

Richard Ferrers

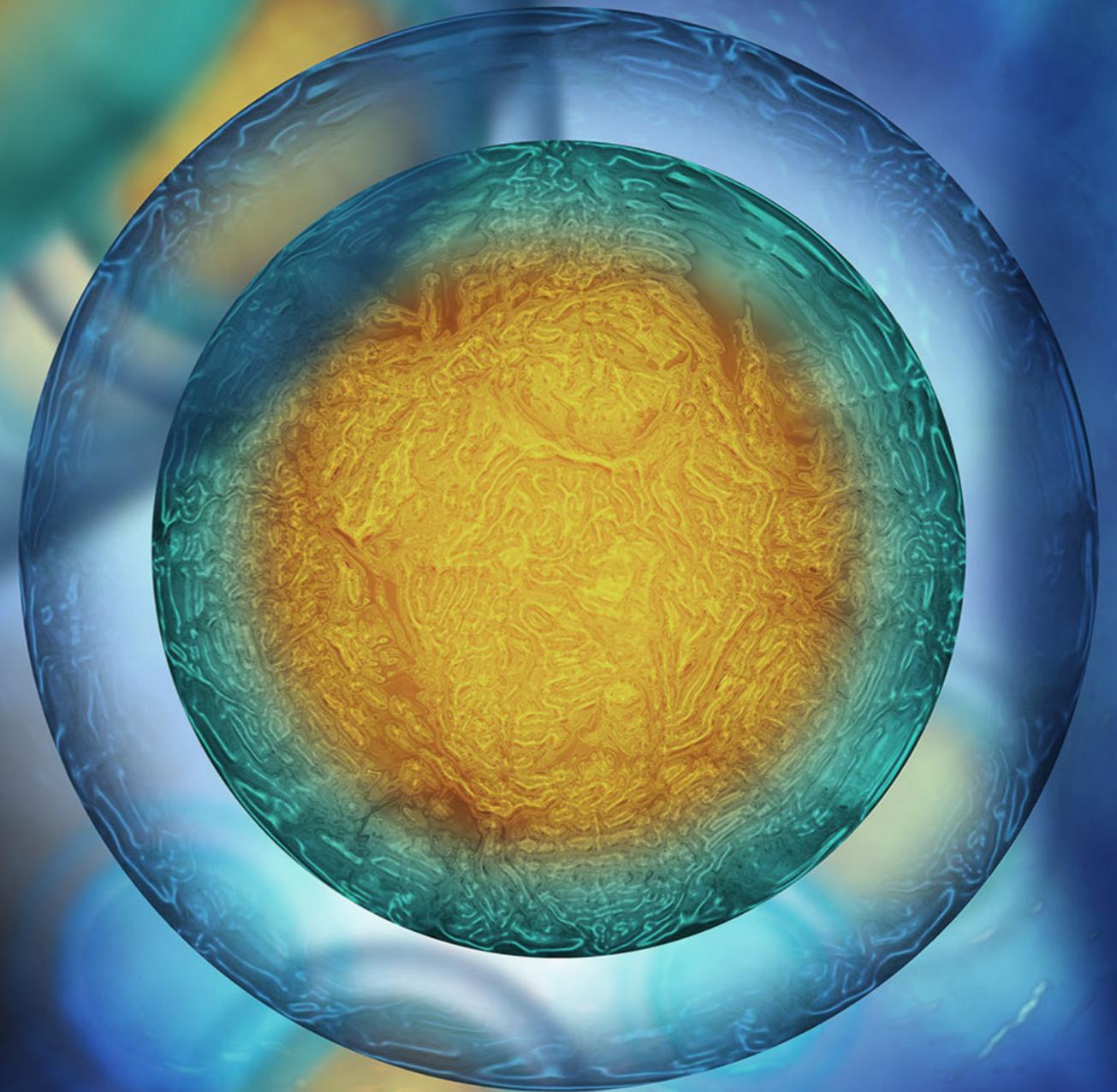
# THE LITTLE BOOK OF VALUE

How innovation creates value for  
consumers - Vol.1 - CC-BY  
#LBOV #LittleBookOfValue

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<https://github.com/areff2000/v2-value-of-value>

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This book (Vol.1) is a condensed (20pp) practitioners view of my research into Value\*. It presents an introduction to value theory but above all aims to be simple, practical and easy to follow. A longer book (Vol.2, 100pp) will present six practical cases to show how value works as an analysis framework to better understand innovation\* and why consumers adopt new technology.

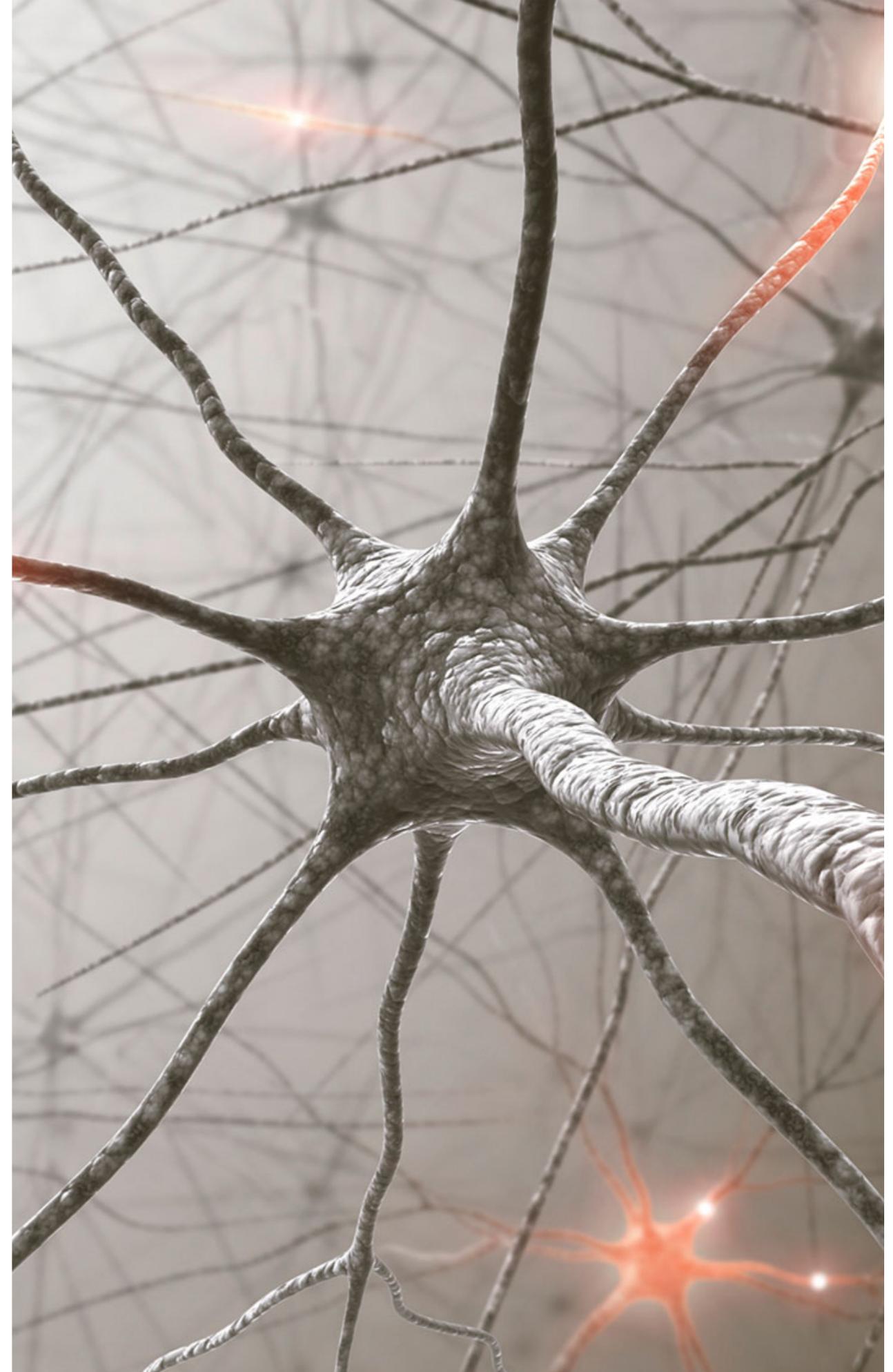
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*For Tabitha, the market researcher next door.*

In my research I seek to learn how to measure and manage value and value creation to better understand innovation as a complex, dynamic system, [@valuemgmt](#) 4.12.15  
#LBOV

In my PhD, I answered the question: how do consumers understand the value in a new technology? (2004 - 2012)

In my blog (2006-18), Value Management: Innovation 2.0, I explore what is Value Management\* (as a proposed alternative to Innovation Management) in a conversation with readers. ----- \* see Glossary (p.13).



