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CONSUMER PRE-PURCHASE DECISION TAXONOMY

FACULTY OF TECHNOLOGY
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**CONSUMER PRE-PURCHASE
DECISION TAXONOMY**

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Abstract

A high level of customer perceived value is the key to customer loyalty and to the profitability of customers and companies. It is not enough to meet the customer's needs in order to win customer loyalty. Instead the aim for companies should be to try to delight customers. Customers are delighted when they feel that the product or service not only fulfils their needs and expectations, but also gives them unexpected additional value.

Value has been studied widely and there are several different models and theories to describe customer perceived value. In the main, they tend to be too general or insufficient or they do not provide a useful guide for management practices. Therefore the aim of this thesis is to generate a theory for consumer perceived value which could be useful for managements trying to develop superior value so as to improve their customer loyalty.

Pre-purchase consumer value was examined applying Grounded Theory methodology and by synthesizing the existing research results. The resulting theory from this synthesis consists of three main stages namely, gaining, sacrifice and purchase factors. The gaining stage has three sub elements: substance, reputation and interaction. All these sub-elements have the same four subcategories: emotional, social, functional and economical elements.

What is novel about this research is its treatment of customer perceived value firstly, from the perspectives of the companies – based on three functionally different factors: substance, reputation and interaction – and secondly from the perspective of the customers based on the identified subjective outcomes (i.e. emotional, social, functional and economic factors). Based on this approach companies can develop products based on a better understanding of consumer perceived value.

Keywords: consumer perceived value, gaining, interaction, pre-purchase, reputation, sacrifice, substance

Acknowledgement

During my work over many years in different companies, and even nowadays in my work as a Consultant helping numerous companies both large and small, I have noticed that the customers are all too often forgotten. The companies' daily operations indicate that they do not become involved in the world of the customers, nor do they know their customers' decision-making processes. I have heard the managements complain so often that the customers are only after lower prices and do not understand anything about quality.

This observation aroused my interest in the factors and processes behind customer decisions – 'whether it is possible to find a model or description of the customer's decision criteria'. This curiosity led me to choose my research subject 'The Consumer Pre-Purchase Decision Taxonomy'.

However, to determine the focus of the research was no easy process – instead it demanded a lot of speculation before the research focus was crystallized. Already in the beginning of my research, my supervisor, Professor Pekka Kess, supported my quest by guiding, questioning and greatly encouraging my efforts. I thank him for his ongoing and generous support and tutoring, which certainly must have often seemed hopeless.

During my research, I had the opportunity to be a member of a post-graduate group expertly shepherded by Professor Kess. The group meetings motivated us and helped us deal with our doctoral frustrations and dilemmas. I would especially like to thank other members of that group, Annukka Oiva and Jukka Teräs, for their astute comments and questions and active support through those times.

My comprehension of the reviewing process was in the beginning one of eternal optimism that my research would somehow blossom some fine day. However, it soon became clear that a garden to blossom will need some fine gardeners and my reviewers, Professors Josu Takala and Kongkiti Phusavat, were able to gamely delve into my research to bring forth valuable aspects which had passed me by, but which enabled my research to truly blossom and generate a comprehensible theory. Therefore I thank them for their fine work, and their constructive and invaluable comments.

I froze with terror when I heard that the work should be written in English, but then along my path came Hilary Keller who was not scared off by the challenge of turning my English into presentable academic English. My greatest thanks to Hilary.

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Hyvinkää 15.4.2008

Harri Karkkila

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List of abbreviations

A_o	the overall attitude towards an object o
a_i	the favourableness attached by the consumer to attribute i
B_i	the belief whether or not object o has some particular attribute
β_i	is the weight of attribute i , $U_i(x_i)$ is the utility of the value x_i of option x on attribute i
E_{ij}	the strength of the expectancy that act i will be followed by outcome j
F_i	is the force to perform the act
Θ	is the weight given to the relative advantage component of the model
I_i	is the i :th benefit in interaction category
n	the number of beliefs
$R(x, y)$	is the relative advantage of option x over option y
R_i	is the i :th benefit in reputation category
Sa_i	is the i :th sacrifice in sacrifice category
	x_i, y_i and z_i are the purchasing factors
Su_i	is the i :th benefit in substance category
V	is the consumer perceived value ratio
$V(x_1 \dots x_n)$	is the total value of certain alternative in function of attributes
$V_B(x, S)$	is the value of option x given a choice set S and background context B
VC	value for the customer
V_j	the valence of outcome j
$v_i(x_i)$	attribute value of attribute i
w_i	weighting factor of attribute i

1 Introduction

1.1 Background

Most research reports and articles handling customer perceived value state in the introduction that the competition is more intensive now than ever before because of the increasing contraction of the world geographically, logistically and intellectually, and because real-time information exchange is easier and faster via the internet and e-mail. Due to improvements in the logistical networks and transportation, delivery times have decreased and customers are increasingly demanding. On the other hand, the life cycles of products and services are shorter, and new innovations appear more quickly. A new and different product is not on the market very long as new and different. The effect of competitive advantage is short-term because everything that can be copied will be copied.

As the offering and alternatives increase and consumers become more and more demanding, the companies are under increasing pressure to develop more interesting products and services than their competitors' alternatives so that the consumers will choose their products and services, and all this at a reasonable price.

The increasing alternatives, and growing demand of consumers, are recognised in the literature on customer perceived value – and the customer should be at the centre of all operations when the target of companies is to gain and keep their customers (Drucker 2002, Levitt 1968). To increase the interest in their products and services companies must continuously develop their offer so as to bypass the competing alternatives from the customer perspective.

The aim of companies is to succeed in a sustainable way. Customer perceived value is one of the most reliable ways to realise this.

One of the basic assumptions in economics is that companies strive to maximize their profits (Eskola 1996). In practice there are five ways of doing this by: increasing the amount of customers, increasing the average purchase of the customers, increasing the purchasing times of customers, directing the customers to more profitable products and improving the productivity and profit earning capacity of companies.

The most effective way to gain new customers, keep them and improve the company profitability is to increase customer loyalty (Reicheld 1996). Loyal customers are more profitable. Current customers are generally worth five times

more than new customers, as the cost of "holding" a current customer is 25 percent of the cost of "winning" a new one and the probability of holding on to a current customer is higher than 60 percent, while the probability of acquiring a new one is less than 30 percent (Clancy & Shulman 1993).

An increase in customer loyalty is possible if the customers experience the products and services offered by the company – or the benefits caused by them – as being better than other alternatives, and frequently.

However, the key question is how is customer loyalty achieved? Moreover, when and why do customers choose the products and services of a particular company? What makes customers repeat the same choice of product or service?

Companies have for a long time invested in customer service and followed customer satisfaction and there is proof of its positive effect (Zeithaml 1996). However it has been shown that not even the most satisfied customers are always loyal (Fredericks & Salter II 1995), and to improve customer loyalty through satisfaction demands an extraordinary high level of satisfaction among customers. A good level of satisfaction is not enough (Forum Corporation 2003, 2005). To understand and be able to develop customer loyalty first requires an understanding of where the loyalty comes from.

When striving to build customer loyalty, companies should offer such products and services which increase the customer perceived value and create loyalty. Blomqvist, Dahl and Haeger (Blomqvist *et al.* 1993) define customer loyalty as follows:

“The customer, who in time trusts that one company is able to fulfil, fully or to a large extent those of his needs concerning the products or services belonging in the company’s offerings.” (Blomqvist *et al.* 1993)

This means that the customer is loyal to the company and purchases the products or services of competitors only in exceptional cases (Blomqvist *et al.* 1993)

The customer experience of the quality of the service and the bonds between the customer and the company form the basis of customer perceived value. In other words, it consists of the ratio of the benefits the customer gains to the sacrifices the customer makes. Furthermore, customer experienced value determines the relationship’s level and solidity, in other words loyalty (Blomqvist *et al.* 1993).

Paavola defines customer loyalty as not only having a direct economical result affecting purchasing behaviour, but also having a feeling for society, manners and values, ethical points of view, plays of commonplace factors

transmitted moved over decades in families, which offers possibilities to win and feelings of excitement (Paavola 2006).

The forms of loyalty are, according to Paavola, compulsive, stuck in a rut, inherited, in accordance with society, based on image, playable, enlightened, critical and ideological (2006).

The loyalty of customers is linked to the loyalty of employees (commitment). It is difficult to improve the loyalty of employees without the support of owners. The owners can be reassured by customers' loyalty. Loyalties in various branches are shown in Figure 1 (Reicheld 1996).

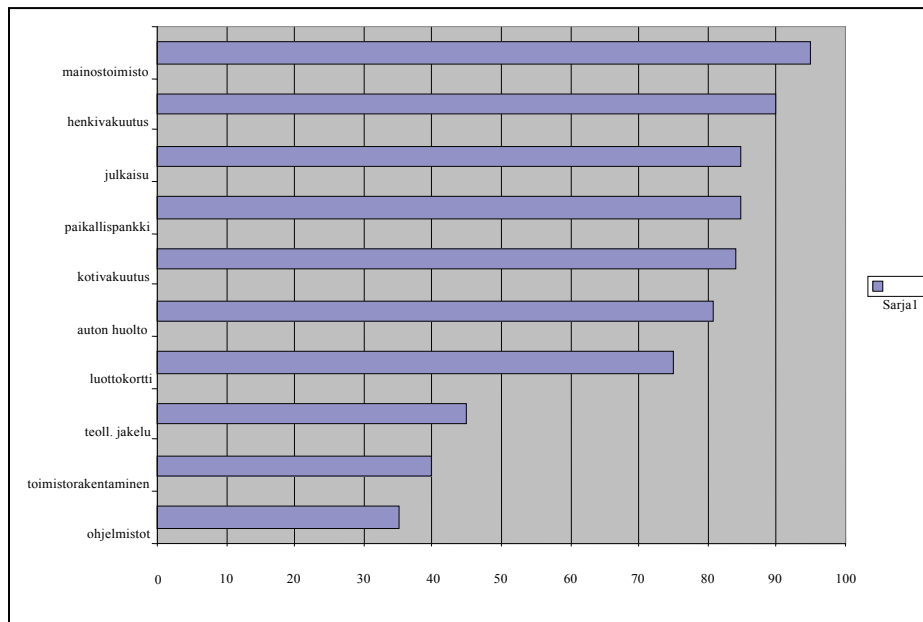


Fig. 1. Loyalties in various branches (Reicheld 1996).

According to Clancy and Shulman, there are two kinds of loyalty; attitudinal and behavioural (Clancy & Shulman 1993). “Attitudinal loyalty reflects how buyers feel and think about your product or service, what share they give you in their hearts and minds. Behavioural loyalty, in contrast, is about action, about behaviour, about what people do; what share they give you of their product category purchases or their time.” (Clancy & Shulman 1993)

Customer loyalty can be active or passive. Customer active loyalty means that customers consciously stay as the company's customer. The company must

earn active loyalty in practice. Passive loyalty means that the customer does not care about, or notice, a change of supplier. It also means that a better offer leads to a change of supplier and indifference to the former company. Mostly, 90–95% of customers have passive loyalty (Mäntyneva 2000).

Loyalty does not last forever. When the customer perceived value decreases so much that the customers find the competitors' alternatives better, they turn to the competitor.

Customer loyalty also refers to the percentage the customer buys in the company. Customer loyalty is often measured by the level of customer retention, i.e. the percentage of customers a company loses annually. .

However, customer loyalty is not always the same as customer retention (Fredericks & Salter II 1995). Customer retention can be low even though the customers are not loyal. This might be because the customers do not have any alternatives or changing the supplier is complicated, expensive or time-consuming (e.g. because of government regulations, changing costs, patents, economic terms, privacy, etc.). In these cases the motive for change must be considerably better.

According to Day there are two kinds of loyalty: untruthful and target-oriented. "Untruthful buying is routine buying, which is not connected to experience of preferences whereas in the target-oriented loyalty the persistent purchasing behaviour is connected to a favourable attitude. According to Day the difference between these two is relevant because less loyal customers are more predisposed to competitors' marketing information", (Paavola 2006).

According to the Forum Corporation research (Forum Corporation 2003, 2004, 2005, Reicheld 1996) a decrease in the yearly customer retention by 5% doubles or triples the company's financial results. Customer loyalty has a powerful effect on a company's results. Since the 1960s, it has been widely believed that it is more profitable to take care of existing customers, rather than gaining new ones or to recover lost customers, which is often visible in small market areas such as in Finland (Clancy & Shulman 1993).

In the 1980s, companies became customer-oriented, in an attempt to do what the customers requested. In this way, companies started to ask customers about their wishes, needs and ideas for improvements, and developed products and services based on the answers. However, this has not yielded the expected results. Statistically, 80% of introductions of new products or services fail (Kotler 1997, Zaltman 1988). The mistake has been to assume that customers are able to describe their needs and communicate new ideas – the companies have, in fact, asked 'amateurs' about developing and producing products and services. This

customer orientation approach is no longer widely applied. Lehtinen and Storbacka described this situation as follows: “The company is at the customers’ mercy” (Storbacka & Lehtinen 1997). Today’s understanding of customer orientation is that the companies should learn to think like its customers, study their world of ideas, and develop solutions based on the belief that learning would help the customers more than they might expect, or even imagine.

According to the principles of customer-centred thinking, the management of companies should think how loyal the company could be to its customers (Reicheld 1996).

One reason for the lack of success in this area has been the incorrect belief about the consumers’ way of making choices (Zaltman 1988). Consumers process their choices mainly subconsciously as images, whereas the offers however are based on rational arguments and marketing.

The product or service offering should be desired, one which is easy to sell and fix a price. However, that is not possible without real customer perceived value. The company must be able to offer products, solutions and services which really are valued by the customers more than the competitors’ alternatives. The offering must also happen in a way that customers value. This requires further consumer data to operate in a customer focused way. The purchasing costs should be at the right level compared to the value the customer experiences, and the methods and means of realising the purchase must be smooth. Companies have also been interested in why customers buy specific products and are ready to pay for them – sometimes even a higher price than asked – and why, on the other hand, sometimes customers will not turn to other products. A common explanation has been the customer’s need to argue for a reduction in price or to search for the lowest price (e.g. comments such as the following are heard from the companies: “We are in a continuous price war”, “It is only the price which counts”). If we eliminate the negotiation of terms which is part of the typical purchasing behaviour (i.e. effective use of limited resources), the need to argue for a reduction in price or to search for the lowest price does not explain all consumer behaviour. For example, when making a choice whether to buy a car for 50,000 EUR, rationally, from the functional perspective of use, the same car can be bought for 20,000 EUR. Why, in that case, is it that cheaper products do not always sell easily? Is it possible to determine why consumers are ready to pay ‘nearly anything’ for specific products?

In colloquial language consumers convince themselves with the ‘price-quality-ratio’ – this raises the question: what does that actually mean?

The basis of this study is that consumer experienced value has a direct influence on the purchasing decision and thus customer loyalty (among others Porter 1985, Kotler 1999, Drucker 2002, Peters & Waterman 1983, Levitt 1985, Whiteley 1993, Reicheld 1996, Fredericks & Salter II 1995, Jones 1996, Voss *et al.* 1998). However there is no commonly accepted and consistent description about the consumer perceived value (Woodall 2003) although it has already been examined for decades.

1.2 Research context - consumer perceived value

Consumer buying behaviour has been examined widely and customer experienced value has been commonly accepted as the basis of the choice of purchase (preference). As Drucker states (2002): "The customers are willing to pay only for what they find of use and what brings them value". What then can we understand by the concept 'value'?

Fredericks and Salter pose the question what is value? Most customers answer: "Value is the thing you gain and pay for" (Fredericks & Salter II 1995).

Value as a concept belongs primarily to ethics and its determination is challenging. It is seen in connection with our comprehension of good (Nevanlinna & Relander 2006) "...real values are primarily kindness, truth and beauty while other things we find valuable are valuations and ideals." Values are also an essential part of culture and different cultures have different values.

In Business Economics the concept of value can be divided into three, namely direct value, which means that the benefit is gained directly from the product or service, instrumental value which means that you gain something you find valuable or useful by using the product or service, and thirdly exchange value is often linked to money (Nevanlinna & Relander 2006).

Preferences and images of available rewards, belief in the probability that the chosen solution fulfils the needs, comprehension of ways and needed sacrifice to fulfil the need and comprehension of a probable purchasing situation have an effect on the customer's expected value (Vroom 1964).

Woodall has found in his research that the concept of value is used in many meanings which depart from others in perspective and even contents. The concept of value in business can be regarded as having three different meanings which depart from each other in perspective (Woodall 2003):

1. value added, which is a very company centred point of view, calculates the value added in products and services in the company's own processes such as innovations, processing, labour, energy, etc. (Porter 1985). Korkman states that value is developed when using a product or service – not when producing it. Consumption is then in principle the source of value, not the production (Korkman 2007);
2. the value of a lifetime customer (VLC) is the value which the customer yields to the company during the relationship's lifetime. In other words, it refers to the company's own view of the value of the customer for the company itself (Woodall 2003);
3. value for the customer or VC (Woodall 2003), refers to the customer perceived value, (Sweeney & Soutarb 2001).

According to Woodall's definition (2003):

“Value for the customer (VC) is any demand-side, personal perception of advantage arising out of a customer's association with an organisation's offering, and can occur as reduction in sacrifice; presence of benefit (perceived as either attributes or outcomes); the resultant of any weighed combination of sacrifice and benefit (determined and expressed either rationally or intuitively); or an aggregation, over time, of any or all of these.”

Although the idea of customer perceived value is not new, conceptual consensus about this has not been reached (Woodall 2003).

Nonetheless, it is the value experienced by the customer which determines what product or service to purchase and the place from where to purchase (Estola 1996, Porter 1985, Kotler 1999, Drucker 2002).

The questions remain about how to determine what customer perceived value is behind the purchase decision? Moreover, which factors influence the decisions and how are they related?

1.3 Problem formulation – purpose and objectives of the study

Customer perceived value can only be found through observation of the customer's reality. As Drucker says (2002): “The customer's reality is so often different from the producer's.” Companies usually know the customer's world of ideas and their desired value only partially or badly. The problem is that there is

no tool or thinking model, which would both suit the companies' functions and operate in a customer-oriented way.

With reference to the research questions presented in Chapter 3, the aim of this study is to generate a practical theory and way of thinking to describe customer perceived value so that it would enable corporate managements understand their customers more thoroughly and, additionally, could be a useful tool for developing value for the customers in the company. The scientific aim of the study is comprehensively described by Hirsjärvi *et al.* (2004) as one which gives stereoscopic extension and understanding to what the research is about, helps to free it from traditional thinking customs and engagements, provides material to consider and new ideas to develop work in hand, adds consideration in own decisions, helps to reach new conclusions systematically and creates new concepts and points of view.

A model or theory which successfully describes customer perceived value would provide practical support to company managers in the planning and management of their work.

The aim is to find a theory or model which describes the consumer pre-purchase decision factors, which would have practical use in companies' quality management, R&D operations, marketing and in planning of other functions so that company managers could think like the customers – i.e. customer centred – and in that way offer the customer benefits for which they are ready and willing to pay.

In practice this entails a study of the value ratio and its factors which form the basis of consumer's decisions, i.e. create a clear consumer decision taxonomy. Therefore, in this study, the factors which influence the experience of consumers in a good purchase are defined.

1.4 Research approach, scope of the research

Because customer perceived value and satisfaction have been studied widely over several decades, this study is carried out on the basis of existing knowledge. The research was carried out as a literary research.

The subject and problem field are so wide that it was decided to limit the research area to customers in the business-to-consumer sector. There is also a temporal limitation in the study, as it concentrates on the pre-purchase stage as it is considered to be the decisive moment in the purchase process.

1.5 Structure of the thesis

This thesis is structured in line with the research work itself: Chapter 2 examines the literature and existing theories and models of customer perceived value.

It positions the study in the field of consumer perceived value, provides a discussion of the relevant literature forming the basis for the choices of this study and defines the key concepts. The meta-theory of this study and the structure and scope of theory are presented there. In Chapter 3 the research questions are clarified. Chapter 4 describes the research methodology and design. In addition, the collection and analysis of the research data is discussed. Chapter 5 summarises the findings of the study. In Chapter 6 the study is evaluated, ideas for further research are proposed. Chapter 7 includes a discussion of the contribution of the study. Finally in Chapter 8 the conclusions from this study are collated.

2 Literature review

2.1 Introduction

Customer perceived value, i.e. decision behaviour and criteria of choice, has been studied widely and several theories and models have been proposed. In this Chapter those models and theories on customer choice and customer perceived value are described, as well as any related research results which explain them. There is a discussion of the various points of view, the possible different interpretations and their usability in management practice in companies. The aim of this Chapter is to review and explain the principal existing theories on customer perceived value.

The specific order is as follows, firstly, the theories from the field of economics are examined. Secondly, the interpretations of leading researchers in customer perceived value are discussed. Thirdly, earlier consumer choice theories are described, and finally the most recent models of consumer perceived value are presented.

When examining the different decision models and theories of consumers and the value perceived by consumers, there is reason to study any related factors raised by the data and connected to the value experience, such as quality, customer satisfaction and delight, as well as theories about customer behaviour-primarily social psychology in this field. The latter part of the chapter presents a discussion of these concepts in relation to consumer perceived value.

Finally, along with the summary of the theories presented in this chapter, there is a discussion of the points of view not raised in these theories so as to render a fuller understanding of the meaning of the current research

2.2 Economics

Perfect competition is formed according to the field of Economics by four conditions (Pekkarinen & Sutela 1995). Firstly, there should be many sellers and buyers, and the share and influence of each on the markets should be slight. Secondly, the commodities produced by the participants should be similar which means it is the same result for the consumer wherever the products are bought from. This way there is only one price for each kind of product in the market.

Thirdly, in the market there is complete knowledge about the commodity's properties. Finally, there is free entry or exit to the markets.

To be in a position to increase profits, a company should be able to change one or several of those rules,

The communication methods, logistics and the current development of competence (and the dynamic speed of developing) mean in the majority of sectors the number of competitors and alternatives is large. In order to change this a company should be able to develop an exceptional offering – something without competition, or very little competition.

In practice new products and services are copied very soon after being launched on the markets, and copying is today easy and fast. The lasting differentiation of a product or service seldom succeeds and needs protection such as in the form of patents, resources for development and manufacturing (scale), government certificates and authorization.

The customers know less about the products and their use than the company personnel (Blomqvist *et al.* 1993). This is why the consumer does not always perceive the differences between the alternative products and services or only observes the properties which are noticeable by the customer during the sales communication, price setting and argumentation. Because the customers seldom know all the real properties of all the alternatives, the choices are made often based on images and intuitions (Zaltman 2003). This is the area where the greatest part of the competition takes place. If the company does not succeed in differentiating the image of its products and services it falls into the price war.

There are still a lot of sectors where entry is difficult (i.e. because of patents, investment, competition, resources, laws and regulations, customs, etc.) which limits the competition sometimes considerably. However these “thresholds of entry” are getting lower and lower all the time and the expansion of market-areas, particularly, is becoming easier based on the technological development. Many companies or whole branches try to build the thresholds of entry artificially (protective duty) but it has been seen that in the long term these artificial barriers cause atrophy in the companies working in this situation because when the competition then frees up these companies soon go out of business because of their incompetence.

Similarly, if the exit from the sector is difficult (i.e. because of termination costs, lost investments, etc.), it can cause unhealthy pricing and so distort the sector in question.

In summary, it can be concluded that to be interesting in the eyes of the customers, to encourage the customers to buy (i.e. willingly, making a voluntary choice) in a market with intensive competition, the companies offering products and services with a set price have to offer their customers such unique value that the customers experience real value in terms of price, at least.

In the field of microeconomics it is claimed that the consumer assesses the balance between the experience gained and the necessary and experienced sacrifice (Pekkarinen & Sutela 1995, Estola 1996). According to the principles of consumer choice theory, it is known that consumers both prefer situations where they receive more from a commodity, and consumers make choices in relation to their incomes (Estola 1996 p.91).

This model from the field of Economics forms the basis for many theories and models on customer perceived value. However, because of its very general character it seldom applies to the everyday practices of company management.

2.3 Theories of customer perceived value

2.3.1 Porter

”The hindmost basis of the competition advantages is the value that the company is able to produce for its customers. The company may offer exactly the same advantages as the competitor but with a lower price, or it may offer unique advantages which fairly compensate the higher price.” (Porter 1985) The companies should concentrate on the uniqueness of the customer’s experiences. According to Porter the competition advantage, in other words the value, can be described as a “... unique and valuable position based on unique procedures” (Porter 1996).

