creative partners in pricing process, they receive *both* value-in-exchange and value-in-use offered through the experience of CCP. By investing in the processes to enable the customer to participate in co-creative pricing the firm also invests in hard-to-imitate competitive advantage. This research aims to answer Ramirez's (1999: 59) call to expand research on valuing customers as assets, and on how managers become responsible for developing their value. Pricing models based on direct exchanges would struggle, as cause (who is delivering value) and effect (who is consuming value) become increasingly blurred (Ng 2010: 279).

1.4 Aggregating value, co-creation and price

Yet, we have not been able to comprehensively link value creation with pricing practices. We still need to affiliate co-creation of value with pricing. As argued by Bertini & Wathieu (2010), pricing is an integral part of creating a service experience and therefore co-creation of service experiences should reach all the way into pricing practices. This is supported by Xiang Zhang and Rongqiu Chen's (2008: 248) notion on value who bring a holistic insight into co-creation, accounting for all the processes and activities of a firm in order to co-create value: "For companies adopting a customer-centred management strategy and aiming at leveraging customer competence, managers should systematically consider *all possible* *processes and activities* to co-create value with customers." Hence, as pricing is an integral part of company's processes and activities and all processes should be accounted for, it becomes apparent that the logic of co-creation of value can be extended into pricing practices, too.

Furthermore, if the prerequisite for co-creating value is "*joint problem solving,* creating value and at the same time creating partnership value", (Allio 2008: 11) the same logic can be applied to co-solving a pricing "problem", co-creating value through pricing, as the end price is more often than not considered as the final "problem" in an exchange. Moreover, there is a direct connection to pricing and value made by Michael Lanning (1998) via Kaj Storbacka and Suvi Nenonen (2009: 364) who define a value proposition as: "the entire set or resulting experiences, *including ... price*, that an organization causes some customers to have". Likewise, Jin Byoungho, Brenda Sternquist and Aeran Koh (2003) accentuate the importance of price in consumption in their statement: *"Price is the most important cue consumers use in their decision making"* (Byoungho *et al.* 2003, 379). Consequently, this leads us into reasoning that value, indeed, can be increased through CCP.

As noted, the central focus of this research is to examine co-creating value through pricing. Thus, this research comprises of three conceptual domains – *Value, Co-creation and Price* – forming a triangle of three relations depicted in figure 1. Relations formed are *Value – Co-creation relation*, *Value – Price relation*, and *Price – Co-creation relation*. While a large number of research has concentrated on each individual domain (see e.g. Catton 1959 for debate on value, Payne, Storbacka & Frow 2008 for debate on co-creation and Nagle 2006 for debate on price), and arguably a large number of research has covered the relations between the domains of Value and Co-creation (see e.g. Grönroos 2008, Vargo & Lusch 2004, Vargo & Lusch 2008a/b) and between the domains of Value and Price (see e.g. Zeithaml 1988, Ingenbleek 2007). However, the co-creation literature does not thus far extend to debate on co-creating price.

Two of the three aforementioned relations (i.e. co-creating value and price and value) of the triangle have been extensively researched and when examining all of the relations of the triangle's domains, it is only self-explanatory that the third relation (i.e. co-creating price) requires deeper analysis. Therefore, following the inspiration and expanding the ideology laid out by Bertini and Wathieu (2010) and the value proposition by Lanning (1998) via Storbacka and Nenonen (2009), it is the total aggregation of Co-creation, Value and Price with a particular focus on price and co-creation relation serving as the study's focal point.

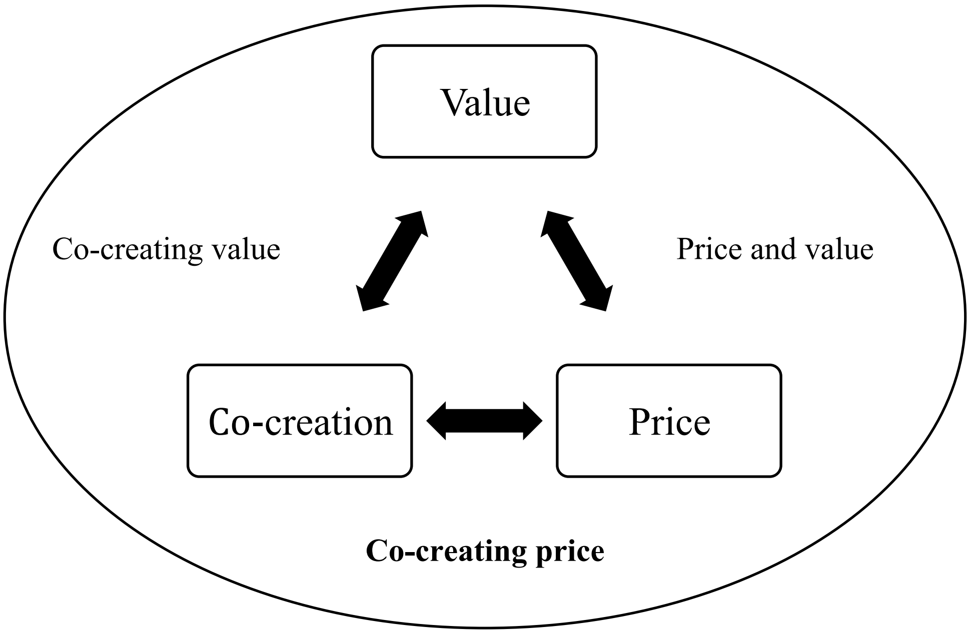

Figure 1. Value - Co-creation - Price triangle and their relations

When studying various fields of academic literature, we find referrals to such topics as flexible pricing, Value-informed pricing (Ingenbleek 2007), and customized pricing (Elmaghraby & Keskinocak 2003: 1307). However, what these have in common is their managerial view on profit maximization, but the relation between the domains of Price and Co-creation, i.e. where price is linked with co-creation adding value to the exchange for the customer, has received only scant attention. They lack consumer involvement in the pricing process, accounting only the producer's perspective (Chang & Yuan 2008: 636). Wei-Lun Chang and Soe-Tsyr Yuan (2008) note, on the other hand, that *dynamic pricing* (see Elmaghraby & Keskinocak 2003), has recently emerged as a method for overcoming this issue by adjusting prices for consumers based on the value customers ascribe to a product or a service (Chang & Yuan 2008: 636). An academic interest towards name-your-own-price (NYOP) retailers is raised by Tuo Wang, Esther Gal-Or and Rabikar Chatterjee (2009), opening the way to emerging pricing practices in the academic discussion.

Within the service co-creation literature the discussion on end price is practically non-existent. There are implications towards lowered costs through customer-generated input in the form of self-service (see e.g. Bendapudi & Leone 2003: 14 and Normann & Ramirez's 1993 example of customers co-creating value when shopping in IKEA), but not much is said about the end price the consumer directly impacts for received services. Therefore the research reported here adds valuable understanding to the discussion of co-creating value through pricing by closely linking these three domains and answering to the call made by Eric Arnould (2008: 23) to "create hybrid models that bring various research streams together."

1.5 Research object and research questions

This research addresses issues of consumer's participative input in the firm's pricing decisions. The research questions this study attempts to answer are:

1. What are the prerequisites for co-creating value and
2. What practices can be utilized to increase co-created value through pricing?

There is an inconsistency in between how the contemporary businesses perform marketing and how the current dominant logic views marketing. As pointed out previously, and as suggested by Paul Ingenbleek (2007: 441), most firms base their prices on cost information rather than customer value information. The new direction in marketing literature calls for less quantitative methods, and softer data in order to manage the transition in the changed competitive environment (Woodruff 1997: 149). In this environment the business will be defined by its customers, not its products or factories or offices (Webster 1992: 14). Further, it is argued: "financial measures have been criticized for their well-documented inadequacies, their backward-looking focus and their inability to reflect contemporary value-creating actions" (Wang & Lo 2003: 486). It is the intent of this study to identify non-quantified processes in the co-creation literature and aid management in service industry by suggesting practical ways on how the principles of co-creation could be used in co-creating price.

Despite its importance, research on co-creation with customers is still in an early stage (Zhang & Chen 2008: 242), much of it still lacking clarity (Rajah, Marshall & Nam 2008: 367). There is a myriad range of terms to denote customer participation in the value creating process. Such terms as customer participation, joint production, co-production, collaboration, and joint-value creation have been used. As a consequence, the polymorphous use of the terms results in blurry vision in regards of precise meaning of co-creation (Rajah *et al.* 2008: 367). This research breeds from the ideas put forth in still nascent (Dobrzykowski, Tran & Tarafdar 2010: 122) co-creation literature that emphasizes the customer as a co-creative partner in business processes. Following those foundations, this research examines the consumer as a co-creative partner in combining his / her own resources with those of the service provider and creates something valuable that is unique to the individual. This research offers pricing as the tool for co-created, experiential value. Uniqueness in a service situation is obtained by participating in pricing decisions to co-create value in pricing, or in short, to *Co-Create Price (CCP)*. The purpose of the study is to offer some clarification into the formation of vague value, also recognized by Hope Schau, Albert Muñiz and Eric Arnould (2009: 31) who stress: "In essence, we know that value is co-created but we do not know how."

1.6 Research structure, methodology

The paper is organized as follows. This thesis is divided into five distinct sections: in the first introductory section, a broad overview of the whole research is provided along with the reasoning of the importance of the research. The second section reviews the extant literature on value; what is meant by value creation, and who create value. The key determinants of value creation are explained. In addition, the second section consists of examining co-creation literature and its different applications and pinpoints the dominant logics in consumer-oriented value creation. The preconditions under which co-created value emerge will be identified. In the third section experiential marketing is elucidated. The dominant research streams are identified along with their respected authors. The fourth section consists of pricing as to how it is set in today's businesses. The fourth section furthermore rounds up the previous sections by applying the theoretical framework of co-creation principles to the analysis of pricing and explains how pricing could be implemented to better comply with co-creational strategies bringing added value for both parties. Finally, in the fifth section general findings are presented and conclusions are made. Additionally, implications for practitioners will be suggested and some opportunities for future research will be identified.

This research is not normative, giving detailed description or a list to follow on how to set prices accordingly. The results are not aimed at decision-making by itself; it is more of an explorative kind, describing an emergent way to pricing practices. The research is conducted to aid management to think of CCP as one alternative pricing method to other, more traditional methods. Since co-creative pricing practices is a novel concept both in contemporary marketing literature and practice, it takes the approach of inductive reasoning, starting with observations of specific instances, seeking to establish generalizations about the phenomenon under investigation (Patton 1980: 40). Hence, an inductive process was used to build the aggregated concept of CCP. This was done by primarily researching the marketing literature for co-created value and investigating some new, evolving pricing practices. An ample examination of literature was drawn together in an effort to build a theoretical framework than could be used to offer an overview of the pre-requisites needed to take place for co-creative pricing practices to occur.

Since there is no empiric section in this research, but is rather a study of various theoretical contributions of academic writings, this research places an emphasis on the *conceptual* nature of this domain. This study relies on secondary data, reviewing available literature such as database articles and books. To build the theoretical foundation, a voluminous number of articles and books have been referred to. Electronic databases, including ABI/Inform, Science Direct, Emerald, and Web of Science were searched, using key words such as “value”, “co-creation” “pricing”, and “service-dominant logic” among others.

1.7 Researcher’s position

An initial interest in the subject within the researcher was raised through personal involvement in home electronics trade as a sales negotiator in a home electronics store. During my years of employment, a pattern where customers wanted to participate in pricing decisions emerged. Recognizing this pattern in the micro-practices of every-day life, an idea surfaced that such behaviour could be conceptualized theoretically and explicitly utilized in practice. As my candidate's thesis addressed haggling in price negotiations, this research is thus a natural extension revolving around the similar theme. The domain of haggling has been broadened to include other aforementioned topics.

2. VALUE AND CO-CREATION

In this chapter the sources of value are presented. In addition, the interactive nature of value creation within contemporary marketing literature is explained. Definitions on value and the main contributors to the discussion of value are also provided. This chapter proposes that resources, *Operant* and *Operand* are used to create end results (value) within the interactions of actors, through their various activities. It is suggested in this chapter that value is co-creational (Prahalad & Ramaswamy 2004) and relational (Vargo & Lusch 2008a/b). Value can also be created in experiential engagements (Carù & Cova 2007, Pine & Gilmore 1999).

2.1 What is value?

While the importance of "Value" has been recognized as an important notion in marketing literature, it has not yet come to terms on what exactly value is and views value in many different ways (Babin & James 2010: 472). Furthermore, a part of the problem in classifying value is that value means different things to different people (Bowman & Ambrosini 2010). Robert Woodruff (1997) stresses that some definitions within customer value concepts are themselves not well defined, making it difficult to compare concepts (Woodruff 1997: 141). Not only is value difficult to define, it is likewise difficult to measure (Grönroos 2008: 303). This chapter looks at value through the glasses of customer-orientation. It takes the position that value is determined by the customer in reciprocal interactions between the offerer and the customer.

There is extensive research on value and its creation since the early work of Adam Smith in the late 18th century and even dating back to the days of Aristotle (4th century B.C.) as Aristotle made a conceptual distinction between "exchange value" and "use value", which have still remained the cornerstones of value debate in contemporary marketing research. In neoclassic sense value stems from goods-centred view (also referred to as Goods-Dominant or Product-Centric Logic) where value is created in manufacturing process through the use of natural resources, embedded in firm's output of its value chain and the value of the good is represented by the market price or what the consumer is willing to pay (Vargo, Maglio & Akaka 2008: 145, 146-147) and price contains all of the information necessary for both parties to conclude the exchange (Webster 1992: 6). This is referred to as *exchange value*, or *value-in-exchange*, respectively. Competitive advantage was achieved through effective use of tangible resources; the customer was considered a mere destroyer of value at the end of the production process. In goods-dominant view, it was the exchange of money for goods as the sole locus of value extraction. This is in contrast with *use value*, or *value-in-use* where value can only be created with and determined by the consumer in the *consumption process* and *through use* (Lusch & Vargo 2006: 284). We will be returning to and explain these two distinctions of use and exchange value further as the research develops.

2.2 From value to value co-creation

The emphasis of resources has shifted away from G-D Logic view of tangibles as main contributors of economic value towards recognizing intangible knowledge and skills, operant resources, as the new dominant logic in value creation. A recent turn in the dominant logic of marketing, contrasting the logic of G-D view, recognizes the customer-centricity as the primary source of value creation by proposing that consumers and marketers are not separate actors, but perform various activities jointly in a collaborative manner, where ”the interaction between the firm and the consumer is becoming the locus of value creation and value extraction” (Prahalad & Ramaswamy 2004: 5), asking us to reconsider the nature of value creation (Ramirez 1999: 55).