Why we buy? For good value.

# 1. WHAT IS VALUE?

- Value is an emotional process and has a simple outcome.
- Value is incompletely understood.
- Value is social and individual.
- Value is comparative.
- Value involves competing value dimensions\*, so is complex.
- Value shifts with new information but also endures and lasts.
- Value is reflected in what we do and say, but is largely invisible.

**Value is important in a fast-moving 21st Century world of technology and innovation. A world of fast change, many new products, so much information and evolving needs. Value helps us, in this century, understand what consumers want, what consumers need and what they will pay for. Value explains innovation in a world driven by the internet.**

This book is about value; what value is, why do consumers adopt new technology (Hint: value), what is value creation, and how does value work. In my research, I seek to learn how to measure and manage value and value creation (to better understand innovation as a complex dynamic system). This book is a practitioners introduction to understanding value. If you would like to share your value story see 'How to contribute' [here](#).

This book is an online collaborative book project, partnering innovation researchers and industry practitioners to explore and test a value theory which explains innovation. Using cases, a value theory will be examined in Vol. 2, across different innovation contexts, to see if we can break or extend the theory.

## **What is the problem of value?**

Value is important but problematic because there are contesting and incomplete definitions of value. This book introduces my approach to what value is, how value works, and shows practical

examples of how thinking about value explains why consumers adopt innovations, and why some innovations fails. Hint: an innovation fails when it fails to create value.

It is the breadth and ease of use that makes 'value' as a descriptor both useful and problematic. Consumers use the word value easily to mean something good or affected if events turned bad. Yet unpacking the many and varied meanings of the word are the purpose of Little Book of Value (Vol.2).

### **Researchers say value is incompletely understood.**

The customer value literature shows concern over the lack of a clear theory of value, and what makes value up. eg Gronroos (2011): "it is not clear what is mean by value creation... value is an elusive concept" (p280 - 1).

Gummerus (2013, p.20): "competing conceptualisations of customer value but no consensus exists... value research remains 'an area of continuing ambiguity... with no clear theroretical anchor'... customer value as a concept lacks clarity".

Domegan et al. (2012): "opportunity... by conceptualising more precisely the valuing activities of subjects, objects to

be valued...and how impacted by various forms of value" p.208.

Vargo, Maglio and Akaka (2008); "exploration of value co-creation raises... questions... what exactly are the processes involved in value creation" p.151.

### **Why is value important?**

In 1955, Peter Drucker offered one solution (though his goal was to explain why does a firm exist) in his book, *The Practice of Management*; "There is only one valid definition of business purpose," he wrote unequivocally: "to create a customer." (p.31) Drucker wrote:

*"It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or for a service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of first importance—especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers 'value', is decisive—it determines what a business is, what it produces and whether it will prosper."* (p.31-32)

Milton Friedman (1970), Nobel-winning economist, in contrast says "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits."

See Friedman criticised in [Forbes](#) 17.07.17 Making Sense Of Shareholder Value: 'The World's Dumbest Idea.'

Value, then can be summarise in four propositions:

**Value Proposition 1** - Value is complex and dynamic.

Value is based on information. Exchange of information between a buyer and seller is a value conversation. New information can shift value. This shift takes place in a value assessment. Value assessments use value practices to seek and reject, to process or discard new information. We can seek new information (*exploring, observing, recommending*), assess (*comparing*) and reject information (*filtering, closing*). Types of value are discussed in Section 3 - Value Dimensions, and include social dimensions (*duty, power, need, community*) and individual dimensions (*emotion, beauty, simplicity, novelty*).

**Value Proposition 2** - Value is simple and endures.

A value assessment creates an emotional outcome called an attitude. An attitude is either positive or negative, strong or weak. This attitude endures until new information shifts that value. A value assessment may become locked if new information is blocked, potentially long term, in a value practice I call '*closing*'.

Advanced: an attitude can be at one of two levels, either overall, or connected to a value dimension. eg I love/hate X, or I love how beautiful is X. Beauty is a value dimension. Love and hate are strong positive and negative attitudes. Like and dislike are weak positive and negative attitudes.

**Value Proposition 3** - Value is social and individual.

We can seek and assess new information either individually or socially. Individual value practices include *exploring, comparing, filtering/closing* while social value practices include *inquiring, observing, inquiring, recommending*.

**Value Proposition 4** - Value is a process and an outcome.

Through value practices, you can move and discover value, in a social and individual process. Value assessments are share, communicated and result in shifting attitudes and **actions**, such as buying or waiting.

Value can become locked in an *attitude* which can endure if there is no new relevant value information.

**Combining the Propositions into a Value Model**

These four value propositions are combined into a value model in Appendix 1 (and more simply in the References.)

Value is old and new.

## 2.HISTORY OF VALUE

- Aristotle; use and exchange value; conspicuous consumption
- Bailey; value is subjective.
- Marx; labour theory of value; value is objective.
- Schumpeter; innovation satisfies needs; new products, services
- Kim & Mauborgne; innovation needs to add value, remove unwanted product dimensions
- Christensen; disruptive innovation adds new dimensions of value

Aristotle, Adam Smith, Ricardo, Marx, Schumpeter, Porter, Kim and Mauborgne, Vargo and Lusch, are Philosophers, Economists, and Management academics who have all sought to understand and explain value.

Value overlaps with several other related concepts, including disruptive innovation, agile innovation, diffusion of innovation, open innovation, design thinking, and lean innovation.

### **Value questions, examples and approaches across the ages**

Aristotle 4th century BCE: How does the shoemaker and the builder negotiate to trade services? How do they determine **fair value**? (cf Hayek, the invisible hand of the market sets fair value). (Gordon 1964).

Adam Smith 1776: **Use value vs scarcity**; water vs diamonds - water useful but not scarce, diamonds not so useful but scarce; cf hardest stone, value of beauty, to a thirsty man water is more valuable.

Bailey 1825: value is what someone is prepared to pay for something; **value as subjective** e.g. art, beauty.

Marx 1865: **labour theory of value** - something's value depends on the amount of labour contained in its production; value as an objective fact.

Schumpeter 1908, 1944: **creative destruction, entrepreneurship**, <innovation, Rogers (1962, 1987, 1995, 2004) Diffusion of innovations, Bijker (1987) social construction of technology. > Deleted in wiki (Ferrers 2013, p.152) innovation as novelty, innovation as "useful things... to satisfy [consumer] needs" (Schumpeter 1934, p.12) and innovation as "new combinations ... are necessarily more advantageous" (Schumpeter 1934, p.129). So value is novel, satisfies needs and adds advantage. Also the entrepreneur is driven by "joy of creating, getting things done or simply of exercising one's energy and ingenuity" (Schumpeter 1934, p.93). Here the creating something new is evidenced by an emotional "joy", which is of personal value to the entrepreneur, and for the consumer. Value is emotional.