Porter uses the concept ‘value-chain’ to describe those separate but closely combined procedures which value is based on.

Porter calls the value-chain of the whole branch a value-system consisting of the internal value-chains of the companies belonging to the value-chain of the whole sector. Customer perceived value as well as the customer need are formed by the share and meaning of the product or service produced by the company in the customer’s own value-chain. The achievement and upkeep of the competitive advantage (i.e. the value which the customers experience to be higher than the one offered by the competitors) depends on how much the company understands

its own value-chain and how well its value-chain fits the value-system. Especially in segmentation, it is possible to adjust the company's value-chain to the segment's value-system.

Moreover, households have a value-chain. The same principles can be used according to Porter with regard to households and private customers, even if the measuring of costs and particularly the performances of the consumer are more difficult. The costs of products for households include in addition to monetary costs, the costs of time and comfort. The costs of time could be alternative ways to use the time as well as the costs caused by frustration, irritation or trouble in using the product or service.

How much the company benefits from the produced value-added depends, according to Porter, on the customer's bargaining power, i.e. the rising competition costs caused by the newcomers, the threat of substitutes or the internal competition in the sector. In these cases the customer gains the greatest part of the value by paying a lower price.

Although Porter studies value-production primarily from the point of view of companies and as an internal procedure, he lists perceived value factors (from the customer point of view) such as economic factors, time, comfort, satisfaction, status, prestige, product features and quality, etc. These value factors can be direct or indirect. The meaning of the value factors also depends greatly on the customer and the customer behaviour. Other value factors can be in the logistics, order receiving systems, the input of customer service personnel, personal contacts, etc.

“The customer determines the value of the product or service according to the way he or she uses the product, not how the company has meant the product to be used” (Porter 1985). The customer ought to be able to install, utilize and maintain the product correctly and for the right purpose. The customer seldom knows accurately the consequences of the product's purchase, use and ownership before the purchase, use and ownership. So the customer estimates the perceived value according to his or her own comprehension. For this estimation, along with knowledge and experience, the ‘value-communicators’, as Porter calls them, are called upon. Such communicators can be, among others, reputation, image, information from friends, package, advertisement, comfort and appearance of the sales premises, personality of the service people, etc.. Based on these value-communicators, the customer forms a value comprehension which can be lower, of the same size or even too high, compared with the objective value.

The customer is only willing to pay for the experienced value and so the value-communicators can have a great effect on the price received. This

interpretation has most effect in the beginning of the use. In a continuous customer relationship, and use, the expected value starts to approach the experienced one. Here a distinction can be made between expectations and experiences. This effect can also influence whether the solution the customer uses feels worse or better than the supposed value of competitor alternatives.

The value-experience is influenced by the customer's personality and the estimation is very subjective. In those cases when the decision maker, buyer, user and the target person can all be different persons, the personalities and element of subjectivity should be taken into account.

Porter divides customer perceived value into use and communication-criteria. The use-criteria primarily describe what the customer receives or gains and the communication-criteria refers to the company's image and communication. Porter primarily locates the interactivity in the use-criteria. The division can be seen as company-centred rather than customer-centred. However, the elements of value mentioned by Porter are the same as the elements of the theory generated in this thesis when approached from the customer perspective.

2.3.2 Kotler

Kotler (1997) has deliberated about customer perceived value widely and in detail. According to Kotler, customer perceived value is determined according to value-positioning. The main alternatives are the following: the company gives its customer a) much more for a slightly higher price, b) slightly more for the same price, c) the same for a slightly cheaper price and d) slightly less for a much cheaper price.

Kotler (1997) defines customer perceived value as shown in Figure 2. Customer delivered value consists of the customer experienced value (i.e. the value of the product, service, personnel and image) and the customer experienced total costs (i.e. financial, time, energy and psychological costs).

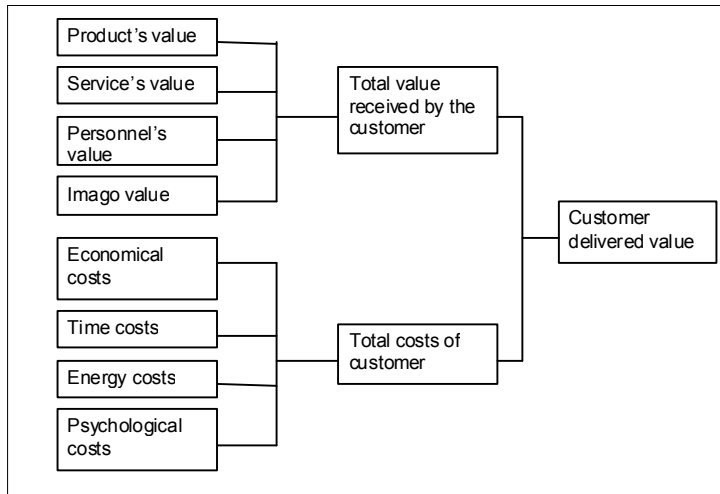


Fig. 2. The customer experienced value-ratio (Kotler 1997).

The description of a product's or service's layers in figure 3 (i.e. core product, ordinary product and expanded product) attach the choice criteria mainly to the product or service, although there are many other reasons for decisions. Kotler raises many different factors and interpretations both of the customer's behaviour and customer experienced value, and these factors have been utilized in this study.

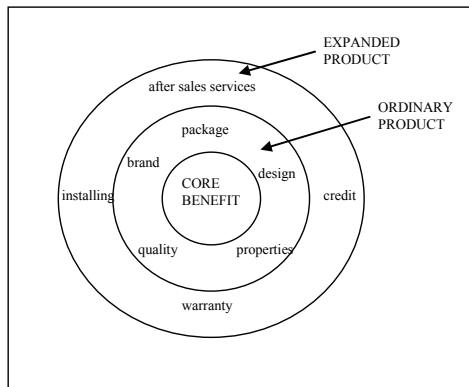


Fig. 3. The product's layers (Kotler 1999).

Both models do not describe the different factors' respective relations and they are rather company centred in that they concentrate on functions which are company operations (i.e. targeting value for the customer). Also the basis and

conditions of the customer are missing in the models but those matters are dealt with separately by Kotler (Figure 4). According to Kotler, the customer is not willing to pay the full perceived value but wants a part of it (customer surplus). Customers also have an upper limit for the value for which they are ready to pay.

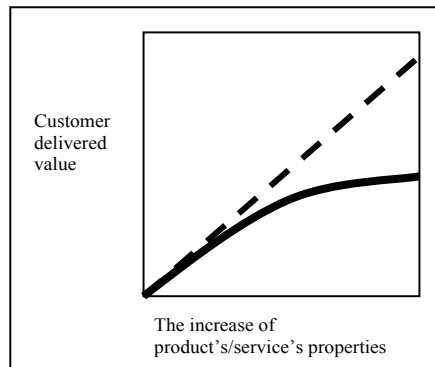


Fig. 4. An interpretation of Kotler's comprehension about the customer's willingness to pay for the value perceived.

Kotler also handles customer purchasing behaviour (1999). The changes in customer purchasing behaviour are slow. Customers do not change suppliers or the way to satisfy their needs quickly, but rather they observe the changes. The choices made by customer are influenced by their needs from which the motivation is generated when the needs are strong enough.

There are several factors affecting the customer's valuations. The first is the understanding of the matter in question. Different persons can have a totally different understanding of situations, properties, offerings, etc. Secondly, that understanding has an effect on the 1) selective attention which means that the person notices those products, things and events according to their needs, 2) selective distortion which means the way the information is moulded to correspond to the personal opinions, 3) selective memory means that persons remember such information which supports their attitudes and beliefs.

The third affecting factor is belief. Belief is the fundamental understanding persons have of certain matters.

The last factor is attitude, by which Kotler means the sustainable, cognitive information persons have based on their estimations, valuations, feelings and efforts for operations towards certain matters, things or persons.

The question arises: how is the information processed to accomplish the final decision?

According to Kotler, there is unfortunately no simple model to explain the evaluation behaviour of consumers as a whole, or even one consumer evaluation process applicable in all situations. According to the existing models and theories about consumer evaluation processes, the evaluation processes are cognitive, i.e. rational and information based, and they indicate that the consumer forms product evaluations based mostly on information and rational grounds.

2.3.3 McCarthy's 4P marketingmix

The 4P-marketing mix introduced by McCarthy already in the 1960s describes the factors of value from the point of view of companies, i.e. in other words what the companies can do to affect value. The factors to describe the basis and circumstances are missing from the model. Although the model is not meant to describe customer perceived value, it is a rule of thumb for companies to bear in mind the competitive weapons of marketing, and is useful for teaching purposes. The 4P-rule has been widely criticized and many researchers and consultants have made changes to it, but because of its simplicity and clarity the 4P-marketingmix has maintained its position.

The 4P-marketingmix rule consists of four elements which affect marketing: product (offering), price (pricing, discounts, bonus), place (availability, location, opening hours, delivery time and logistics) and promotion (advertising, image, personnel, customer service, sales promotion, PR, and communication).

2.3.4 Parasuraman, Zeithaml and Berry

Parasuraman, Zeithaml and Berry studied value from the point of view of services and describe customer perceived value as shown in Figure 5 (Parasuraman *et al.* 1990).

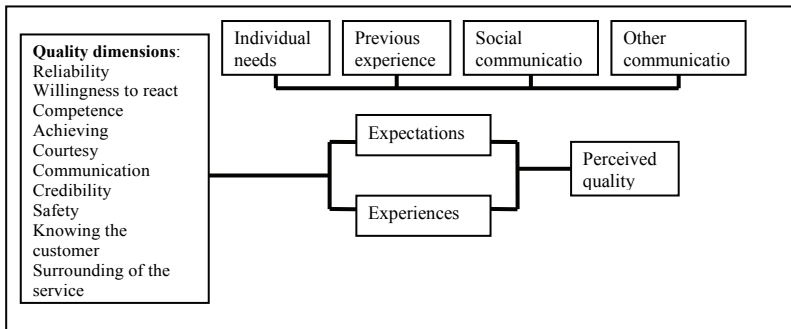


Fig. 5. The value of the service for the customer (Parasuram et al. 1990).

They describe the factors of customer experiences that affect the interaction, and link it with the personality of the customer and the information received by him or her. The customer compares the information with his or her experiences. The value perception of the customer is formed according to how the customers' experience in relation to their expectations. In their model, the customer makes a value decision after the interaction. They introduce the concept 'experienced quality'. In this thesis the concept has been expanded to value (more in Section 2.7.1).

As a model to describe customer perceived value (it is not meant to be a model of value) it is biased, but it raises many important factors affecting customer perceived value.

2.3.5 Fredericks, Salter

Fredericks and Salter claim that: "The key to the new, in loyalty concentrating operation mode, is to create a 'Value package' for the customers. The value package is a combination of such factors which are especially greatly valued by the customers" (Fredericks & Salter 1995).

In their research they found five factors which form the value package, i.e. price, quality of the product, quality of the service, innovativeness and the company's image compared with that of the competitors.

They also describe how customer perceived value is followed by customer loyalty and further from the loyalty the company's profitability (Figure 6).

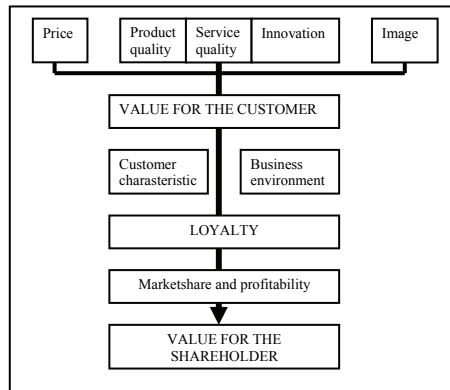


Fig. 6. The value package and its effect on the customer's loyalty (Fredericks & Salter 1995).

Their model is comprehensive and practical, but it does not include the surrounding factors and the factors respective relations.

2.3.6 Holbrook

Consumer perceived value is according to Holbrook (1999) an interactive and relative experience about the excellence.

By 'Interaction' Holbrook means the interaction between the customer (subject) and the product or service (object), so the interaction can be seen as dependent on the subject or object.

Subjectivity means that the customer decides what is the customer's own perception of the value.

Thinking dependent on the object means that the separate properties – even the abstract ones – are connected to the product or service and they are measurable or otherwise definable.

Holbrook divides relativity into three parts: comparison between different alternatives, personalities (i.e. taste) and dependence on the situation.

The way the customer defines the order of excellence (preferences) of different properties has, according to Holbrook, a fundamental effect on the forming of customer perceived value – even more important than the earlier mentioned factors.

By experience, Holbrook refers to the experience which comes from using the product or service which gives rise to expectations. Experience also emphasizes the individuality of the value.

Richard L. Oliver defines value as the excellence of the consumption experience in other words he emphasizes the customer's experience (Holbrook 1999).

Holbrook charts customer perceived value in the matrix shown in Table 1.

Table 1. A typology of consumer value.

		Extrinsic	Intrinsic
Self-oriented	Active	EFFICIENCY (O/I convenience)	PLAY (Fun)
	Reactive	EXCELLENCE (Quality)	AESTHETICS (Beauty)
Other-oriented	Active	STATUS (Success, Impression Management)	ETHICS (Virtue, Justice, Morality)
	Reactive	ESTEEM (Reputation, Materialism, Possessions)	SPIRITUALITY (Faith, Ecstasy, Sacredness, Magic)

Holbrook treats the value experience of consumers mainly as the experience of products and services, whereas the way of purchasing and the shop where the purchasing happens are overlooked. Also the meaning of the circumstances is not addressed in the matrix although it is raised when he explains the matrix in his book.

The respective links between the factors and, particularly, the relationship with sacrifices are not mentioned.

2.3.7 Woodruff

Consumer experienced value is according to Woodruff the experience that the customer wants to happen (consequences) in a certain use situation, with the help of a product or service to achieve a desired purpose or goal (Woodruff & Fisher 1996).

There are three important elements in this definition (Woodruff & Fisher 1996).

Firstly, the products are a means of accomplishing the customers' purposes. The purposes of product use can be broadly classified as value-in-use or possession value.

Secondly, the products create value through the delivery of consequences (the outcomes that are experienced by the customer), rather than through their inherent characteristics.

Thirdly, the customers' value judgments are highly influenced by and best determined within the constraints of a particular use situation. These judgments are subject to change across use situations, over time, and due to specific "trigger" situations.

According to Woodruff, customer perceived value is a consequence of the properties. He defines the value factors in three hierarchical levels. The attributes connected to the product or service form the base. The next level and an outcome from the previous one are the consequences. They refer to outcomes experienced by the customer as a result of product use. Customers seek consequences that are linked to a desired purpose or goal and avoid those that are not. The highest level and best description of customer value-experience are those consequences which best lead in the customer's opinion to the desired purpose or goal (Woodruff & Fisher 1996).

Woodruff describes customer perceived value and the hierarchy of the factors with 'value maps'. A sample value map is in Figure 7. (Woodruff & Fisher 1996).

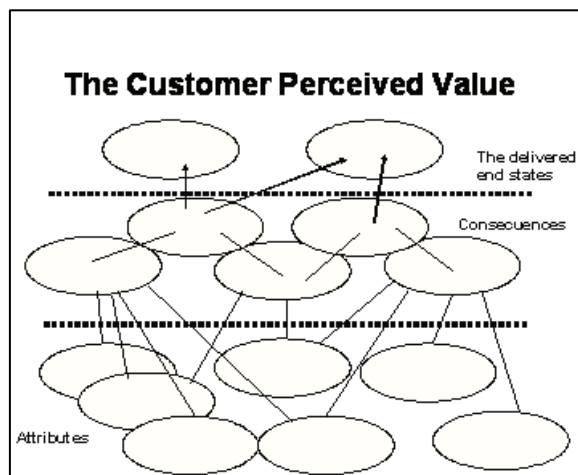


Fig. 7. The principle of the valuemap (Woodruff & Fisher 1996).

2.3.8 Woodall's model

Tony Woodall has carried out a literature search on 100 previous studies to clarify the concept 'Value for the Customer (VC)' (Woodall 2003). He describes five definitions of value for the customer, (Figure 8):

- Net VC – the balance of benefits and sacrifices: (the customer makes some judgment on the 'worthwhileness' of a product/service by computing or comparing weights and/or 'quantities' of benefits and sacrifices.
- Marketing VC – the perceived product attributes: (VC conceived as 'product attributes')
- Derived VC – use/experience outcomes: (VC here is conceptualised as the benefits derived from consumption-related experience and are presented as independent of any sense of associated sacrifice)
- Sale VC - Option determined primarily on price: (VC conceived as a reduction in sacrifice, or low price)
- Rational VC - difference between the estimated and the objective price: (Dependent upon the perceived benefits or attributes of the product under consideration, the customer calculates what a 'fair' price might be in relation to the benchmark(s) already established. VC in this context is the difference between the two, stated in a relevant currency).

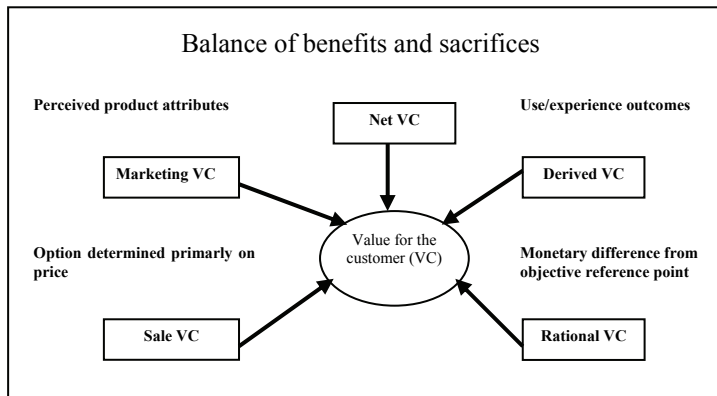


Fig. 8. Five primary VC forms (Woodall 2003).

Woodall identified four temporal phases in consumer value experience, (Figure 9); pre-purchase, at the point of trade or experience (transaction), post-purchase

and after use/experience (disposition), (Figure 9). These phases are discussed in more detail in Section 2.15.4.

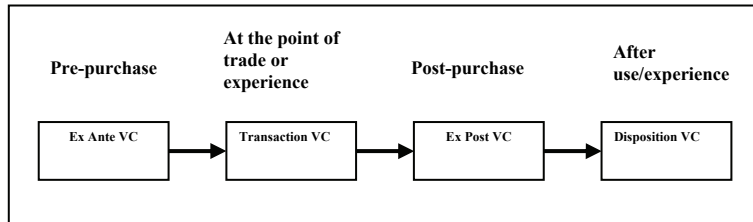


Fig. 9. A longitudinal perspective on VC (Woodall 2003).

Woodall aims at combining the different forms of value and temporal phases which leads to the following definition of customer perceived value (Woodall 2003):

“Value for the customer (VC) is any demand-side, personal perception of advantage arising out of a customer’s association with an organisation’s offering, and can occur as reduction in sacrifice; presence of benefit (perceived as either attributes or outcomes); the resultant of any weighed combination of sacrifice and benefit (determined and expressed either rationally or intuitively); or an aggregation, over time, of any or all of these.”

The customer makes judgements and choices about the ‘worthwhileness’ of a product/service by computing or comparing weights and/or ‘quantities’ of benefits and sacrifices or as the ratio between benefits and sacrifices. “The implication being that ‘good’ VC is represented by a ratio better than 1:1, or a solution greater than one.” (Woodall 2003)

Customers choose one product or service in the market to which they compare the prices and advantages of other alternatives.

Woodall (2003) has also found that value can be divided into several sub-forma as shown in Figure 10.

The value is the ratio between the benefits and sacrifices in which the benefits consist of strategic benefits, personal benefits, social benefits, practical benefits and financial benefits, the consequences as well as monetary and non-monetary sacrifices (Figure 11).

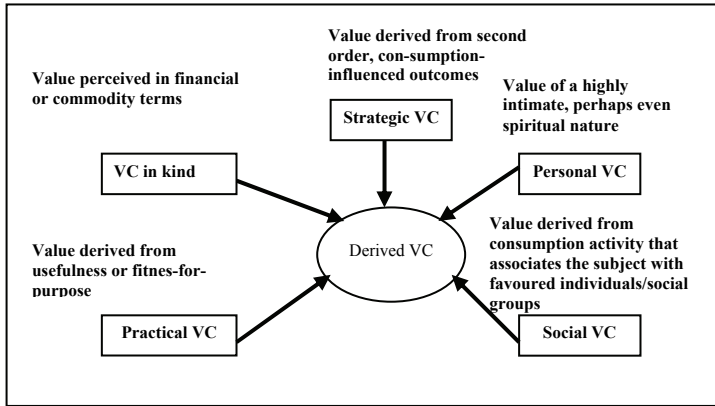


Fig. 10. Sub-forms of 'derived VC' (Woodall 2003).

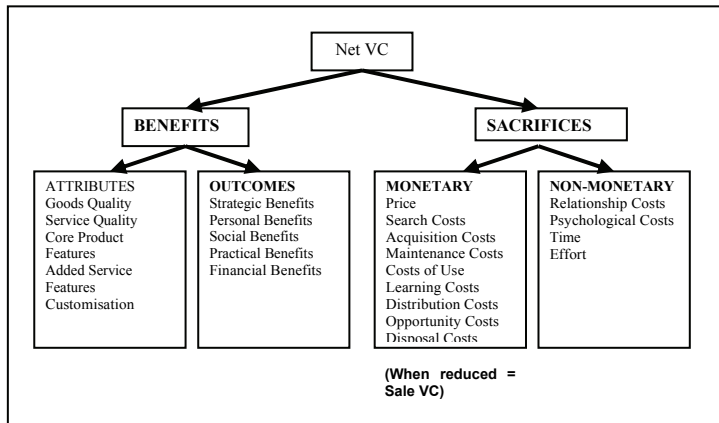


Fig. 11. Benefits and sacrifices – diagrammatic form (Woodall 2003).

Woodall also describes factors, which influence consumer value experience. Such factors could be based on consumer, product, markets and/or consumption (Figure 12).

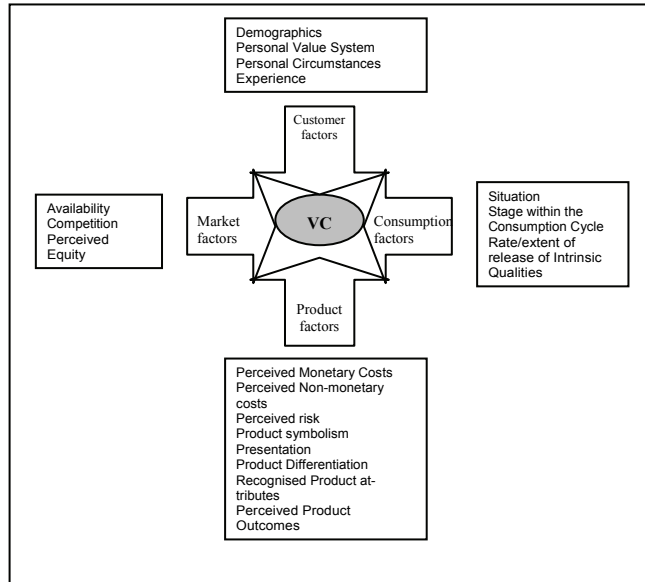


Fig. 12. Factors influencing consumers' valuation process (Woodall 2003).

The value experienced by the consumer is also dependent on the situation or on the competing alternatives.

The value can be an attribute, a consequence or benefit (end state).

The consumer is more interested in decreasing the sacrifices than increasing the benefits.

The difference between the alternatives is more noticeable in cases where the property inspected is worse than that of the compared alternative.

Also the customer's idea about the price-range is very relative. If the price exceeds the comparison-price, it is found to be expensive, but if it falls below the comparison-price, it is found to be of poor quality.

Woodall's model aims at combining the different understandings and definitions of customer perceived value, but does not respond to the factors' respective relations. Neither does it clarify the connection between the customer's point of view and the functions of a company.