The concept of customer orientation is not a new idea (Yazdanparast, Manuj & Swartz 2010: 2); customer has long been involved in co-creating a service in various ways throughout the history. Bendapudi and Leone (2003) offer a chronological review of the literature on customer participation in production where they identify the earliest occurrence of co-creative research being conducted in 1979. What has been an academic issue for decades has existed in praxis for even longer. Think about for example a customer strolling between the isles of a grocery shop, co-producing by filling his/her basket with groceries and other household goods, or a consumer renting a removal van to carry out the moving process on one’s own. What is new, however is that the customer's engagement in an activity is now considered as fundamental factor in value creation and competitive advantage (Bendapudi & Leone 2003: 14). In order for co-creation of value to emerge, it requires the *willingness*, *motivation* as well as the *capability of the customer* to engage in the co-creation process (Finsterwalder & Tuzovic 2010: 112). Without the required skills needed to make use of the resources provided by the supplier, value-in-use will be non-existent or lower than otherwise (Grönroos 2008: 303).

2.2.1 Service-Dominant Logic

Vargo & Lusch (2006: 29) mark Adam Smith's (1776/1904) *The Wealth of Nations* as the beginning of modern economic thought. To challenge the inadequate, traditional goods-oriented view of marketing inherited from the industrial era (Ramirez 1999: 61), Vargo and Lusch (2004: 1) introduce a new dominant logic, *Service-Dominant Logic*, where: "…marketing has shifted much of its dominant logic away from the exchange of tangible goods (manufactured things) and toward the exchange of intangibles, specialized skills and knowledge, and processes (doing things for and with)…"

Although customer-centric marketing (Sheth, Sisodia & Sharma 2000) has long been a topic for many academics – some of which reach back to three centuries in our history (Ramirez 1999: 53) – Vargo and Lusch's (2004) *"Evolving to a New Dominant Logic for Marketing"* is proclaimed as one of the most epochal writings in modern marketing research opening the science of marketing for new debate (Ballantyne & Varey 2008: 11-12). It is Vargo and Lusch's (2004) argument that the value of service in Service-Dominant Logic lies in the *reciprocal* and *collaborative* input of the beneficiary's (customer) and the offeror's (marketer) *operant* and *operand* resources, not in the output unilaterally created by the firm (Vargo & Lusch 2008b: 8).

This view offers a different examination on resources to that of the Goods-Dominant Logic. Table 1 portrays a juxtaposition of the industrial and the co-productive view of value production (Ramirez 1999: 61). It may not any more be a question of tangible and finite operand resources such as land, animal life, plant life, minerals, and other natural resources (Vargo & Lusch 2004: 2), but rather a question of unlimited supply of intangible and infinite operant resources i.e. the use of human intelligence.

Table 1. Two views of value production (Ramirez 1999: 61)

Industrial view	Co-productive view
Value creation is sequential, unidirectionally transitive, best described in "value chains"	Value creation is synchronic, interactive, best described in 'value constellations'
All managed values can be measured in monetary terms	Some managed values cannot be measured or monetized
Value is added	Values are co-invented, combined and reconciled
Value a function of utility and rarity	Exchange the source of utility and rarity
Values are 'objective' (exchange) and 'subjective' (utility)	Values are 'contingent' and 'actual' (established interactively)
Customers destroy value	Customers (co-)create values
Value 'realized' at transaction, only for supplier (event)	Value is co-produced, with customer, over time – for both co-producers (relationship)
Three-sector models pertinent	Three-sector models no longer pertinent
Services a 'separate' activity	Services a framework for all activities considered as co-producers
Consumption not a factor of production	Consumers managed as factors of production (assets)
Economic actors analyzed holding one primary role at a time	Economic actors analyzed as holding several different roles simultaneously
Firm and activity are units of analysis	Interactions (offerings) are units of analysis

In their updated article "Service-Dominant Logic: Continuing the Evolution" Vargo and Lusch (2008b) present slight corrections to their initial 2004 article that describes S-D Logic with ten foundational premises (FPs). In short, the 10 updated foundational premises of S-D Logic imply that "service" (reflecting the *process* of using one's resources for the benefit of another entity) is the application of specialized skills and knowledge (FP1). These specialized operant resources are exchanged for other operant resources (skills-for-skills) in all markets and economies (FP5), where all social and economic actors are networked resource integrators (FP9). Goods are merely carriers of value and value manifests only through the use of goods (value-in-use), and as such value is not imbedded in physical goods (FP3). Because value is imbedded in and added through the use of specialized skills and knowledge, operant resources are the fundamental sources of competitive advantage (FP4). In addition, because value cannot be imbedded in the output, but uniquely and phenomenologically co-created with (FP6) and consumed by the customer, the firm can only make value propositions (FP7) that can be evaluated only by the individual customer as they consume the service (FP10). A service-centered view is inherently customer oriented and relational (FP8) and indirect exchange masks the fundamental basis of exchange (FP2). (Vargo & Lusch 2008b: 4, 7.)

As value can only be evaluated and determined during the use of the service/output, service provider cannot determine value, but can only make value propositions, as specified in S-D Logic's FP7 and FP10: "Value is perceived and determined by the consumer on the basis of ''value in use''" (Vargo & Lusch 2004: 7). An automobile in itself does not offer value *per se*, but only through the use of its "services" does the automobile become valuable. Likewise, a pen is not just a hollow tube filled with ink; it provides a service of applying colour on paper. The automobile or the pen as a "thing" is therefore a mere service proposition, a carrier of value and value is only realized through the use of such propositions.

2.2.2 Debate on co-creating and co-producing value

While some writers (Ramirez 1999) use the terms "value co-production" and "value co-creation" as interchangeable terms, Vargo & Lusch (2008b) feel that they must not be mixed together as equal, transposable expressions. They feel that it is critical for the S-D Logic thesis to make a clear distinction between value co-creation and value co-production. While Vargo and Lusch (2004) initially viewed the customer as *producer* of value, Vargo and Lusch (2008) changed it later to customer as *creator* of value (Grönroos 2008: 299). Value co-*production* has the connotation of tangible output of *manufacturing* process, not emphasizing the collaborative nature of *service* and thus is not in line with the Vargo and Lusch's (2008b) S-D Logic FP6 where "The customer is always a co-*creator* of value". (Vargo & Lusch 2008b: 6-7.). Whereas Vargo and Lusch (2008b) make an effort to keep these as separate constructs, it can be argued that co-production and co-creation are indeed linked with one being a subordinate to the other.

Michael Etgar (2008) takes these two constructs under closer examination and views them as nested concepts of the same phenomena. “Consumption activities are not separate from production activities but connected to them” (Etgar 2008: 97). Etgar (2008) receives his inspiration from Vargo and Lusch’s (2006: 284) original initiative who argue that a customer can both be a co-*producer* of value and a co-*creator* of value depending on the stage an activity takes place. Customer can be a *producer* of value by participating in the *production* process in the earlier stages as well as a *creator* of value during the usage/consumption of the service at a later stage of the value creating process. The difference of this logic lies in how the co-participated work is defined. Co-creation of value is linked with *intellectual work* of initiating and designing, resource aggregating and processing activities, which lead to creation of outputs, while co-productive work is getting involved in the *sequential bundles of operational activities* in one or more of these stages. (Etgar 2008: 98). It follows the reasoning that one *creates* value by using intellectual operant resources and *produces* value by using operand resources, use of tangible assets.

The sequential nature of Etgar’s (2008) line of thinking is in slight contrast to Normann & Ramirez’s (1993) argument that value occurs not in sequential chains, but in complex constellations (Normann & Ramirez 1993: 67). What is noticeable in Etgar’s (2008) line of reasoning is its resemblance to Porter’s value chain, looking at co-production as a chain of processes. Etgar’s (2008) thinking appears to be somewhat biased towards industrial view with references to such processes as distribution, logistics, assembly, manufacturing / construction phase and is concerned with operations through which raw materials are processed and changed into usable items.

2.3 Value as defined by American Marketing Association

American Marketing Association (AMA) defines value as: “The power of any good to command other goods in peaceful and voluntary exchange” (Internet: American Marketing Association 2011). While AMA succeeds to define value on one hand, defining value this way is somewhat inadequate on the other. I acknowledge that there are a number of shortcomings in this definition. What must be noted first is that in this definition “value” entails the dimension of power. If a product offers greater value to some other entity than to another, one has power (of some degree) over the other. The use of power is hitherto not widely acknowledged in the co-creation literature. Secondly, when power is pursued to gain value, does not always take place in a peaceful and voluntary manner. The human modern and pre-modern history is written with countless examples of non-peaceful and involuntary episodes of power play (referred to as acts of war) in order to gain value, i.e. to compete over scarce resources, to protect themselves, or to dominate others (Abizadeh 2011: 299). The forces at play when power enters the stage is a far too important notion to completely ignore – for the reason that power is not equally distributed among the parties when engaging in the activity of CCP. The absence of power relations in the debate of Service-Dominant Logic has only recently been recognized and S-D Logic is argued to benefit in the future from paying attention to power and trust (Fyrberg & Jüriado 2009: 429). Consequently, the level and the nature of power in exchange and co-creation domain need more accurate consideration in further studies.

Likewise, the connotation of the wording *"command"* used in the definition implies a use of force. The recent turn in the dominant logic of marketing, however, speaks rather of mutuality, participation, collaboration, dialogue, and interaction (Sheth *et al.* 2000, Ramirez 1999, Prahalad & Ramaswamy 2004).

The third deficiency is that the definition implicitly turns a blind eye on services rendered by focusing on goods, biasing towards good-centred view of marketing. If it only were for goods that rendered value, the majority of the world's GDP today would be consequently announced void, since almost 65 percent of the world's gross national product currently comes from services (Lapointe & Cimon 2009: 42) and this number is in the rise. This research acknowledges the importance of service sector and adopts the perspective of creating value in service.

Further, the wording *"exchange"* in the definition, does not completely fit the frames of current value ideology, for it points to the direction of tangibility and value imbedded in monetary exchange (Bowman & Ambrosini 2010: 480). As we move towards the end of this chapter, we learn that AMA's definition of value is somewhat distant to the dominant view on value and would indeed benefit from an updated description that is more in line with the emergent marketing literature.

2.4 How is value created?

If AMA's definition is so far off, what would be the correct path in an attempt to define value? Historically, perhaps one of the most influential models in the debate of traditional value creation is offered by Michael Porter's (1985) *Value Chain*, a model that systematically examines all the activities a firm performs and how they interact (Porter 1985). The model's basic contribution is that all value is added in a chain within the firm's operations. The unit of analysis is the company itself. This model, however, stems from the industrial age, looking at primarily inwardly focused core activities from which companies traditionally derive value. (McPhee and Wheeler 2006: 40).

Porter's (1985) value chain model has had a strong foothold in marketing and strategic management literature and is still regarded by some (e.g. Stonehouse & Snowdon 2007) as the heart of a business strategy, but as the competitive environment has drastically changed since the introduction of the model and the fundamental logic of value creation has also changed (Normann & Ramirez 1993: 65), others regard it as incomplete therefore no longer useful as such. An update to the model has been proposed by Wayne McPhee and David Wheeler (2006), who have incorporated additional activities aimed at creating value through *external relationships* into the value chain. This is a step taking us closer to defining value, as it is understood in the current marketing literature.

2.4.1 Value creating dimensions – the ARA model

To increase our knowledge on added value, not only across the reconfigured value chain, but also as a whole, and to build a comprehensive understanding on value, it is important for the sake of this research to elucidate the various dimensions that constitute value.

A number of scholars view value creation as a web of collaborators exchanging value in networks (Desai 2010: 388). According to the network theory, networks consist of Actors, Resources and Activities (the ARA model by Håkansson & Johanson 1992) and the model is argued to capture the key aspects of relationships at all levels, including the relationships among individuals (Lenney & Easton 2009: 553). Although stemming from an industrial network view, the model is utilizable in observing consumer behaviour, as the model is general in nature (Lenney & Easton 2009: 554). Network thinking is an inseparable topic from co-creation debate and it is Vargo and Lusch's (2008) suggestion that the ARA model will become an important intersection for marketing theory and S-D logic in the future (Fyrberg & Jüriado 2009: 425). Based on these arguments it can be stated that the ARA model and service marketing are closely intertwined, therefore providing a sound starting point for this study by depicting the prime dimensions that are needed for value to emerge.

2.4.2 Actors-dimension of value creation – Who?

Proceeding with the ARA model, the first level of examination includes the question of *who* or *what* creates value, i.e. what are the instances that contribute to the value creation process?

Following the current line of marketing research, actors can be defined either as individuals acting on their own or they can be a *constellation* (Normann & Ramirez 1993: 66) of other individuals forming groups that interact, pointed out also by Peter Lenney and Geoff Easton (2009: 553):

> *"Actors act, that is to say that they carry out activities usually in combination with other actors. Actors are goal directed and act in line with their goals which are transformed into more specific intentions [...] [...] Actors are essentially human and can be individuals or collectivities such as groups, departments, organizations or nets of organizations".*

As argued, a stream of marketing research focuses on *value networks* (Allee 2000a), the different stakeholders in a value-creating web. Economic value is created within networks of one or more enterprises, its customers, suppliers, strategic partners, and the community (Allee 2000a: 37) and is executed between economic and social actors within the networks through *interactions* (Vargo & Lusch 2008b: 5). Anna Fyrberg and Rein Jüriado (2009: 423) clarify social network theory and go on to argue that resources are exchanged in social relations, interactions and norms and that the focus is on actors and the structural connections between them. What is clearly evident from the examination of co-creation literature is the unanimity of collaborative nature of value creation through interactions in networks.

2.4.3 Resources-dimension of value creation – How?

The *use* or the *origin* of resources is an essential component of value creation, thus paramount in the discussion on value creation. Therefore, the second level in examining the components of value creation in this research deals with resources that are required as input in value creation process.

The debate surrounding as to what constitutes a resource is by far not uniform nor is it without dissonance. During centuries a long line of marketing researchers have adopted the modernist conceptions of production and consumption where the analysis is typically confined to categories such as raw material, human labour, capital, and land (Wernerfelt 1984: 171, Firat & Venkatesh 1995: 246). According to the goods-dominant view, value in a society is produced in factories and embedded in the output of a manufacturing process.