Christensen 1987, 1995: **Disruptive innovation**, adds a new value dimension to current product performance e.g. smaller disk drives, notwithstanding they were slower, less reliable and smaller capacity; (2003); jobs to be done theory. A person buys a hole (service or outcome; job to be done) not a drill (product). New types of value disrupt even if lower overall performance eg disk drives, steel mills.

Vargo and Lusch 2004: **Service-Dominant Logic**, A new view of marketing where everything is a service, including

products. End user benefit is paramount. **Co-creation of value**. If everything is a service, you need to know what a customer wants to service that need. Beyond products which are all the same, and independent of the customer's needs. (Related - Zeithaml (1988), Mick and Fourier, Richins (1995)).

Kim and Mauborgne 2004: *Blue Ocean Strategy*, **value innovation**; for an innovation to be successful it must add value for the consumer, while removing unwanted costs to create a profit for the supplier e.g. Cirque Du Soleil (more than a circus, theatre and acrobatics, and removing costs of animals).

Steve Jobs (Isaacson 2011); built a business that "delights customers" and "inspires employees". As I say in Ferrers (2013, p.vii), I can think of no better definition of value. Current Apple CEO, Tim Cook echoes the sentiment saying (Panzarino 2011):

*"We are going to continue to make the best products in the world that delight our customers and make our employees incredibly proud of what they do."*

## What is value?

# 3. VALUE DIMENSIONS

- Universal value; time, price, service/reliability, function
- Social value; power, duty, connection/community, need
- Individual value; emotion, new, beauty, simplicity
- Other: reaching a goal.

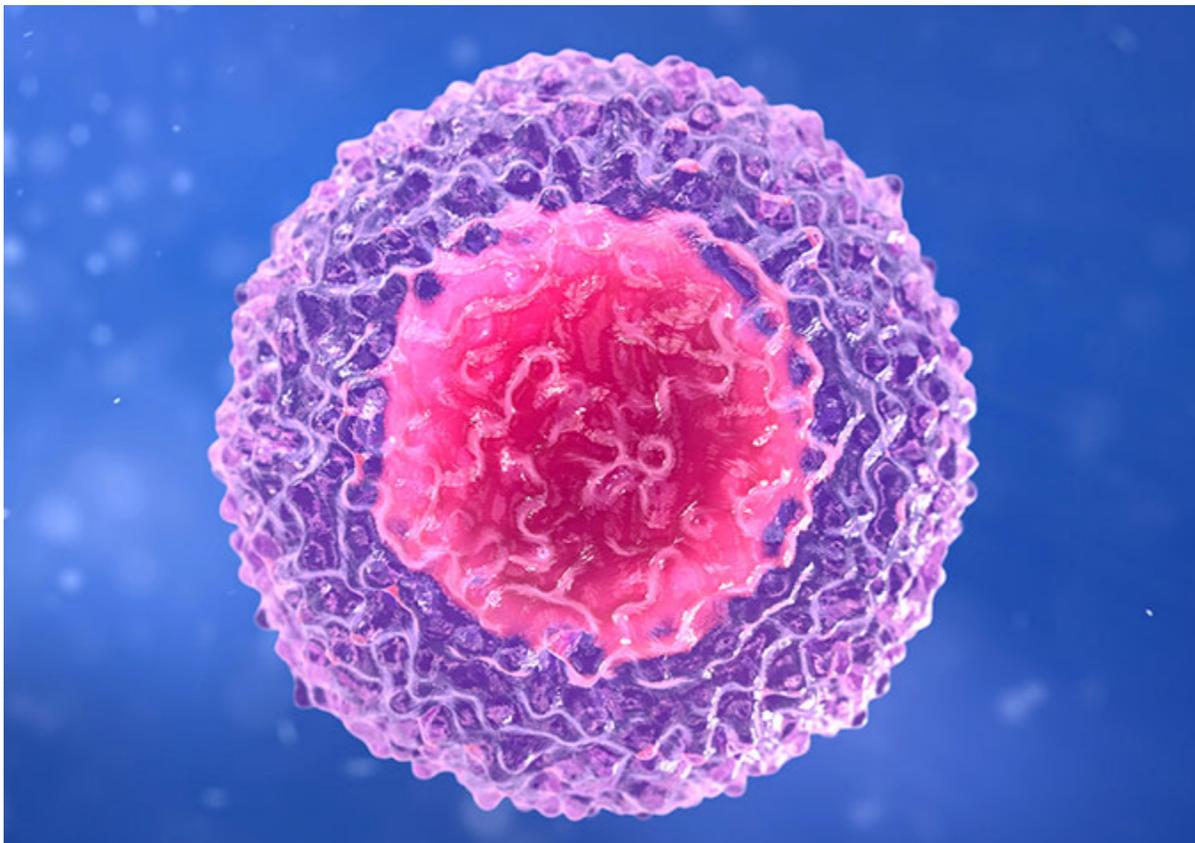
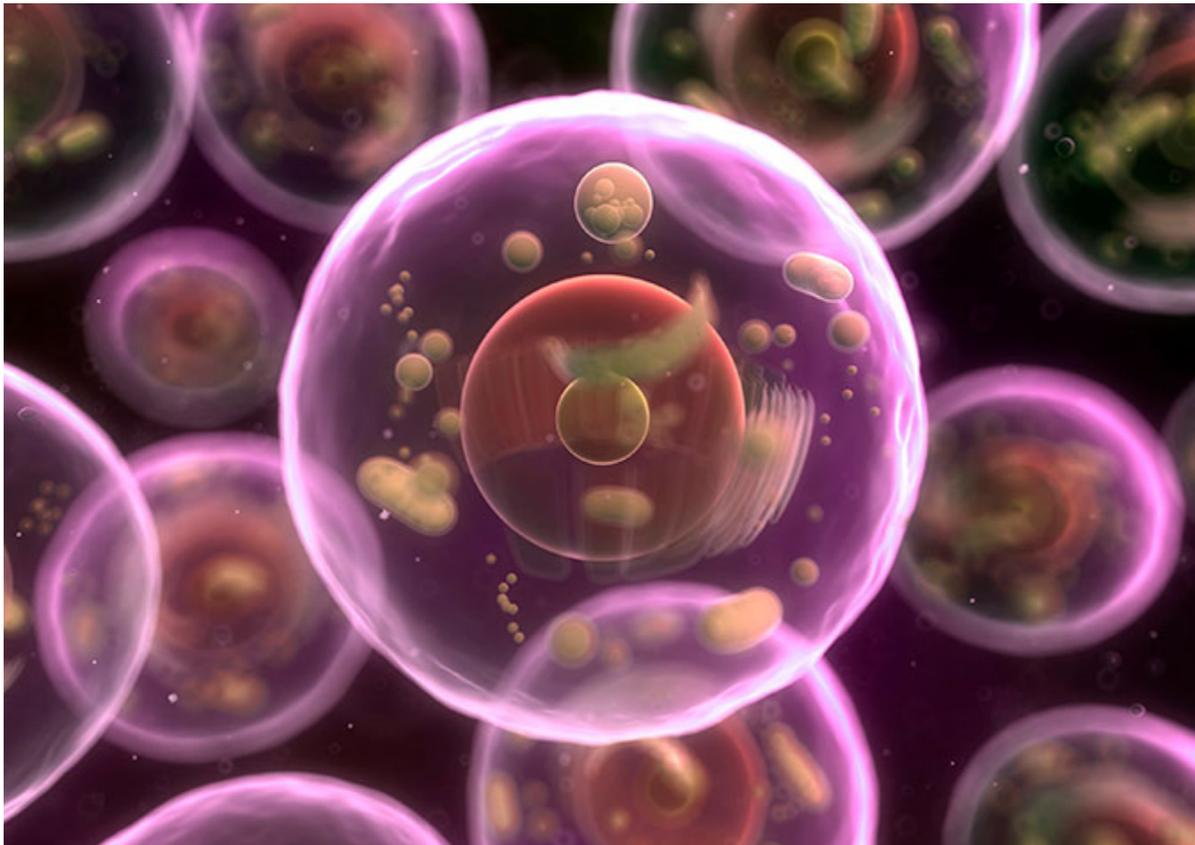
In my PhD study of smartphones, twelve value dimensions emerged, from the many (over 80 types) different ways that consumers described their experience with their smartphone. I call the types of value, value meanings - what is of value in a particular situation to a particular consumer. Dimensions emerge from clustering similar value meanings together to form higher level, more archetypal value types.