2.3.9 Fishbein

The customer's attitude to the product or service reflects the customer's choice (Lutz 1981). The consumers compare alternative products or services by

comparison or decision rules. One of the best-known compensatory rules is the one developed by Fishbein (1963). In this rule, the individual's attitude toward an object is predicted from knowledge of the person's beliefs about what attributes an object possesses and the evaluations of those attributes. Fishbein's attitude model may be expressed algebraically as follows:

$$A_o = \sum_{i=1}^n B_i \cdot a_i, \quad (1)$$

where A_o is the overall attitude towards an object o , B_i the belief whether or not object o has some particular attribute, a_i the favourableness attached by the consumer to attribute i and n the number of beliefs (Pinson & Roberto 1988).

The formula shows that the attitude and thus the choice is a sum of the beliefs created from the properties and modified by the weight of the interests.

2.3.10 Zeithaml

Valerie Zeithaml has together with Parasuranam and Berry studied the quality of services and made an assessment of the quality and the results of their studies, presented below in Section 2.3.4.

Zeithaml also studied customer perceived value separately. According to her studies, the customer experiences four different values which are low price, the receiving of the desired, quality compared with the price and gaining's ratio compared to the sacrifices (Zeithaml 1988).

Zeithaml models the value in function of five factors. Four of the factors have a positive influence (namely, quality, external factors as functionality, internal factors as pleasure, high level abstractions such as individual values) The fifth is negatively experienced sacrifices combined with financial and non-financial factors.

Zeithaml describes consumer perceived value as a net of different factors (Figure 13). In that model, the value is a function of the gain in relation to the sacrifices.

According to Zeithaml, consumer experienced use-value depends on the available alternatives the consumer has, and how much time there is to use and how highly the matter is appreciated.

The value is psychological and varies in the consumers' minds greatly.

Both value and satisfaction affect each other, although their basic factors are the same and both have an effect on the consequences and thus on the loyalty. Quality has an input on the value and satisfaction.

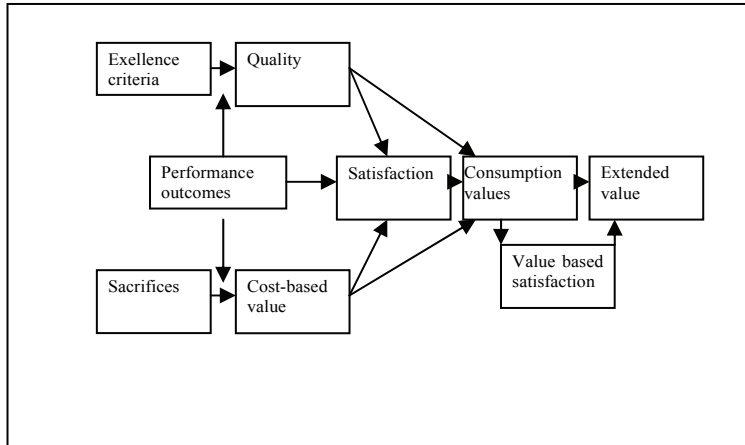


Fig. 13. The net of consumer's value concepts (Zeithaml 1988).

2.3.11 Sweeney and Soutarb

Sweeney and Soutarb (2001) developed a framework, PERVAL, which can be used to assess customers' perceptions of the value of a consumer durable good at brand level. The framework was developed for use in a retail purchase situation to determine what consumption values drive purchasing attitudes and behaviour.

Four distinct, value dimensions emerged that were termed emotional, social, quality/performance and price/value for money. The reliability and validity of the scale was assessed in a pre-purchase situation, using exploratory and confirmatory analyses. All four value dimensions were found to significantly assist in explaining attitudes and behaviour.

These four dimensions of consumer perceived value are now described. Emotional value is the utility derived from the feelings or affective states that a product generates. Social value (enhancement of social self-concept) is the utility derived from the product's ability to enhance social self-concept. Functional value (price/value for money) is the utility derived from the product due to the reduction of its perceived short term and long term costs. Finally, functional value

(performance/ quality) is the utility derived from the perceived quality and expected performance of the product

While these four dimensions broadly describe the consumer's experience about value, for managers in companies they do not provide any hints as to where to put to or increase the value (e.g. in the product itself, or the company image or customer service or delivery, etc).

Because this scale represents a customer based view it is used in this research as one of the foundation stones of the developed theory.

2.4 Multiattribute value theory

Multi target-oriented value views the consumer as having several goals which may be even contradictory to each other. For such cases, the multi-attribute Value Theory can be applied. There are several models for consumer value-experience. Liesto offers the additive model (2006) which is commonly used to describe the consumer's value-experience. In the additive model the total value of certain alternatives is shown as the weighted sum of attributed values:

$$V(x_1 \dots x_n) = \sum_{i=1}^n w_i v_i(x_i), \quad (2)$$

where $V(x_1 \dots x_n)$ is the total value of certain alternative in function of attributes, $v_i(x_i)$ attribute value of attribute i and w_i weighting factor of attribute i .

In practice the additive model is normally used in value-tree-analysis. The additive model does not describe the preferences strictly, so that any criterion is replaceable by other criteria. Liestö offers as an alternative way the lexicographic description of preferences, such as in the example of Maslow's hierarchy of needs (Liesto 2006).

"Additive value-function describes the decision maker's preferences if and only if the attributes are respective independent on preferences" (Liesto 2006).

Liestö suggests another model to describe value, i.e. value-tree-analysis shown in Figure 14. In value-tree-analysis there are entireties formed from the attributes and from those higher level entireties are formed, so as to form a total value comprehension. The entirety is formed to the ratio of attribute weights. When calculating the total value only the lowest level weights are in principle needed. From the lower levels, the higher level goals which are of interest can be calculated.

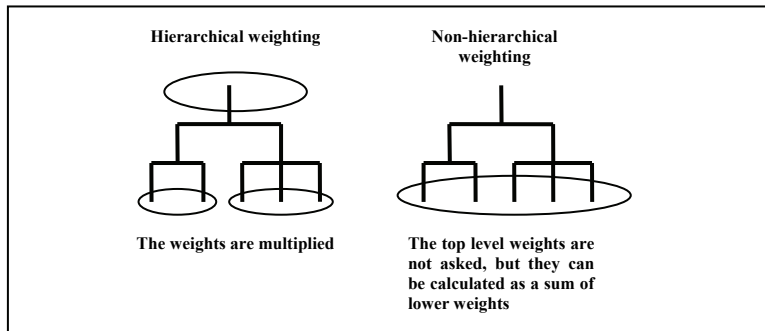


Fig. 14. The value-tree-analysis (Liesto 2006).

There are two ways to progress - hierarchical or non-hierarchical.

Sensitivity analysis is also an essential part of the analyses. With its assistance, how the changes in the model affect the estimated preference order of the alternatives can be examined. For example how the decision maker has weighted the environmental factors and financial points of view (Liesto 2006).

2.5 Theories of consumer choice

2.5.1 Introduction

Models describing consumer purchasing behaviour were constructed already in the 1960s. They mainly describe the consumers' ways of collecting and processing information and making buying decisions. In this section, five models are presented (Friedman 1988):

- The Andreasen Model
- The Nicosia Model
- The Howard-Sheth Model
- The Engel-Kollat-Blackwell Model
- The Bettman Model.

2.5.2 Andreasen's model of consumer's choice

In the Andreasen model from 1965, the choice behaviour is composed of the attitude formation and change in partnership with the information processing capabilities of the individual consumer. The model describes how a consumer

decides whether or not to purchase a new product or service. “Andreasen believes that consumers form attitudes about products and that these attitudes influence consumer reactions (favourable or unfavourable) toward products in purchase situations.” (Friedman 1988)

Andreasen identifies five factors which mould the attitude and can influence together or separately the consumer’s attitude toward the product or service. Such factors are the consumer’s personality, information and feelings which result from past experiences involving the satisfaction of wants, the individual's social perception of the beliefs, norms and values of significant others, and the individual's attitudes toward objects relating to the product of interest as well as product substitutes or complements (Friedman 1988).

According to the model consumers collect attitudinal information and processes it according to their personality or competence, resulting in a decision of behaviour.

The model is a process moving from where the starting information (input) is processed through filtration to the behaviour (output) (Friedman 1988).

These kinds of inputs can be, for example, objective properties, subjective properties, price and availability. The information sources are advocate impersonal sources, independent impersonal sources, advocate personal sources, and independent personal sources.

The information is filtered by attitudes and previous experiences and thus recollections.

Beliefs and feelings have a big influence on the process. The consumer tries to organise their decision into bigger decisions.

The result or behavioural “output” is to select the product or service, to continue the search or refrain from action.

The final result is also affected among other factors by the consumer’s income, budget priorities, physical capacity, and household capacity to process or realise the purchase as well as other purchase decisions. Other agents can be the beliefs of others, the consumer’s respected persons, norms, values, own personality and the strength of the desire and the attitude toward the product or service to be purchased.

2.5.3 Nicosia's model of consumer's choice behaviour concerning new products

According to Nicosia's Model from 1966, the consumer's decision process is a continuous interaction between the seller and the information supplied by the seller. The consumer often forms the attitude toward the object of the purchase with the help of the seller's marketing communication. After this the consumer seeks more information and evaluates it. On reaching a positive result (motivation), consumers make the purchase, after which consumers appraise the quality of the purchase through their own experiences.

The model consists of four basic fields: first is the chain of events starting with the marketing message to the formation of consumer attitude. In this stage a comparison of the properties of the object and the properties the consumer seeks takes place. Next the consumer searches for and evaluates alternatives and their advantages, makes the decision and takes action. This is followed by the purchase act, and finally the consumer evaluates the purchase based on the use. This is called feedback process. The experience generates the motivation to repurchase or not to repurchase. (Friedman 1988).

2.5.4 Howard-Sheth's model of consumer's choice

In the Howard-Sheth model, the inputs of the decision process are separate impulses which Howard and Sheth share in three groups, firstly the significative stimuli which mainly describe the physical properties of the product and service, the symbolic stimuli which are verbal, visual and suggestive information acceding indirectly to the product or service, and thirdly the social stimuli which depend on the consumer's own social surrounding (Friedman 1988).

The significative stimuli can be, for example, the quality, price, distinguished service and availability. Symbolic stimuli are in the same field but are suggestive in nature. Social stimuli can be the family reference groups and social classes.

Consumers seek information by observing as the situation begins to shape. There are two kinds of observation: observing (passive) and information searching (active).

Howard and Sheth describe the decision process as a learning process. The learning affects the motives, brand comprehension, choice criteria, attitude, confidence, intention, and satisfaction.

As a result of the decision process (output) an initial observation is made about the situation, estimations about the product properties and the attitude toward the purchase. On these grounds the consumer makes a decision about the buying experience and the buying itself.

The final result is very subjective and the information in the memory often is distorted/adapted and moulded (Friedman 1988).

2.5.5 Engel-Kollat-Blackwell model

1. In the Engel-Kollat-Blackwell model the basis of the consumer's decision process (input) is the stimulus. They add to the list of stimuli, listed earlier, marketing communication as well as other factors affecting the decision (Friedman 1988).
2. In the information processing Engel, Kollat and Blackwell describe four separate phases. Firstly, the consumer becomes predisposed to the stimuli, marketing communication and other direct or indirect stimuli to accede the purchase. The consumer gradually begins to observe information and his or her own needs. At some point the consumers gain an insight into the basis on which they accept the purchase. The information processing happens with the aid of memory.
3. According to this model, the phases of the decision process are as follows: becoming aware of the problem, searching, comparing the alternatives, choosing and finally acting. On the basis of the purchase and use, satisfaction or dissatisfaction about the purchase is formed.
4. There are several factors and variables in the decision process. The consumers' own beliefs, attitudes, motives and lifestyle strongly affect the decision. Moreover, the intention, choice of criteria and instructions as well as the information received moulds the decision. Furthermore, the surrounding factors have a big influence. The values and norms of the surrounding culture, family and reference groups are influential factors. Also some unexpected factors can have an effect on the final result.

2.5.6 Bettman model

In the Bettman model the decision process is formed on the basis of goal-oriented information searching and comparing alternatives. After the purchase, the consumption and inherent learning affect the experience and any future purchasing (Friedman 1988).

The consumers' capacity to process information is often very limited which leads to experience-based choices or rules of thumb. The processing capacity has a major role in the Bettman model.

Bettman regards the consumer's choice as goal-oriented whereas the role of motivation is very strong. The consumer deliberates the benefits received through the purchase. Here the consumer uses two tools: first the consumer builds a hierarchy of goals and on the other hand deliberates their importance by juxtaposition.

The observation and perception depend strongly on the hierarchy of goals. Consumers observe consciously and subconsciously. Consumers also compare the received information with that stored in their memory. In the case where consumers do not have enough information in their memory, they seek additional information in external sources. Excluding situations of low commitment, consumers actively process and evaluate information received.

Memory is the key-component of the Bettman model and works as a tool for information storage.

2.5.7 Conclusions about the theories of consumer's choice

The theories presented above provide an interpretation of how consumers think and behave in different temporal purchasing situations. It is also essential for understanding the background and character of the concepts used in this thesis. However, for the decision taxonomy itself it does not provide any model.

2.6 Vroom's theory of motivation

Vroom describes motivation (value) as follows (Vroom 1964): "The force on a person to perform an act is a monotonically increasing function of the algebraic sum of the products of the balances of all outcomes and the strength of the expectations that the act will be followed by the attainment of these outcomes.

This proposition can be expressed in the form of the following formula 3 – forces causing behaviour (motivation, value perception)” (Vroom 1964).

$$F_i = f\left[\sum_{j=i}^n (E_{ij}V_j)\right] \quad (i = n+1 \dots m) \quad (3)$$

where F_i is the force to perform the act, E_{ij} the strength of the expectancy that act i will be followed by outcome j and V_j the valence of outcome j .

2.7 Other perspectives on customer perceived value

2.7.1 Introduction

As well as examining the decision models and theories of the consumer and consumer perceived value, it is also necessary to study some other factors – raised by the data in this study and closely connected to the subject – such as quality, customer satisfaction and delight and the psychology of behaviour – mostly social psychology of this field.

In Section 2.7.2 the meaning of the factors and concepts related to consumer perceived value are described.

Also the phases of the purchasing process have an effect on theory generation – the phases have different meanings and influences on different consequences such as value, purchase decision, satisfaction, loyalty, etc.

2.7.2 Concepts “quality” and “value”

In the literature on quality, it is commonly believed that the quality of a product is easy to define by certain dimensions and measurements, e.g. material thickness, tolerance measurement, rejection and other measurable variables. However, defining the quality of services is not so simple mainly because of three reasons: a service has nothing concrete or measurable, the quality of the service varies every time and the service is often delivered at the same time as its consumption. This may be the reason why so many different definitions for the quality of a service have been proposed.

However, if the technical quality factors (correctness, timetables, etc. i.e. ‘hard factors’) are separated from the other factors, and when in practice customer processes for most products include more and more elements of service, the

question arises can consumer perceived value be determined by utilizing the service factors introduced in the literature – i.e. technical quality, functional quality and image quality (Grönroos 1990), physical quality, company's quality image and quality in interaction (Parasuraman *et al.* 1985)

The above approach is widely supported in the data used in this thesis:

- Drucker (2002) states that quality is not something that the producer has added to the product or service but something the customer obtains and is willing to pay for. A product is not good quality just because the manufacturing of it is difficult and costly. Customers are only willing to pay for that which they have use for and which brings them value.
- Grönroos states that Buzzeli and Gale (Grönroos 1990), based on the wide research of the PIMS-database on both industrial and service businesses, conclude that "... quality is whatever the customers say it is, and a product's quality is whatever the customer experiences it to be".
- Holbrook and Corfman (Parasuraman *et al.* 1988) claim that the mechanistic quality gives an objective comprehension of the thing or event but the humanist quality describes a person's subjective reaction toward the object, and is thus a very relative phenomenon depending greatly on the estimator.
- Olshavsky (Parasuraman *et al.* 1988) regards quality as a general estimation about a product, similar to attitude.
- Holbrook (Parasuraman *et al.* 1988) states that quality is a relatively generalized definition of value.
- Attitude is a consumer's relatively sustainable, emotional tendency toward a product, shop or process (for example, customer service process) as satisfaction is an emotional reaction which is a consequence of random experience on the level of basic attitude and is dependent on the consumption. So attitude is measured in more general terms than a product or shop, and is less dependent on the situation (Parasuraman *et al.* 1988).
- Kuusela's research on the quality of cars strongly supports the understanding that the concept of 'value' used by consumers means customer perceived value (Kuusela 2001). Quality is experienced as the sum of the properties, i.e. value. The perceived quality is, according to Kuusela, something for which consumers give the product credit. Every individual's needs, values, hopes and experiences regulate the benefits of a product, thus affecting the product's quality experience. Therefore, evaluation of the quality is subjective. Every consumer sets his or her own requirements for a product's

quality. This way of thinking supports the understanding that the word 'quality' includes the concept of 'value'.

The common use of the word 'quality' to mean the concept 'value' is also found in the commonly used expression 'price-quality-ratio'. There the word quality seldom refers to the meaning of technical quality. For example, the consumer can justify the purchasing of a more expensive car with this price-quality-ratio even though according to objective studies a cheaper one can have fewer defects and be more resistant, and cheaper. So it is a question of the costs-value-ratio where the argument for the higher price (value) could be, for example, environmental values, resale value, increase of self respect, and other properties. Porter in his also refers to the price-value-ratio concept (Porter 1985).

At least three meanings for the word 'quality' can be found in colloquial language:

- quality – selection; "which quality are you looking for?" asks a shopkeeper and means which product or material alternatives the customer is seeking. At least in the Finnish language, the word *quality* in shops means a product range or selection, or a part of it;
- quality – quality; quality is faultlessness, accuracy, certain planned properties, measurements, tolerances, and durability;
- quality – value; quality is a synonym of the word 'value' (customer perceived value).

Crosby defines quality as "found conformity with the requirements". When defining quality in this way he might have expressly wanted to separate the concept of 'quality' from the concept of 'value'. (Crosby 1986).

Because the concept 'quality' thought widely can be coordinate based on the above mentioned in many cases to the concept 'value', we will get a lot of descriptions about the factors forming the customer perceived value. These factors are for great help in generating the theory about the customer experienced value-ratio in this thesis.

2.7.3 Consumer's satisfaction and perceived value

The study and measurement of customer satisfaction have been standard practices for most companies to track customer experienced value. However, customer

satisfaction is not enough as not even the satisfied customers are always loyal (Fredericks & Salter 1995).

This raises the question: how does customer satisfaction deviate from customer experienced value-ratio? Firstly, the customer can be very satisfied with the service received but still buy the competitor's product because of a lower price. Secondly, the customer can be very satisfied with the products, service and pricing of the company but still buy the competitor product because the company does not have the desired product on offer, or the delivery time is too long, or the shop is in another city or the shop is closed, etc.

Customer satisfaction refers to the feeling the customer has when comparing the product, its use or service with the expected ones – with the 'reference value'. When the experience exceeds the reference value the customer is satisfied (Rope & Pöllänen 1994, Grönroos 1990, Parasuraman *et al.* 1985, Cronin *et al.* 2000, Woodruff & Gardial 1996). The experienced total quality and thus the customer satisfaction is not only determined by the quality's technical and functional dimensions, but rather the shaft between the experienced and expected quality (Grönroos 1990).

The concept of 'expectations' has different meanings depending on whether we read the literature about service quality or the literature on customer satisfaction. In the literature on satisfaction the expectations are seen as the consumer's prediction about what supposedly will happen in the coming interaction. For example, according to Oliver (Parasuraman *et al.* 1988) "It is generally accepted that the expectations are the features defined by the consumer about the positive and negative appearances of events that he or she takes part in." However, in the literature on service quality, expectations refer to the consumer's desire or wish which the service provider ought to offer as opposed to what they do offer (Parasuraman *et al.* 1988).

That kind of expectation could be for instance (Woodruff & Gardial 1996) a belief about how the product will operate or a service will happen; ideals, represent the consumer's wishes about the competitors products and services, the products or services in other branches. Customers can form reference expectations based on products or services belonging to a different product or service group, even based on the salesperson's promises as well as the norms and standards in the sector.

Consumers compare services and their experience of it provided by the company with their own understanding of how the company in question ought to operate (Parasuraman *et al.* 1988).

Consumer satisfaction is emotional and when measuring the satisfaction a company should measure emotions. It is not enough if the product operates as promised, or as it should operate according to the norms – the consumer's feeling about the experience is the most important (Woodruff & Gardial 1996).

The customer can be satisfied with the service even without regarding the company to be of a high level (the company, a separate service and the service person are different factors in the customer's mind) (Parasuraman *et al.* 1988).

There are many differences and similarities between customer satisfaction and customer perceived value-ratio.

Firstly, the value-ratio indicates how well the customer experiences the product or service and fulfils his or her goals and targets in the situation in question, but the satisfaction compares the experience with the expectations or any other reference value (Woodruff & Gardial 1996).

Secondly, the customer has a comprehension of the value-ratio in all temporal phases of the purchase (before, during and after the buying), but the satisfaction can only be formed after the purchase. The value-ratio and the satisfaction deviate temporally from each other. (Woodruff & Gardial 1996).

The pre-purchase value-ratio is the customers' experience about what they expect to receive (coming), whereas the customer satisfaction describes the reaction to what the customer has received (past) (Woodruff & Gardial 1996).

The satisfaction formed in a previous purchase or use is a part of the customer perceived value-ratio in the pre-purchase situation (Zeithaml 1988), but the comparison of the expected value-ratio to the value-ratio after use creates the customer satisfaction (Woodall 2003).

A sense of high satisfaction adds to the customer-experienced value (Woodall 2003). So the value and satisfaction affect each other. Their input-factors are mostly the same and both have an effect on the consequences, i.e. the loyalty of the customers (Zeithaml 1988).

The zenith of satisfaction is commonly known in the field as the 'Customer's Delight'.

To conclude about the relation of the customer's value-ratio and satisfaction, it can be claimed that customers are satisfied if their experience of the value received corresponds to the value expected, and delight is reached when the gain considerably exceeds the expectations (pre-purchase value).

2.7.4 Kano's model

The different factors have a different effect on customer satisfaction and delight – and on the value-ratio too. Kano's model and these factors and their effects are (Kano 1984, Sauerwein *et al.* 1996) below in Figure 15.

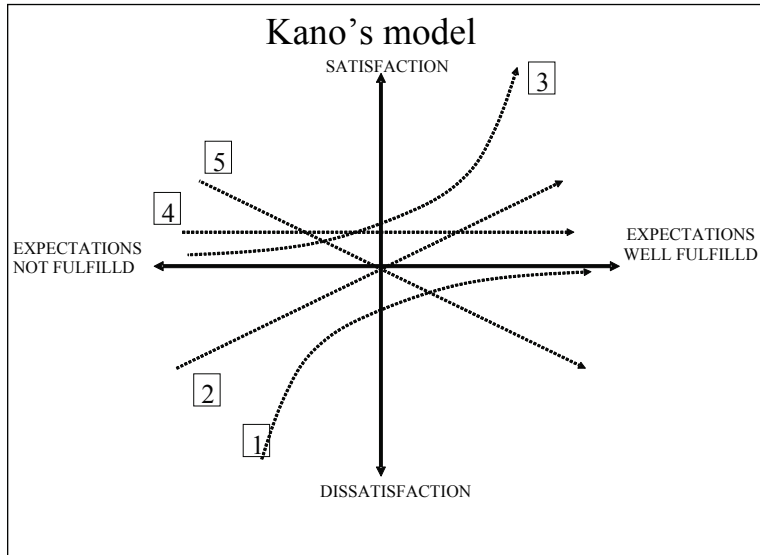


Fig. 15. Kano's model.

The five dimensions of satisfaction (delight) in Kano's model in Figure 15 are as follows:

1. must-be requirements: if these requirements are not fulfilled, the customer will be extremely dissatisfied. On the other hand, as the customer takes these requirements for granted, their fulfilment will not increase his satisfaction. The must-be requirements are the basic criteria of a product. Fulfilling the must-be requirements will only lead to a state of "not dissatisfied". The customer regards the must-be requirements as prerequisites, and takes them for granted and therefore does not explicitly demand them. Must-be requirements are in any case a decisive competitive factor, and if they are not fulfilled, the customer will not be interested in the product at all (Sauerwein *et al.* 1996); The must-be requirements describe the internal operating efficiency or accuracy of the organisation;

2. one-dimensional requirements: the customer satisfaction is proportional to the level of fulfilment of these requirements - the higher the level of fulfilment, the higher the customer's satisfaction and vice versa. One-dimensional requirements are usually explicitly demanded by the customer;
3. attractive requirements: these requirements are the value-factors which have the greatest influence on how satisfied a customer will be with a given product or service or how high the customer evaluates it. Attractive requirements are neither explicitly expressed nor expected by the customer. Fulfilling these requirements leads to more than proportional satisfaction and value-experience. If they are not met, however, there is no feeling of dissatisfaction;
4. indifference quality: these factors do not have any meaning to the customer;
5. reverse quality: these factors decrease the satisfaction and belong to the value-ratio theory regarding the sacrifices.