This has resulted in the management's inversed perspective that is heavily built on the emphasis inherited from the goods-dominant value creation and the resource-based view, where internal resources and capabilities (Porter's value chain) provide the basic directions for a firm's strategy and are the primary sources of competitive advantage (Nisco & Napolitano 2006, 148). This is gradually changing by realizing that customers are becoming increasingly important players in business competition (Wang & Lo 2003: 484). David Dobrzykowski, Oanh Tran and Monideepa Tarafdar (2010: 107) argue, "while existing frameworks are useful in the context of internally focused firm value creation, they do not account for the emerging, more externally focused collaborative value co-creation strategies of a firm". It has taken over 6 decades for resources to be considered not only as "stuff, but also as intangible and dynamic functions of human ingenuity and appraisal" (Vargo & Lusch 2004: 2).

It is during the metamorphosis of recent decades that sociotechnical breakthroughs have allowed value co-production framework to emerge in practice (Ramirez 1999: 61) and concluding from the sheer number of scholar research focusing on the consumer as creator of value, it is apparent that customer-centricity requires without a doubt further progressive examination. Indeed, a change of focus is called for by Woodruff (1997: 140): "Instead of the same focus on internal processes and structure, the next major management transformation likely will come as organizations turn more of their attention *outward to markets and customers.*" Following this notion in co-creation literature, customers are increasingly regarded as value-adding resource.

Continuing the examination of resources as a component of value creation, Vargo and Lusch (2004: 2) present operand and operant resources. A resource is *operand* when an operation or act is performed to produce an effect *on it*, i.e. when tangible natural resources are used to produce an effect, like for example sand and water are mixed to manufacture cement to build a house. *Operant* resources, conversely, are resources that *produce effects* and could be described as the *know-how* and *human skills and knowledge* dimension of resources. A resource is operant when it is employed to act on operand resource and other operant resources, like in our simple example the work labour of *designing* the house, the architectural *skills* needed, and *knowing* how cement must be applied in the process of house building. Vargo and Lusch (2004: 3) continue: "Because operant resources produce effects, they enable humans both to multiply the value of natural resources and to create additional operant resources."

This line of thinking is closely followed by more recent scholarly work of Cliff Bowman and Véronique Ambrosini (2010: 481) arguing that "things" themselves cannot create additional value, only humans can. Their explicit argument is that only human input is able to create new value that generates a revenue stream in the interactions between human inputs and separable inputs and assets. The separable, primarily physical resources cannot create more value than they embody.

The contemporary view of Bowman and Ambrosini (2010) emphasises added value created only by human interactions. It offers an interesting contrast that is fundamentally reversed to that of Adam Smith who argued that services were of no value and were "unproductive, because it did not result in units of output that were tangible and exportable" (Vargo *et al.* 2008: 147, Ramirez 1999: 52). If we were to follow the logic of industrial era in today's economy where services form an ever-increasing portion of GDP and if services were not considered productive and would not contribute to the national surplus, GDP would eventually diminish close to being zero.

However, there is light at the end of the tunnel as the recent scholars recognize the multifaceted roles of resources and their use: "Resources can be tangible or intangible, stable or unstable, valuable or worthless depending on their configuration [...] [...] Actors have control over some resources, access to others and work with other actors to create, combine, develop, exchange or destroy resources" (Lenney & Easton 2009: 553). The importance of this pervasive quote must be realized, for it recognizes not only resources as multilateral, but also actors as active components performing activities on resources and one another.

So far, as we look back to this chapter, we have recognized the different roles of actors within the interacting network and the diversity of resources as components in creating value. What follows, is the last element of the ARA model, *activities*.

2.4.4 Activities-dimension of value creation – Where?

Our third question would be *where* is value created? What is the locus for value creation? While Lenney and Easton's (2009: 553) vast definition of activities that "can be *any kind* and can take place at *any level* from the individual to the organizational net" gives us comfort in applying it to nearly any upcoming situation, it is at the same time a definition almost too infinite. To grasp and to materialize the enormous "beast" of this definition, it is the goal of this research to provide examples of situations (actions and activities) where value is not just created but co-created in service environment. This research would be dwarfed to only a tiniest crumble of information if it did not succeed in recognizing at least some forms of specific activities in more detailed way. Closing in on a more detailed nature of activities, the means to examine the value creating activities is through the *locus* of value creation, *where* value is created within the process.

Customers may consider value at different times, such as making a purchase decision or when experiencing a product performance during or after use (Woodruff 1997: 141). Reflecting the various activities that constitute value creation, our next question is *where* or *when* or *at what stage* does value creation take place within the interaction? The locus of value creation has inspired a multifaceted topic of discussion and propositions for venues of value creation. Table 2 depicts a summary of various venues for value creating activities. Morris Holbrook (1987) acknowledges three wide-ranging stages for customer to determine value through use; in the process of *acquisition*, *usage* and *disposal* (Vargo *et al.* 2008: 148). Arnould *et al.* (2002) via Antonella Carù and Bernard Cova (2007: 6) present a more detailed four-stage description of consumer experience stages spread over a period of time. They are as follows:

1. *pre-consumption experience*, which involves searching for, planning, day-dreaming about, and foreseeing or imagining the experience
2. *purchasing experience*, which involves choosing the item, payment, packaging, and the encounter with the service and the environment
3. *core consumption experience*, which involves sensation, satiety, satisfaction / dissatisfaction, irritation / flow, and transformation
4. *remembered consumption experience* and the *nostalgia experience*, in which photographs are used to relive a past experience based on narratives and arguments with friends about the past, something that tends toward the classification of memories.

What we notice, not only do Arnould *et al.* (2002) via Carù and Cova (2007) give a more detailed illustration of stages, they also grasp the “beast” by providing some specific examples of value creating activities within each stage. Solveig Wikström (1996: 361), in turn, suggests Design, Production, Marketing, Consumption, and Destruction as venues for value creation. Additionally, value can be created in processes ranging from the initiating phase to design, manufacturing, assembly, inventorying, distribution, retail, after sales service and usage, and returns (Edvardsson, Enquist & Johnston 2005, Dobrzykowski, Tran & Tarafdar 2010: 114).

Jagdish Sheth, Rajendra Sisodia and Arun Sharma (2000: 62) give yet another proposition for value creating locations, those of product creation, pricing, distribution and fulfilment, and communication.

Table 2. Value creating locations in co-creative service environment, inspired by Holbrook (1987), Arnould *et al.* (2002), Wikström (1996), Edvardsson *et al.* (2005), Dobrzykowski *et al.* (2010), Sheth *et al.* (2000).

Acquisition		Usage	Disposal
Pre-consumption experience	Purchasing experience	Core consumption experience	Post-consumption experience
Initiating phase Design Product creation Production Assembly	Marketing Pricing Payment Delivery	Consumption After-sales usage After-sales service	Remembered Destruction Returns Communicating

The stages can overlap and consumer's performance is not constrained to only one stage at a time, but can take place in one or more of the stages simultaneously (Etgar 2008: 98). As we can see from the table and the propositions of Arnould et al. (2002) via Carù and Cova (2007) and Sheth *et al.* (2000), pricing as a function within the purchasing experience stage of the acquisition stage can indeed be regarded as one of the many value-creating components. Consequently, this research adopts the centrality of pricing as to *when* co-creation occurs. This is a paramount notion to make for this research to advance.

2.5 Capability to engage in a consumption activity

It requires the capability of the customer to engage in CCP. The capability implies that the customer is in the position to use one's available resources to participate. A major resource that consumers use in co-production is their time (Etgar 2008: 100). The environment and the processes must be designed in such a way that minimizes the consumer's use of resources, or negative cues as they take part. Technical advancements have made the customer more capable than ever to engage in co-creative practices. The capability also means that there are the appropriate means provided by the firm for the customer to engage in the process of co-creation. The stage for engagement is to be designed in the way that it induces the customer's interest to participate with the use of minimal sacrifice.

2.6 Willingness to engage in a consumption activity

The customer must be willing to engage in CCP. This for some might pose a problem, for they are not willing to participate. Customers are heterogeneous and their willingness to engage in encounter processes that create value also varies (Storbacka & Nenonen 2009: 362). "Everyone is unique, with a distinctly individual set of needs, desires, tastes and preferences" (Allee 2000b: 7). Recognizing this, the firm must provide heterogeneous relationships to cover the heterogeneity of the selected market. Individual characteristics, such as personality type and sensitivity to the environment may likewise influence the experience, further, situational factors and individual characteristics are usually not controllable by the firm (Walls *et al.* 2011: 19), posing a challenge for a firm.

2.7 Motivation to engage in a consumption activity

As presented, contemporary marketing research takes the customer oriented view and examines the process of value creation focusing on the customer. We can drill deeper into the debate of customer value creation by illustrating the various motives that drive a customer towards a specific value-creating activity. By highlighting the motives behind an action we can get closer to the rationale for a customer to engage in a specific activity.

The actors are goal directed and act in line with their goals that are transformed into *more specific intentions* (Lenney & Easton 2009: 553), which reflect diverse consumer values and serve as motivational forces (Etgar 2008: 101). The motivation to act and reach one's goal requires deeper examination. How does the customer benefit from engaging in an activity, let alone a co-creative activity? Surely, while directing his/her activity, the customer must possess some sort of value dimensions that drive him/her towards a particular behaviour? Etgar (2008: 101) has identified *economic*, *psychological* and *social* drives that encourage consumers to participate in co-production. Rintamäki *et al.* (2007: 621) identify four hierarchical key dimensions of customer value – economic, functional, emotional, and symbolic – that can be ordered under *utilitarian* and *hedonic* value drivers.

2.8 Symbols creating value

Traditionally, most researchers and practitioners treat price as if it would not be able to embed value other than transactional kind. Conversely, as Véronique Cova and Eric Rémy (2007: 51) state "the purpose of a consumer-driven experience is to resist the market or struggle with it, to flee from it, and even to play around with it". Thus, if we regard price - the most basic element of any market - as something to be played with and let the customer inject her own emotional experiences, it extends far beyond a mere carrier of transactional value. Price then becomes a reflector of one's identity, feelings of pride, self-fulfilment, joy and excitement. Literature offered by researchers of experiential marketing gives us reason to think of price beyond its status as an object (Heilbrunn 2007: 81-82), closer to being a symbolizer of meanings and values.

Consumer co-production extends to the construction of meanings, too (Bendapudi & Leone 2003: 26). The view of *symbols* as creators of meanings in a society is proclaimed by Lisa Peñaloza and Mary Gilly (1986) and William Catton (1959) who offer a social view on value and argue that value is created as a process of enculturation. In the midst of our postmodern society we are increasingly relying on ideas of culture, language, aesthetics, narratives, symbolic modes, and literary expressions and meanings (Firat & Venkatesh 1995: 243). Johanna Moisander and Anu Valtonen (2006) illuminate qualitative marketing research from cultural perspective by stating that culture constitutes our world and in contemporary Western society this constitution largely takes place in and through the market (Moisander & Valtonen 2006: 6). In short, we consume culture. Etgar (2008) adds that shopping, buying and using a product carry deep cultural and psychological meanings (Etgar 2008: 104). Elizabeth Hirschman and Morris Holbrook (1982) further connect hedonic consumption with consuming symbols:

> *"Using a hedonic consumption perspective, products are viewed not as objective entities but rather as subjective symbols. The researcher is*

> *concerned not so much with what the product is as with what it represents. Product image, not strict reality, is a central focus; consumer emotive response, rather than just semantic learning, is a key criterion"* (Hirschman & Holbrook 1982: 93).

Thus, in the context of researching CCP, one way to examine a customer's engagement in a co-creative act is to study the different meanings co-creation reflects and the different values it symbolizes. Price as a presenter of symbols offers different meanings to different people. Price is a formation of symbols talking symbolic language; to some, price denotes entirely something else than to others; for example to some it represents efficiency (utilitarian), and to others enjoyment (hedonistic).

2.9 Utilitarian and Hedonic value

A stream of research proposes a bipolar value concept, that of the *utilitarian value* and *hedonic value* (see e.g. Babin, Darden & Griffin 1994, Hirschman & Holbrook 1982). An act of consumption results in utilitarian value when for example a shopper purchases a product in a deliberant and efficient manner (Babin *et al.* 1994: 646). Utilitarian value is created mainly by cutting down on sacrifices: reducing prices, saving customers' time and effort, and helping customers to make the right decisions (Rintamäki *et al.* 2007: 624). Visits to the ATM for cash or to an unmanned petrol station for gasoline, or shopping at Wal Mart's are examples of situations where utilitarian value is created. Thus for consumers with utilitarian value drivers, cost reduction can be a major motivator (Etgar 2008: 101).

Economic customer value proposition proposed by Rintamäki *et al.* (2007: 627) is a sub-ordinate to utilitarian value and entails the economic reasons to engage in an activity, i.e. to save money, or to be efficient. Here, the retailer focuses on price. *Functional customer value proposition* (ibid.) is another sub-ordinate to utilitarian value bearing the notion of focusing on solutions, i.e. finding the right products for customers or to increase convenience of the shopping experience.

Hedonic value, on the other hand, takes place when a consumption activity is in itself gratifying. "Hedonic consumption designates those facets of consumer behaviour that relate to the *multisensory*, *fantasy* and *emotive* aspects of one's *experience* with products" (Hirschman & Holbrook 1982: 92). As product-oriented as the citation is, it is important to notice that feelings of hedonism can also be experienced outside the product domain, holistically in a *consumption activity* (Babin & James 2010: 473). A consumption activity can be hedonic, for example when a customer dines at a good restaurant, or attends a football match as a spectator.

Emotional customer value proposition (Rintamäki *et al.* 2007: 628) is a sub-ordinate to hedonic value drivers motivating customers to *whom experiential aspects* of consuming are significant. The focus here is to arouse feelings or affective states of mind. These include enjoying an act of consumption with friends and family, bargain-hunting, and seeking adventure or relaxation. For example, Alain Decrop and Christian Derbaix (2010) have in their study of hard core football fans reported strong feelings of pride in consumers, adding high levels of unique emotion-related value to a consumption experience. *Symbolic customer value proposition* (Rintamäki *et al.* 2007: 629) is a sub-ordinate to hedonic value taking place when *meanings*, i.e. something other than the obvious function of the product represent value to the customer. Value is manifested in socially interpreted codes that direct consumption and self-expression (ibid.). CCP can be argued to serve both rational *"Homo economicus"* by providing a price they can influence to gain economic value and the *"Homo reciprocans"* by filling the need to have psychological satisfaction through co-creation.