The dimensions could be classified as either:

- social (dimensions of an inter-personal nature)
- individual (dimensions of a more subjective nature) or
- universal (dimensions noted by nearly every consumer).

The dimensions were also compared to other smartphone information, such as brochures advertising smartphones, interview with Telco Analysts about the smartphone business and the Annual Report of a company selling smartphones.

These dimensions were further tested against three other technology domains beyond smartphones to test the value dimensions robustness in other contexts. Firstly, consumer comments about a Kindle e-book reader were tested. Next consumer comments about a free service of new website design at *The Economist* were tested. Lastly consumer comments in an



*Economist* Debate about future technology for creating clean power were tested.

### **What are dimensions of value?**

Dimensions of value are alternate types of value which are difficult to compare. For instance, when buying a 4K television, consumers compare price, function and reliability. Consumers consider many types of value when considering a purchase, and even after purchase as new information, through use, becomes apparent.

While there are countless (and perhaps infinite) types of value, dimensions are an attempt to create a finite list by clustering value types. Value types depend on context, whereas dimensions are more comparable across situations and technologies. For example, the price of an object says something but not everything about its value.

Other interesting questions include:

How do dimensions of value compete against each other? Why are dimensions of value important?

## Value in practice

# 4. VALUE CASES

- Smartphones
- Apple Inc.
- Happy wife, happy life
- National Broadband Network (NBN) for consumers
- NBN for the nation
- Skyrail Melbourne

This section introduces some examples and aspects of value in practice, which are examined in more detail in Volume 2. The cases provide evidence of how value works in practice for consumers, individually and collectively.

### **Smartphones**

I interviewed consumers (for my PhD) about how and why they switched to a smartphone from a simpler phone. This showed how value was different for each person, and the many types of value. There emerged 12 dimensions of value, of which four were reported by nearly every person; price, function, service/reliability and time. Value emerged from the interviews as both a process (valuing) and an outcome (the value). Valuing as a process processes information to reach an enduring attitude, an overall emotional summary outcome. This attitude was strong or weak, positive or negative. Interestingly, valuing did not end at the time of purchase but continued when using their smartphone, especially assessing (valuing) its reliability and after-sales service. This case shows value as an emotional process and simple outcome.

### **NBN for Consumers and the Nation**

The NBN is an Australian initiative to give every Australian home faster broadband. The new government changed the goals of the

project to include one of rolling out the NBN for the least cost. For consumer trying to understand the NBN, value is a process of information-gathering and assessment and an outcome, with emotional consequences along the way. NBN can also be considered from a national level, as a bundle of costs and benefits; partly economic but also relating to other value dimensions, such as reliability, time, service, simplicity even beauty. The NBN is analysed as a multi-dimensional bundle of attributes making it more complex than a merely financial cost-benefit calculation. This case shows multiple value dimensions in action.

### **Happy Wife, Happy Life**

A marriage is a complex interaction, information exchange, and bundle of roles, duties and negotiated outcomes. Value is a way of interpreting this complex, dynamic, information-based emotional process. Emotion is a by-product of the value exchanges both value creating and value disturbing, within a marriage. This case shows value is not just about \$\$\$, and that emotion and time can be a stronger currency than dollars.

### **Skyrail Melbourne**

See an example picture of Skyrail, on p.20 below.

Skyrail is an infrastructure project to raise a section of Melbourne train network above the road to remove several level crossings. A level crossing is where a train and cars share an intersection. The Skyrail project is a contested value space, where residents complain as they feel adversely affected by the project, while the State government argues the benefits, especially saying “removing dangerous and congested level crossings”. Residents suffer from construction impact, such as elevated rail lines looming over nearby properties, closure of roads, and some removal of old trees. Once completed, the Skyrail will create parkland under the railway, with 17km of walking and cycling paths (Level Crossing Authority 2018A). This case shows value as a contest between consumer and service provider perspectives.