Kano's model includes all the elements also found in the generated theory. It however does not make a direct connection between the customer's experiences and the company's functions.

2.7.5 Social psychology and consumer's choice

This Section presents the factors and findings from the data which explain consumer behaviour and provide some insight into consumer choice behaviour.

A person makes decisions (Zaltman 2003) both as an individual and a member of a group. The group can mean a family or other groups with whom the consumer interacts. At least 95% of reasoning happens subconsciously.

A person's world consists of four elements: the brain, the body, mind and the social surroundings (the context). To understand a certain piece of information a certain context is needed – different contexts cause different interpretations about the same piece of information (Zaltman 2003)

According to Joseph Turner, a person – in order to choose from the offered alternatives – needs a way of defining the relative values for the different alternatives and in this way it is connected with emotions (Zaltman 2003). “The emotions give a value for every alternative, in other words the emotions act like a kind of yardstick when making the choice.” According to Zaltman, this kind of rationality actually means emotionality.

The person's mind uses the memory, stories, metaphors and archetypes when thinking about the alternatives (Zaltman 2003).

The consumer has two methods of choice (Bettman & Zins 1977): first consumers have saved rules or methods in their memory (The Stored Rule Mechanism). Consumers have in their memory a number of rules and methods to use when making a choice. The rules are based on experience and are learned. There are two kinds of rules: the consumer wishes to completely repeat a certain, previous purchase (pre-processed choice, "buy Brand X") or they have a method of choice ready but the choice needs some processing (e.g. analytic implementation process, "choose the brand with the highest protein content").

In new situations and also in those situations where the old rules do not seem to be the best ones, the consumer creates new rules in the decision situation (The Constructive Mechanism). In these cases the consumer defines the method in the decision situation. The rules or methods used are in the memory as saved parts or elements and the consumer chooses from them the most "suitable" ones (beliefs about the alternatives, comparisons, rules of thumb, weights, processing, etc.).

The effects of local culture and childhood learning on the preferences are great (Zajonc & Markus 1982).

Attitudes represent our hidden feelings – positive or negative – toward an object, person, matter or behaviour. These attitudes are learned in time either directly, via experiences or in receiving information about the object. The learned attitudes affect behaviour and generate a sustainable positive or negative model for reactions. An attitude consists of three components: knowledge, emotions and act (Lutz 1981).

According to Bearden and Etzel (1982) the consumers' choices and decisions are affected by those groups which they are a member of, and the reference groups.

Schaninger describes (Coleman 1983) the demographic classification to be used when the consumer behaviour is not a result of a high spending budget but is due to lifestyle values. The income level is a good way of classifying products which are relatively expensive, and which reflect solvency but are not rated as status symbols for a certain social class. The income and social classes should be considered for products which clearly serve as internal status symbols in a certain social class, and the purchase of which requires huge financial sacrifices.

Consumers make the most of their choices based on their information and experiences, among other factors. The information may not always feel sufficient – particularly when the consumer is afraid of unpleasant consequences (Raaij

1988), The consumer classifies things and properties among others because it decreases the complexity of the surrounding, it is a way to recognize surrounding things, it decreases the need of immediate learning, gives direction to the instrumental activities and allows the organizing and proportion of factual classes to each others.

The difference between properties has more effect on the consumer's choice than the superiority of similar properties. Uniqueness is believed to enhance the value (Dhar & Sherman 1996).

Customer experienced value also depends on factors other than rational ones. "The economical factors do not explain completely the customer perceived value." (Riochins 1994). For example, a photograph of a husband or wife taken in a specific important moment can be more important than possessions and products. What is important is not the photograph itself but the memory and the emotions brought by it. Such feelings cannot be bought with money. Therefore, money is not always always an indicator of value. The value is in the meaning. The meaning is examined in relation to the culture, self-esteem and identity noticed utilitarian considerations, enjoyment and entertainment, representation of the connections between persons, identity and self-expression. The meanings are distinguishable in public and private even if linked to each other.

The meaningfulness of consumer goods can be shared or individual. The meanings yield the value of the consumer goods. Factors a consumer can regard as meaningful are for instance the utility, functionality, enjoyment, social contacts, identity, self-expression, economy, outlook and aesthetic character.

An independent person strives to get things he or she finds positive for him or herself when the self-knowledge of lower independency directs to avoid alternatives which are found worse.

It would be important to create situations where the both goals were active (toward the positive goals and away from the negative ones) (Aaker & Lee 2001).

According to the microeconomics of national economies, individuals attempt to find solutions to their needs. So, there is reason to consider how customers satisfy their needs.

For example, a person may be egocentric, and egocentricity makes the choice process of the solution easier to predict because the personality of the decision maker (the person) does not change as much as the community in which the decisions are made (Estola 1996).

Therefore, there are grounds for generating the theory of the value-ratio. Estola points out: "Based on everyday perceptions the people in different

countries – as well as the members of one nation – are so similar, based not only on physiological, but also mental, needs that it makes sense to model the behaviour of a crowd” (Estola 1996).

2.7.6 Temporal Positioning

Customer value can be categorized as either received value or desired value. Received value refers to the value customers actually experience through specific product–customer interactions. Desired value refers to the value that customers wish to receive from products/services and their providers (Flint & Woodruff 2001).

In the consumer purchasing process, there are four phases which all have an effect on the satisfaction and loyalty in various ways (Parasuraman *et al.* 1985 and 1988, Woodall 2003) (Figure 9).

The first phase is the situation before buying (pre-purchase). In this phase the consumer makes the decisions to buy or not. It is the decisive phase for what or where to buy. The most important decisive factors are images, other people’s recommendations, marketing and in the case of repurchases their own experience of the value of the product or service.

The second phase – the situation of buying or interaction (transaction) – is the key factor for building satisfaction. It also has a great influence on the value-components’ reputation and interaction for future purchases.

The third phase is the time after the purchase, i.e. the use of the product and the after-service (post-purchase) feeling normally have a long-term effect. Loyalty is mainly formed in the use of the product phase, the after-service feeling as well as the experience of how the expectations have been fulfilled.

In some cases the fourth phase – disposal or abnegation – can have a significant effect on the loyalty, satisfaction and value-perception. The affecting factors are sentimental value, rareness, abnegation or the costs or bother of recycling or disposal, etc.

Most of the purchase effort (e.g., information search, alternative comparison) occurs in the pre-purchase stage and perceived customer value can be used as a powerful predictor of purchase intention (Chen & Dubinsky 2003)

The customer is not willing to pay for anything but the value experienced and so it is not enough that the product or service has the value-elements – the keystone of the meaning of the value is that the customer has to perceive the value. Therefore, the company must be able to create ‘value communicators’ to

help the customers see and perceive the value-elements (Porter 1985). This comprehension about the value has its strongest effect in the early stage of the purchase and use. In the continuous customer and use relationship the believed value starts to approach the real one. This is how the difference between preconception and experience is formed. This difference may have an effect on the solution the customer is using, as it may seem worse or better than the expected value of the competing alternative.

Because the consumer's perceived value in a pre-purchase situation is the key to what and where to buy, in this thesis the focus is on the consumer perceived value in the pre-purchase situation.

2.8 Conclusions of existing theories and their limitations

The behaviour of the customers has been studied widely but the result has been either a too simplification model with help of which you can not receive information enough for practical decision making – for example the everyday expression 'price-quality-ratio' handled in the microeconomics of national economy (Estola 1996, Pekkarinen & Sutela 1996) and in Porter's books (Porter 1985) – or summaries containing too many alternatives (Woodall 2003) – classes and concepts – in which the diversified structure rather confuses than helps. The value has been deliberated and modelled from the perspective of quality (Grönroos 1991, Parasuranam *et al.* 1985).

Value has also been deliberated and modelled from the perspective of quality (Grönroos 1991, Parasuranam *et al.* 1985).

The theories developed can be divided into three groups based on their scope:

1. the theories describing the decision behaviour of consumers
2. the theories defining consumer experienced value
3. the theories describing the value-ratio experienced by consumers

Some of the models and theories above have concentrated solely on the value of the product or service and excluded the manufacturer and the communication process.

All the previous theories describe the value ably from a particular point of view and the theories neither contradict each other nor the theory generated in this thesis, because this theory is mostly based on the earlier theories.

The understanding and knowledge of consumer behaviour and the causes behind it – the information sampling and processing, the decision itself and the

behaviour according to the decision – are extremely important but they do not contribute to developing and creating competitive advantages. However, this understanding is of great benefit especially for setting priorities and for marketing.

The models and theories introduced above provide the constructions, categories and concepts on which the theory presented in this thesis of consumer perceived value-ratio in a pre-purchase situation has been generated.

The second group is formed from the theories defining consumer experienced value. The importance of consumer experienced value in developing competitive advantages is considerable, but it is not the only value in consumer choices – sacrifices have as much importance in the decision-making. The theories of value have a decisive role in generating theory about the value-ratio.

The third perspective –the chosen perspective of this thesis – is that the consumer compares the value experienced to the sacrifices experienced. This is called in this thesis ‘The Consumer Perceived Value-ratio’. The value-ratio is studied temporally in the situation of pre-purchase where the experiences are subjective expectations. There remains a question as to whether the consumer perceived value can be described so that the theory also serves the needs in practice.

3 The research questions

To understand consumer choices a description of the consumer decision processes is necessary. In this study the main interest is to build a theory or model to describe the consumer decision factors and their respective connections in a way that assists company managements to understand in practice their customers' choices better than at present.

Firstly the decision factors are identified and the first research question is as follows:

RQ1: What are the factors in consumer pre-purchase decisions?

In the earlier studies there are many concepts to describe consumer decisions but they are presented in ways that are not practical to company managements in their daily work to plan the competitive advantages from the consumer perspective. Therefore, the next research question is:

RQ2: Can the factors be presented in a form which is useful for company managements in their daily work?

Some of the factors include consumer perceived value but others exclude it. Some factors influence the meaning and importance of other factors. To identify the factors that influence each other the third research question is:

RQ3: How do the factors relate to each other?

Finally the purpose of this study is to find or build a theory or model of consumer perceived value. The natural consequence of this is the fourth and final research question:

RQ4: Is it possible to build a coherent model to describe the whole concept of consumer perceived value?

4 The research methodology

4.1 Introduction

As consumer choices have been researched and discussed widely there is good reason to use the existing research data and generate a theory based on that data. The primary question in this study is to find the relevant concepts in the data, to classify those concepts into convergent categories, to find the connections between the concepts and categories and to identify the regular practices. Therefore, the aim is to analyze the concepts and to generate a theory or model based on the concepts, analyses and their respective connections. A theory is a group of well-developed concepts, combined according to defined relations, which as a whole forms a context in which it is possible to explain or forecast phenomena (Strauss & Gorbini 1988).

The arranging of concepts (organizing) is the ground to form a theory. The generating of a theory is not only thinking and finding of ideas (concepts) but also modifying them to logical, systematic and explanatory pattern (Strauss and Gorbini 1988).

Bagozzi (1984) explains that conceptual meaning can be constructed in three ways: the determination of properties, determination of structure and/or through dispositional definition (Haaparanta & Niiniluoto 1986).

4.2 Choice of research methodology

The main classification of research methods is usually based on the different approaches to science: positivistic and hermeneutic (Olkkonen 1994).

According to the central criteria of positivism the acquisition of information is based solely on ascertained and verified observations. In the processing of observations, only objective methods are used which are independent of the researcher's subjective interpretations. In accordance with positivism, the verification is based on objectively logical persuasiveness which is caused by the research methodology used.

According to the hermeneutic approach to science, the acquisition of information is also and even centrally included in the understanding of the researcher and the persons operating with the studied phenomena. The understanding expressly addresses those contexts which are difficult to measure,

grounds of the phenomena, the processes of events, etc. The observations are mainly qualitative and their processing is based on the interpretation of the researcher. In hermeneutics, the evidence is based on the results of the research and an understanding of how the results were achieved so that the validity of the results is apparent.

Research is confirmed as scientific by the systematic and rational acquisition of new knowledge (Haaparanta & Niiniluoto 1986). The acquisition must be objective, public and self-correcting (Peirce). This means that the acquisition of new knowledge has to be created using research methodology the scientific community accepts. The definitions of Pihlaja (2001) and Olkkonen (1994) support this.

The research method is usually determined by the purpose, goals and above all the research questions of the study. In this research, quantitative methods are excluded alternatives because the amount of data needed for modelling the entirety to achieve statistical reliability would be so great. Also there are a lot of qualitative data available in the literature. One aim is “to describe real life” as Hirsjärvi *et al.* describe it (2004) i.e. to describe consumer behaviour using qualitative methodology. Based on this approach, in this study qualitative methodology was used.

This research is theoretical and its results or parts of it can be studied empirically in future research. The aim is to describe the consumer’s behaviour by modelling it. The most suitable methodology is conceptual (Figure 16).

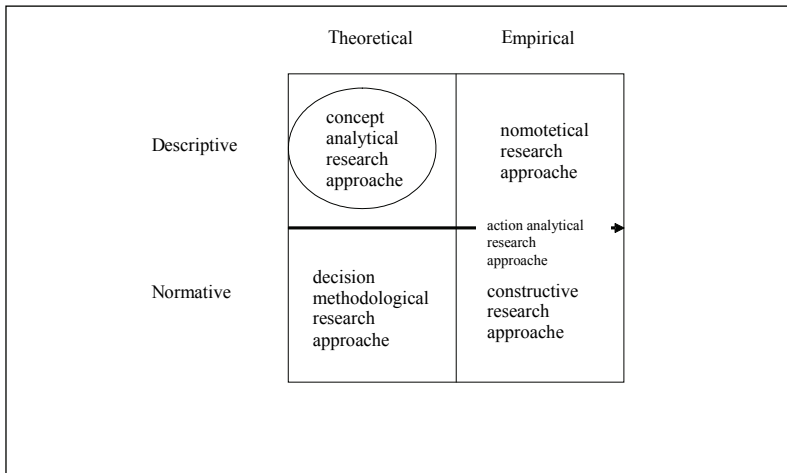


Fig. 16. The relative positions of different research methodologies (Olkkonen 1994 figure 5-8).

This research was carried out as a conceptual literature study (constructing the conceptual system) by using Grounded Theory methodology, applicable for a study based on chosen data and which according to its name generates a theory grounded on the data. The research extracts the concepts from the data and defines their respective weights and meanings.

The aim of conceptual research is to construct a conceptual system (Olkkonen 1994). Conceptual systems are suitable for describing, identifying and classifying types of phenomena, organizing data, used as a basis for planning, etc. In other words it is suitable for the goals of this research. The concepts as such have no absolute value but should serve a purpose or task.

In building scientific theories, different kinds of theoretical concepts and theoretical statements are central. Definitions are needed because they have several tasks (Hirsjärvi *et al.* 2004): a definition crops and specifies the concept. It gives meaning to the concept or expresses linguistic agreement. The definition creates the norms for its use and combines together the concept and its meaning (term).

With the concepts, it is possible to describe the phenomena and use common concepts so that as many as possible can understand it in the same way. The purpose of a model or theory construed by concepts is again to make it easier to shape the situation in practice – in this study, the consumer's choosing grounds.

Using analytical methods, the main concept can be split into smaller sub-concepts so as to describe them accurately without ambiguity (Grounded Theory methodology) and better than before, in detail or in a new, more practical way (synthesis). The method is very theoretical and is expressly suitable for studying theories and data (Olkkonen 1994).

An extensive theoretical context usually brings out the central concepts and the definitions of these concepts (Hirsjärvi *et al.* 2004). That is why systematic working (as in Grounded Theory methodology) linked to a clear context essentially assists in defining the concepts and their properties.

The principal structure of this conceptual research is shown in Figure 17.

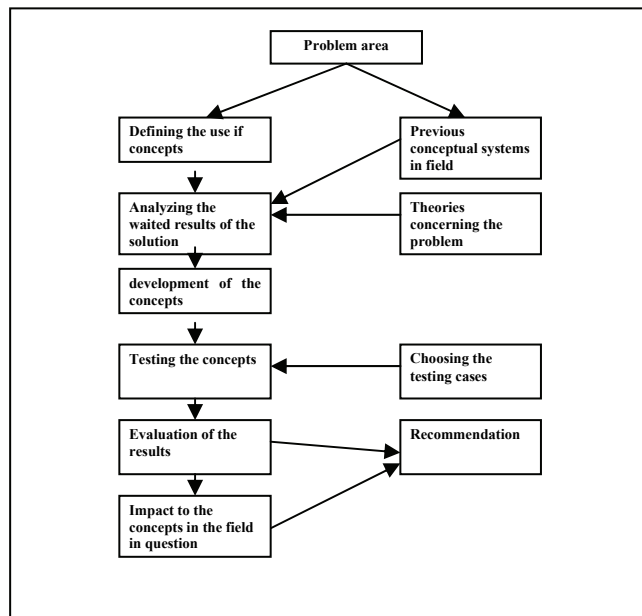


Fig. 17. The principal structure of the conceptual research (Olkkonen 1994).

4.3 Grounded theory

This research has been carried out according to the principle introduced by Strauss and Gorbin (Strauss & Gorbin 1988): “Although we are not generating the data, we generate a theory out of the data. If we do it right, we let the data talk with those concepts which come out of it clearly understandable and

representative. Our theory, as yet incomplete, yields common language (concepts) with the help of which others can get ideas and solve problems – already a small amount of understanding can make the difference.”

Grounded Theory is a methodology developed by Glaser and Strauss (and later also Gorbin) mainly for sociological research and theory generating. The main principle is that the data itself creates the theory: by searching in the data for events and incidents (coding), conceptualising them, categorising them into classes, defining the central relations between the concepts and classes, finding the key-category and based on that formulate an opinion for the theory (hypothesis, proposition) (Glaser & Strauss 1967, Strauss & Gorbin 1988, Glaser 1992, Pandit 1996).

Grounded Theory was developed as a counter reaction (Anttila 2000) to the deductive research tradition where first a theory is chosen and then the collected data are located in the earlier created theoretical model. The hypotheses are not formed based on the previous research and theory building, but based instead on the interpretation of the combined data. The researcher is not testing other’s theories but creating a theory of his or her own. It is generated gradually in open interaction with the data and operates as the ground for classifying or categorising the data.

Grounded Theory is a qualitative research method in which the theory is developed on the basis of the data. The basic element of Grounded Theory methodology is the coding of the data systematically, by allowing the concepts arising from the data form categories and the whole model is gradually built up. In the beginning, coding (open coding) takes place to find the concepts and properties. Next, using axial coding the respective relations between the concepts are specified, categories (classes) are generated and the connections between the categories are examined. Finally, using selective coding, the categories are compared and the most particular are chosen, continuous comparison is made and finally co-categories are formed. On the basis of these co-categories the theory is proposed (hypothesis). “Grounded Theory means a theory which has been generated out of data, which has been systematically collected and analysed as a research process.” (Strauss & Gorbin 1988).”The value of Grounded Theory is not only that it enables a theory to be developed but that the theory is grounded on data” (Strauss & Gorbin 1988).

Grounded Theory has eight stages (Strauss & Gorbin 1988). Because the target is to create a theory, the stages form a process where the stages should mix and interact with each other continually, from the beginning to the end of the

research. If the stages are built one after another, and separately, it prevents a theory from being developed.

Below are the stages of this research (Anttila 2000):

1. Open coding

Open coding is an analytic process in which the concepts are identified and their properties and dimensions are identified from the chosen data. The key procedures are the finding of the concepts, writing of memos (description, deliberation, classifying etc of the concepts), and definition of the properties and dimensions of the concepts as well as the variations.

The data are first read carefully and divided into categories - plain and easy-to-understand – according to what the data contain (Anttila 2000).

2. Axial coding:

The axial coding is a process by which the categories are linked (proportioning) to the subcategories. The term ‘axial’ is used because the coding happens ‘around the axle’ of the categories linking the categories based on their properties and dimensions.

The aim of axial coding is to start the collection process of the data which has been split during the open coding. In axial coding the categories are divided into subcategories to form a more accurate and complete description of the phenomena. Axial coding expresses the way the categories are superimposed and linked to each other.

The key procedures are the planning of the properties and dimensions of the categories – a task which already begins during the open coding, identifying the conditions, events interaction and variations in the phenomena. Further key activities are the division of categories into subcategories by defining the rules and respective relations and searching for the signs from the data about how the main-categories link to each other.

When the data were split during the open coding and some new categories, properties and dimensions were identified, the axial coding combines the data again by searching for connections between the categories. The axial coding is all the time done parallel to open coding. (Anttila 2000).

3. Selective coding:

Selective coding involves synthesis and refinement in the process. In this stage the researcher tests her hypotheses (categories formed in the beginning

of the research work) with other data meant to test her assumptions severely. This is also called verification. All the analysis and coding must happen using the method of continuous comparison (Anttila 2000).

4. Theoretical saturation:

Theoretical saturation means the point of category development when no new categories, properties, dimensions or relations appear.

5. Defining the central core category:

In this stage, the theory starts to take shape when the central categories and resulting core category are defined.

The key procedures are to define and compare the respective relations of the concepts and categories, thus formulating the cause and consequence matrix (i.e. a tool to stimulate the researcher's thinking about the connections as well as the micro as macro level causes and consequences of each and the process), defining the macro level causes and consequences which are expansive and influential, defining the micro level causes and consequences which are narrower than earlier, searching the paths of the connections to find diversified ways of intersection of the micro and macro level causes and consequences thus forming the context of events and interaction. Further key procedures are the finding of contingencies, i.e. the unanticipated and unexpected events which can change the conditions and can require some kind of events or interactions (problem solving) to control or work them out.

6. Theoretical sampling:

Theoretical sampling means the collection of data by forming concepts of the developing theory based on comparisons in which the possibilities are maximized to find the variations of the concepts and summarise the concepts through their properties and dimensions.

In this stage the theory is yielded (Grounding the Theory).

Through selective coding, the categories are integrated to form a 'grounded theory', in other words all categories are combined around the core category (Gorbin 1990, Anttila 2000, Pihlaja 2001).

7. Writing

Writing needs a clear analytical focus clearly expressing the important areas of emphasis, and some relevant memos to complete the details.

In the report, the how and on what grounds the data has been selected should be clarified, as well as which core categories have come up, the events and concepts leading to the core category, and which categories have been discussed in the theoretical sampling. It is also important to identify how the theoretical context guided the collection of data and how representative is the data collected. In writing, the hypotheses of the concepts of categories should be explained and the grounds on which they were formed, how they were verified and were there any cases in which the theory cannot explain the event and how to explain these deviations or whether the hypotheses changed. It is interesting to indicate how and why the core categories were chosen and did it happen suddenly or gradually, easily or with difficulty and, finally, on which ground the final decisions were made.

The research material primarily forms the evidence for the conclusions describing how the researcher achieved the results (Anttila 2000).

8. Evaluation

The final stage is to evaluate the research and the theory generated in it. In the evaluation, there is a discussion of influential concepts, whether the concepts systematically fit each other, how the concepts bound to each other and have the categories been formed easily. It should also be explained whether the categories have a strong conceptual base, are the variations considered in the theory, how are those circumstances in which variations occur considered and explained. The evaluation also requires a description of how the process is taken into account, do the theoretical findings seem significant and how significant, is the theory sustainable overtime and, finally, could it be part of a scientific discussion.

The four criteria of quality research are, according to Pandit (Pandit 1996) validity of the structure, internal competence, external competence and reliability.

4.4 The design of the research

The working plan of this research follows the eight stages of Grounded Theory presented in the previous chapter. In this Section how the work was done is described.

Stage 1: The data on which the whole research is based was collected in five stages.

First the basic data was collected according to the principles of Grounded Theory. The data was then added according to the findings and so far as something new or significant was found (i.e. theoretical saturation, Strauss and Gorbun 1988).

A more detailed plan for collecting data is presented in Section 4.5.

Stage 2: The previous, existing value models were studied. Also these models were conceptualised.