3. EXPERIENTIAL MARKETING

Going beyond providing of services, following the stream of *experiential marketing*, we learn that value is co-created through experiences. There are several designations to this concept: *"Experience Co-Creation,* or shortly *ECC"* (Ramaswamy 2008), *"experience immersion"* (Carù & Cova 2007), to some scholars, it has even become so well liked that they have termed the whole economy as *"Experience Economy"* (see Pine and Gilmore 1999).

Pine and Gilmore (1999) offer experiences as the fourth economic offering (in addition to commodities, goods and services), a new source of value to combat the commoditization trap of offerings ("commoditization" typically means diminishing differences among offerings Bertini & Wathieu 2010: 87). The experience economy is proposed to open up possibilities for new strategies of moving beyond goods and services as the primary source of profits (Pine & Gilmore 1999: 143). Goods and services are no longer enough, customers today don't want to purchase just simple products or services (Carù & Cova 2007: 34, Prahalad & Ramaswamy 2000: 83, Pine & Gilmore 1999: 11), but they rather want to be *immersed in consumption experience* (Berry *et al.* 2002: 85). It is further pointed out that experiences are especially important as they can encourage the customer to participate increasingly in the process of co-creation (Payne *et al.* 2008: 382). As goods are only physical embodiments of the services they deliver, services are only intangible operations for the experiences they stage (Pine & Gilmore 1999: 206).

3.1 From co-creation to experiential

What does it mean to be experiential? Isn't co-creative orientation enough? These two notions appear to be closely related to each other. At times they are used to denote the same thing using the same terms – participation, customer-centricity and so forth – thus lacking a clearly defined distinction. Experiential marketing, too, places the customer in the central position by recognizing the customer not as a passive agent reacting to stimuli, but instead, as the actor and the producer of his / her own consuming experience (Carù & Cova 2007: 7). Also, personalization is a central topic in both discussions as referred to by Pine & Gilmore (1999: 12) "Experiences are events that engage individuals in a personal way", likewise being a central premise in the co-creation literature.

Ramaswamy (2008) takes a position between these two domains by stating "Leading firms are learning how to sustain competitive advantage by *co-creating experiences of value* with customers" (Ramaswamy 2008: 9). In similar vein, Edwin Rajah *et al.* (2008) take a relationship view into co-creating a purchase experience. However they do not explain what it means to be immersed in an experience, but rather explain what is a co-created service, leaving the debate somewhat hollow. From an analysis of the literature, it appears that many of the marketing scholars tend to include *experience* in their debate, but do not actually describe the phenomena of *experiencing*. A service is an experience, as Pine & Gilmore (1999) point out, "when it results in a memorable encounter" (Pine & Gilmore 1999: 12).

A step towards variegating experiential marketing is offered by Bo Edvardsson, Bo Enquist and Robert Johnston (2005: 151) who define a service experience as a "service process that creates the customer's *cognitive, emotional and behavioural responses*, resulting in a *mental mark*." Additional definition in this direction is provided by Sara Sandström, Bo Edvardsson, Kristensson and Peter Magnusson (2008: 112) by arguing that "a service experience is the total *functional* and *emotional* value of a consumed service." The distinction here is that in an experiential perspective the consumer is seen as an individual who is *emotionally involved* in a shopping process in which *multisensory, imaginary, and emotive* aspects are specifically sought after and appreciated (Carù & Cova 2007: 6).

Although a field that is still evolving and searching for its place and definition in the academic marketing literature, it could be concluded that where co-creative position includes the reciprocal processes that are "merely" co-created with the customer in ways that we have previously addressed in this research, experiential position, however additionally accounts for the sensory and emotional elements that go far deeper, thus affecting the cognitive mental mark, dimensions that are not present in the writings of, for example, Vargo & Lusch (2004, 2008a, 2008b). There is a clear indication of and an emphasis on hedonistic aspect of consumption when talking about an experience as Hirchmann and Holbrook (1982: 97) state: “The hedonic perspective includes the psychological experiences that accompany product usage”. In essence, to stage an experience is to stage a hedonistic, sensory environment for the customer to participate: “In an experiential perspective, consumers are less interested in maximizing their benefits and more focused on hedonistic gratification within a given social context” (Carù & Cova 2007: 5).

From this, it could be argued that value for the customer derives, not necessarily from the actual good, nor from the service alone, not even as a result of co-created act, but fundamentally from within the customer’s *total immersion* in the service process *as a multisensory, emotional experience, leaving a mental mark.*

3.2 Setting the stage for an experience

In this fourth economic offering companies are *experience stagers*, rich with sensations created with the customer (Pine & Gilmore 1999: 12). The source of competitive advantage comes from continuous interaction with the customers through *engagement platforms*, especially those centred on customer experiences (Ramaswamy 2008: 9).

Prahalad & Ramaswamy (2003: 14) state that “value creation is defined by the experience of a specific consumer, at a specific point in time and location, in the context of a specific event”. In noticeably similar vein, in their more recent epistemological view of consumer experiences, Andrew Walls *et al.* (2011) offer a framework for consumer experiences, depicted in figure 2. In this framework, a consumer experience – be it extra ordinary, ordinary, emotive or cognitive (the inner circle of the model) is an outcome of the affecting factors and their relations on the outer circle of the framework, i.e. individual characteristics, human interaction elements, physical experience elements and situational factors. Using this framework has advantages, as according to its authors, their framework examines the causes of or explains an experience (Walls *et al.* 2011: 19).

To understand the ingenuity of this framework and its general applicability, it must be explained. Even though the framework is built to serve hospitality and tourism research, it does have patterns that are generally applicable. The authors themselves acknowledge this by pointing out "when looking at the individual elements that make up the consumer experiences, it appears that many of the elements exist in both our everyday and tourist experiences" (Walls *et al.* 2011: 19).

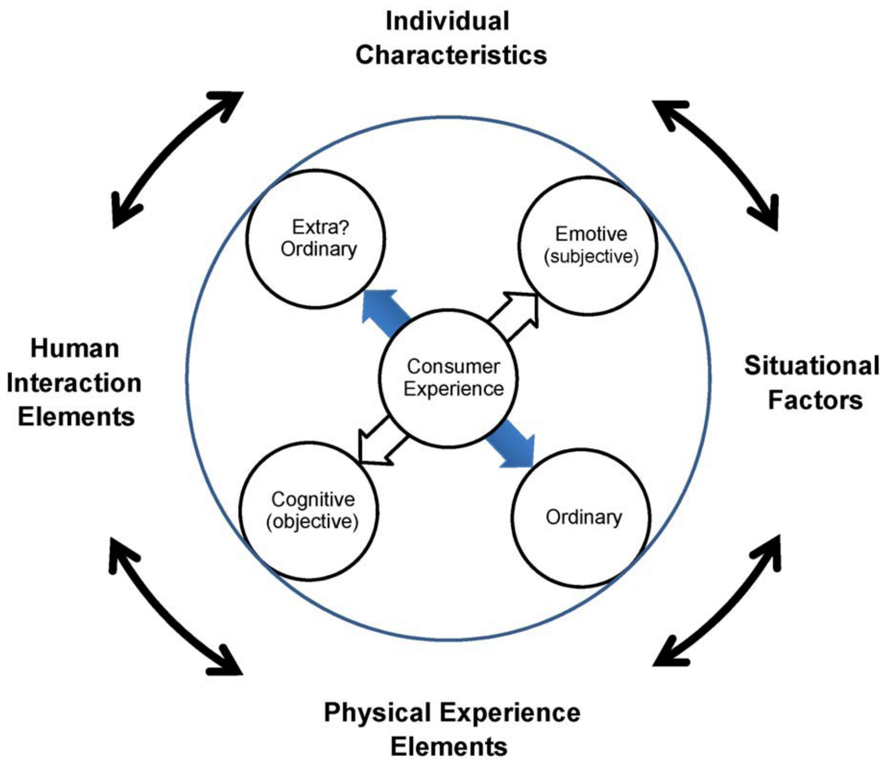

Figure 2. A framework for the composition of hospitality and tourism consumer experience (Walls *et al.* 2011: 17)

First, an experience can be either ordinary, or extraordinary. Experiential marketing usually takes the view of entertaining the customer in Disneyland or Las Vegas style, or that experiences take place in mega-malls, theme parks or other environments of rich and vibrant kind. This must not always be the case, for even the most mundane transactions can be turned into memorable experiences; staging an experience doesn't require more than engaging customers in a memorable way (Pine & Gilmore 1999: 4) and echoing Walls *et al.* (2011), even ordinary or daily experiences can become peak or transforming experiences when mixed with suitable physical experience and/or human interaction factors (Walls *et al.* 2011: 18).

Thus, an experience need not take the form of an adventure in the Grand Canyon, a trip to Las Vegas or a vacation in Disneyland. It does not need to take place in hyper reality or megamalls. Staging experiences does not equal to entertaining customers (Pine & Gilmore 1999: 30). Indeed, experiences can be had wherever and whenever, as long as there is a right setting and environment for experiences to evolve (Schmitt 1999 via Walls *et al.* 2011: 11). Take pasta for example, a basic mixture of flour, water and salt. Appears not more than an everyday commodity. But give pasta to the Italians for dinner and it is transformed into a manifold of experiences, to be enjoyed with family members, filled with symbolism, emotions and collectivism (see Dalli & Romani's 2007: 66 analysis of the experience of the consumption of pasta by young Italians).

Next, the framework proposes a cognitive to emotive component –axis demonstrating the range of experiences. This is where cognitive and emotional factors affect the outcome of the experience. A consumer can be involved in objective, non-personal way in the experience. A business traveller, for example, can perceive the experience of staying overnight in a hotel from strictly business point of view, not allowing for personal emotions to influence the stay. A vacationer that has chosen the same hotel for him / herself, on the contrary, highly perceives the experience subjectively, fully allowing his / her emotions to affect the experience.

Outside factors affecting the outcome of the perceived experience is influenced by physical experience elements and human interaction elements. The environment surrounding the staged experience could be designed in such a way that it emphasises the effectiveness of the situation, impacting the five senses of consumers (Walls *et al.* 2011: 19). Although Pine and Gilmore (1999) stress the importance of the senses by pointing out that the more effectively an experience engages the five senses (sight, hearing, taste, smell, touch), the more memorable it will be (Pine & Gilmore 1999: 59), however, heightening an experience through even one single sense is sometimes enough to make it memorable (Pine & Gilmore 1999: 60). For instance going to a bakery where you can smell the freshly baked bread is enough to build an experience, or taking the Scandinavian habit of swimming in the hole in the ice powerfully stimulates the senses of extreme coldness on one's skin. That is something to remember for a lifetime. It's enough to take one sense, but the catch is to utilize it in a memorable way, resulting in a strong mental mark.

Further, to accentuate the effectiveness of the physical surroundings, staging an experience by envisioning a well-defined theme (Pine & Gilmore 1999: 46) could be utilized. Theming is "a technique of self-representation that focuses on a particular conceptual category which should already be known to users and should therefore generate a high level of involvement" (Codeluppi 2007: 156). A theme can be expressed for example in the architecture, the way salespeople act, the décor and the furnishing (Pine & Gilmore 1999: 47). Many global examples of themed restaurants and other locations exist, for instance Hard Rock Café, Planet Hollywood restaurants, or more locally even dining out in a French, Japanese or Italian restaurant is getting immersed in a themed environment. When theming is effective, it has the impact of changing customers in a certain way so that they are no longer the same after having tried it (Codeluppi 2007: 156).

Co-creating an experience cannot be achieved without the purposeful interaction of the individual consumer with a network of companies and consumer communities that enable personalized experience (Prahalad & Ramaswamy 2003: 14). Thus, interactions between the consumer, the firm and other stakeholders become an essential factor in the realization of the experience's total outcome. What we have learnt from the co-creation of value domain is the significance of relationships. This is equally valid in the co-creation of experience domain, "value creation is an interactive process and, thus, the firm and customer must be considered in a relational context" (Vargo & Lusch 2008b: 8). Here, the frontline employees interacting with the customers play an important role, for much of organization's impression, image and impact depend upon how well the organization's employees interact with its customers (Mascarenhas, Kesavan & Bernacchi 2004: 491), therefore the personnel of the firm should use every opportunity to turn an interaction into an experience (Pine & Gilmore 1999: 122). By training employees and targeting specific consumer groups in order to create a socially engaging and appropriate environment, a firm can enhance human interaction experience elements (Walls *et al.* 2011: 19).

*Ing*ing an offering is one of the dominant foundations in Pine and Gilmore's (1999) experience economy thinking, where any good can be *ing*ed (Pine & Gilmore 1999: 16). The stage is to be set so that for example an act to have a coffee becomes a drink*ing* experience, instead of just to have a drink. As the economy has shifted from goods dominant logic towards services, it can therefore be argued that in addition to every good being *ing*ed, similarly every service could be *ing*ed. When *ing*ed, the basic function becomes more involving. Likewise, the price can be "*ing*ed" – as the terminology changes from price to pric*ing.* Analogously, tapping into the experiential dimension of price, the price becomes pric*ing*, an experience immersing the customer.

4. PRICE AND PRICING

Managerially, in essence, price can be regarded as the culmination of all actions within a firm pointing towards extracting a monetary sum that is higher than the costs occurred during the production of an offering (Eichner 1987: 1567). And, as argued earlier, price is the most important cue a customer focuses on when making a purchase decision. Further, evidence suggests that an improvement of just 1 per cent in price realization can boost margins by 12,5 per cent (Dolan 1995: 174). Therefore it is not insignificant on what grounds pricing decisions are made and which methods are used. In practice, however, the problem with pricing services is the intangible characterization of services that makes setting prices difficult (Zeithaml, Parasuraman & Berry 1985: 35). Pricing is argued to be managers' biggest marketing headache (Dolan 1995: 174).

Hypercompetitive markets have various negative depictions: customers are virtually free to choose from any suppliers' offering, they can go anywhere to get the best product at the best price. Customers have practically unlimited choices with only slight variations in product characteristics. Every service provider uses the same metrics to set prices and radical changes in pricing structure are practically impossible. Competition is largely price-based and margins are reduced to a strict minimum. Only large volumes seem to keep a firm afloat. This depressing illustration of lowest-cost production is surely not the most appealing business environment in which to manage a business and its pricing in a productive way. How can a firm operate in such a highly competitive environment? The purpose of this chapter is to provide the management with some new ideas on how to price outside the traditional norm, not only as the management's function but also as a function that involves the active behaviour on the consumer end. Furthermore, it casts a view on the conventional methods of, and proposes some new emergent ways to pricing.