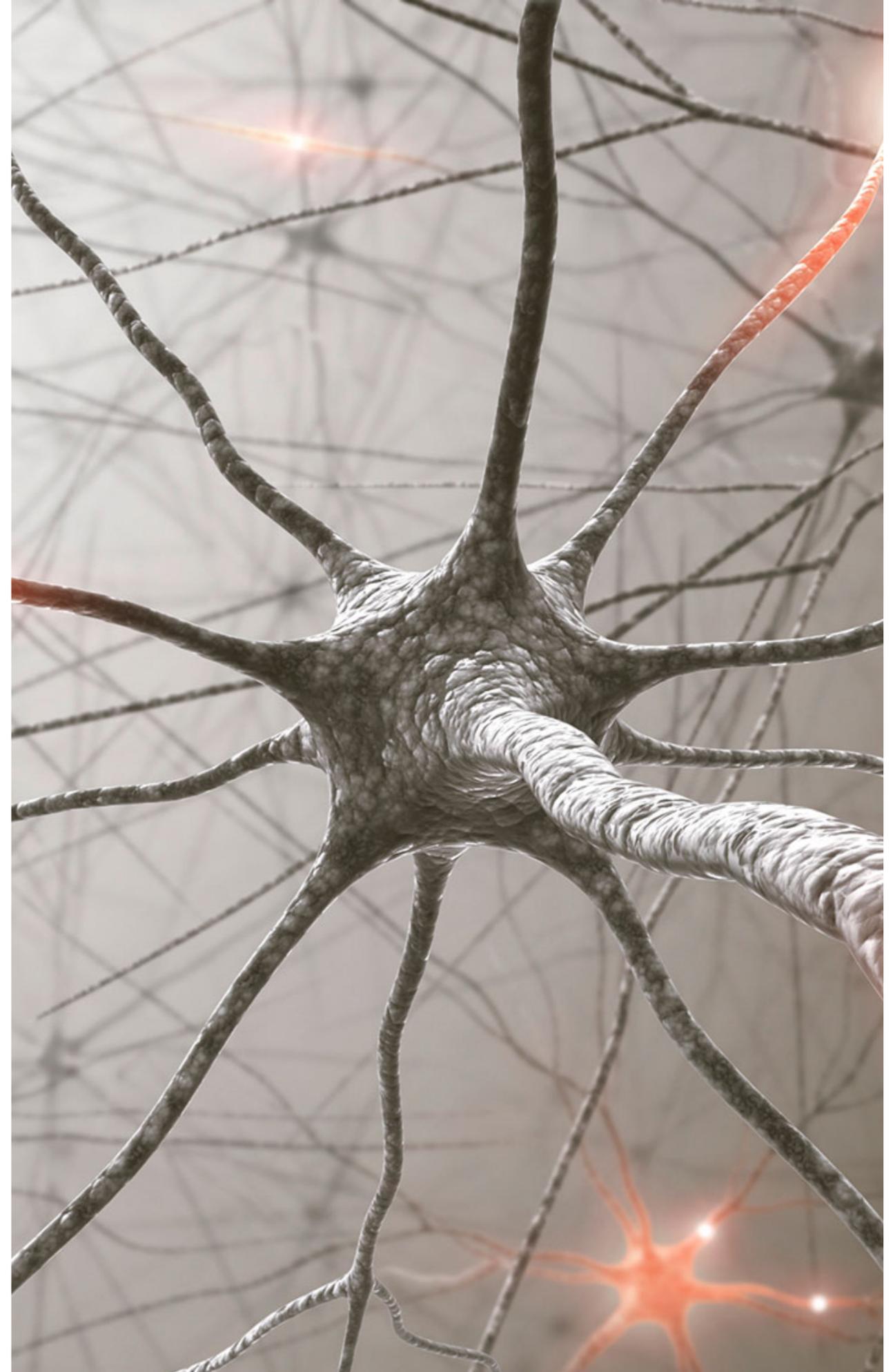
### **Apple Inc.**

Apple, the maker of computers, iPhones, iPads and related digital services, talks about value through its relationship between its products and its consumers. Apple has created a culture of value leadership - of serving the needs rather than the demands of its consumers. Consumers attitudes towards Apple products are considered, both positive and negative. This case shows a company whose focus is consumer value in what they say and do.

# LESSONS LEARNED

Key lessons about value from the cases, include;

- value is not only about \$\$\$ but emotion eg Happy Wife
- value dimensions differ across contexts, so residents value trees, parkland and visual amenity when considering local rail infrastructure, but convenience and power of mobile phones
- value is a conversation, an exchange of information, with emotional consequences between consumers and providers eg Apple, Level Crossing Authority, NBN
- value is an emotional process and has a simple outcome, called attitude, which lasts.
- Value Management is listening to customers and delivering what they want. Apple in contrast demonstrate Value Leadership, delivering what customers need (but not yet know ie demand).



# GLOSSARY

**Innovation:** doing new things that create value.

**Value:** a dynamic and ongoing practice, we work out socially and individually, that is especially sensitive to new information. Value arises from our value assessments, and we express as an overall attitude. Value is an emotional feedback process, sensing and iterating, rather than a goal-directed progression. Value is a process and an outcome.

**Value conversation:** a social construction of value, either social, individual or telco (in the context of 3G, or more generally with an innovator). In the most simplified model of value, the innovator conversation is a social conversation.

**Value Management:** ongoing value conversations to sense changes in value with consumers.

**Value assessment:** where value information through value practices (*exploring, comparing, inquiring, observing, recommending, closing/filtering*; see Value model) produces an *attitude* or action, such as *buying* or *waiting*.



# GLOSSARY

**Value Leadership:** understanding customers and delivering what you know but they don't know they value e.g. Apple might say we don't ask customers what they want. We can't show them an iPad and expect a sensible opinion when they have no context for assessing what it is, and if it is any good for them.

**Value Meanings** - cluster of value elements; archetypes of value; analysed as universal (*time, price, service/reliability, function*), social (*need, connection/community, power, duty*) or individual (*emotion, simplicity, beauty, new*); drivers of value assessment.

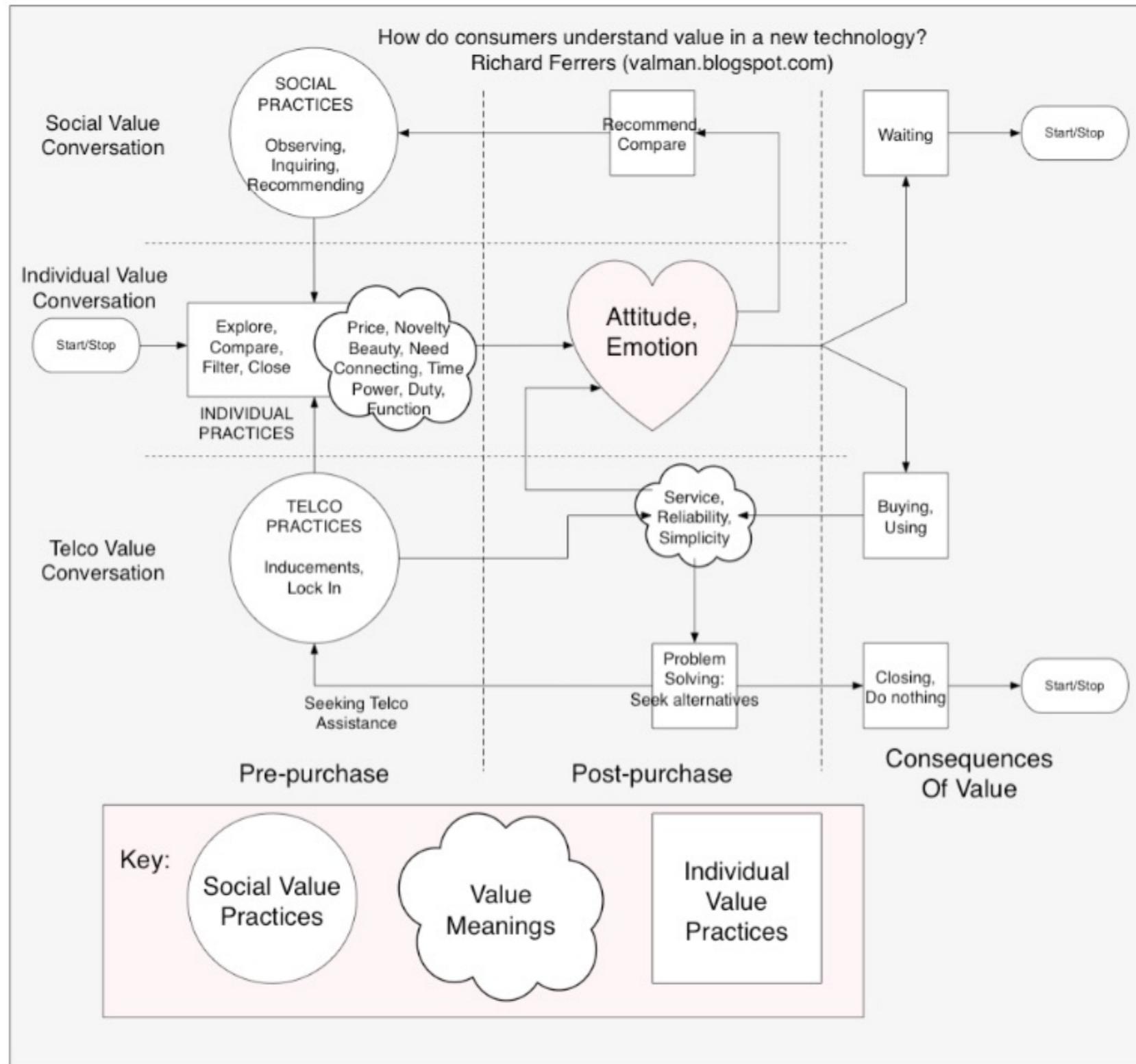
**Value Elements:** something a consumer finds meaningful (valuable) in a value target (a context), aggregate to value dimensions.

**Value Model:** see value as a dynamic and complex process (a value conversation), from my analysis of smartphone consumer interviews, on the following page.



# APPENDIX 1

A comprehensive model of the value process for consumers buying smartphones. Ferrers (2013) Appendix 13.