Stage 3: The data was examined carefully and the perceived concepts, their properties and dimensions as well as the categories were recorded using 'open coding'. The identified concepts were described and classified and 'opened' by writing notes, a wider memo was used to open the concept, of the most significant ones. In this stage, the possible varieties were examined.

Stage 4: The concepts were examined anew this time with 'axial coding' and by dividing them into categories and subcategories, comparing the concepts and categories to each other and checking their respective connections, dependency and deviations.

In this stage conceptual maps were utilized. The final maps are shown in Appendixes A, B and C.

Stage 5: In this stage the central core categories were defined as well as their respective connections. The identified categories were compared to each other based on which a cause and consequence matrix was formulated. At the same time the categories and concepts were linked respectively which led to identifying the contingencies and limits for the variations.

Stage 6: here the categories were combined and refined (selective coding) targeting the generation of a preliminary hypothesis or proposition for the theory. In this stage the additional data were checked to ensure they do not raise anything new or significant (theoretical saturation).

Stage 7: In this stage the final theory was formed (Grounding the Theory). The categories were integrated to generate 'a grounded theory', in other words all the categories were combined around the key categories (Anttila 2000).

Stage 8: This very important stage included the evaluation of the quality, validity and reliability of the research.

Stage 9: The final stage was the reporting stage and writing of the report.

The whole study followed the principle of continual comparison. Also most of the stages were carried out in parallel in mutual interaction.

4.5 The plan for collecting data

The source material in this research (data) has been collected in five steps:

1. first the material of the key researchers in the fields of business and value-concept were studied. These are, among others, the theories of the national economy of Porter, Kottler, Gröönroos, Drucker, Peters, Zeithaml and Berry, Fredericks and Salter, Luce and Payne, Sweeney and Soutarb, Holbrook, Flint and Woodruff, Oliver;
2. secondly, earlier studies of, for example, Woodall, Uusitalo, Friedman were included;
3. thirdly, the best possible picture of the existing theories, models and ideas were sought, and the articles from the previous ten years (1996–2006 ?) on customer perceived value, customer behaviour and related issues were studied in the top 21 most respected scientific Journals (listed in Appendix 4);
4. fourthly, articles, books and research reports in the field of 'Quality' were studied;
5. finally, those sources found in the above mentioned data were studied: i.e. in references, new ideas, etc.

In Grounded Theory research the data should be trawled for long enough, but only for so long as it reveals more useful data (theoretical saturation). Theoretical saturation means the point of category development when no new categories, properties, dimensions or relations appear (Strauss & Gorbis 1988).

In this research, additional data would have raised more concepts only on a third or fourth class level, so their effect on the description of the value-ratio would have been insignificant. In total, 84 additional sources of data – i.e. journal articles, research reports and books - on customer perceived value were studied which are not listed in the reference list because they are not referred to in this thesis.

The data collected included those that which focused on, described, were in some contact or even sidestepped customer perceived value as well as the theories and models presented in previous studies. Next – and partly parallel to the previous stage – the concepts were categorised into different groups based on different grounds. Out of the different category alternatives, those concept groups which describe the perspective of the customers and customer perceived value were chosen. To understand the categories and properties the concepts connected to the concept 'value' were collected which describe customer behaviour from the

sociological and psychological perspectives. In forming the categories, previous studies and the theories and models generated on them were considered, in relation to the reasonable and functional operations of companies.

4.6 Limitations of the research

There are two main limitations to using Grounded Theory methodology. First the theory can only be formed according to the data used. Therefore, limitations in the data (or limitations in collecting and choosing data) will lead to limitations in the generated theory.

Secondly, in choosing the categories, especially, there can be ‘nearly equivalent’ alternatives so that the categories could have been grouped in other ways by studying the data from other perspectives. In this study, the data were studied from the perspective of the consumer while reflecting on the practical operations of companies. The limitation here is the possible influence of the researcher on the choice of the categories – the personal pre-understanding - but in this case it is an advantage because the main target of the generated theory is to assist company practices to develop more customer-oriented products, services and processes. Here, the researcher’s managerial experience is an added value.

Basing a study on Grounded Theory methodology, requires firstly objectivity so as to maintain scientific reliability and secondly sensitivity to identify concepts and categories. According to Strauss and Gorbun “...the researcher balances between them by keeping the subjectivity small” (Strauss & Gorbun 1988).

There are also other choices which can limit the results. The research area has been deliberately limited to consumers as individuals, although the consumer usually belongs to different groups which considerably influence purchasing decisions. The other influence is the subjectivity of the factors, especially in the subcategories based on social valuations.

Consumers perceive value in multiple stages of the purchase – pre-purchase, interaction and after purchase when using the product – but in this study we have concentrated only on the pre-purchase situation and decisions made in that stage. This can lead to the omission of some factors influencing the loyalty and satisfaction of the consumer that do not belong to the pre-purchase situation.

5 Results

5.1 Introduction

Immediately at the beginning of this research it appeared that customer experienced value had been studied widely from several different perspectives and that data are plentiful for use as source material. That is why the first observation was that it is essential to follow the plan to use these sources and allow the data indicate which pieces of data are worth examining.

According to one of the basic principles of Grounded Theory the data should construct the theory (Strauss & Gorbun 1988). However in this study, the approach was also to prefer the perspective of the company management so that the theory could serve as an everyday tool for company executives in their management planning. Otherwise – and according to the basic principle of Grounded Theory, the data did the talking.

”In all branches some ratio between the price and performance prevails; with x euros you can get y units value. It is challenging to improve that ratio completely – by 500% or 1000% and not by 10% or 20%. So the essential renewal of value-equation forces a change in the definition of the product or service.” (Hamel 1996). Hamel proposes that the product’s task (yielding the core benefits) and form (i.e. the way in which the benefits are included in the product or service, the attributes) should be separable so that the possibilities for value creation will be freed from the fetters of the product, and more possibilities arise. “Every organisation which is able to tell apart the form from the task and renew one or both of them, has the possibility to bring revolution to the branch” (Hamel 1996).

Customer experienced value has three hierarchical levels where the upper level is a combination of factors from the lower levels. The factors (attributes, properties) of the lower levels are nearer the product and the factors of the upper level (benefits, outcome) are nearer the customer’s world. The hierarchy of customer perceived value enables managers to separate the form from the task (Woodruff & Gardial 1996).

The three levels of customer perceived value (Woodruff & Gardial 1996) are as follows:

- *the highest level* is the desired end-state in other words the customer experienced benefit or outcome caused by the product or service. The

benefits pursued by the consumer express the consumer's core values, objectives and targets which are fundamental motivators for the customers. The outcome can seldom be found in the product or service but is a consequence of one or some of the product's or service's attributes or their use;

- *the middle level* is formed by the consequences of the attributes of the product or service, in other words those advantages that the attributes of the products or services generate. These are the customers' subjective experiences of the consequences (positive or negative) of the attributes. When speaking about their experiences of products or services, consumers often use consequences to describe their experiences;
- *the basic level* is formed by the attributes and properties of the product or service, in other words what kind of product or service itself is in question. They are closely connected to the product or service. The customer describes the product or service with its features and attributes. The attributes and properties are those which the company places in the product or service.

The value changes over time and is experienced in the moment (Woodruff & Gardial 1996), which makes it so difficult and challenging to define or measure.

In B to C business, the customer perceived value often is irrational and its nature is fully subjective and is therefore difficult to convert into quantitative data. The same logic can be used both in business to business, as in business to consumer businesses (Koski 2005).

According to Venkatesh and Firat (Korkman 2006) value is formed in this context by use, i.e. received advantage in proportion to current activity (use value). Therefore, consumption is in principle the source of value and not production as is often traditionally thought.

So in order to define consumer perceived value we first have to become more familiar with the consumers' ways of thinking and behaviour.

5.2 Consumers' way of thinking

5.2.1 Observations found out of the data about consumers' way of thinking

To ensure that the collected and categorized factors and attributes for generating consumer experienced value were reliable and genuinely affected consumer perceived value – i.e. are customer centred – the factors about how consumers think need to be identified. In the next paragraphs several factors are presented which arose from the data on consumer perceived value, and provide a background for the theory to be generated.

Personal values

According to Flint and Woodruff, personal values are the central, core, enduring beliefs that guide customer behaviour. Personal values are abstract, centrally held, implicit beliefs that guide behaviour. They are specific to individual customers. They are enduring and independent of product use situations (Flint & Woodruff 2001). The personal values can be bound to local culture, the reference group values, family, social class and traditions (Kotler 1990).

Notes for the theory generating: personal values show that the factors forming consumer perceived value are extremely subjective. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for identifying the specific factors for a company's customers, especially the emotional and social components.

The reason for purchasing

The needs influence the decision of the customer. The needs create the motivation when the needs are strong enough (Kotler 1990).

Consumers make their choices to achieve their ends. The four most important ends or targets for consumers are: 1) to maximize the accuracy of the choice, 2) to minimize the level of bother in the decision, 3) to minimize negative feelings during the making of the decision and 4) to justify the adopted decision more easily (Woodall 2003).

Notes for the theory generating: *The reason for purchasing is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix to identify the specific factors for the customers , especially the functional, emotional and economical factors.*

The effect of context

The theory of opinion building implies that preferences greatly depend on their context. In addition, because the decision-making happens “in the air” the processing of factors strongly depends on the context of the problem. This means that the ways of approaching the problem can change when the consumer learns more about the problem and its structure during the decision process (Woodall 2003).

The buyer can have different roles related to the purchase. A buyer can be the initiator, opinion leader, decision-maker, financier or sponsor, buyer or user or any combination of these. The role, the customer’s personality and for example the sense of the purchase affect the customer’s activity, the purchase itself and preparation for it (Kotler 1990).

A person makes different decisions depending on whether the decision is made alone or together in a group (Kirchler 1988). Groups also include families, working teams, etc. Also Bearden and Etzel point put (Bearden & Etzel 1982) that other persons do have an influence on consumer choices and decisions, this includes both those groups in which the consumer is a member and reference groups.

The definition and conceptualisation of value depends on the context. So there is not only one definition of value, as the context should be taken into account in the definition (Babin *et al.* 1994).

Therefore, a company should not only identify their customers’ ways of thinking, but also the customers’ surroundings, the connections to the choice context, and the choice itself and the effect of the use in the surroundings on the consumer.

Notes for the theory generating: *the effect of context shows that the factors forming consumer perceived value strongly depend on the context. This observation is useful when addressing the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use in identifying the specific*

factors for the customers of the company, especially the emotional and social components as well as the Purchasing Factors.

Recommendations of friends and other people

Word of mouth is a used and trusted means when gathering information, both positive and negative information. When consumers form their expectations on which the intention to buy is based, the recommendations of friends or other trusted persons have an extremely important role in the decision making. The agents of word of mouth appear in Figure 18.

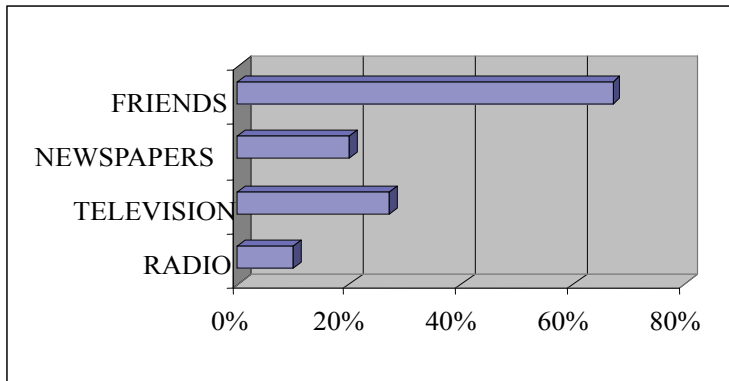


Fig. 18. The agents of word of mouth (Pruden & Vavra 2004).

Notes for the theory generating: *the recommendations of friends show that the factors forming consumer perceived value depend on the opinion of surrounding people. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use when identifying the specific factors for the customers of a company, especially the social factors.*

Subjectivity

People do not think, see or experience events in the same way. Consumer valuations are affected by the consumer's comprehension about the subject and its impact, learning, beliefs, attitude, culture and both the social and mental situations (Kotler 1990).

Values which the customer feels important are not the sum of an objective value range, but a spectrum of features which are chosen as important on a subjective basis (Woodall 2003).

As a result of the abovementioned conclusions, subjectivity must be taken into account when defining consumer value experience.

Notes for theory generating: subjectivity shows that the factors forming consumer perceived value can vary from one another. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use in identifying the specific factors for customers, especially the emotional and social factors.

The methods of valuation and judgement

It is assumed that the consumer has a utility function for every item of property. The utility functions reflect the consumer's estimated level of satisfaction for a given product or service. When considering the information on different alternatives, the consumer first creates expectations for the value. In making the final buying decision, it is also influenced by other peoples' attitudes and unexpected situations (Kotler 1999).

Unfortunately there is no single simple model which explains the valuation methods people use, nor even an evaluation process used by one single consumer in all situations. "According to most models of the consumer valuation process, the process is cognitive i.e. based on knowledge and according to the consumer is based on knowledgeable and rational grounds" (Kotler 1990)

In general, consumer choice is assumed to be based on financial factors and applies rational choice theory. Consumer decision-making is based on unilateral rationality and a limited ability to process matters (Woodall 2003).

Customer experienced value also depends on factors other than rational ones. "The economical factors do not completely explain the customer perceived value." (Riochins 1994). Something more important than things and products can for the consumer be a photograph of her or his husband or wife taken in a specific important moment. Important is not the photograph itself but the memory and the emotions brought by it. They are not possible to buy with money. Money is not always an indicator of value. The value is in the meaning. The meaning is examined in relation to the culture, self-esteem and identity-noticed utilitarian considerations, enjoyment and entertainment, a representation of the links

between persons, identity and self-expression. The meanings can be public or private ones and may be linked to each other.

All individuals have different strategies for decision-making and these strategies vary depending on the individual's experience and practice. The decision strategies depend greatly on single individuals (Woodall 2003).

The decision strategies used by different individuals have advantages and disadvantages depending on the situation in question, and these advantages and disadvantages may depend on the individual's know-how and skills.

The consumer chooses the decision strategy, from available alternatives, which suits best for the decision to be made.

The consumer has two methods of making a selection (Bettman & Zins 1977), by the recorded rules and methods (i.e. The Stored Rule Mechanism), and by creation of rules in the decision situation (i.e. The Constructive Mechanism). The Stored Rule Mechanism means that the consumer has in his or her memory several different rules or methods for making the choice. The rules are based on experience and what is learned. There are rules of two kinds. The consumer wants to completely repeat a certain purchase (i.e. pre-processed choice, e.g. "buy Brand X") or the consumer has several decision methods ready for use but the selection needs some more processing (i.e. analytic implementation process, e.g. "choose the brand with the highest protein content").

The Constructive Mechanism approach means that the consumer defines the method in the choice situation. The usable rules and methods are recorded particles or elements from earlier purchases in the consumer's memory, from which the consumer selects the "suitable" ones (e.g. beliefs about the alternatives, comparisons, rules of thumb, importance, information processing, etc).

There are three parts in the decision process (Kirchler 1988). In the beginning, the consumer defines the criteria. Then, the consumer negotiates with the interest groups and sources of information about the criteria of choice. Finally, the consumer defines the actual decision criteria.

The consumer's cognitive structures, (from attributes to benefits) are a model of goal-directed behaviour for perceiving a method for examining the goals (Pieters *et al.* 1995). It also involves argumentation of the usefulness of the structural aspect in examination of the goals, or in other words thinking about the answers to the questions why (i.e. the action's ulterior target), what (i.e. the actions and main objectives) and how (i.e. the realization and means) The objectives of the lower level serve the means of the higher level objectives.

The consumer's data-processing is guided by the price-quality-ratio - with images and heuristically, especially under moderate time pressure in situations of low motivation and under low time pressure in situations of moderate motivation (Suri & Monroe 2003).

Customers are willing to pay only a part of the value-added which means customers wish to gain a part of the value for themselves (Kotler 1999). Kotler calls this part of the value the "Consumer Surplus". The meaning of the value decreases when it achieves a certain subjectively perceived level which can be due to the buying ability, or the marginal utility achieved, while the additional sacrifices are regarded as too significant.

Notes for the theory generating: The different methods of valuation show that the factors forming consumer perceived value are not absolute – the valuation depends on how the benefits are introduced. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use when identifying specific factors for the company's customers, especially when developing attributes to create benefits for consumer perception.

Product features

The consumer visualizes a product or service as a group of properties – not as a physical object. The most striking features are not necessarily the most important ones, as consumers create beliefs about the ways the product features satisfy their needs. These beliefs as well as the needs are very subjective (Kotler 1990).

Consumer preferences are created from those benefits which the consumer believes they need and want, and the properties of those attributes which yield those benefits. There is a hierarchy in consumer aims. The consumer decision is grounded more on the preferences formed during the decision process than decided beforehand on carefully considered preferences (Woodall 2003). Woodall compares the formation process of consumer preferences more with architecture (i.e. the building of values which can be defended) than with archaeology (i.e. digging out existing values). The preferences are often constructive as the consumer can have insufficient, cognitive resources to form well defined preferences and/or the consumer can have several objectives when solving a certain problem. Cognitive thinking is however not valid for all preferences as consumers have clear earlier decided preferences about matters only when they

know the object well and they have experience of it. In this situation rational choice theory may be applied.

The question here is what is understood by constructive thinking in this respect? Consumers learn something new about the product, services and their properties by using their earlier knowledge and skills. Therefore the thinking is based on the consumer's own starting-point. Thus, consumers create their own new, meaningful interpretation of the product's attributes and the benefits based on their own experience (Romppainen 2001).

To the importance of consumer's objective has effect a group of problem's properties included irrevocability of the decision and modernity and amphibology of the received feedback in relation to every objective's impact – the consumer tries to minimize the risk. Possible losses do effect more than possible gaining.

Decision-making happens definitely, if the consumer's expectations have realized in the previous purchase, but if not or he or she knows the matter in question well, the deliberation happens more thoroughly.

The consumer finds the negative properties more important in timepressure. The consumer uses properties of other products as the product's properties, if he or she does not know this property of that product as if it were a property of that product in question. It, which properties and of which products the consumer will chose, depends on the situation. The comprehension of the choice's fitness may change the order of importance (Woodall 2003).

It can be concluded that consumers act based on their comprehension and the comprehensions of consumers are very subjective.

Consumers also evaluate the safety features and are willing to pay more for a safer alternative. The willingness to pay is proportional to the income level (Boulding & Purohit 1996)

The difference between alternatives has more influence on the consumer's choice than the superiority of properties. Consumers regard the aspect of uniqueness as giving more value. (Dhar & Sherman 1996).

The growth of number of alternatives leads to use of more unilateral strategies and the growth of number of properties to growing selectivity, but not to chancing of the strategy (Woodall 2003).

When consumers choose between alternatives they tend to choose those with a broader range. However, consumers are often less trusting of a choice from a broader range than one from a narrower one. Chernev's research shows that the choice between ranges depends on the objectives of the consumer and especially

how important the consumer regards the possible choices of this specific range made later (Chernev 2006).

A wide range of alternatives confuses the consumer and makes the decision-making more difficult. Direct availability can strengthen the preferences of consumer's choice (Chernev 2003).

Consumers try to reduce the risk experienced (Raaij 1988). To reduce the uncertainty (for example, by gathering more information) is not the same as to reduce the risk. The size of the risk depends on the following four factors: the number of alternatives, the similarity of the alternatives, the importance of the purchase and the financial cost of the purchase in relation to the consumer's budget.

Babin *et al.* split the consumer's value-experience into two groups – in work and/or pleasure based on the value of the purchase based on its pleasure or usefulness (Babin *et al.* 1994). The factors of the value experience are the symbolic, aesthetic and hedonistic features of consumption. Consumption is an experience in which the consumer enjoys fantasies, feelings and fun.

The two aspects of consumption – i.e. work and pleasure – have the following meaning: in the work-aspect, the choices are based on the benefits and functionality whereas the product is a medium as it fulfils a task. The important elements are financial and/or functional benefits. In the pleasure-aspect, the consumption creates feelings and is combined with pleasure and fun, enjoyment and satisfaction. The criteria of choice are often aesthetic by nature, entertainment and emotional experiences, experienced freedom, fulfilment of fantasies or an escape from reality.

Consumers experience the benefits of a product or service as psychosocial. An important way in which the benefits are generated is through the associations created during consumption. For example, while shopping, the customer can enjoy without buying any product, due to the feeling of comfort in shops (Babin *et al.* 1994).

An independent person tries to get things found positive for self whereas self-esteem with lower independence directs to avoid alternatives which are estimated to be worse quality. It would be important to generate such situations in which the both objectives were active (towards positive objectives, away from the negative ones) (Aaker & Lee 2001).

Zeithaml divides products and services into three groups according to how difficult it is for the consumer to estimate their properties of quality and benefits in proportion to price (Ojasalo 2001, Anttila 2001). Firstly there are the *searched*

properties which can be evaluated even before the purchase of the product or service. Secondly there are the *experienced properties* which can be evaluated at least after their use. The third group are the believed properties in which the evaluation of price-quality-ratio is so difficult that it can hardly be evaluated even after use (e.g. a visit to the doctor, car repairs, etc.).

The sharing of a product's task and form, proposed by Hamel (Hamel 1996), is a practical way of changing the present definition of products and services in other words to separate the core-benefits (task) from the ways in which the benefits are incorporated into the product or service (i.e. form, attributes). There are attributes in the product and these attributes yield benefits to the customers although other attributes and solutions could yield the same benefits.

If the product or service includes properties or free gifts which the consumer finds unnecessary or useless, these may have the effect of decreasing the consumer perceived value (Simonson 1996).

Notes for theory generating: examining the product features shows that the factors forming consumer perceived value have several dimensions – i.e. emotional, social, functional and financial. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use in identifying the specific factors for the company's customers.

Abstract nature

The consumer uses abstract features when comparing alternatives which actually are not comparable to each other (Woodall 2003). This involves emotional reactions, subjectivity and intuition. Emotional deliberation is characterized by a wider, more selective and property-based deliberation. In general, the emotional choices are "lost behaviour".

The actual decision-making of the consumers is not necessarily rational - at least not if there is a choice of preferences and arguments, weights, etc.

Notes for theory generating: the abstract nature of decision-making shows that the factors forming consumer perceived value can seldom be explained rationally. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use in identifying the specific factors for a company's customers, especially the emotional and social factors.

This also raises the question as to whether consumers use their instinct. Can instinct in this respect refer to the subconscious utilization of collected information together with the emotions?

Collecting and processing information

The increasing information is not a disadvantage for the correctness of the decision if consumers choose the kind of information group which corresponds to their values. In other cases, too much information can adversely affect the decision. The consumer primarily uses the information existing in his or her memory (Woodall 2003).

The consumer search for extraneous information is limited. The more experiences the consumers have about the product or service the less they search for more information. On the other hand the more divergent the alternatives are the more information consumers seek. Consumers regard personal information as more important than mass-information (Pinson & Roberto 1988).

When consumers do not have enough information about products they use different marks for supporting their conclusions to describe the product's properties. Markers of physical properties can be for example the smell, voice or noise, colour, package, brand's mark, brand's name, etc., which can have a connection to those in the consumer's memory (Pinson & Roberto 1988).

Consumers make the most of their decisions based on the information and experience in their memory. This information may not always feel sufficient, especially when the consumer is afraid of undesirable consequences (Raaij 1988).

There are two factors which affect the decision made (Woodall 2003): first the conscious attention on existing objectives and on the other hand the unconscious attention on surprises and unexpected, new elements.

Hutchinson presents the concept "The Dimension of the Consumer's Expertise" (Hutchinson 1987). His starting-point is that the consumer's expertise departs from the product knowledge. He identifies five different, qualitative aspects of expertise and its development, and all these improve when the product knowledge increases. Firstly, there is the cognitive effort where repetition automates the choices (i.e. becoming automatic). Secondly, there is the cognitive structure by which the data structures are refined. The third is the analysis where the ability to analyze improves. The fourth is the more accurate elaboration which develops the ability to process the information. The fifth aspect of development

presented by Hutchinson is the memory which primarily means the ability to remember.

It has been shown that improving the two first parameters has a positive effect on the developing of others.

The gathering and adoption of information are influenced by the expertise of the consumer, familiarity and experiences of the product, ability to clarify the tasks connected to the product or service and ability to use the product or service.