As proposed, in this research the stagnant noun *Price* as defined by Alfred Eichner (1987), "a set of numerical values, indicating the amount of funds (in the form of cash or drafts against bank deposits) that have to be given up in exchange for each unit of a good, service, or other type of resource that is purchased in the market"

(Eichner 1987: 1558) becomes an active verb *Pricing*, co-activating the consumer in ”the behaviour of firms as they decide what price to charge for the goods or services they supply” (ibid.). To the consumer, price is what is given up or sacrificed to obtain a product (Zeithaml 1988: 10).

Types of pricing policies fall into two broad categories: posted-price mechanisms, and price-discovery mechanisms. Under a posted-price mechanism, goods are sold at take-it-or-leave-it prices determined by the sellers. In price-discovery mechanisms, prices are determined via bidding processes such as auctions. (Elmaghraby & Keskinocak 2003: 1288). Even though co-creation literature does not offer strong implications to co-created pricing practices, broader academic literature, however, offers various labels to co-creating price. Kelly Haws & William Bearden (2006) define *dynamic pricing* as “a strategy in which prices vary over time, consumers, and/or circumstances” (Haws & Bearden 2006: 305). Wedad Elmagraphy and Pinar Keskinocak (2003) see *customized pricing* as quoting each customer type a different price based on relevant characteristics such as age, wealth, geographic location and so on (Elmaghraby & Keskinocak 2003: 1307). Chang and Yuan (2008) propose a collaborative pricing model in which customers are active participants in determining product prices in the era of knowledge economy (Chang & Yuan 2008: 635).

4.1 Remnants of industrial pricing – cost-plus

The prevailing logic of doing business is deeply rooted in today’s management, having inherited its pricing practices from the industrial era where programs, plans and budgets have been the mechanisms to insure tomorrow’s predictability and durability of operations (Boivin & Roch 2006: 411). Pricing is often referred to as being “Scientific” due to its estimation and accurate calculation formulas (Gorelick 2004: 50).

Scientific pricing has resulted in two main streams of pricing methods that are widely adopted by the majority of today’s firms; the traditional cost-plus method and the pricing according to the average prices of the markets (Avlonitis & Idounas 2005: 47). To succeed, firms have relied on the traditional way of pricing using simplistic cost-plus method where on top of costs a margin is added. Pricing this way has insured that all costs have been covered and a pre-calculated profit has been captured (Gorelick 2004: 50). Cost-plus formula has been popular in its implementation due to its simplicity and easiness to use (Avlonitis & Idounas 2005: 49) and has served as a benchmark for determining prices to a firm's best knowledge when due to information constraints information only from within the firm has been available (Elmaghraby & Keskinocak 2003: 1304).

4.1.1 Difficulties with cost-based method

The problem with cost-plus method is that it does not capture the true value of the market, and inadequately considers the perceived value of the customer (Gorelick 2004: 50). Cost-plus pricing has received heavy criticism for its emphasis merely on production costs and disregards the market conditions (Avlonitis & Idounas 2005: 54). Moreover, in the vein of Alastair Dryburgh (2009), cost-plus ignores the value of knowledge (Dryburgh 2009: 18). The firms aren't selling "stuff" anymore, but results of know-how, expertise, research and development, i.e. operant resources. As highlighted, the notion of increased use of operant resources is gaining importance in today's ever increasingly knowledge-based society.

Pricing as science described above comprises of calculated amount of costs, the minimum to-have, referred to as "price floor" on which a margin has been added (Ingenbleek 2007: 445). As argued, cost-plus method has been widely adopted due to its easiness and simplicity to use. "Price ceiling", on the other hand is the maximum amount of money a customer is willing to pay. This poses a totally other kind of a problem. The ceiling is far more challenging for a marketer to determine for it is based on customer's values (Ibid.). Each customer has a different value set and consequently the willingness to pay also varies from one customer to another. This is the "artistic" form to price, as there is no mathematic model to determine a customer's value perceptions; instead, creativity is called for.

If it is so obvious that cost-plus is not the means to realize true market value, why then is there an inconsistency between how pricing is practiced differently from how the academics see it should be practiced? In a research conducted by George Avlonitis and Kostis Idounas (2005), they discovered that firms acknowledge the importance of customer-based objectives and do place the customer as their priority. Unfortunately this does not become visible in their pricing decisions; on the contrary, they still choose the easier method of cost-plus pricing. This is perhaps due to the difficulty in determining their customers' demands and needs (Avlonitis & Idounas 2005: 52). There appears to be a link missing between the objectives and the methods in pricing strategy. This missing link could be regarded as an information gap that needs to be filled.

One answer to better pricing is *knowledge*. What is required of the management is better understanding of its customers and its turbulent markets in which it operates (Wang & Lo 2003: 509). Source of that knowledge is through market research. According to Ingenbleek (2007) information can be gathered from the deployment of market research, either externally or internally, from the interactions with the customers and using managers' knowledge about customers derived from prior experiences with customers (Ingenbleek 2007: 450). The reason d'être of this study's is not to elucidate the various ways of acquiring market information through market research in detail, and for that reason explaining the full process of acquiring such knowledge is left outside this paper. It is noted, however, that to get the price right it is paramount to find out the expectations of the customers through market research and to price according to what the customer perceives as valuable.

4.1.2 Problem of optimization

The dynamic nature of the firm's environment entails a countless number of variables that influence the final price. In the artistic form of determining the price ceiling, there is no optimum level for the final price; and as we move forward in this chapter we learn that artistic pricing is more a compromise of all influencing factors, tangible and intangible, numerical as well as psychological, visible and tacit.

If prices can no longer be controlled by statistical analysis and numerical data, but rather is an outcome of compromises, the interesting question for management is how to optimize the maximum level for price or can it at all be optimized? It must be stated that in service-dominant logic literature an optimum level or maximum profit is not a priority. In goods-dominant logic maximum efficiency – and maximum profit – is achieved by standardization and economies of scale (Vargo *et al.* 2008: 147), this we know thus far. The remnants of industrial thinking has allured the management into maximization and optimization in pricing decisions that are based on easily measured quantitative production costs and calculations.

However, in today's consumption culture, terms such as (mass)customization or "customerization" (see Wind & Rangaswamy 2001) are the prevalent logics where the focus is not so much on the profit maximization, but on the customer: "Outcomes (e.g. financial) are not something to be maximized but something to learn from as firms try to serve customers better and improve their performance" (Vargo & Lusch 2004: 6). Additionally, the objective of "maximization" has been criticized by a number of different authors in the existing literature as being rather unrealistic to achieve (Avlonitis & Idounas 2005: 48). Co-creation of price does not in all cases maximize profits. "Owing to agency problems resulting from the divorce of ownership from control, information asymmetries, bounded rationality and so forth firm behaviour towards customers and suppliers may not however result in the maximizing of profits" (Bowman & Ambrosini 2010: 486). The firm is seen by the behavioural theorists as a coalition of stakeholders that negotiate about objectives. These objectives are satisfying rather than maximizing in nature (Ingenbleek 2007: 443). Robert Dolan (1995: 175) provides a simple example of the difficulty a management faces when trying to optimize a price when there are multiple stakeholders who negotiate:

> *"For example, if the marketing department sets list prices, the salespeople negotiate discounts in the field, the legal department adjusts prices if necessary to prevent violation of laws or contractual agreements, and the people filling orders negotiate price adjustments for delays in shipment, everybody's best intentions usually end up bringing about less than the best results."* (Dolan 1995: 175).

How then can a firm be managed if not through maximization and optimization? It is by turning the true focus of firm's all actions towards the customer, pricing included (Avlonitis & Idounas 2005: 54). As implied by Vargo and Lusch (2004), the customer should be the centre of all actions and they are there to learn from, not something that must be maximized of. To serve the customer to the firm's best ability is primary, and if that is done well enough, financial benefits will follow.

4.2 Adopting an expanded pricing framework

It has been surveyed that most firms base their prices on cost information rather than customer value information (Ingenbleek 2007: 441). Here, service firms are no exception, although their costs are more difficult to calculate (Zeithaml *et al.* 1985: 38). While cost-plus has been successful in the past and still some can regard it as a useful method to price, it is not necessarily the most effective way, with respect to overall profit, to approach the pricing problem (Wardell, Wynter & Helander 2008: 326). Verna Allee (2000b) stresses that as long as the discussion revolves around the traditional boundaries of the firm, intangible aspect is left obfuscated and its full potential is not realized. He further suggests that we must begin to evolve our frameworks to an expanded view of potential value domains. (Allee 2000b: 18).

The marketing literature has long recognized the effectiveness of customized pricing on profits, extending back to early 1920's (Elmaghraby & Keskinocak 2003: 1307). The interest and adoption of value-based and dynamic pricing approaches for services appears to be growing rapidly and globally (Wardell *et al.* 2008: 329, Haws & Bearden 2006: 306). This is due to advances in e-commerce and information technology that have opened up new opportunities for dynamic pricing (Elmaghraby & Keskinocak 2003: 1297). Customers that are equipped with knowledge, are now much more willing and able to negotiate prices and other transaction terms with the firms than in the past (Prahalad & Ramaswamy 2004: 7). Further, Irene Ng (2010) acknowledge that payments, as they have traditionally been exchange-oriented are today less straightforward. Modern service economy has moved from exchange based pricing to models that include relational, temporal and behavioural issues. (Ng 2010: 277). We are thus moving away from the emphasis of monetary exchange more towards the exchange of value constellations. To enable this type of exchange is a question of designing a system of activities within which customers can create their own value (Wikström 1996: 360). In this research, pricing is presented as such an activity.

By customizing prices, a company can earn much greater profits than it could expect with a single product/single price policy, yet many managers fail to recognize the benefits of customizing products and prices for different customer segments. A product will often have a much higher perceived value for an "ideal" customer than it will for an average prospect. (Dolan 1995: 176). Customized pricing (i.e., third-degree price discrimination) entails quoting each customer segment a different price, where each customer type possesses a different underlying demand function based on relevant characteristics, such as age, wealth, geographic location, and so on (Elmaghraby & Keskinocak 2003: 1307). Hal Varian (1995) via Chang and Yuan (2008) offer price discrimination as a pricing strategy where a producer charges different users different prices based on their willingness-to-pay (Chan & Yuan 2008: 636).

4.3 How do you know when the price is right?

Dolan (1995) has, in his article *"How Do You Know When the Price Is Right?",* described "eight steps to better pricing". Although as conspicuous as his eight steps to "happiness" is titled, he does manage to make some very relevant points in the context of customer oriented pricing, accounting for many of the topics covered in this research. These eight steps that are presented in the following eight subchapters shed light into the black box of managerial dilemma of what to consider when thinking about pricing.

4.3.1 Assess what value your customers place on a product or service.

Ingenbleek (2007: 441) stresses that the pricing literature about pricing practices in organizations that take into consideration the customer value perceptions is blurred and is in need for more clarity. This is even more challenging in the service industry where the values of the customers are more difficult to externalize. Marketers of services face problems that are not faced by goods marketers. While lacking the tangible dimension, evaluating the outcome of services is complex due to services' well-documented four characteristics – intangibility, inseparability, heterogeneity, inseparability and perishability (Zeithaml *et al.* 1985: 33). Here lies the oxymoron of pricing services: the true value of an offering is perceived only after the service is consumed. When consuming services, one cannot rely on the feel, colour, or the packaging of the offering. This poses a challenge for the firm: how to price something that the customer has not yet experienced?

One answer to this question is offered by the recent marketing research suggesting that pricing should correlate with value perceptions of the customer and to compete successfully in a value-conscious environment, sellers must stress the value of their offerings (Grewal, Monroe, & Krishnan 1998: 46). Or, in other words, companies should charge for the value they add, not the costs they incur (Pine & Gilmore 1999: 77). Before any price is determined pricing managers must think about how customers will value the offering. (Dolan 1995: 175).

4.3.2 Look for variation in the way customers value the product.

Due to the heterogeneity of the firm's customer base, different customers perceive the value of the offering differently. Value for each customer is a sum of customer's perceived costs versus benefits. Costs include both financial (sale price) and nonfinancial aspects, such as time and effort (Zeithaml 1988). How the customer values the offering is dependent on various determinants, inter alia tendency to search, customer's characteristics, level of involvement, or whether the customer is a myopic or a strategic customer.

In their research, Hong Yuan & Song Han (2011) have identified that the market consists of three types of buyers: the shoppers who always search and buy from the lower-price seller, the high-search-cost buyers who never search but buy from whomever they visit first, and buyers whose search costs are intermediate. (Yuan & Han 2011: 51). According to Yuan and Han (2011), only when there are both searchers and non-searchers is it optimal for sellers to randomize their prices and adopt a mixed-strategy rather than charge monopoly or competitive prices. Therefore, what the firm needs to do is to acknowledge the search costs of its customers when interacting with the firm and attract a mixture of customer base where all three types of search costs are present. Concentrating only on one type of a customer does not produce an optimal base for dynamic pricing.

Another factor in affecting the way customers value the offering is their level of involvement. Highly involved consumers focus on the product and its benefits and price may play less of a role in the process. Also, consumers consider prices more acceptable when the level of involvement is high. (Ofir 2004: 614-615). This has the implication that the level of involvement in the offering and the process should be carefully examined, in praxis possibly segmenting customers to those who are high in involvement versus low in involvement.

Elmaghraby and Keskinocak (2003) recognize two customer types, a myopic customer and a strategic (or rational) customer. A myopic customer is one who makes a purchase immediately if the price is below his / her valuation (reservation price), without considering future prices. Conversely, a strategic customer takes into account the future path of prices when making purchase decisions. Dynamic pricing decisions of a seller facing strategic customers is more complex, because the seller has to consider the effects of future and current prices on customers' purchasing decision. (Elmaghraby & Keskinocak 2003: 1290). Acting strategically, a buyer might choose not to purchase at a given price step even if that price is below her valuation, hoping to purchase at a later (lower) price step to increase her surplus (Elmaghraby & Keskinocak 2003: 1296).