**Figure 7: A comprehensive model of the value process, including value meanings and practices.**

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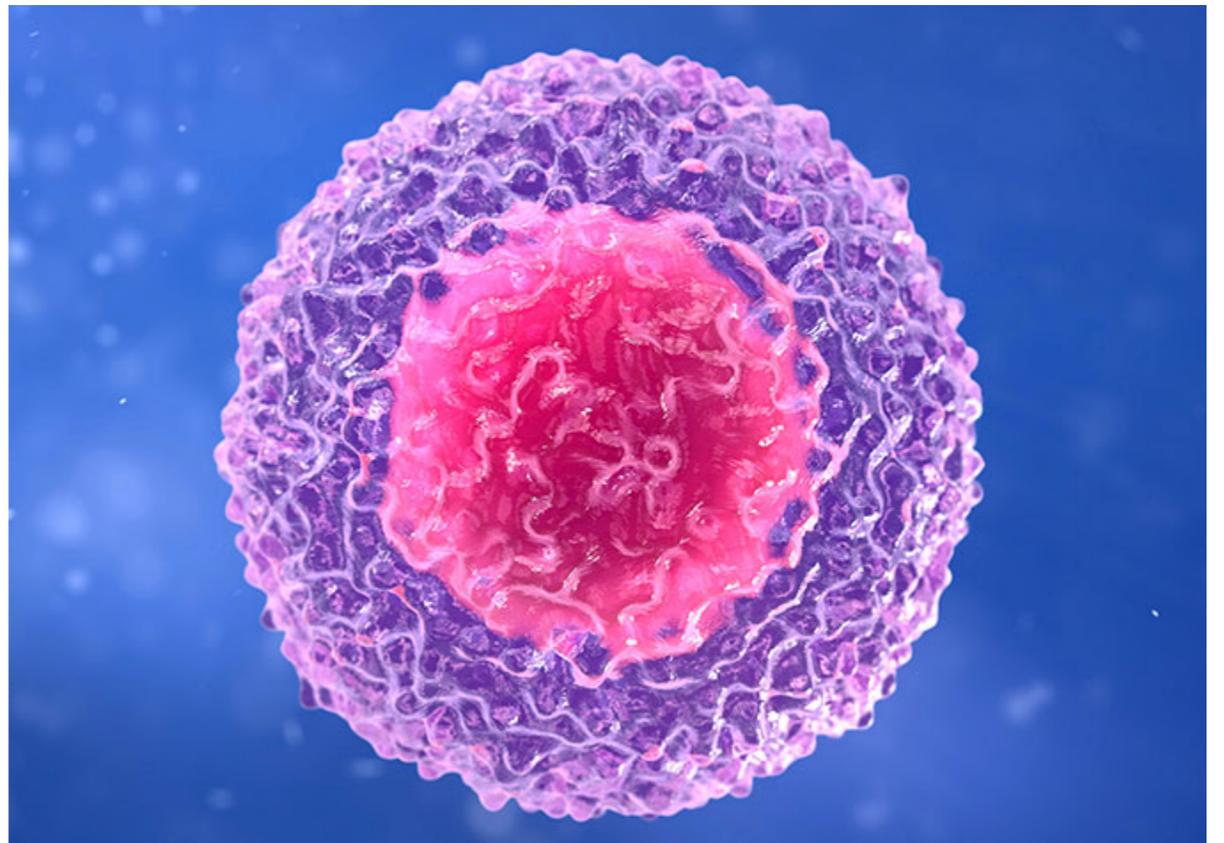
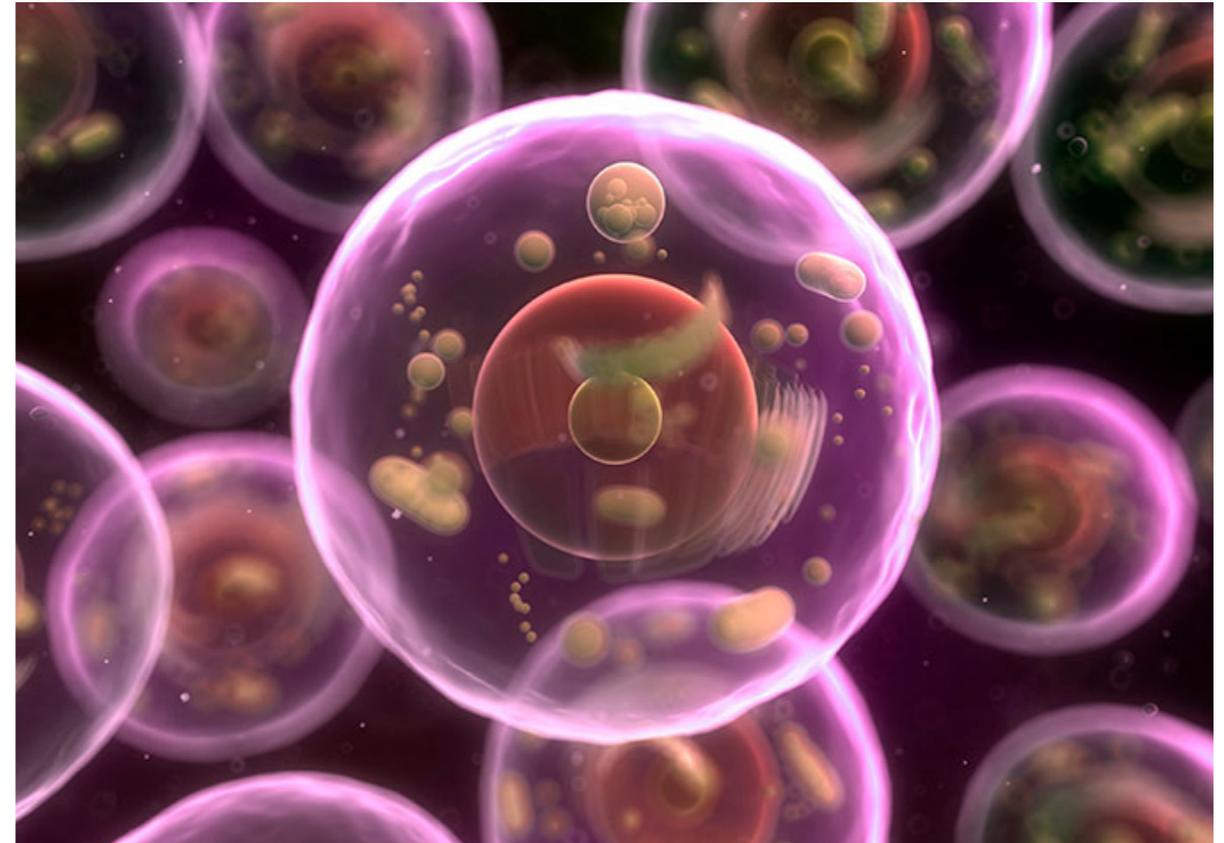
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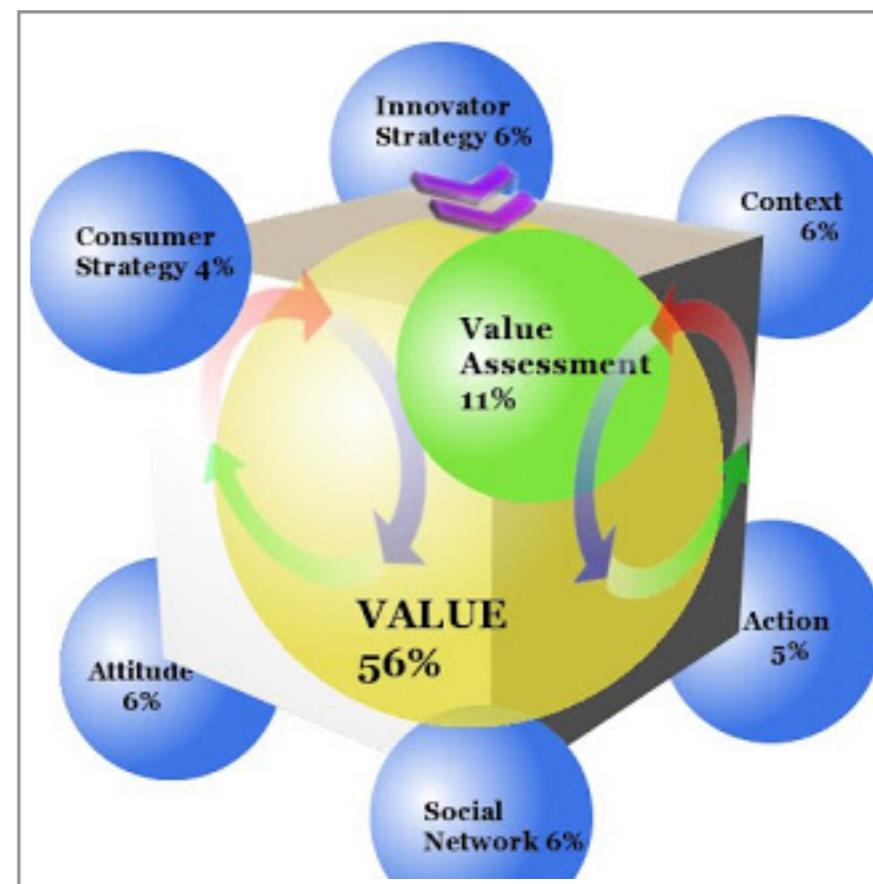