Notes for theory generating: the ways of collecting and processing information create ideas about how to make the information available for the consumers. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for the practical use of identifying the specific factors for a company's customers, especially the Interaction factors.

Proportion

Because companies often introduce the attributes of their products instead of the benefits generated by these attributes, it is often difficult for the consumer to evaluate the benefit generated by a specific attribute or the value generated by the whole product. The choice is easier if consumers can compare the alternative in question with a less attractive one whereby the value of the proposed alternative looks better (Simonson 1996).

The number of alternatives has an effect on the choice. According to the research results of Simonson *et al.*, consumers seldom choose the cheaper alternative when they have more than three alternatives from which to choose. Also the chosen product or service is generally more popular than the other alternatives (Simonson 1996).

Notes for theory generating: the proportion of alternatives shows how important it is to regard the benefits from the stance of the customer. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for the practical use in identifying the specific factors for a company's customers.

Attitude

Attitudes present our hidden feelings – positive and negative – about an object, person matter or behaviour (Lutz 1981). These attitudes are learned in time by being exposed to the objective either directly via experiences or by receiving information about the object. The learned attitudes act as general guiding principles for our visible behaviour in accordance with attitude by generating a sustainable positive or negative model for our reactions.

Attitude consists of three components; knowledge, emotions, act, (Figure 19, Lutz 1981) and the structure of overt behaviour by Ajzen and Fishbein in Figure 20.

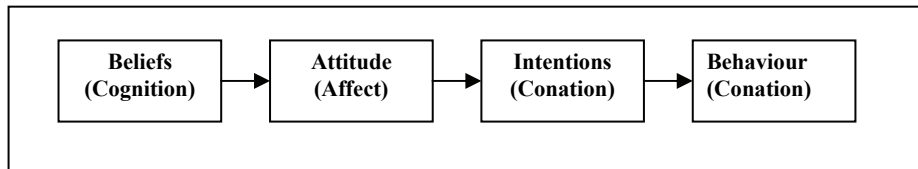


Fig. 19. The unidimensionalist view of attitude (Lutz 1981).

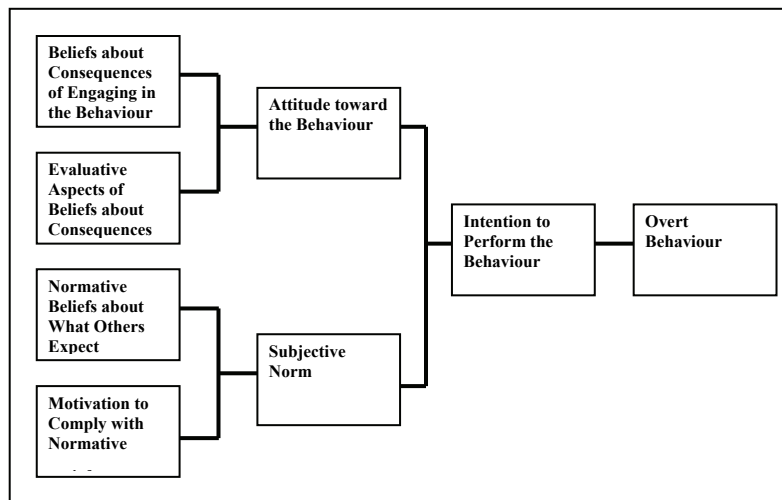


Fig. 20. Theory of reasoned action by Ajzen and Fishbein (Kassarjian & Robertson 1991)

Jacoby regards attitude as a remarkable factor in loyalty; “The attitude defines the result of the evaluation process and arouses frequent buying behaviour. According

to Jacoby loyalty means frequent buying behaviour whereas attitude is it's preceding factor, the reason" (Paavola 2006).

Notes for the theory generating: attitude's meaning shows that the factors forming consumer perceived value are extremely subjective and persevering. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use when identifying the specific factors for the company's customers.

Surroundings

The effects of culture and childhood learning on preferences are very strong (Zajonc & Markus 1982).

According to Coleman, consumers can also be classified according to demographics. In his opinion, social class can be used when the consumer's behaviour is not distinguished by plentiful use of money but reflects the values of an underlying lifestyle. The income level is one way of classifying products which are relatively expensive to purchase or use, which reflect the ability to pay but are not seen as status symbols of a specific social class. Income level and social classes should be used together for products which are distinctly visible, which serve as internal status symbols in the social class and the purchase of which incurs a great monetary sacrifice (Coleman 1983).

Notes for theory generating: the influence of the surroundings indicate that the factors forming consumer perceived value also depend on factors other than just the person in question. This observation is useful when opening the nodal centres of the Consumer Perceived Value Ratio Matrix for practical use in identifying the specific factors for a company's customers, especially the emotional and social factors.

5.2.2 Conclusions of the chapter

In this chapter the consumers' ways of thinking were examined so as to include that factor when generating the taxonomy of decision factors. The factors presented in this chapter help develop practical solutions in searching for those product attributes which yield the benefits consumers seek.

5.3 Basic categories

A theoretical model to describe the decision factors is possible because consumers prefer such situations where they gain something more from a commodity (Estola 1996).

The consumer decision mainly happens subconsciously (Zaltman 2003), although most models describing consumer perceived value propose that the decision-making is rational (Woodall 2003). The great influence of the subconscious does not prevent the generation of a theory as the consumer makes comparisons also consciously (Zaltman 2003).

Consumers compare the experience's gain to the experience's sacrifice. Pekkanen and Sutela describe the consumer's choice process as follows: "...the ratio between the specific benefit and the disadvantage caused by its pursuit." (Pekkarinen & Sutela 1996). Estola makes a comparison to a scales in his term: "Decision steelyard" where the benefits and disadvantages are weighed (Newton model) (Estola 1996).

Storbacka and Lehtinen add that the customer usually has a budget (Storbacka & Lehtinen 1997). The absolute quality level is not decisive but the quality (here meaning 'value') is in proportion with financial and other aspects. This explains why the customer can be very satisfied with mediocre quality – the low price is proportionally better than better quality, but more expensive (i.e. pointing to the 'Value Ratio'). The customer's satisfaction is dependent on the value the customer perceives to be gained. The understanding of the value is formed when the customers compare the quality in proportion to the amount of resources they invest in developing the relationship. The resources should be understood to include monetary as well as knowledge and emotional resources.

Kotler proposes the term value-price-ratio (Kotler 1999). According to Simonson and Drolet (2004), the price which the consumer is ready to pay reflects the experienced value and the sacrifices needed to be able to purchase the product or service in question. The value-experience is the ratio between the value given by the product and the sacrifices needed in relation to the compared price.

Chen and Dubinsky propose the following: "Essentially, value represents a trade-off of salient 'get-and-give-components,' which are perceived as benefits and sacrifices, respectively." (Chen & Dubinsky 2003).

Hamel reports (1996) that in every branch there is a specific ratio between price and performance – 'with x euros you get y units value'.

Moreover, a large number of other researchers refer to gain (i.e. benefits, performance, gain, value) and sacrifices (i.e. disadvantages, harm, price, cost, giving). The dependency between them is mostly described in terms of a ratio or trade-off, i.e. the gaining of the increasing value and the reduction of the sacrifice. This can be described in formula 4 as follows:

$$\text{Valueratio} \sim \frac{\text{Gaining}}{\text{Sacrifice}} \tag{4}$$

(Estola 1996, Pekkarinen & Sutela 1996, Porter 1985, Kotler 1990 & 1999, Koski 2005, Simonson & Drolet 2004, Lilja 2005, Hamel 1996, Flint & Woodruff 2001).

Lolja describes customer perceived value diagrammatically (Figure 21) in which there are two zones – the zone of favourable value-ratio and the zone of unfavourable value-ratio – and the line where the value-ratio is even (Lilja 2005).

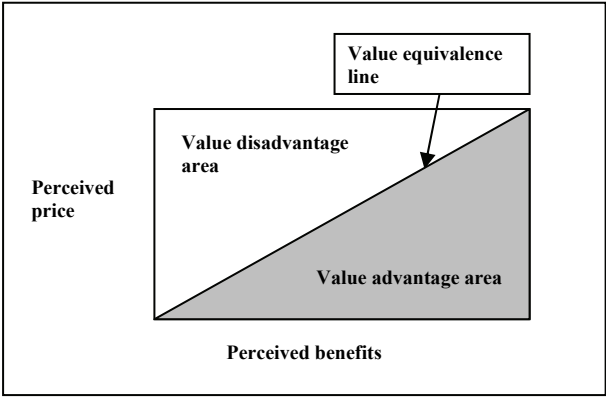


Fig. 21. The value-ratio (Lilja 2005).

In other studies (Estola 1996, Drucker 2002, Porter 1985, Kotler 1990 and 1999) a third group of factors is identified which influence the experiences, meaning and effect of gain and sacrifices. For example, the financial ability to purchase can be mentioned which would define the upper limit for the meaning of the gaining (“I cannot afford any more”). This group of factors is called ‘Purchasing Factors’ in this thesis.

The formula can be described as follows:

$$\text{Valueratio} \sim \text{Purchasingfactor} \times \frac{\text{Gaining}}{\text{Sacrifice}}. \quad (5)$$

On the basis of the above-mentioned Gaining, Sacrifices and Purchasing, these factors were selected as the main categories of the description of Value ratio. The factors can be both concrete and abstract, rational or emotional. The only condition is that they must be experienced by the customer (Drucker 2002, Porter 1985, Kotler 1999, Zeithaml 1988).

5.4 Gaining

5.4.1 Introduction

The concept of gaining is the keystone for the consumer. It is the main motive to purchase. The gaining is commonly called ‘Consumer Perceived Value’ in the research reports of the area. In the context of choice, consumers compare the experienced value with the experienced sacrifices, so a high level of value is not enough because the sacrifice must also be experienced as reasonable.

Which factors compose the concept of value? Is it possible to determine from the previous studies a consistent understanding of the components of gain?

Grönroos points out (1991), that: ”What the customers get in the interaction with the company is clearly important for them and the quality evaluation made by them. However the customers also are influenced by the how they receive the service and how they experience the simultaneous production and consumption processes (service). The customer most often looks at the company, its resources and operation modes. That is why the image of the company and the local outlet is in most services exceedingly important and can have in many ways an effect on the experiences of the quality.” Grönroos divides quality (in this thesis the concept of ‘Quality’ is understood as the concept of ‘Value’) into three components: technical or end state quality, functional quality and image quality.

Blomqvist *et al.* support the idea that the concept of ‘Quality’ can be understood as ‘Value’ (Blomqvist *et al.* 1993). “One perspective which has not been examined in previous discussions but which is important in this connection is the price, or more correctly the costs incurred by the customer in purchasing the service. The quality itself does not bring any competitive advantage but the customer experienced quality is a clear differentiation factor whereby the price can hardly be totally elided.” They add that the comparative value for customers

is determined by the ratio between the customer perceived quality and total expenses of the purchase of the service.

This concept of 'Quality' corresponds to the concept of 'Gain' in this thesis.

By interpreting Grönroos freely, the three following components can be identified in the concept 'Gaining':

First is the object of the purchase – a product, service or solution, which the consumer is aiming to buy. The object's properties and the benefits yielded by these properties form the consumer experienced value. This is the core category in the factor Gaining without which no purchase happens. In this thesis, it is called Substance. This category can be determined by the question WHAT.

Secondly is the consumer's choice decision regarding how the purchase is feasible – i.e. where to find information about the object, where, when and how to buy it, what kind of outlet there is, the purchasing situation or service personnel, etc. The ease or amenity of the purchase can decide the object or place of the purchase. This category is called Interaction in this thesis. This category can be described by the question HOW.

The third category is based on the consumers lack of knowledge about the object of the purchase (Storbacka & Lehtinen 1997), or understanding of its properties or the meaning of the properties. The consumer is also often afraid to make an inaccurate buying decision. The consumer's intuition about the manufacturer and the outlet (store) has a strong influence on the gaining experience, as it either decreases the feeling of risk (especially when the alternatives are rather similar and difficult to tell apart, or increases the value experience, for example with brand marks. The third category of gaining is called Reputation in this thesis. This category can be determined by the question WHO.

Kaplan and Norton define in their book 'Balanced Scorecard' (Kaplan & Norton 1996) the customer perceived value to be formed by the properties of the product or service, the customer relationship, reputation and image. The properties of the product or service (such as functionality, price, quality, time, etc.) answer the question WHAT and describe the substance perceived by the customer. The customer relationship includes factors such as delivery, service, time of response, customer satisfaction, transaction, communication, favourability of the buying experience, etc. They answer the question HOW and describe the interaction between the customer and company. Image and reputation (brand) answer the question WHO or from WHOM and they are influenced by the company's reputation. Kaplan and Norton include the price in the properties. The functionality in these properties represents the customer perceived value.

In Table 2 there is a summary of the most important grounds for the categories proposed above.

Table 2. Summary about the categories in component gaining.

Category / source	Substance (WHAT)	Interaction (HOW)	Reputation (WHO, from WHOM)
Kotler 1990	product's value, service's value	personnel's value	image value
Grönroos 1991	technical quality (what)	functional quality (how)	imaged quality (enterprise's image)
Parasuram <i>et al.</i> 1995	endstate- extent process extent as object of the purchase	process extent as way to purchase	
Fredrichs & Salter 1995	product's quality, service's quality, innovations in yielding the properties	innovations in ways of offering	enterprise's image
McCarthy 1960, 4P-marketingmix (primarily functions in enterprise, not factors of customer perceived value)	product	place	promotion
Lehtinen & Lehtinen (Parasuram <i>et al.</i> 1985)	physical quality	interactionquality	enterprise's qualityimage
Kaplan & Norton (87)	properties	customer relationship	reputation and image
Jones TO (24)			
Porter M 1985	utility criterions	interaction citerions	XXX
Jobber 2001 (Koski 2005)	product	customerservice	companyimage
Kuusela (23)	inner properties belonging to the product		brand, enterprise

The way of thinking about what – how – who/from whom is functional and company centred. It facilitates the company understanding of consumer perceived value in proportion to its own operations. It also is advocated by its ease, and the cultural differences are taken into account, which is especially important in global businesses. The product or service is often the core competition of the company and stays the same in different cultures, but the way of gaining an image depends on local customs, values and culture.

A conceptual map describing the Gaining component is in Appendix 1.

Sweeneya and Soutarb (Sweeneya & Soutarb 2001) divide value into four components: *emotional, social, functional and economical value*. Using this sub-classification in describing the component 'Gaining' would divide the concept 'Gaining' into clear subdivisions and would be useful in practice to set targets. This sub-classification is customer-centred and based on the experiences of consumers. However, this classification into main categories would make company managers' work more difficult because the components presented by Sweeneya and Soutarb include factors for all the stages of purchase and all company functions so their development and management is scattered and thus much more complex. The sub-classification is however useful to open and explain the main categories of Substance, Reputation and Interaction. This notion is also supported by the findings of many other researchers. For example according to Fournier and Mick, customer perceived value can be considered to be formed from rational, emotional and social factors. (Paavola 2006)

According to Sweeneya and Soutarb (Sweeneya & Soutarb 2001) the emotional value is the benefit based on the emotions brought about by the products and services; the social value is the effect of the product or service on the increase of the consumer's self-esteem; the functional value is formed by the product's or service's properties, quality, performance when they are perceived to be useful; and finally economical value is formed by the direct or indirect, long or short term savings in expenses of utilisation caused by the products or services in question.

According to the findings of Sweeneya and Soutarb (2001) the category 'Gaining' can be divided into the following four subcategories: emotional value, social value, functional value and economical value.

The connection between the properties of the product or service and consumer's experienced value is or can be formed in companies by the hierarchy introduced by Woodruff and Fisher (1996). According to this hierarchy, customer experienced value is a combination of the consequences caused by the product or service attributes (properties). Woodruff and Fisher define the value factors on three levels. At the base are the properties (brought with attributes) connected closely to the physical product or service. The next level, and caused by the previous one, is formed by the consequences which are the customer's experiences of what the properties have achieved. The highest level is the level which describes the customer's value-experiences. The consumer seeks those

consequences which lead best - in his or her opinion – to the desired purpose, objective or end state. The structure of the hierarchy is shown in Figure 22.

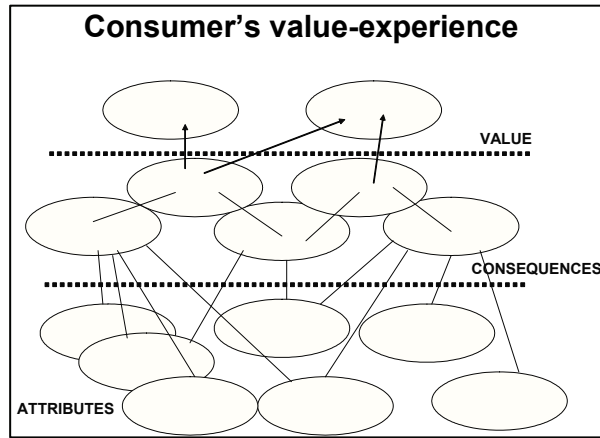


Fig. 22. The principle of the hierarchy (Woodruff & Fisher 1996).

By combining the above introduced classifications we can take into consideration both the consumer's experience (customer centric) and company's functions (practicality). The principle of 'Gaining' is graphically shown in figure 23.

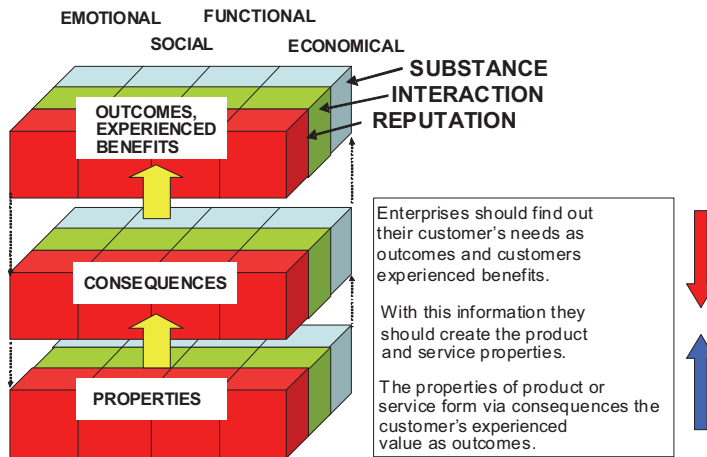


Fig. 23. Consumer perceived value model, 'Gaining'.

The conceptual map of the concept 'Gaining' is shown in Appendix 1.

5.4.2 Substance (WHAT)

The substance is most often the reason to buy. There is a need which is fulfilled by the substance.

The substance concerns the benefits given by the product or service. It is the product's or service's share of the perceived value.

The substance is formed from the product's or service's physical properties such as quality (i.e. faultlessness, durability, accuracy of dimensions and tolerance, etc.), innovations, usability, guidance and instruction, user interface and ease of use, maintainability and availability of spare parts, savings in operating costs, etc.. Also the emotional and social experiences are caused by the product or use of the service as proposed by Maslow's hierarchy of needs (i.e. correction of deficiency, safety, social acceptance, receipt of appreciation, self-development, originality, difference, etc.).

One possible way of dividing the category 'Substance' into subcategories would be to use Maslow's hierarchy of needs, although it would leave in the background the "harder" factors, especially financial. These could primarily come up via emotional and social experiences and therefore do not serve all the needs of company managements.

A more practical way is to use the classification defined by Sweeney and Soutarb (2001) which is described in Section 5.4.1.

Some examples of the factors in 'Substance' are given below and in Table 2.

Substance – Emotional

satisfaction, aesthetic character, joy, pleasure, safety

Substance – Social

status, appreciation, belonging to the specific reference group

Substance – Functional

properties, quality, innovations
usability, guidance, maintenance
ease of own processes and functions

Substance – Economical

savings in operating costs

5.4.3 Interaction (HOW)

The concept 'Interaction' means here the way the customer experiences acquiring the product or service or information about it. The component 'Interaction' thus is dependent on the product but only in the way the company offers the information, availability, service, etc.

The component 'Interaction' includes, among others, factors such as availability, geographical location, opening hours, alternative ways of purchasing and purchasing channels, delivery times and possibilities, service (self-service, customer service personnel), systems, etc.

The 'Interaction-value' is also influenced by the consumers' understanding of the ways the company handles the 'Moments of truth' (Grönroos 1991). Such typical moments of truth may be, for example, in the interaction between the consumer and company personnel, products, invoices, letters, handouts, brochures, advertisements, packages, systems, facilities, etc.

Typical functions in companies involving the interaction-value are customer service, logistics, location and facilities, opening hours, marketing communications, etc.

Parasuram *et al.* define the elements of service quality as reliability, reaction inclination, competence, achievability, courtesy, communication, credibility, security, observation and understanding of customers and finally the physical facilities (Parasuram *et al.* 1985).

Reliability means the consistency and reliability of performance, in other words the company delivers an efficient service right from the start, the invoicing is precise, filing is done impeccably and the product or service is delivered just on time (JOT)

The reaction inclination concerns the willingness and desire to serve, i.e. the service takes place on time, the necessary documents are sent immediately, the provider makes contact with the customer without delay and the service is fast.

Competence means that the knowledge and skills are at a good level, the organisation is able to clarify matters and find solutions for the customers.

Availability means the possibility and ease of making contact, the service is also easily available by phone or internet, the waiting time for the service is not too long, the opening hours are suitable for the customers and the locations of an outlet, or the service point, are suitable.

Courtesy refers to the manners of the contact persons, a respectful attitude, consideration and friendliness. This also means respect for a customer's property, and also that the providers have a professional appearance.

Communication means that the contact persons speak to the customers using language and words which the customer can easily understand, that they explain to the customers the details of the service or purchase and inform about the price and its criteria as well as reassure the consumer that the possible problem will be solved.

Credibility means reliability, honesty and delivery of customer advantages. Other factors for building credibility are the good name of the company, the company's reputation and personality of the contact persons. Credibility belongs partly to the category 'Reputation'.

Security means that there is no risk, danger or suspicion in the purchasing or use of the product or service, and that the customers can trust that the product or service offered is chosen for their best interests.

The observation and understanding of the customers involve putting genuine efforts into understanding the customer's needs and into clarifying the customer's special requirements. The customers are treated as individuals and the regular customers are known.

The physical facilities refer to the physical factors of the service, such as the physical premises, outside appearance as well as the accessories and machines used in the service situation. Also the physical marks and other customers have an influence on the 'Interaction'. (Parasuranam *et al.* 1985, Blomqvist *et al.* 1993)

The classification defined by Sweeney and Soutarb (2001), introduced in Section 5.4.1., can be used to address the category of 'Interaction' as well.

Some examples of the factors in Interaction are given below and in Table 3.

Interaction – Emotional

full of feeling, joy given

Interaction – Social

trustworthy, appreciative

Interaction – Functional

easy, fast, time saving, independent of clock time

Interaction – Economical

advantageous and reasonable method of supply

5.4.4 Reputation (WHO)

“A good reputation is indisputably one of the most critical actors in customer choice” (Zeithaml 2000)

Because customers usually know very little, if anything, about the product or service (Storbacka *et al.* 2000) how do they form expectations about the purchase and its value?. ‘Reputation-value’ refers to how the consumer experiences the product, service, manufacturer or outlet (company). ‘Reputation-value’ is not directly influenced by the product or service or interaction, although in a repurchasing situation the experiences of the consumer or his or her friends do have an effect also on the ‘Reputation-value’.

The ‘reputation-value’ is formed by how well-known the company is, the customers’ own and other’s experiences, quality, stories, degree of company ethics and values in relation to customers’ own personal values, environmental issues (green values), company image, visible company culture, financial success as well as successful competition and management. The country of origin (domestic, home industry) can also have an influence on the ‘Reputation-value’ depending on the local culture and product or service.

One of the most important components of reputation is the effect on experienced risk. Bauer once presented a model describing a consumer’s behaviour which proposes that the consumer’s buying behaviour is directly dependent on the purchase’s perceived risk (Pinson & Roberto 1988). The purchasing strategy the consumers use most to decrease the risk is loyalty to the brand or supplying company (purchasing place).

Perceived risk is the consumer’s perception of the uncertainty and concomitant adverse consequences of buying a product or service (Chen & Dubinsky 2003).

The risk experienced by the consumer can be grouped into five classes (Pinson and Roberto 1988) (following the classification of Sweeney & Soutarb (2001)):

- functional risk
- economical risk
- physical risk
- emotional risk
- social risk.