4.3.3 Asses customers' price sensitivity.

Consumers vary in their personal sensitivity or orientation towards product characteristics, and Joffre Swait and Jillian Sweeney (2000) propose that a consumer's value orientation underlies his / her price sensitivity in a specific situation (Swait & Sweeney 2000: 78). Consumers appear to be sensitive to several reference points in terms of price – including past prices, competitor prices, and cost of goods sold, as pointed out by Lisa Bolton, Luk Warlop & Joseph Alba (2003: 474). Each consumer has an internal reference price in memory to which comparisons of actual prices are made (Grewal *et al.* 1998: 47). Buyers make observations of prices either actively or passively (from advertising, previous experiences with the retailer, its competitor, word-of-mouth from his / her friends), use them to form expectations and then make search decisions after observing current period prices (Yuan & Han 2011: 49). Reference price is then used as the base for a reservation price. Reservation price is the maximum price the customer is willing to pay for the offering (Ding, Eliashberg, Huber & Saini 2005: 354).

Today, information technology paves the way for easier and more accurate comparison of benefits and prices than ever (Grewal *et al.* 1998: 56). Consumers can easily shop around and assess the relative performance and price of alternatives. Advances in information technology have enabled consumers to increase their awareness of prices and access to alternative options. Over time, this ability is likely to lead to increasing price sensitivity for a wide range of products and services. (Dolan 1995: 178).

The reference price is thus a remembered mental image of what the customer perceives the “correct” price level to be. This mental image then serves as a basis for price comparisons to take place. With advertising or influencing the customer’s perception of value in some way (i.e. affecting the customer’s level of involvement) or through altering the situational factors can the price sensitivity be lowered.

4.3.4 Identify an optimal pricing structure.

Dolan (1995) offers two distinct pricing structures that can be optimized; either to offer quantity discounts or to sell in bundles (Dolan 1995: 180). Manjit Yadav and Kent Monroe (1993) define bundling as the selling of two or more products and/or services at a single price (Yadav & Monroe 1993: 350). This type of pricing strategy is questioned by Bertini and Wathieu (2010) who feel that firms facing heavy competition start competing with price and offer all sorts of price promotions – coupons, quantity discounts, referral discounts, bundling, and targeted promotional offers, which, in turn, can be more of a hindrance than a help (Bertini & Wathieu 2010: 89). Conceptually different way to look at bundling is offered by José Legarreta and Carmen Miguel (2004) by stating that firms must define bundling through an in-depth appraisal of the actual contextual experience of the customer, rather than focusing solely on reservation prices, which has been the main emphasis of previous literature (Legarreta & Miguel 2004: 264). It could be reasoned that a service proposition is thus a bundle of factors related to the situation or location where the customer interacts, not a combined gestalt of price / products.

When deciding on an optimal pricing structure, the temporal dimension of price alterations researched by Elmaghraby and Keskinocak (2003) has an influence on the final profitability. They note that price can be altered either periodically where prices are updated at fixed time intervals or continuously where (i) the price path can be a continuous function of time, or (ii) given a discrete set of allowable prices, the time between two price changes is a decision variable. In case of continuous pricing, customers sequentially arrive over time, and as a result, each potential customer could be offered a different price. (Elmaghraby & Keskinocak 2003: 1292). Elmaghraby & Keskinocak (2003) report that a constant price policy is likely to be more profitable than an automatic markdown policy, which does not take into account the anticipated pattern of demand (Elmaghraby & Keskinocak 2003: 1296).

4.3.5 Consider competitors' reactions.

In its operating environment, the firm must consider the consequences of their pricing decisions in regards to their competition. There is always a possible counter-action of the competition to account for. Pricing, according to Dolan (1995) is like a game of chess, and managers should ask themselves how any change in price will affect competitors (Dolan 1995: 181). The bond between game of chess and anticipating the competition's next move is not too far from what some academics refer to as *game theory* where each independent, self-interested agent makes its own strategic moves and counter-moves in order to maximize the agent's utility to form a preferred outcome (for further reading, see Leyton-Brown & Shoham 2008 for comprehensive introduction to various game theory models). In a competitive business environment, consumers' purchasing decisions take into account prices offered by competing firms, hence competitors' pricing decisions need to be considered while developing a dynamic pricing policy (Elmaghraby & Keskinocak 2003: 1299).

Ingenbleek (2007) report the findings of Carson *et al.* (1998) that firms tend to conform to specific pricing practices within their industry rather than try to do something different. They propose that rigidity will be stronger if pricing practices within an industry are more similar to each other (Ingenbleek 2007: 452). They also report of findings that pricing practices in smaller firms are taken in smaller groups and thus can adapt more flexibly to changing market circumstances, whereas pricing procedures are more rigid in large firms (Ingenbleek 2007: 452). This has the implication that young start-up companies might have the benefit of a small company to implement CCP strategy in comparison to a larger company already established in the markets. It is also to conclude that it is relatively hard to break free from the industry-specific pricing practices, making conforming to existing practices easier.

Not only the reactions of the competition, but industry-specific characteristics as a whole, what Michael Porter (1979) refers to as “five competitive forces” (the threat of the entry of new competitors, the threat of substitute products or services, the bargaining power of customers (buyers), the bargaining power of suppliers, and the intensity of competitive rivalry), must be accounted for. The firm must recognize the kind of industry it operates in. If the firm does not differentiate its product or service from competitors, the price ceiling will be determined by competitors’ prices (Ingenbleek 2007: 452).

4.3.6 Monitor prices realized at the transaction level.

Dolan (1995) points out that despite an offering having a list price, due to the company’s pricing terms and conditions and the number of negotiating stages, the realized price can deteriorate and thus list prices do not reflect the final price a customer pays (Dolan 1995: 182). It is important to distinguish list price, the price quoted in advance by sellers from transaction price, the price at which the good is actually exchanged for money (Eichner 1987: 1559). Dolan (1995: 182) continues with reports that companies spend 90 % of their pricing efforts setting list prices while in the end it is the “real” price that pays the company’s expenses.

Hence, it appears that a considerable amount of firm’s resources is being put into decisions that at some point or another along the decision chain must be changed. Optimization is at times not the best solution in pricing, as pointed out by Avlonitis and Idounas (2005) and Ingenbleek (2007). This means that the best use of resources directed at pricing efforts is not necessarily achieved through optimizing list prices, but the list price could rather serve as a somewhat loose directional indicator and instead it would be more efficient to direct the available resources towards co-creating the final "real" price with the customer. In setting the price, the full impact of the pricing program must be analyzed, measuring and assessing the bottom-line impact (Dolan 1995: 182).

4.3.7 Assess customers' emotional response.

When managers analyze how customers respond to a product's price, they must consider the long-term effects of the customers' emotional reaction as well as the short-term, economic outcome (Dolan 1995: 182). Bendapudi and Leone (2003) state that the marketing literature has largely focused on the economic implications and has not addressed customers' potential psychological responses to participation (Bendapudi & Leone 2003: 14). However, every transaction influences how a consumer thinks about a company and talks to others about it (Dolan 1995: 182).

When examining customers' behaviour taking part in reverse-auction type of bidding (type of bidding where multiple suppliers compete for the buyer's business), Min Ding, Jehoshua Eliashberg, Joel Huber and Ritesh Saini (2005) investigated in their research how psychological constructs influence behaviour in economic setting. They concluded that participating in a bidding process is not emotion-neutral, but emotion-laden with feelings of excitement at winning or frustration at losing bids (Ding *et al.* 2005: 353). Their empirical results reveal that customers are not profit-maximizing actors when engaging in an emotion-laden activity such as a bidding process. As the customer becomes actively involved and excited about the bidding, he / she accepts the loss of some financial gain.

Bendapudi and Leone (2003) have in their study of customers' participation in co-production reported that the link between outcome quality and satisfaction with the firm is affected by customer participation in production (Bendapudi & Leone 2003: 22). Walls *et al.* (2011) argue that consumers who wilfully involve themselves in positive physical and relational aspects of their consumer experiences are more inclined to engage in positive emotion and behavioural outcomes (Walls *et al.* 2011: 19). Further, it has been noted by Catton (1959) that people are more attracted to an object – that may have little to do with the actual characteristics of the desideratum – if they are in a position to believe that they have chosen it freely (Catton 1959: 316).

When price discriminating, i.e. charging a different prices from different customers, the management is faced with the issue of equality between customers. For example following questions need to be considered: should the price be the same to all customers regardless of the situation? Should not all customers be treated equally, or conversely, should the price not reflect the abilities of a customer to negotiate, rewarding the customer for his / her ability to negotiate? The perception of price fairness in an exchange is addressed by many researchers, for there might be some potential negative effects associated with price differences from dynamic pricing practices. The emotional response of the customer is impacted by perceptions of fairness. Perception of a fair price increases satisfaction. When customers perceive that they pay a good price for the benefits obtained, their purchase intentions will increase (Grewal *et al.* 1998).

4.3.8 Analyze whether the returns are worth the cost to serve.

A large number of researchers have established the benefits of dynamic pricing in comparison to fixed-price policy. The remaining challenge concerns the costs of implementing such a dynamic pricing policy.

Although customer value is crucial in pricing, managers also must consider the cost side to avoid cost-to-serve that are substantially higher than the value it provides to the firm (Dolan 1995: 182). A study conducted by Elmaghraby and Keskinocak (2003) suggests that to charge a customer the "right price", a company must have a wealth of information about its customer base and be able to set and adjust its prices at minimal costs (Elmaghraby & Keskinocak 2003: 1287). There are differences as to how and at what costs this information is acquired. Most of the solutions for applying dynamic pricing provided by the marketing literature are from e-commerce where such policies are more cost effective that in the traditional retail channels. Dynamic pricing has become much more common with the increased prevalence of Internet marketing (Haws & Bearden 2006: 304).

Elmaghraby and Keskinocak (2003) feel that e-commerce opens the door for dynamic pricing policies. Electronic retailing is quick, and cost efficient. With the help of electronic development, online stores have several advantages over brick-and-mortar stores when pricing dynamically. Customer data can be easily collected during the customer's surfing on the website, and thereby can be used in developing and implementing informed and sophisticated pricing strategies (Elmaghraby & Keskinocak 2003: 1305). Investments in technologies as for example databases and voice-response reduce transactional costs. Investing in such infrastructure leads to high fixed costs in the short-term, but reduce the over-all costs in the long run, even when large volumes of customers are served (Sheth *et al.* 2000: 63). Information goods are characterized by high fixed production costs and extremely low reproduction costs (Chang & Yuan 2008: 635).

What must be noted is that all industries do not have the same cost structure. Each price is defined by its cost structure and each cost structure is defined by its industry. "Each of these industries can be assumed to have its own unique production function and therefore, taking into account the price of inputs, its own unique cost function" (Eichner 1987: 1562). This is to say that not all industries have the same possibilities for CCP. Pricing practices also vary and what works well in one industry, might not work at all in another. Determining the "right price" is a complex task, requiring that a company knows not only its own operating costs and availability of supply, but also how much the current customer values the product and what future demand will be (Elmaghraby & Keskinocak 2003: 1287). A firm must recognize its cost structure, its customers and competitive surrounding as well as the industry in which it operates in order to determine whether CCP is at all a suitable policy for pricing.

5. FINDINGS AND CONCLUSIONS

Under the pressures of today's competition companies are persecuted by commoditization of offerings. Therefore a set of capabilities must be developed in order to deliver superior value for its customers outside the traditional exchange paradigm. Several authors call for more research and deeper understanding of pricing practices that pay respect to customer value perceptions (see Ingenbleek 2007: 441).

Storbacka and Nenonen's (2009: 361) argument is that prior theories do not sufficiently acknowledge the role of the customer, nor the relationship to the customer as a resource and as a supplier of resources, and, furthermore, do not recognize the importance of the capabilities related to managing customer relationships in the increasingly dynamic market environment.

With regards to pricing literature, producer's perspective has thus far received most of the attention (Chang & Yuan 2008: 636). Ng (2010) proclaims: "The organization of the future is one that is able to seize the opportunities presented through the inclusion of the customer and other stakeholders in managing, designing and pricing for value co-creation." (Ng 2010: 278). Thus, rather than for the firm to predefine the exact amount of price, why not let the customer be an influential element in the decision making process?

As a result of inductive reasoning, a simplified framework of co-creating value through pricing is presented in this research. Figure 3 illustrates this framework drawn from the numerous theoretical contributions of researchers presented throughout this paper. Drawing from academic literature, following findings are reported here within.

5.1 Co-creating value through pricing framework

This research builds its main foundations on the co-created value domain where it appears to be a largely accepted notion that when co-creating unique value, the customer is an integral part of value creation with the service provider, being always a co-creator of value (Vargo & Lusch 2008b: 3). In order to describe the value creation process, this research took the ARA model's three main components, Actors, Resources, and Activities (Fyrberg & Juriado 2009: 423) as one of the most central explanations for co-creation of value to emerge.

A firm can no longer rely on the inwardly focused value chain. It is Vargo & Lusch's (2008b) argument that the value of service in Service-Dominant Logic lies in the *reciprocal* and *collaborative* input of the beneficiary (customer) and the offeror (marketer), not in the output unilaterally created by the firm (Vargo & Lusch 2008b: 8). In this research the relationship was posited as dyadic, taking place between two actors (Westerlund & Rajala 2010: 438). Although many of today's activities take place within networks (Desai 2010), and are deemed as a vital field for research, for the sake of simplicity this research does not address the multiple facets of relations beyond the dyadic setting.

Instead of regarding the customer as a destroyer of value, within the value co-creation domain the customer is increasingly recognized as a valuable resource. As a generalization that lines up with co-creation literature, it can be summed that in order to co-create a price, a customer needs to take participative steps – in an environment that is enabled by the firm – to have an effect on the final price paid with the use of one's available resources. Actors have access to other resources and work with other actors to create, combine, develop, exchange or destroy resources (Lenney & Easton 2009: 553). Resources can be any kind; tangible such as money or goods, or intangible such as use of time, energy, know-how, creativity, emotions and they all enter either explicitly or implicitly into the consumer's perception of sacrifice (Zeithaml 1988: 11, Babin & James 2010: 475). All interactions are unique, parties reciprocally co-create value, with each party bringing their own unique resource accessibility and integrability into that process (Vargo & Lusch 2008a: 257). In CCP a customer possesses and makes use of a special resource to his/her advantage in order to influence the final price paid.

Another central notion emerging from the literature is that in order for co-creation of value to emerge, it requires the *willingness*, *motivation* as well as the *capability of the customer* to engage in the co-creation process (Finsterwalder & Tuzovic 2010:

112). Since willingness, motivation and capability can be argued to dwell from the mindset of a customer, they can be ordered under the provision of Vargo & Lusch's (2008b) intangible operant resources, resources of the mind.