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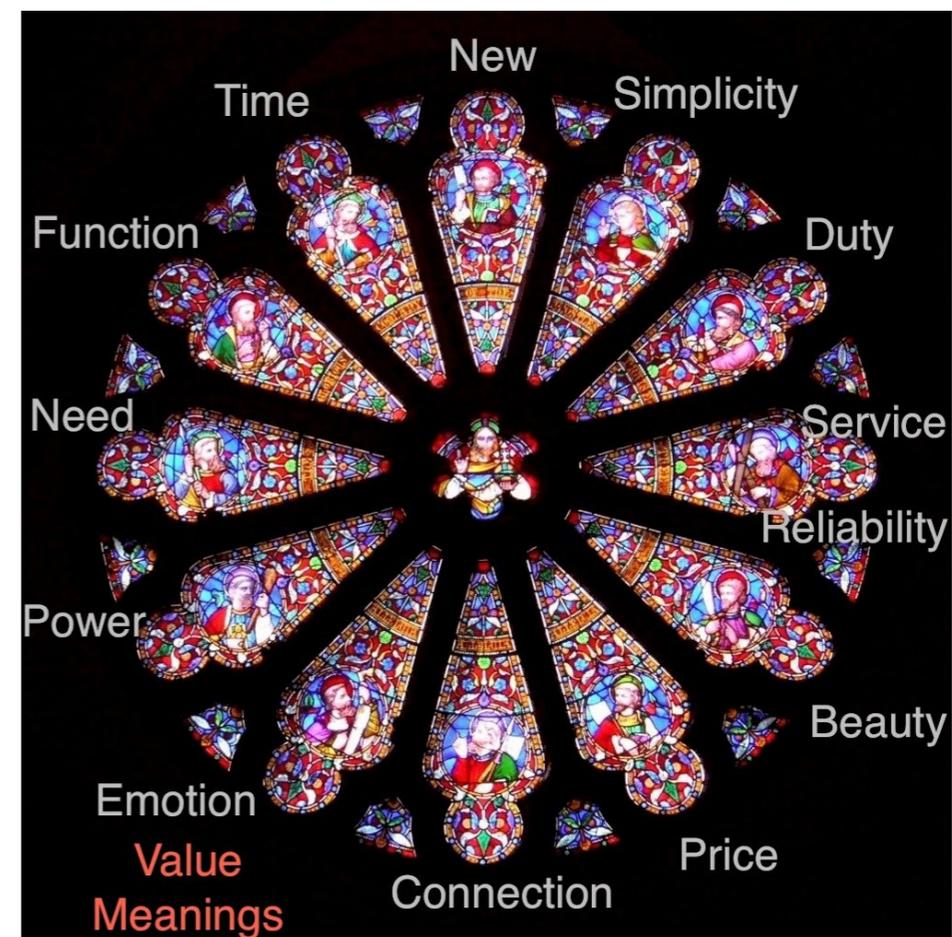
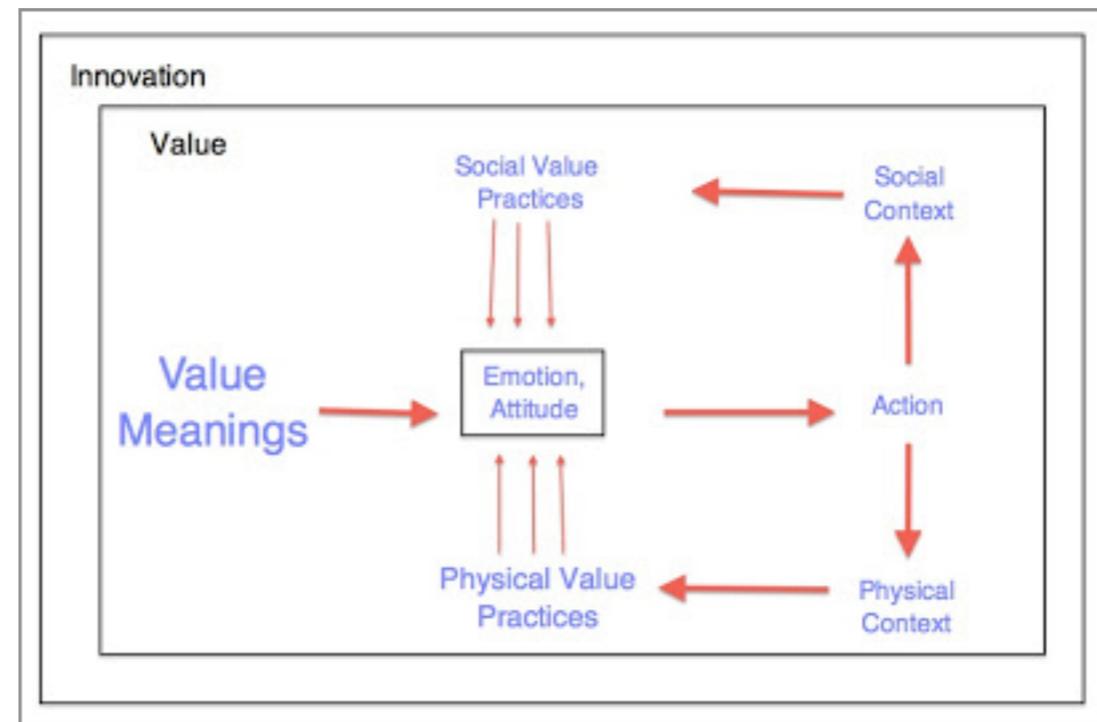
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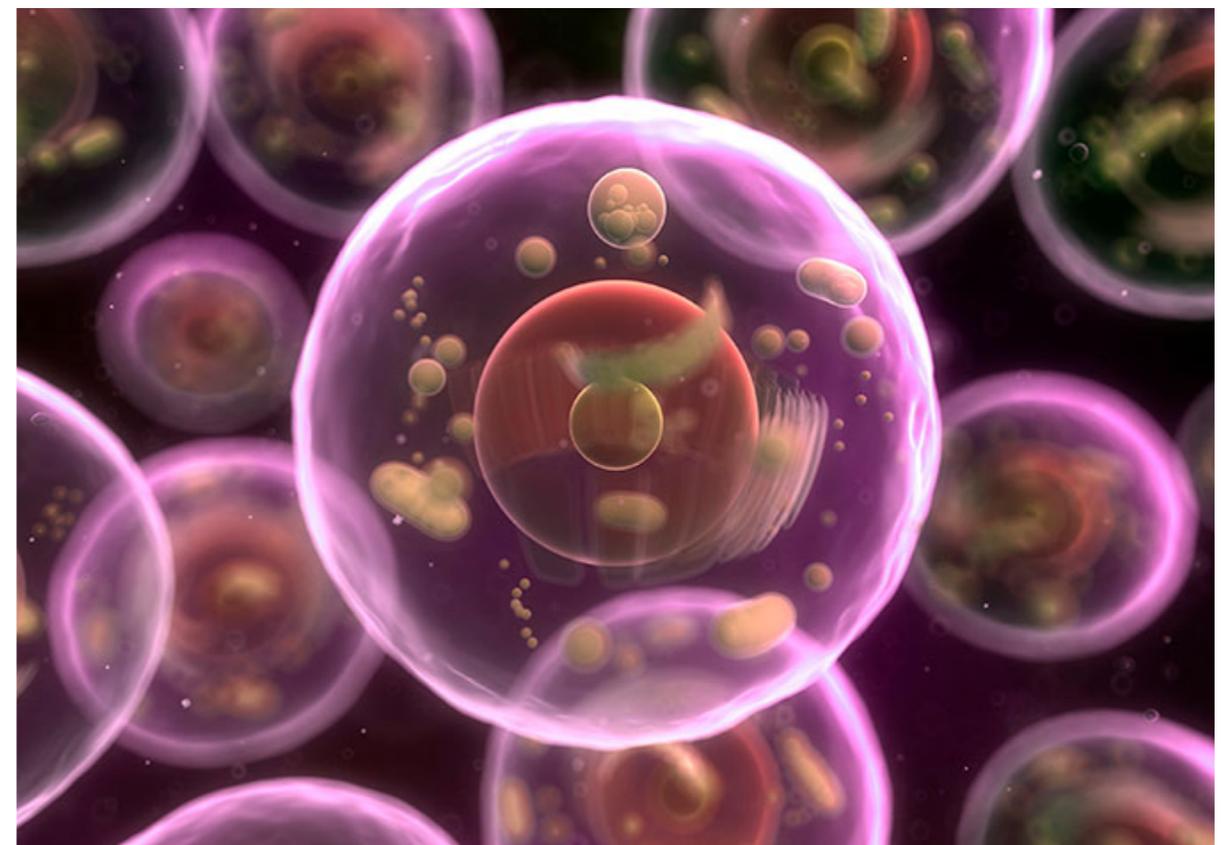
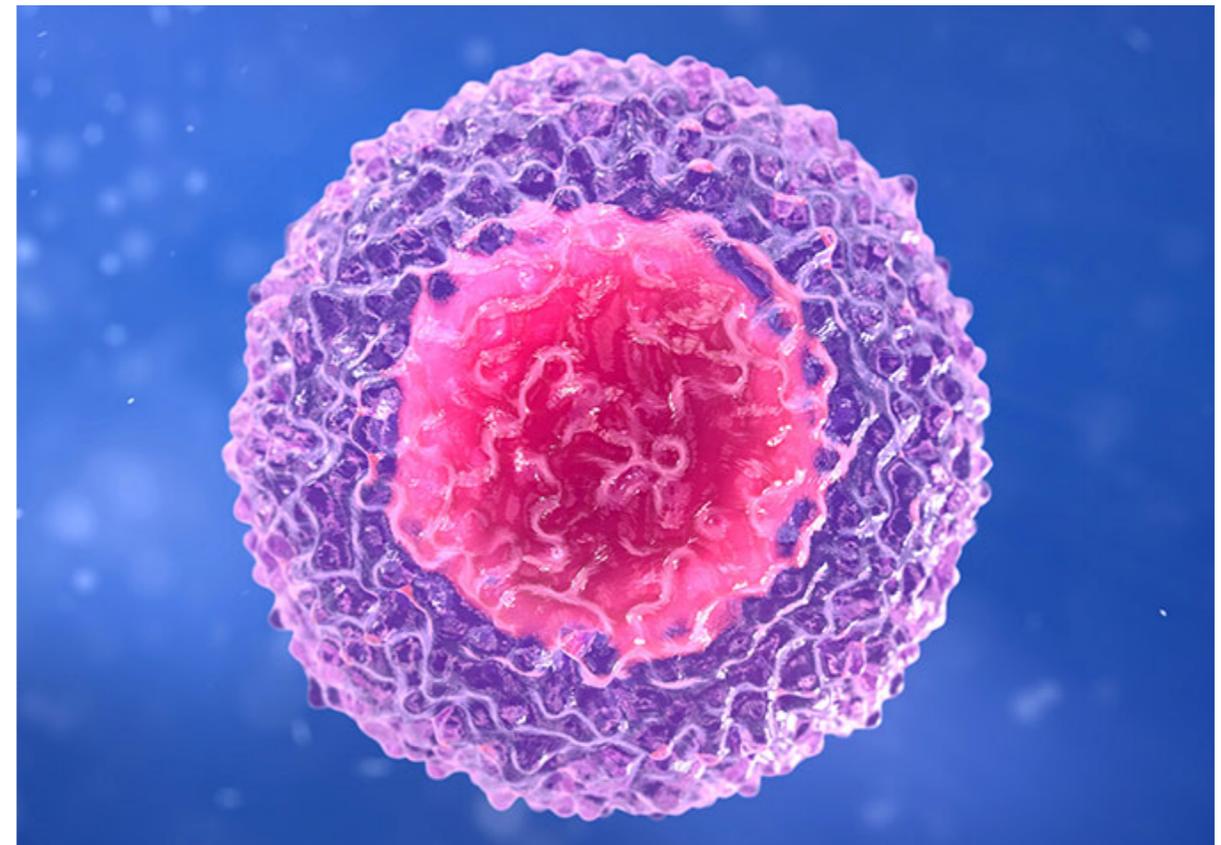
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Skyrail Melbourne Level Crossing - a contested Value Case