'Reputation-value' means the minimization of risk which is very important to the consumer (Aula 2002). It has the greatest effect on the first purchasing and develops according to the consumer's own experiences, positively or negatively. The Reputation-value is especially important when the consumer becomes bonded strongly to the purchase and to the whole supply organisation (such as banks, airline companies, subcontracting, partnerships, etc.) or the purchasing situation or the object of purchasing is regarded as intimate. According to the research of Pinson and Roberto (Pinson & Roberto 1988) we can conclude that the Reputation-value is for the consumer the most important as it decreases the perceived risk. However the risk does not explain the whole Reputation concept.

It is important for the consumers to be able to trust that the manufacturer will continue to exist later – even during the low seasons (e.g. for spare parts, maintenance, additional buying of the same series, etc). When purchasing a product or service the consumer usually thinks about the consequences which are due to the purchase – what shall I benefit from this? (Woodruff & Gardial 1996). Here the Reputation-factors have great meaning.

The reputation-value perceived by the consumer can also mean an increase in status, improvement of appreciation and thus formation of better self-esteem.

Dowling has pointed out that a better reputation has a positive influence on the buying decision (the first choice and thus more selling) and in the best cases on the price (and thus improvement of profits) (Aula 2002).

The concept 'Brand' means an image of the trademark of the product, product series, service or company among the consumers. The concept 'Image' means business image, visual image of the company (Aula 2002). Reputation is a judgement or rating made by the interest groups and it is based on images and experiences.

Reputation influences the favorableness of the alternatives for most products and services (Desarbo *et al.* 2002).

Previous studies suggest that word-of-mouth recommendation plays an important role in reducing the amount of information consumers process and is used in heuristic decision-making to infer product quality. Brand name (or reputation) has been found to affect perceptions of quality. Additionally, it serves as a surrogate for quality and a dominant heuristic choice by providing consumers with a bundle of information about the product. Brown and Dacin (Chen & Dubinsky 2003) demonstrated that what consumers know about a company can influence their beliefs about, and attitudes toward, new products manufactured by the company. (Chen & Dubinsky 2003)

Sirdeshmukh, Singh and Sahol (Paavola 2006) define the concept 'Trust' as the consumer's expectation that the producer of the service merits confidence and keeps its promises.

The classification defined by Sweeneya and Soutarb (2001) and which is introduced in Section 5.4.1. can also be used to address the category 'Reputation'.

Some examples of the factors in Reputation are given below and in Table 4.

Reputation – Emotional

confidence and trust, ethicality and values in relation to consumer's own, green values

Reputation – Social

appreciation given for example by trade marks

Reputation – Functional

reducing the perceived risk

Reputation – Economical

resale value

5.5 Sacrifice

According to Blomqvist *et al.* the costs consist of price, which the customer pays for the product or service, and supplementary costs, which are caused by the product and service in question or their purchase; for example the transportation costs of going to the supplier, the additional time needed for that as well as the changing supplier costs caused by this specific supplier. (Blomqvist *et al.* 1993).

Blomqvist *et al.* classify the costs into direct costs, indirect costs and psychological costs (Blomqvist *et al.* 1993).

- *The direct costs* are those which the customer is prepared for and which are a direct consequence of the solution offered by the company.
- *The indirect costs* are due to the customer having to spend time and resources on such matters which are caused by flaws in the quality delivered. It is mainly a question about how far the customer can trust the company operates properly in all cases and situations.
- *The psychological costs* mean the trouble that the customer feels if he or she can not rely on the company to deliver the product or service in a satisfactory way.

According to Kotler the sacrifices are formed from the financial, energy, time and psychological costs (Kotler 1990). Woodall proposes (Woodall 2003) that there are two kind of costs: monetary and non-monetary. Jobber also states (Koski 2005) that the invested input is not only monetary, but that it also includes the time and energy the customer has used for the purchase.

The non-monetary costs arise from time (waiting) spent, efforts (distance, health), mental barriers (impatience) and social risk (i.e. risk of being seen in a “wrong” place or company in relation with the reference group) (Ojasalo 2001, Laaksonen & Laaksonen 2001).

The price works in two directions: the price can give a quality image but on the other hand it also describes the magnitude of the sacrifice (Suri & Monroe 2003).

The consumer’s image of the right price is based on earlier pricing – often perceived discounts give the idea that it is not wise to buy for the normal price because soon you will get it with discount (Alba *et al.* 1999).

According to Pinson and Roberto the consumer’s response to the price depends on three factors: the consumer’s price-consciousness, the consumer’s experienced value-ratio, and the method of pricing, which Pinson and Roberto call psychological pricing (Pinson & Roberto 1988).

The consumer’s price-consciousness is mostly very low according to Assael and Williams (Pinson & Roberto 1988). The consumers notice the reduction of prices more than their increase. The price-conscious consumer belongs to a higher income class or to a very low income class, is normally highly-educated, single and/or working full-time, interested in precise price information, predisposed to additional advertising, deals with several shops, shops around for low prices and uses a shopping-list.

Price has long been regarded as an important extrinsic cue for product quality. Consumers use price as a quality indicator as it reflects the belief that supply and demand forces lead to a natural order for products on a price scale, i.e. there is a positive relationship between price and product quality. The researchers are not unanimous about the importance of price as a quality indicator when there are also other inducements. (Chen & Dubinsky 2003)

Zeithaml found (Pinson & Roberto 1988) that the consumer price elasticity is higher when the consumer knows that there will soon be a price increase, than when the prices really rise. An alleged looming price increase has a greater influence on the price elasticity than a perceived rise in prices. Consumer price elasticity decreases when customers are dealing with a friend or a sales person

they regard as an expert, and increases when dealing alone or relying on their own product judgement.

The consumer's response to the price depends on the consumer's opinion about what is a normal price (Friedman 1988, Pinson & Roberto 1988). A product's or service's normal price acts as the anchor of the comparisons. According to Assaelin (Pinson & Roberto 1988), the consumer has a range of price changes around the reference price. If the price is in this range, the price changes have no effect on the buying. If the price is below the range the consumer can suspect the purchase is too advantageous meaning that it might involve some other sacrifice other than money, i.e. such as an emotional, social or functional sacrifice. If the price exceeds the range, the consumer can assess the value-ratio as being too poor.

The classification defined by Sweeney and Soutarb (2001) which is described in Section 5.4.1. can be used to address the category 'Sacrifice' as well. There can be other emotional, social, functional and economical sacrifices involved.

Some examples of the factors in Reputation are given below and in Table 6.

Sacrifice – Emotional

becoming sad, concern about the risk or reliability, risk of failure, bothersome buying situation

Sacrifice – Social

acceptance of others' opinions, disturbance of intimacy and contacts, loss of face, lessening of social respect, low respect received from the providers

Sacrifice – Functional

time spent on the purchase, waiting, queuing, necessary physical efforts, distance, necessary changes to some other functions

Sacrifice – Economical

price, terms of payment, impression of the price compared with the price others have to pay (proportion)

A summary of the categories of sacrifice is shown in Table 3.

Table 3. Summary of the categories of sacrifice found in the data.

Component / source	Economical	Functional	Social	Emotional
Sweeney & Soutarb 2001	Financial	Functional	Social	Emotional
Kotler 1990	Financial costs	Time costs, energy costs		Psychological
Blomqvist <i>et al.</i> 1993	Direct costs	Indirect costs		Psychological
Woodall 2003	Monetary costs	Non-monetary costs		
Lehtinen & Lehtinen (Parasuranam <i>et al.</i> 1985)	Financial costs	Physiological		Psychological
Jobber (Koski 2005)	Monetary	Time and energy		

The conceptual map of the concept of Sacrifice is in Appendix 2.

5.6 Other factors

The forming of a theory on consumer perceived value has been hampered by several irregularities or dependency on external factors. These factors define the limitations and explain the differences in consumer choices. Based on the context of the different categories of loyalty presented in Paavola's Ph.D. thesis (Paavola 2006), the criteria affecting consumer choice change depending on the individual consumer and situation. The magnitude of separate factors in relation to each other are fully dependent on the consumer.

In the theory on consumer perceived value proposed in this thesis these factors are taken into consideration and described by different multipliers. For example, according to Woodall (Woodall 2003), the situational factors have a great effect on consumer perceived value. It is clearly perceptible that there is such a factor as mood, a wish for experiment, etc. with an effect on the value. Estola states (1996) that consumers make their choices within the framework of their income, i.e. the consumer's experience of value-ratio has an effect on the financial ability to buy.

The data indicate that being under moderate time pressure has a motivating effect on the consumer's buying decisions particularly in purchases of low motivation (Suri & Monroe 2003). Being under moderate time pressure, the consumer makes faster decisions and becomes more selective. Under serious time pressure, the consumer uses more intuition about the properties. (Pinson & Roberto 1988).

The childhood experiences and the habits learned young have a great effect on the choice of outlet in which to purchase, on the purchasing way and on what will be purchased (Olshavsky & Granboisi 1979). In other words habits are already developed young.

The buying situation (the circumstances during the buying event or how they are assumed to be) has an effect on the purchasing. Also the commitment to the product or service, desire to buy a specific brand as well as the image of the use situation has a clear effect on the purchase and its perceived value-ratio (Pinson & Roberto 1988).

The forming of preferences may be more constructive in those situations in which the main problem is regarded as complicated or stressful. The constructive character of preferences is indicated by decisions which often are dependent on the factors describing the decision problem, individual or social problem (Pinson & Roberto 1988). Such dependencies can be, for instance, dependency on the decider's targets (minimizing the effort of the decision making, maximising the correctness of the decision, minimizing the negative feelings during the making of the decision, maximising the ease of the evaluation of the decision), dependency on the complexity of the decision (the influence of separate, clearly dominating preferences is emphasized), dependency on the context (the relative value does not only depend on the alternative's properties but also on the properties of other alternatives in relation to the properties of the chosen alternative), dependency on the effect of other persons and finally dependency on how the separate alternatives are introduced.

The classification defined by Sweeneya and Soutarb (2001) and which is presented in Section 5.4.1 can be used to open the category 'Purchasing Factors' as well. There can also be emotional, social, functional and economical Factors (multipliers).

The Emotional Components of Purchasing Factors consist of factors which are based on feelings such as the consumer's interest or willingness to buy the product or service in question. It also describes the believed meaning of the purchase for the consumer (subjective intuition), commitment to the product as well as the desire (even instantaneous) for it. Factors having an effect on it can be for instance time pressure to make a decision, the intimacy of the matters handled (annoyance of the matter) and the stress level.

The Social Components of Purchasing Factors describe the buying situation, for example the interaction with customer service personnel, other customers, one's own company, friends or other people. Factors affecting the buying situation

can be, for instance rush-hours, queues, different habits, other customers and especially the need to hurry when other customers are waiting for the consumer to make a choice or decision and furthermore the privacy of the matter (and others' attitudes).

The Functional Components of Purchasing Factors are based on different physiological and functional limitations, such as mobility limitations, any hindrances, certificates and licences, government regulations, habits or the effort needed to change habits, etc.

The Financial Components of Purchasing Factors consist of the financial potential and buying power of the consumer, i.e. – if there is not enough money for the better alternative the cheaper option has to be good enough.

The value-ratio does not however show the price the consumer is willing to pay for a product or service. Customers are not willing to pay the sum corresponding to their experience of the value of the product or service but some lower price (Kotler 1999). That is why the company has to downsize the examined and calculated value to determine the consumer value for which customers are willing to pay. Also Reicheld writes that the customers often “blur” the issue by paying less for the product or service than the value perceived by them (Reicheld 1996). This difference is called ‘Consumer Surplus’. (Kotler 1999, Reicheld 1996).

Because of this additional value the productivity and profit earning capacity based on the sales earnings often underestimates the customer perceived value offered (Reicheld 1996).

The effect of Consumer Surplus on some other Purchasing multipliers is shown in Figure 4 (Kotler 1999).

Customers are seldom exactly aware of the consequences of the purchase of a product, its use and ownership before buying, using and owning it. So customers estimate according to their own anticipation of the value they expect to receive. In addition to the above described situations of Purchasing Multipliers another relevant factor is customer knowledge of the product, service and their properties. It is worthwhile for companies to make their consumers notice the most important advantages of their products and services so that the customers can experience the optimal offered value. The purpose of these ‘Value-indicators’ is to make the customer notice the desired factors (Porter 1985).

The conceptual map for the concept of a ‘Purchasing Multiplier’ is shown in Appendix 3.

5.7 Factor's respective relations

5.7.1 General

There are several different statements and perspectives to be found in the data collected in this research. It is usual to describe the value in a mathematical way and charts and diagrams are commonly used for data. Other ways of describing customer perceived value are verbal descriptions or lists of different factors.

As Woodall states in his research report, customers make decisions “on the ‘worthwhileness’ of a product or service by computing or comparing weights and/or ‘quantities’ of benefits and sacrifices” (Woodall 2003).

This computing process is done by determining a ratio, or by dividing the benefits by the sacrifices; the implication being that ‘good’ value for the customer is represented by a ratio better than 1:1, or a solution greater than one (Woodall 2003).

Some researchers consider the computation to be a matter of subtracting the sacrifices from the benefits, where any positive result represents 'good' value for the customer (Woodall 2003).

Those who do not use mathematical descriptions interpret the comparison as an intuitive balance between the benefits and the sacrifices. The customer can determine the perceived value with an ‘intuitive calculation’ or a ‘trade-off’ (Woodall 2003).

“There also is a form of balancing process or relational comparison that might relate to an individual product alone, or between it and competing alternatives. All recognise, however, that equal and coincident consideration of both benefits and sacrifices is essential for establishing a sense of value for the customer.” (Woodall 2003)

If the theory generated in this study is described in a mathematical formula, the question arises is it division or subtraction which describes the theory more precisely. In the data, both sum (or subtraction) and ratio (division) are proposed.

The value-ratio can be described with a sum-function. For example Vroom describes the motivation (value) as follows (Vroom 1964): “The force of a person to perform an act is a monotonically increasing function of the algebraic sum of the products of the balances of all outcomes, and the strength of his expectancies, that the act will be followed by the attainment of these outcomes.

Kotler claims (1999) that the experience of value is proportional, i.e. the ratio of the gaining in proportion to the sacrifices.

Woodall compares different properties to each other based on the benefits the customer experiences from them (Woodall 2003). Tversky and Simonson introduce a model called ‘The Componential Context Model’ to describe the mutual comparison of properties based on their usefulness (Bettman *et al.* 1998);

$$V_B(x_i S) = \sum \beta_i \mathcal{L}_i(x_i) + \vartheta \sum R(x, y), \quad (6)$$

”where $V_B(x, S)$ is the value of option x given a choice set S and background context B , β_i is the weight of attribute i , $\mathcal{L}_i(x_i)$ is the utility of the value x_i of option x on attribute i , $R(x, y)$ is the relative advantage of option x over option y , and ϑ is the weight given to the relative advantage component of the model. The relative advantage term is obtained by taking utility differences between the two options on each attribute and combining them.” (Bettman *et al.* 1998)

The definition of value is proposed by Anderson and Narus in the following equation (Anderson & Narus 1998):

$$(Values - Prices) > (Value_a - Price_a). \quad (7)$$

Values and *Prices* are the value and price of the supplier’s market offering, and *Value_a* and *Price_a* are the value and price of the next best alternative.

The desired value can be positioned as the entire bundle of product attributes and resulting consequences, both positive and negative (Flint & Woodruff 2001).

Because the effect of most properties and benefits is proportional to the situation, circumstances and conditions etc, it is sometimes unclear whether a specific property or benefit belongs either to the factors of gain or sacrifice. There are many factors which could, depending on their character, belong to both categories. For example, operating costs belong to Gains when it is a question of savings in operating costs, but to Sacrifices if the purchase brings new or additional operating costs. The customer service also belongs to Gains when experienced as superior, but to Sacrifices (usually emotional or social) when it is experienced as poor.

As such, properties can be mentioned among other financial factors (i.e. income, savings or additions to operating costs), time (i.e. saving or spending time), logistics (i.e. does it slow down or speed up the delivery, worsen or improve the availability) (Porter 1985).

In the same way, many of the systems and functions depend on the customer, the situation as well as the realization of it can belong either to Gains or Sacrifices. Typically, such functions are, for example, order receiving systems, a

company's internal bureaucracy and systems, customer contacts, a person's input and personal contacts.

If it were a sum-model, the different properties could be like lines with scales starting from the minus-end and going through zero to the plus-end. In this case the Gaining factors have a plus-sign and the Sacrifice factors a minus-sign, and the sum of the two would indicate the Value-Ratio.

When describing the value experienced as a ratio between Gains and Sacrifices (division), the place of the specific property in the arithmetical division – in numerator or denominator – depends on how the customer experiences the specific property or attribute; if customers perceive the experience as a gain, the place is in numerators, but if they experience loss, the place is in denominators.

5.7.2 The mathematic formulation of the theory function

The theory generated in this research can be described mathematically as follows:

$$V \sim \frac{\sum_{i=1}^n x_i S u_i + \sum y_i I_i + \sum z_i R_i}{\sum S a_i}, \quad (8)$$

where V is the consumer perceived value ratio, $S u_i$ is the i :th benefit in substance category, I_i is the i :th benefit in interaction category, R_i is the i :th benefit in reputation category, $S a_i$ is the i :th sacrifice in sacrifice category and x_i , y_i and z_i are the purchasing factors.

All components can be divided in four subcomponents which are emotional, social, functional and economical component.

The main idea is with the mathematical description to show the effect of factors – are they increasing or decreasing the value – the linearity is not studied because it does not have importance in the use of this theory.

6 Evaluation of the research

6.1 General

The theoretical contribution of this research is the identification of consumer perceived value and a decision taxonomy for it. In this research, a theory is generated to describe the consumer's pre-purchase decision taxonomy in a practical way so that companies could use it and its principles in their everyday work, and that is the practical contribution of this research.

Is the result of this study a theory or a model?

Grounded Theory builds a theory. Is the result of this study a theory or a model? The opinions of researchers about the differences between a theory and a model varies considerably. Some researchers do not see any difference between them, whereas others find models more practical and thus more suitable for company managers. However, both of them aim to describe the key variables and their respective relations so that it is possible to form the context for further research and practical adaptation (Friedman 1988).

Glaser and Strauss claim that (1967): "The theory should provide clear enough categories and hypotheses so that crucial ones can be verified in present and future research; they must be clear enough to be readily operationalized in quantitative studies when these are appropriate. The theory must also be readily understandable to sociologists of any viewpoint, to students and to significant laymen. A theory that can meet these requirements must fit the situation being researched, and work when put into use."

"The theory should provide clear enough categories and hypotheses"

The outcome of this research – the consumer pre-purchase decision taxonomy – has four easily recognizable categories which are clear categories.

"Crucial ones can be verified in present and future research"

All the categories and attributes in them are generated based on former research and, as such, on already verified concepts. The numerical values and measurements need further research.

"They must be clear enough to be readily operationalized in quantitative studies when these are appropriate."

The categories and factors can be studied with quantitative methodologies when using the Woodruff hierarchy on value factors (Woodruff & Fisher 1996). This request also is very important for the practical utilization of the taxonomy in companies.

“The theory must also be readily understandable by laymen concerned with this area.”

Because of the small number of categories and their direct connections to company operations, as well as their similarity to earlier theories of economics it probably is easily understandable for those who could be interested in its use.

“The theory must fit the situation being researched, and work when put into use”

Because the theory is generated on the results of former studies, which were mostly investigated in practical situations or similar, it can be assumed that they follow the consumer’s real life decision factors.

“It must be sufficiently general to be applicable to a multitude of diverse daily situations within the substantive area, not to just a specific type of situation.”

The data used in this research describe the concepts, attributes, events and factors in a general way. Also the only limitations in the research were to the pre-purchase situation and consumers – otherwise the research work has been on a general level.

Based on the above argumentation the result of this research can be classified as a theory.

6.2 Validity and reliability

When a new theory is presented there will be immediately the question about its credibility. Often the theories need practical tests to ensure the credibility.

When using Grounded Theory as the research methodology these practical tests do not belong in the methodology itself. The credibility comes in Grounded Theory from the used data as the developers of the methodology write: “The Grounded Theory means a theory which has been generated out of data, which has been systematically collected and analysed as a research process.” (Strauss & Gorbini 1988)

”The value of the Grounded Theory is not only that with help of it can be developed a theory but that the theory is grounded on data” (Strauss & Gorbini 1988).

In the other hand more than 50% of the data handles reports about practical tests which mean that the theory actually is grounded on extensive practical tests. If more tests are needed they belong to later researches.

The aim in this study has been the taxonomy of consumer pre-purchase factors – not the consumers’ behaviour. This focus has laid the ground for the acceptance of concepts and categories.

The credibility of this research depends on the validity and reliability of the research, i.e. the validity of the data and chosen sources and reliability of the choice of data and methodology in the study. The main requirements of credibility are 1) validity and reliability of the data, 2) sufficiency of the data, 3) the choice of the research methodology, 4) the methodology in the study, 5) and the integrity, fit, understanding and applicability of the results.

The source material (data) of the research was chosen in five ways (Section 4.5). Firstly, a broad literature search was carried out of the best known researchers in the field of customer perceived value. Secondly, the earlier literature studies in the field were examined. Thirdly, the Journal articles published in the last ten years on customer perceived value were studied (List in Appendix 4). Fourthly, the research, books and articles in the field of quality were read. Finally those articles in the references in the above-mentioned data were checked for further information.

On the basis of the preceding research, which has been published in the most respected Journals of the studied fields, and the authors of the books of the most respected researchers in the field, the validity and reliability of the data can be regarded as sufficient.

In research using Grounded Theory methodology, the data should be searched for as long as there is some more relevant data to be found (i.e. until theoretical saturation). In Grounded Theory, the theoretical saturation point is reached when generating categories which do not reveal any new attributes, dimensions or relations (Strauss & Gorbini 1988).

Additional data to that mentioned would only have brought more information to concepts on a third or fourth class level, so its impact on the theory itself would have been insignificant. To make sure of this, an additional 44 journal-articles, books and research reports were studied which are not mentioned in the reference list.

The data can thus be regarded as sufficient because the point of theoretical saturation required in Grounded Theory was reached.

Grounded Theory was chosen as the methodology in this research because the subject has been studied widely and there are sufficient data to use. The target was to generate a model or theory and Grounded Theory is just for that purpose to generate a theory out of data. Grounded Theory is a methodology for social psychology and on that basis it suits the aim of generating a theory to describe consumer perceived value because the major part of a consumer's experience of value and purchasing behaviour is based on sociology and psychology.

When doing research work all the identified concepts from the data were collected together regardless of their level in the value hierarchy (Section 2.3.7). At the same time, the propositions of category models were listed. The perspective was widened by absorbing the 'quality' concept into the meaning of 'value' to create more propositions for categories and concepts.

The concepts were divided into different category models and logical subcategories, and the resulting categories were compared with each other. At the same time the operational functions of companies and institutes were compared so that categories could be identified which were convergent with the business world's way of thinking so that it would be easier to use the theory in practice. Glaser and Strauss call this the 'The Constant Comparative Method'.

The categories are formed so that each concept is only in one category. The weights of the factors are depending on the customer, time and situation which underline the importance of segmenting accurately the customers.

The generated theory appears to be consistent with the previous ones. It has the added value of providing more depth than the model of Sweeney and Soutarb (Sweeney & Soutarb 2001).

On the basis of the preceding argumentation, the research can be repeated providing that the assumptions in the beginning of the study are the same. Certainly the preliminary understanding of the researcher could have had an influence on the choices to some degree but, according to Strauss and Gorbis (Strauss & Gorbis 1988) "... there is an interplay between the researcher and the data" in other words the preliminary understanding of the researcher provides an impetus for further findings.

The generated theory seems harmonious and suitable for business practice although the latter should be empirically studied further. The theory is, according to the numerous discussions with company executives, easy to understand and suitable for everyday work although practical tools should be developed.

The research data were not based on any certain single application area and no compromises between contradictory categories were necessary, so therefore it can be assumed that the result is widely applicable. However, criticism can be made if the theory is, on the other hand, too general. According to the data it can be concluded that each sector and each customer group needs its own model where every single factor has a value and relation to other factors. It should be a primary concern for companies to develop their own model for their own market sectors.