Consumers must be willing to engage in an experience for CCP to occur. It has been reported that a customer who actively participates in a decision making activity is likely to be more satisfied with the end result than the customer that has not participated (Bendapudi & Leone 2003: 18). In particular, consumers who participate in price determination through bidding and/or negotiating are more likely to perceive prices as fair (Haws & Bearden 2006: 306). Further, if consumers judge a particular pricing rule as fair, subsequent transactions using similar rules will also be perceived as fair (*ibid.*).

There are reported findings that the level of satisfaction is affected by the ratio of customers' sacrifice such as their attention, time, and effort that they assess (Bendapudi & Leone 2003: 22). When customers perceive that they pay a good price for the benefits obtained, their purchase intentions will increase (Grewal *et al.* 1998). The consumer surplus, be it utilitarian or hedonic that exceeds the sacrifices functions as a motivator. In positive outcome the sum of get-components (monetary or non-monetary value) exceeds the give-components (monetary or non-monetary resources). When the customer perceives the participation in the process to be better off than had he / she not taken part in it, the customer perceives the positive outcome attractive. Motivation to engage in an experience can additionally be found in cultural perspective where it is stipulated that one source of consumerism lies in consumption of symbols and meanings. Price could be therefore represented as a symbol that is consumed.

The capability to participate is required. It is important to recognize the level of customers' expertise and willing to engage in a co-creative action. Not all customers possess the skills to negotiate, nor have they the required skills to experience a staged setting. Negative attributions about the interactive encounter process might emerge when the customer lacks the expertise but feels forced to participate. Or on the contrary, when the customer wants to participate, but is not given the chance to do so (Bendapudi & Leone 2003: 26).

The technological advancements offer many of the elements drawn together in this research, thereby offering new possibilities for co-creating value through pricing. With the help of technology, the consumer possesses information-gathering skills that have not previously existed. Comparing benefits and prices is both easier and more accurate than ever. Online access to databases, information gathered from social media, all add to the amount of information, skills and abilities for consumers to engage in pricing negotiations. The inclusion of the customer will have an impact on pricing and revenue models even further as the use of technology becomes more integrated in the customers' daily lives.

Wikström's (1996) system of activities within which customers can create their own value is the central notion in this research. Activities are not tied to any particular stage in the co-creation process and can take place prior to consumption, during the consumption or after the consumption. Activities can also take place in one or more stages simultaneously. This research extends pricing into the co-creation paradigm with the inclusion of the customer in the pricing processes. Adopting the view of Wikström (1996), pricing is the activity and the customer is the central key player within that activity in which he/she creates his/her own value.

5.2 The encounter process as an enabler of the experience

This research addresses the customer not only as a rational decision making "homo economicus", always striving for the best and most optimum end result, but also as a decision maker where emotions affect the outcome. When emotions are involved, the quality of outcome can also be expressed, but not necessarily measured nor monetized (Ramirez 1999: 61) in non-economic terms, such as excitement, enjoyment, and frustration. It is not uncommon that customers get involved in the co-creation process as a result of hedonic desiderata.

Customers as actors provide a heterogenic base for pricing dynamically. Customer types vary in their personal characteristics, how much they value search-costs, their level of involvement, their price sensitivity, or whether they act strategically and consider future prices, or do not place any significant importance on future price considerations.

By pricing dynamically where prices vary in relation to time, consumers and/or circumstances, a firm can charge a different price form different customers according to each customers' value perception. It is the firm's task to research and acknowledge its customers' value drivers and make use of that information in a way that benefits both the firm and the customers in the best possible degree.

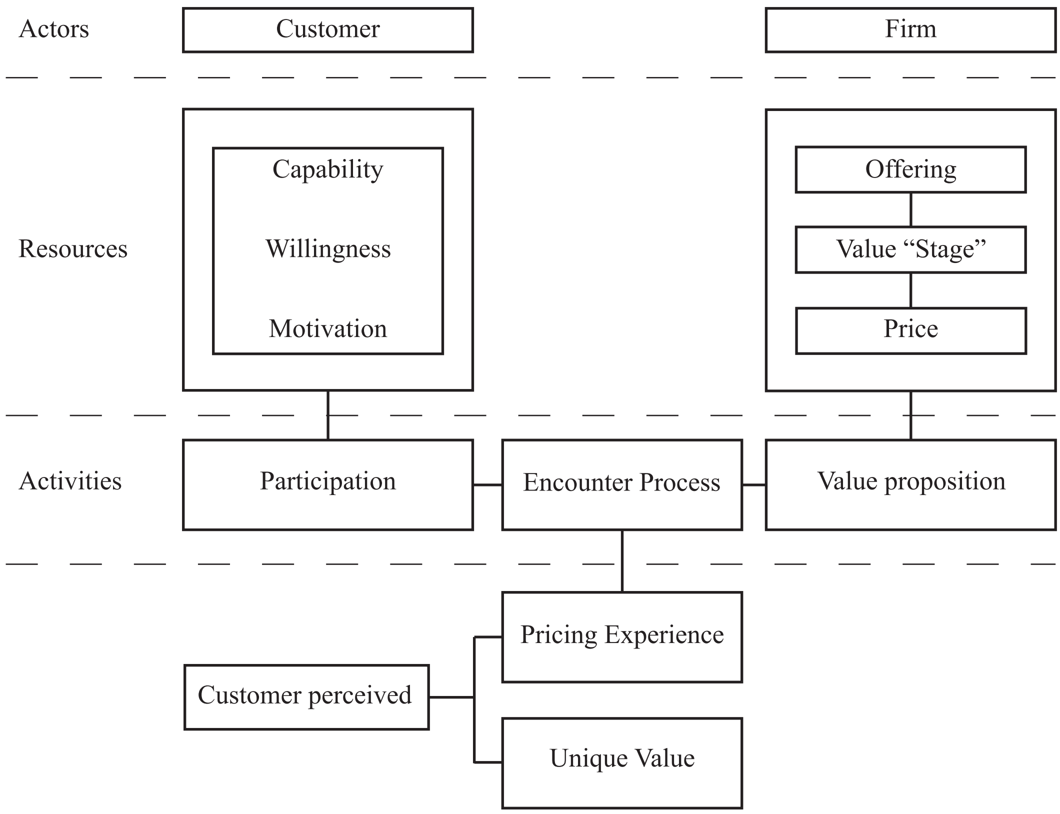

Figure 3. A simplified framework of Co-creating value through pricing

It is in the *encounter process* as defined by Storbacka and Nenonen (2009: 361) "in which dyad actors use relational capabilities in collaborative activities and practices of interaction and exchange for the co-creation of value".

In this research, it is within the interaction stage where the stagnant noun price becomes an active verb pricing. At this stage the firm's value proposition, as a result of its use of resources, merges with the customer's resources, willingness, motivation and the capability, to participate. In this framework, the interactive encounter process is the precondition for experience to materialize. The interactive encounter process is the climax of all the expectations of the customer, the stage set for the experience, and the value proposed by the firm. What the customer perceives as valuable is the result of the encounter process. The encounter process, the *"moment of truth"* (Bitner *et al.* 2008) is the locus of *"joint problem solving"* (Allio 2008) as well as the *"locus of value creation"* (Prahalad & Ramaswamy 2004). Consequently, anything that stimulates interaction increases the value of the experience itself (Podestà & Addis 2007: 150). Not only the importance of an experience, but also the importance of customer's perception of value is highlighted in Vargo & Lusch's (2006: 44) foundational premise 6 of S-D Logic stating that "experience and perception are essential to value determination." As a result of the process, unique value for each customer is created.

Focusing on the experience space as the locus of innovation as proposed by Prahalad and Ramaswamy (2003), this research offers the exploitation of experiences as the means to create meaningful value to the customer, accounting for the customer's emotional state. "The so-called experiential differentiation strategy involves defining a product [offering] that not only satisfies functional and social needs, but also offers emotional benefits" (Podestà & Addis 2007: 151). Dynamic pricing very well suits the purpose of creating an experience: "bazaars, auctions, flea markets, and similar endeavours where prices aren't fixed have always created a distinctive experience around the purchase of goods, appealing to some while turning off others" (Pine & Gilmore 1999: 20).

Service-dominant logic implies that a "thing" is a carrier of value, offering service proposition and value is realized through the consumption of such service proposition. Just as an automobile as a thing does not offer value, but a value proposition and true value is realized through the use of its services. Likewise, in terms of CCP thinking, the price tag functions as the service proposition, the visible carrier of value. True value is realized by engaging in the setting of the price. Furthermore, following the provisions of experiential marketing, the stage set by the firm is the physical and mental value proposition designed for the customer and the firm to interact. Value for the customer is realized by engaging in co-creative pricing processes on that stage.

It is no longer a question of what to sell, but *how* i.e. what kind of customer experience is offered (Rintamäki *et al.* 2007). Experiential marketing takes the view of creating an experience that leaves a mental mark on the customer (Pine & Gilmore 1999). Applying this same logic to price, a set of numerical values, when thinking of it as an experience, we can find a rich set of meanings, carrier of symbolism and a source of emotions. The emphasis of value creation in this paper is in the customer's experiential engagement as suggested by Carù and Cova (2007) and Pine and Gilmore (1999). The firm's offering, as viewed holistically by Ramirez (1999), is presented on the value stage consisting of all the physical and psychological components that could be worth to the customer, together with the price as a physical carrier of value, form the firm's value proposition as suggested by Vargo & Lusch (2008). Additionally, an experience could be viewed as recreational process. Recreational stimuli are found to induce emotional responses that positively affect the time and money that consumers spend in a store (Nisco & Napolitano 2006: 148). It is thus herein proposed that CCP would not totally be located outside such recreational elements, but could be viewed as a recreational experience.

5.3 The role costs play

Whatever decisions are made, it must be within the tolerance levels of the overall costs that occur when implementing a co-created pricing logic. The cost to produce the offering is a significant factor in deciding whether at all or at what scale to engage in CCP.

Following Sheth *et al.*'s (2000: 63) reasoning of the cost structure of technological infrastructure - high fixed costs and low transactional costs - a theoretical hypothesis in relation to the cost structure as a determinant for CCP is herein proposed. It could be reasoned that the domain of CCP works best when the fixed costs are high and the variable costs are low. To produce additional output occurs in only a marginal extra cost. The problem, of course, to enable the production in the first place is to generate enough revenue to cover the initial high fixed costs. Only after the high fixed costs are covered, does further production become price efficient. The production of intangibles, i.e. the use of operant resources has marginal production costs close to zero. Just as the marginal cost of an additional copy of a film or software is next to nothing, the cost for replicating and transferring managerial or technological know-how is quite low (Lapointe & Cimon 2009: 30). With the advancements of technology, the low costs of electronic retailing are one path a management of a firm could look into. The management could ask themselves can some of the functions be transferred to online trade and dynamically price the offering through online websites.

5.4 Co-creating price in practice

What is co-creating a price and what forms does it take? There is no one single absolute co-creating pricing method. Co-creating an offering that influences the end price can take many forms in its implementation. Offering can be presented as a set of pre-determined alternatives for the customer to choose from. Each choice from within the set, a "menu" has an effect on the end price respectively, thus a form of CCP is realized. This represents a rough and an elementary form of co-creation. Assembling a computer online is a commonly presented example in the academic literature. A customer logs onto the Internet pages of a computer manufacturer and chooses his / her preferred components from a set of ready-made alternatives according to what he / she values in the new computer. Perceptions of value are different, thus price for each combination is different. However, the most predominant example of pricing dynamically is performed in the airline industry. The price for an air fair can vary greatly depending on the timing the ticket is purchased. The airline's aim is to sell any excessive capacity for a low price as early as possible. The price of the ticket then rises as the capacity runs low and the closer to the flight the ticket is booked.

In the line of this research, a "problem" exists and two negotiating parties are working together to solve this problem. Take for example applying for a credit or a loan at the bank. The customer has a problem of not possessing enough liquidity and the bank on the other hand is in a position to provide some liquidity to the customer. The final price paid by the customer in the form of fees and/or interest rate are all a result of negotiations with the branch manager / representative. Resources as for instance personal income (tangible), assurance skills (intangible), and previous relationship with the manager all have an effect on the outcome. It is the active use of those resources that are possessed by the parties that allow fluctuations in the price.

Other forms can be found, too. For example, advances in technology permit price comparisons to take place. Today, it is extremely easy to compare prices online for products and services. Internet's capability for friction-free transactions enables instant price comparisons across myriad sources (Pine & Gilmore 1999: 11). Probably the most common example of co-creating a price is auctioning on online forums such as eBay (see e.g. Mascarenhas, Kesavan & Bernacci 2004: 492). Auctioning is argued to best reflect the value a consumer places on an offering. The consumer pays a price that reflects the value the consumer has placed on the offering. The consumer, once again, possesses a personal attribute – interest and involvement – in finding the solution to his / her problem.

In 2007, a world-renowned rock band Radiohead decided to let their latest album "In Rainbows" to be freely priced by their fans. The fans were able to download the album from the Internet and decide for themselves the amount or whether at all to pay for the music. This was a big marketing measure from the band and received instant attention not only within their fan base but also from people that had not heard their music. This is not the only example of this type of pricing method. In Finland, a football team *Pietarsaaren Jaro* decided in 2009 that in the final game of the season they'd allow the spectators to pay whatever they want to come and watch the game. According to the general manager Niklas Storbacka, when applied elsewhere it has proven to be successful resulting both in increased number of spectators and increased ticket sales (Internet: Pietarsaaren Jaro 2010). While "Pay What You Want" -models may initially appear to forego some profits, Radiohead's experiment with their release of *In Rainbows* suggests, however, may in some cases actually be a more profitable way of selling music (Vrana 2011: 844, footnote).

Considering costs, in the example of a spectator deciding the amount of an entry ticket to see his favourite team playing, the football club has faced high costs of building the stadium and the physical setting, as well as paid for the players' wages and so forth. But having gathered enough capital to cover the initial costs, the relative costs of serving another spectator are fairly low. The same applies to the example of a popular band distributing music online. The band has occurred costs to buy the instruments, to build a music distribution channel online and so forth. But once those are acquired and set up and paid for, an additional digital copy to distribute online costs virtually next to nothing. Sheth *et al.'s* (2000) reasoning of the cost structure assumption of high fixed costs and low flexible costs is thus here a valid assumption.

Value perceived by buyers will vary across segments (Grewal *et al.* 1998: 55). As proposed by Yuan and Han (2011), only when there are both searchers and non-searchers is it optimal for sellers to randomize their prices and adopt a mixed-strategy rather than charge monopoly or competitive prices. This could have the practical application that a company adds a subsidiary or a form of retail environment for those customer who like to get engaged in a special type of pricing practice while at the same time the traditional form of pricing is practiced with those who do not want to engage in a personally involving pricing method. They would thus serve the three customer types, the ones that negotiate and the ones who don't and the ones in between. This way the produced would be able to extract the full benefit of pricing dynamically.