## The Latest Literature on Value

I examined the Value literature from 2013 - 2018, with a focus on the Nordic school (Gronroos and Akaka), and the Service-Dominant logic (SDL) school in Marketing (Vargo and Lusch). From the 40 publications I found, two stood out: Vargo, Akaka and Vaughan (2017) in a new *Journal of Creating Value*, and Galvagno and Dalli (2014), a systematic literature review of value co-creation. In the review, they found three schools interested in value; the SDL group, a technology innovation management group and a marketing-consumer research group, with only slight overlap.

Value continues to attract research interest, with value research publishing over 100 articles a year after 2011, from close to nothing before 2008 (see Galvagno and Dalli 2014, Figure 1). But Gronroos and Voima (2013) note “fuzzy definitional problems with many of the terms used” and “value creation .. [has] not been analysed sufficiently rigorously” (p.133). Gronroos (2012; 3) similarly sees value “described as one of the most ill-defined and elusively used concepts in service marketing” (p.1521).

Vardo, Akaka and Vaughan (2017) describe value in four ways as phenomenological, co-created, multi-

dimensional and emergent. In this case multi-dimensional, means as the result of interaction by several parties, and multiple institutions (or groups). Phenomenological means the value experience is embedded in context, and varies person to person, but also from time to time and place to place. Co-created means at least a buyer and seller are involved and value requires at least both. Emergent means value emerges as a result from a complex system, indeed acts as a “glue... giving meaning to any particular interaction” (p.6). They pose future problems about analysing context, and “how value is determined or derived”(p.7) and how to study value. Value can also be positive or negative.

Empirical studies into value were rare, with exceptions such as looking at health care customers (McColl-Kennedy et al 2012).

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