When comparing the generated theory, with those earlier ones presented in chapter 2, it is clear that there are no conflicts between them. Primarily, it is a question of the differences in emphasis, perspectives and points of view in combining and creating the categories

6.3 Evaluation of the results and their practical meaning

As stated before, there are many studies indicating that high levels of customer loyalty and repurchase rate (retention) strongly affect a company's profit increase. Voluntary loyalty is based on customers' experience of what the company offers and whether is of subjectively greater value than competing alternatives.

The theory of consumer perceived value, which has been generated as the result of this research, also outlines the elements of value production in companies and so creates new tools for this purpose and for directing value-forming attributes. Although the theory has been generated for the specific temporal context of pre-purchase, its impact and usefulness is considerable because it is at that specific time when consumers make their purchasing decisions.

The contribution of this research on customer perceived value is in combining the perspectives of companies - in three functionally different factors: substance (i.e. the product or service), reputation (i.e. the consumers image of the company or product) and interaction (i.e. the way the products and services can be reached) with the perspectives of consumers, in subjective outcomes (i.e. emotional, social, functional and economical) – and all these in three hierarchical levels so that companies can develop products from the benefits consumers experience.

To test the usefulness of the generated theory in the practice of business management, a small scale market test was carried out. The theory was explained to 93 persons, mainly entrepreneurs, middle level managers and supervisors. 60%

of them came from small businesses, but one-third from multinational companies so the perspective of international business also featured.

After a 5-hour presentation and discussion, the participants were asked for their opinion about the theory - especially its usefulness in their everyday work. The question was: "Did you feel that the presented theory would be useful for your everyday work?" 65.9% of respondents found it very useful (5) and 32.0% useful (4), when a scale of 1–5 was used (Figure 24).

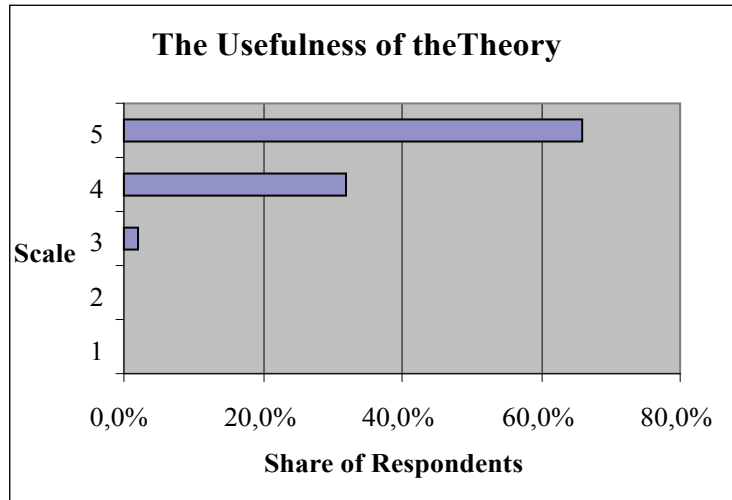


Fig. 24. The usefulness of the generated theory in practice.

As feedback we received the following comments:

“Extremely useful”

“Needs more practical tools for product development”

“Very useful for my job”

“Confirmed my own thoughts”

“Makes it more specific”

“It made me take the customer into account again”

“It was directed just at that issue, which is at the present moment the most important for me and my work”

”Made me think what really is important for customers”

“Maybe still more practical tools”

As a conclusion of the weak market test, it can be stated that the theory is regarded as very useful but it needs more practical tools to find the specific properties and attributes for specific customers and specific companies or products and services. The tools for defining the meanings for the factors are not difficult to create because it involves just finding the specific questions for that market. However, it would be more challenging to find the numerical values of the different factors which certainly need several further studies.

6.4 Limitations and need for further research

Because the research is totally based on earlier studies and existing research results, the choice of data could be seen as exclusive, e.g. of the most recent perspectives which may have been omitted from the observation. It is also possible that in the data the researchers and authors own reasoning may be presented or understood as research results, and therefore this study only used the results. Moreover, simply by making a choice of data for this study inevitably omits certain information.

The research area has been limited to consumers only, although organisations as customers are a substantial customer group. A further limitation is the temporal situation – in this study we have concentrated solely on the pre-purchase situation, which is only one of three or four temporal phases of a purchase.

The absolute or relative magnitudes of the generated factors have not been studied. To find the magnitudes, empirical studies are needed because they depend specifically on the product or service, situation, customer group, etc.

Therefore, there are still several avenues open for further research. It would be interesting to develop measurement tools for consumer perceived value. With measurement tools, the effects of factors on each other could be measured and studied.

Consumer perceived value should be studied through the temporal phases of the purchase so that companies could plan to build customer loyalty more effectively and also find attributes for satisfaction building.

Other proposed research areas could be the wider application of the results of this study, its reliability and the empirical conformability of the results.

7 Discussion

7.1 General

The theory generated in this study indicates that “a model is too general when there is no practical use for it”. A theory is general when described as a ratio between the gainings and sacrifices modified by factors. However, by knowing your customers, dividing the factors into subcategories, becoming acquainted with customer’s way of thinking, collecting data about customers and connecting the collected data in a value map based on the companies offerings (Woodruff & Fisher 1996), this can generate a concrete tool for developing the products and services in a company and a way of successfully launching them.

According to Jacoby (Parasuraman *et al.* 1988) many of our indicators have been developed from researchers’ personal opinions without considering whether there is any significant connection with the phenomenon in question or the variable’s conceptual essence. In many cases the measurement tools have no connection with the measured phenomena.

Estola states that (1996):”On the basis of the logic of great numbers it can be believed that the average behaviour of a crowd of people can be kept as rational even though all the individuals do not behave rationally.” This indicates the wide range of possibilities and exceptions in a general model. If you find the value model (value map) of your customers, it works according to the probability of the great numbers’ logic.

In the data used in this study the elements of value were presented without separating them into whether they were the customer’s or company’s point of view. Conceptually, the customer’s experience and the operations the company do vary from each other – they are totally different factors. As Porter states: “The product value for the customer depends on how the customer in fact uses the product, but not on the way the company has meant it to be used.” (Porter 1985) Such misuse can happen in installation, use, service, use for wrong purpose, etc.

7.2 Answers to the research questions

The aim of this research was to understand the consumer’s choices. The main interest was to build a theory or model to describe the consumer’s decision factors

and their respective relations in a way that helps the company management in practice to understand their customer's choices better than today.

The first research question was;

RQ1: What are the factors of consumer pre-purchase decisions?

In the chosen data many different factors were identified. It almost looked like every researcher had presented their own factors. This can also be explained by different viewpoints. There were many suitable ways of categorizing the concepts, and the proposed way is a summary of the available alternatives.

The first of the main factors is the 'Gaining' factor which divides into three components: substance, reputation and interaction. These factors describe the consumers' experience of gaining. The second of the main factors is 'Sacrifice' describing all the bother, trouble and costs consumer experience as sacrifices.

In addition, there are several other factors which have an influence on consumer decisions but do not belong in the earlier mentioned factors. These are called in this research 'Purchasing Factors'.

In the chosen data, another classification was identified for the customer perceived value. This classification divided all factors into four categories (Sweeneya & Soutarb 2001) i.e. emotional, social, functional and economical. The material, on which the research is grounded, supports the proposition that all the mentioned main categories of the factors of consumer's pre-purchase decisions and their components could be divided into these four subcategories as shown in Figure 25.

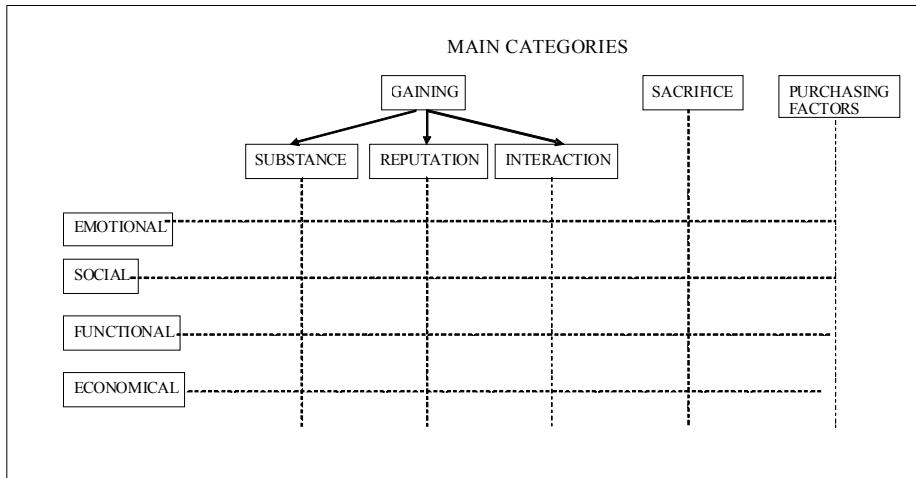


Fig. 25. The matrix of categories and subcategories of consumer perceived value.

The second research question was:

RQ2: Can the factors be presented in a form which is useful for company managements in their daily work?

The models of consumers' decisions described in earlier studies do not help company managements in their work to plan competitive advantages because the concepts and factors are such that they cannot easily be translated into business functions or product properties.

The factors affecting the consumer's choice are the consumer's own experience about the value factors and thus are totally customer centred. By using Woodruff's value hierarchy (Woodruff & Fisher 1996), you can manage using consumer's experiences product's and service's attributes for production and manufacturing. According to the hierarchy, the attributes of a product and service produce consequences which lead to consumer experienced benefits.

In the proposed model, customer perceived value is divided into three factors which all can be clearly directed to different functions and operations in companies. This means they are easier to use for everyday work in marketing, development and creation of strategies.

Substance is an outcome of products and services and their properties. So it only concerns the offering of companies. It answers the question WHAT.

The reputation refers to the company and the image of its products. It answers the question WHO.

Interaction means how the product or service or information about it is obtained. It answers the question HOW.

For example, companies doing business in several geographical and cultural areas can have the same core product or service (WHAT), and build the image of company and products and services to fit the culture in question (WHO) and use the existing delivery systems in the area (HOW).

Some of the factors add to the consumer perceived value but others reduce it. Some factors have an influence on the others meaning and importance. The third research question is:

RQ3: How are the factors related respectively?

The gaining factor increases the value ratio and the sacrifices make it smaller. The purchasing factors can affect value in both directions depending on the case and customer.

The data showed that a high transaction value has a positive effect on substance value and increases the reputation component. In the same way a high substance increases the reputation value.

Although the price is mainly a factor of sacrifice it also has in certain products and services the effect of increasing the value – especially in the social and emotional components of substance (Chen & Dubinsky 2003).

Finally the purpose of this study was to find or build a theory or model about the consumer's perceived value grounding it on the chosen data. The natural consequence of this purpose is the fourth research question:

RQ4: Is it possible to build a model or theory to describe the whole concept of consumer perceived value?

The results of this research, i.e. a theory generated out of the selected data, can be summarised arithmetically as follows in formula 8:

$$V \sim \frac{\sum_{i=1}^n x_i S u_i + \sum y_i I_i + \sum z_i R_i}{\sum S a_i}, \quad (8)$$

where V is the consumer perceived value ratio, $S u_i$ is the i :th benefit in substance category, I_i is the i :th benefit in interaction category, R_i is the i :th benefit in reputation category, $S a_i$ is the i :th sacrifice in sacrifice category, x_i , y_i and z_i are the purchasing factors.

All components can be divided in four subcomponents which are emotional, social, functional and economical component.

8 Conclusions

The research was done in Oulu University's Department of Industrial Engineering and Management and that is why it is important that the work contributes to the advancement in industrial engineering. If we think three of the four main areas in that field the work can be seen to handle just those subjects.

Firstly the model is very useful in the area of Industrial Management because it assists a lot in business management and building the strategies, helps to find and so develop new successful products and even innovations and underlines the importance and customer perspective of logistics.

Secondly it is an essential tool in Quality Management by providing the processes with customer orientation and so improving competitiveness. It also widens the concept 'Quality' closer to TQM.

Thirdly the theory helps in Project Management if we think development projects as product development, mainlining competitiveness or understanding the product's lifecycle from the customer's point of view.

The aim of this research was to generate a theory for consumer perceived value in a way, that it could be useful in practice for managers trying to develop superior value to improve customer loyalty.

The generated theory applies to company functions and can be a base for practical work and development of various managerial tools. When managers study the possibilities in each part of the theory, using the subcategories mentioned, they can find their own factors of value creation in identifying the attributes which generate benefits for their customers. This is the most important contribution of the generated theory.

The theory also challenges managers' to consider other value factors – the concept of value has been regarded as one and the same as the category named in this thesis 'substance' – which in many cases may be more important in the 'eyes' of the consumers. It is these other categories which explain the behaviour of consumers.

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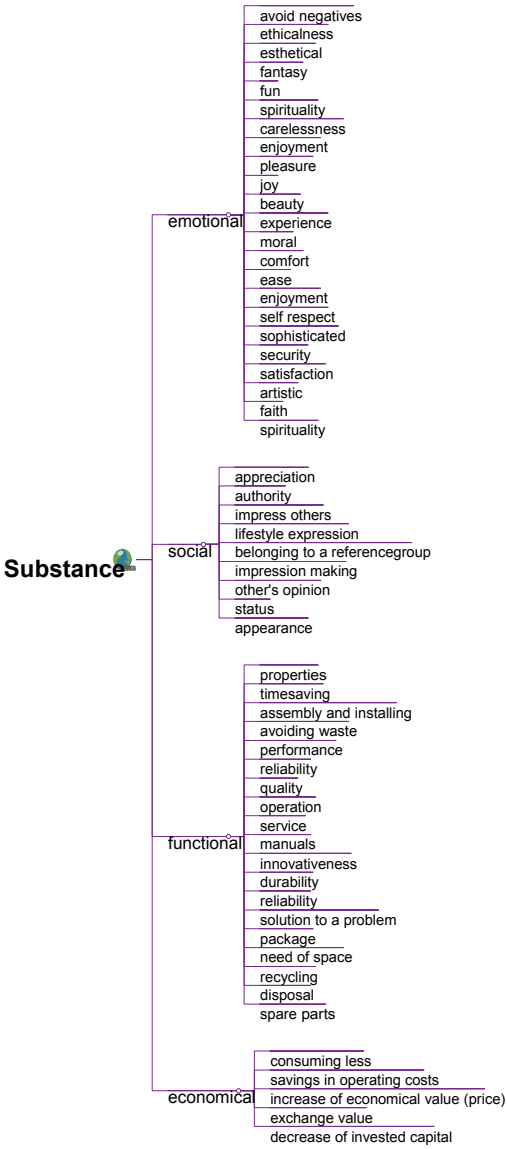
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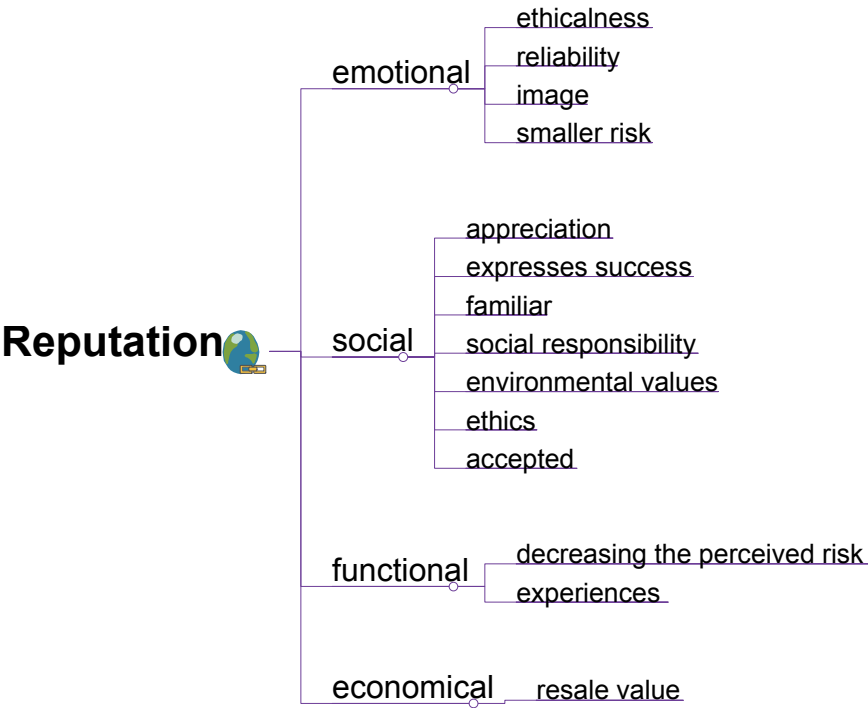
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Appendix 1 Conceptual maps – gaining

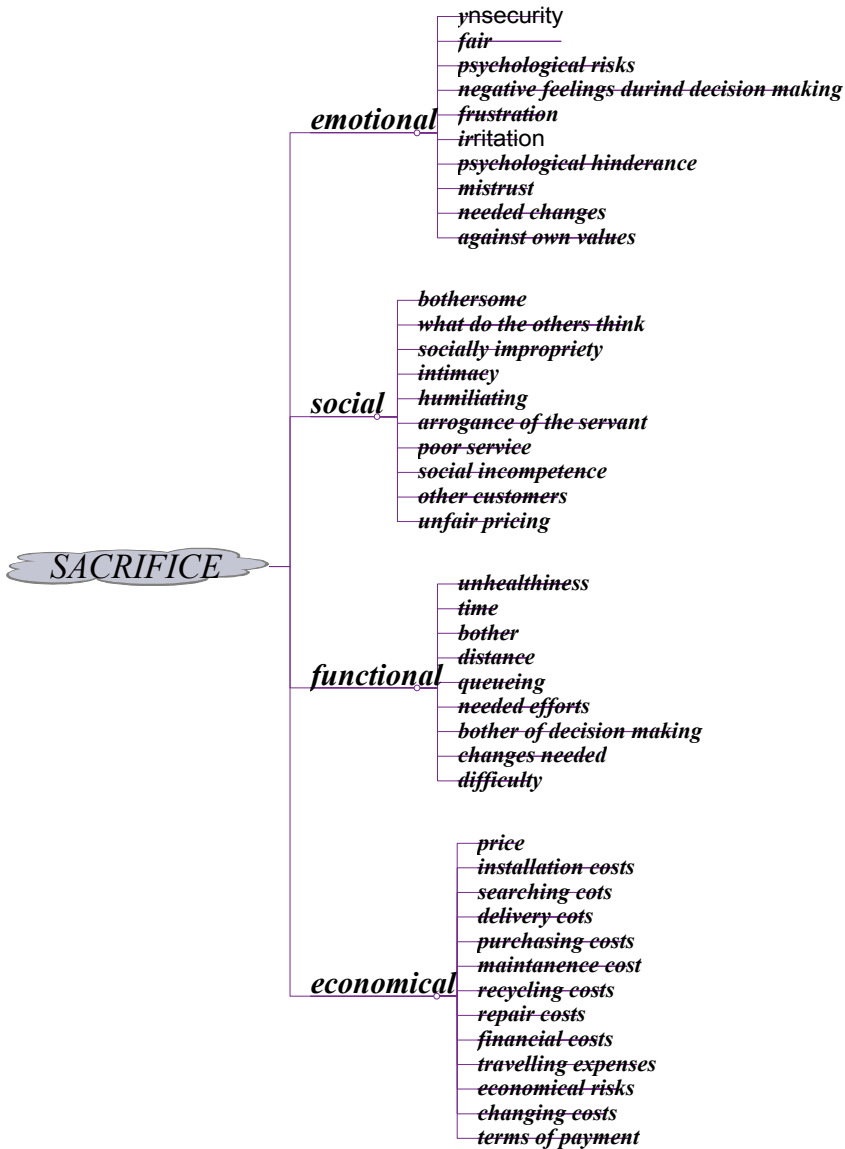




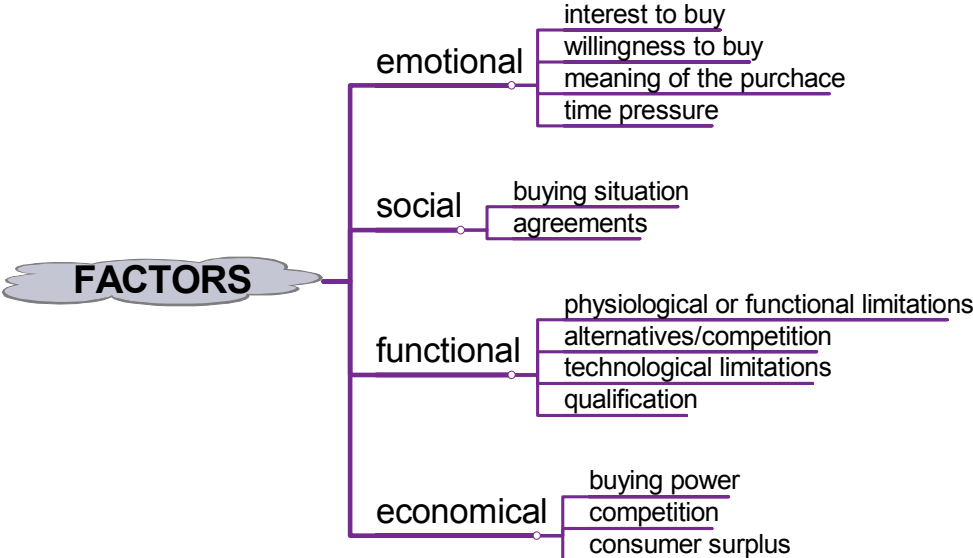
Interaction



Appendix 2 Conceptual map – sacrifice



Appendix 3 Conceptual map – other factors



Appendix 4 List of studied journals

1. JOURNAL OF MARKETING
2. MARKETING SCIENCE
3. JOURNAL OF MARKETING RESEARCH
4. JOURNAL OF THE ACADEMY OF MARKETING SCIENCE
5. INTERNATIONAL JOURNAL OF RESEARCH IN MARKETING
6. JOURNAL OF PUBLIC POLICY et MARKETING
7. JOURNAL OF FINANCIAL MARKETS
8. PSYCHOLOGY et MARKETING
9. INDUSTRIAL MARKETING MANAGEMENT
10. COMMON MARKET LAW REVIEW
11. JCMS-Journal of Common Market Studies
12. MARKETING LETTERS
13. JOURNAL OF INTERNATIONAL MARKETING
14. INTERNATIONAL MARKETING REVIEW
15. INTERNATIONAL JOURNAL OF MARKET RESEARCH
16. Harvard business review
17. JOURNAL OF CONSUMER RESEARCH
18. Harvard Business School Press
19. Journal of Retailing
20. Journal of the Academy of Marketing Science.
21. European Journal of Marketing

281. Hamada, Atef Saad (2007) Manufacturing, mechanical properties and corrosion behaviour of high-Mn TWIP steels
282. Rahtu, Esa (2007) A multiscale framework for affine invariant pattern recognition and registration
283. Kröger, Virpi (2007) Poisoning of automotive exhaust gas catalyst components. The role of phosphorus in the poisoning phenomena
284. Codreanu, Marian (2007) Multidimensional adaptive radio links for broadband communications
285. Tiikkaja, Esa (2007) Koneäköä soveltavan kuituanalysoittorin ja virtauskenttäfraktioaattorin mittausten yhteydet kuumahierteen paperitekniisiin ominaisuuksiin. Kokeellinen tutkimus
286. Taparugssanagorn, Attaphongse (2007) Evaluation of MIMO radio channel characteristics from TDM-switched MIMO channel sounding
287. Elsilä, Ulla (2007) Knowledge discovery method for deriving conditional probabilities from large datasets
288. Perkkiö, Miia (2007) *Utilitas* restauroinnissa. Historiallisen rakennuksen käyttötarkoituksen muutos ja funktionaalinen integriteetti
289. Nissilä, Mauri (2008) Iterative receivers for digital communications via variational inference and estimation
290. Toivonen, Tuukka (2007) Efficient methods for video coding and processing
291. Lyöri, Veijo (2007) Structural monitoring with fibre-optic sensors using the pulsed time-of-flight method and other measurement techniques
292. Stoica, Lucian (2008) Non-coherent energy detection transceivers for Ultra Wideband Impulse radio systems
293. Koski, Anna (2008) Applicability of crude tall oil for wood protection
294. Gore, Amol (2008) Exploring the competitive advantage through ERP systems. From implementation to applications in agile networks
295. Kirillin, Mikhail (2008) Optical coherence tomography of strongly scattering media
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