If a retailer is not ready or willing to take the plunge and fully incorporate CCP into their operations, a partial involvement could be worth considering. Just as people pay an annual membership fee to shop at a US warehouse retailer Sam's Club (a subdivision of Wall Mart) enabling them to shop for wholesale prices, a retailer can set up a subdivision for shoppers who want to engage in another type of pricing activity, that of the CCP. Getting involved partially, the retailer both reduces the possible risks of damaging the mother company due to a failure, and is able to experiment a new way of doing business on a tryout basis. Shoppers would essentially pay an annual membership fee to be an exclusive member of "CCP club". Even the mere membership can promote an experiential dimension ("I'm a Sam's Club member and a visit to Sam's Club is an experience"), and through the engagements in the CCP activity does the experience become real.

Slightly analogous, but a reversed strategy of flexible trade are lunch buffets where, for a set price, customers can eat as much as they want. The amount of monetary transaction remains constant, but the customer determines the amount of consumption and thereby the level of costs. CCP is a reversed logic to this. The amount of consumption remains constant, but the amount of monetary transaction varies. So, this research asks the management to consider the question "why would a reversed method not be commercially feasible?"

Real-life examples of restaurants that practice such a pricing policy where the customer is not asked to pay a specific sum of money for their patronage at lunchtime are starting to emerge. Outside lunchtime these types of restaurants normally have a set menu to choose from and prices are set for each type of dish. However, at lunchtime, the prices for lunches are left completely for the customers to decide. This has two implications. First, the restaurants do not place all eggs in one basket, they strategically optimize their offering. They do their business as usual outside the lunch hour, but during the midday their strategy changes. Second, they serve both the customers who want to pay a set price without any hassle and at other times they serve the people who want to experience the freedom of pricing one's own consumption. "PWYW" -restaurants have apparently proven to be very successful with the average prices for lunches to be higher than if the restaurant's management had priced them themselves. Information on such restaurants can be found online by typing key words "pay what you want restaurant" into a search engine. Part of the success can be addressed to the novelty of the idea and a long-term success would need to be researched empirically.

5.5 Potential benefits of CCP

When pricing dynamically, the firm cannot have an inward view on it practices. An eye must be turned outside, not only on the customers but also on the competition. When making a strategic decision, the firm should consider the competition's reactions. For any action can be followed by a counter-action from the competition, thereby affecting pricing and expected profits (Wardell *et al.* 2008: 337).

However, pricing dynamically can have some benefits that might be difficult for the competition to follow. Firstly, it could be proposed that letting prices become co-created would increase the competitors' abeyance, which could result in decreased frontal attack in pricing. The competitor who bases its price on competition could never be exactly sure how much a firm using CCP as their strategy is charging its customer nor does the competition know how much they could be able to charge their customers. As the competition remains in the state of abeyance, not really knowing what they should do in this new pricing environment, the better market position it is for the CCP firm. CCP offers an approach for an improved competitive advantage.

Secondly, there is the improvement of inventory levels. In general, setting the price of a product too low could lead to stock outs and lost sales at a potentially higher price while waiting for inventory replenishment. Conversely, setting the price too high could lead to slow-moving or excess inventory and high holding costs (Elmaghraby & Keskinocak 2003: 1299). Dynamic pricing solves a problem of over- and under pricing. CCP can be adjusted to meet these conditions and by adjusting the price according to the situation and within the tolerance of the cost structure. Pricing dynamically adjusts to fluctuations in demand in so doing the levels of inventory can be held at an optimum level.

Although there is the possibility of firm's profits not being maximized, there are several advantages reported for both the customers and the firm to applying price-based strategies. Pricing can be used to enhance customer's satisfaction (Voss, Parasuraman & Grewal 1998: 56), it can endorse the customer's perception of fair pricing (Bolton *et al.* 2003), rise customer's perceptions of equity (Xia, Monroe & Cox 2004), and reduce the customer's risk and uncertainty to buy (Rajah *et al.* 2008: 368). Clarence Wardell, Laura Wynter & Mary Helander (2008: 327) report increased profit margins without having to significantly increase staff or workload if a firm were to price more closely correlated with value. Understanding customer value perceptions may also lead to both higher sales and higher profit margins (Ingenbleek 2007: 442). By co-creating customer value, Edvardsson *et al.* (2005: 150) indicate a number of advantages. They argue that organizations can "add unique and personalized value to the service, connect with the customer through exposure to the organization's norms and values, learn more about the customers' needs and desires to be used in service development and quality improvement efforts, increase loyalty, create a unique identity, manage customer expectations and quality-in-use, and improve sales."

Not only in the e-commerce environment, but also overall, for many retailers today, the technology is becoming available to allow them to frequently change products' prices (Elmaghraby & Keskinocak 2003: 1302). Price changes have thus far been costly to implement in traditional retail stores, but with the arrival of technological advances such as electronic price labels, the availability of POS data providing information about the sales and the implementation of loyalty programs, it has become more feasible (Elmaghraby & Keskinocak 2003: 1287, 1305).

5.6 Potential drawbacks of CCP

One cannot talk about the advantages and disregard the potential disadvantages of co-creating price. First, the willingness to participate varies to a great extent. Getting emotionally engaged in a pricing process has the implication of the customer anticipating his / her negative emotions. There are reports that a considerable proportion of consumers do not like the process of price negotiations. Philip Trocchia (2004: 824) announces that approximately 33-36 per cent of consumers do not like to haggle over price. Gretchen Herrmann (2004: 69-70) has concluded similar results stating that 31 per cent of the male and 27 per cent of the female consumers avoid haggling, because it is rude and unpleasant. Preyas Desai and Devavrat Purohit (2004: 230) report that 68 per cent of consumers abominate haggling. Some consumers regard haggling even as psychological warfare (Trocchia 2004: 833). This might in some cases hinder the customer's participation in CCP practices. The goal therefore for the marketer is to make the environment as favourable as possible for the customer so that he / she becomes more engaged in the activity, thereby lowering the possible negative emotions associated. As dynamic pricing becomes more widespread in use, it is critical that marketers understand how consumers respond to various dynamic pricing mechanisms (Haws & Bearden 2006: 310).

The costs of use of resources can be high to implement CCP strategy. The investments in technology can lower the costs, but the costs to serve need careful calculation. Haws & Bearden (2006) imply that the actual price level is in fact insignificant when the customer engages in a participative pricing process. Consumers have higher fairness perceptions and satisfaction *across all price-level conditions* when they play a role in the price-setting process (Haws & Bearden 2006: 309).

5.7 Research's contribution, limitations and suggestions for future research

This paper has solidly joined value creation with pricing practices. It therefore builds on the discussion of price and suggests some principles how pricing could benefit from the emergent logic of co-creation. Although some other research streams implicate a number of references to consumer affected price, such as for instance haggling, and bargaining, nevertheless such a clear connection has yet to become more popularized within the co-creation literature.

In this research, a multitude depiction of value has been offered as to explain what constitutes value. The view on value has shifted from goods-oriented to service-oriented. Value stems not from its exchange-function, but rather is created through reciprocal interactions with the offerer and is realized within the consumption process of an offering. Further, as a natural progression of economic development (Pine & Gilmore 1999), a concept of value has shifted towards the consumption of experiences. To stage the show for the customer to orchestrate, value here resides in enabling co-creative interactions so that individuals can have meaningful and compelling engagement experiences (Ramaswamy 2008: 11).

While the current research on co-created pricing is not an innovation in itself, it succeeds in offering a refreshed insight into customer-generated value creation, extending the co-creation paradigm into the realm of pricing. This research bridges the discussions over price and co-creation. The intersection of co-creation debate together with dynamic pricing provided by this research adds a broadened view into formation of value. This research is by no means complete nor is it definitive let alone the best and most suitable to all pricing problems. But it does provide a sound starting point into how value can be co-created with the help of pricing as the method. The illustrations provided by this research are not exhaustive, and it is my wish that after reading this research the reader would be inspired – if not directly applying the examples offered by the research, but at least indirectly applying the mindset – to think of pricing in a new way.

It is Etgar's (2008) contribution to the marketing theory to identify economic, psychological and social drives that encourage consumers to participate in co-production. Likewise, it is Rintamäki *et al.'s* (2007) contribution to identify four hierarchical key dimensions of customer value – economic, functional, emotional, and symbolic value drivers. Pricing this way serves all of the types of customers proposed by the literature: the ones who place an emphasis on monetary benefits, the "homo economicus". These are the types of customers who think they have saved money that they are able to spend on something else. Likewise, CCP serves the customers who place an emphasis on reciprocal negotiations between two parties. These types of customers love social contacts and interactions. They engage in CCP because they receive value that is not primarily calculated in monetary figures, but rather in terms of social links. CCP also serves the customers whose values consist of symbolic desiderata, i.e. what the price symbolizes – wealth, or stinginess. Also, emotional / hedonic dimension is catered for. These people love CCP just for the sheer fun of it. They do not place much emphasis on the monetary outcome – the end price could have changed only marginally – they see CCP as a recreational process.

Looking back to the theoretical staging of this research, the chapter one started with presenting the problem the management has in today's ever increasing competitive environment and that there is a demand for new innovations in pricing. Chapter one posed the research gap and two research questions. In addition, the first chapter promptly established the themes of the most important research topics. Chapter two went into detailed discussion on the changed society, views on value and value co-creation as separate thoughts and as an integrated approach. It established that value and value co-creation are indisputably the most prevalent issues in marketing literature, but still practiced by few. Further, hedonism and the emotions of a customer that have an effect on the perception of price cannot be ignored when deciding on pricing strategy. In chapter three, the experiential aspect of marketing was depicted in detail.

Chapter four concerned pricing and started with realizing the importance of pricing on the economic outcome for the firm. Further, chapter four illustrated some of the prevailing methods that take place in today's businesses and that these methods might not entirely capture the true market value. It was also suggested that price is extremely difficult, or if even at all possible to be optimized. It was established that the common nominator in co-creative pricing follows the logic of co-creative literature that the customer must be taken into consideration when pricing and even more so, the customer must be taken as an active participant in pricing practices. The offering and particularly the price must reflect the values the customer places on the offering. By letting the customer participate in the pricing process and at least partially determine the end price, is indeed the best reflector of those values. The difficulty in determining the values lies in not knowing what the customer values. Execution of market research helps to anticipate what emphasis the customers place on the offering. Finally, in chapter five some practical evidence of co-creative pricing practices that have already been utilized were provided. To conclude, as Ng (2010: 280) aptly puts it: "With imagination and creativity, the possibilities to develop innovative pricing mechanisms would be limitless."

Upon concluding this research and carefully evaluating the aforementioned literature on contemporary marketing research, value within the boundaries of this study can – as an alternative to AMA's definition presented at the start of this study – be defined in the following way: *"Unique value is the outcome of a memorable service experience perceived by the consumer that results from the collaborative interactions of the encounter process between actors where tangible and intangible resources are reciprocally applied."*

There are, however some limitations to the research, its orientation and its application. The author recognizes its limited scope. First, due to its descriptive nature, this study does not provide an opportunity to statistical analysis. At best it manages to offer speculations and ideas on how to think one's pricing practices anew. Second, it is recognized here that there is no empiric evidence provided to back up the theoretical contribution within this research. To further build our knowledge in the field of CCP it would be important to shed light on co-creating price with the help of empiric study in service industry areas.

Although many questions are answered, some questions still remain. A number of suggestions for future research are hence offered. Being a research-based paper, the topic is approached by theoretical analysis and conceptual development. The research would have substantially benefitted from an integrated practice-oriented approach. Therefore some research concerning the behaviour of customers in a real-life environment is called for. First, there is the issue of alternative research methods that could have been utilized. Methods for that kind of survey are plentiful. Through the use of ethnography (Moisander & Valtonen 2006), observing people in live situations while they act, studying their reactions, body movement – the tacit way of expressing their feelings that is not explicitly externalized – could have provided equally reliable, but to a large extent more vivid depiction of implicit behavior. In future studies empirical section could be utilized to provide an embodiment of situations where CCP can occur and to prove that such thinking as CCP is possible as well as to encourage academics and management to engage in CCP. Alternatively, the examinees could have been interviewed in-depth and analyzed. In-depth, intensive interviewing is argued to be the major way to understand the perceptions, feelings, and knowledge of people (Patton 1980: 29). For example interviewing the management and the customers in an empirical setting might offer future studies a deeper view in person as to what is perceived as valuable in co-created pricing practices.

Second, the issue concerning the measuring of the success has not in this research been addressed. Since this research is qualitative in nature with an attempt to focus on the psychological mindsets to provide a framework for management to engage themselves in CCP, more research is needed to provide additional insight to CCP by presenting numerical evidence to further explain the theory in practice. Ingenbleek (2007: 454) states that although the stream of literature has a strong tradition in describing what firms are doing, very few studies focus on the question of which practices are successful and which are not. Therefore, the future research could deploy statistical analysis to study the successfulness of CCP. A quantitative examination of co-creating price in a seller-buyer relationship could prove to be useful in measuring the successfulness of the relationship.

To conclude this paper, a quotation of Domen Bajde (2011) is presented. The reason for this quotation is because it manages to extract the core message of this whole study into three short paragraphs. It is offered as formula to value and titled: “Value happens, subjectively in context”.

Value happens, subjectively in context.

1. Value doesn’t exist in itself, it happens. Value isn’t out there to be found, packaged and shipped. It isn’t in there, in the product. We should stop thinking of value as something that exists independently/objectively, as a simple quality of a product. Products are not valuable in themselves, they become valuable when people interact with them. Value is an experience.
2. Experiences and interactions are always subjective. They are always subject to interpretation. We experience value differently. Yes, there are many institutions that quantify value to make exchanges and transactions easier. For example, the market puts a price on value, but the price shouldn’t be confused with value. The most valuable things are ‘priceless’ and whenever you feel that something is over/under-priced your gut is telling you that value is something else than price/money.
3. Subjective doesn’t mean random. We don’t just independently decide that something is (not) valuable. We learn to interact with products in certain ways (think culture) and our evaluations are always subjected scrutiny. People will say you’re crazy if you think that gold is less valuable than dirt. Different times, different places, different people, things could be… well, different. Value always happens in context (within culture, material constraints, etc.).

Domen Bajde

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