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MAKING SENSE OF VALUE AND VALUE CO-CREATION IN SERVICE LOGIC

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Abstract

In order to further develop the logic of service, value creation, value co-creation and value have to be formally and rigorously defined, so that the nature, content and locus of value and the roles of service providers and customers in value creation can be unambiguously assessed. In the present article, following the underpinning logic of value-in-use, it is demonstrated that in order to achieve this, value creation is best defined as the customer's creation of value-in-use. The analysis shows that the firm's and customer's processes and activities can be divided into a provider sphere, closed for the customer, and a customer sphere, closed for the firm. Value creation occurs in the customer sphere, whereas firms in the provider sphere facilitate value creation by producing resources and processes which represent potential value or expected value-in use for their customers. By getting access to the closed customer sphere, firms can create a joint value sphere and engage in customers' value creation as co-creators of value with them. This approach establishes a theoretically sound foundation for understanding value creation in service logic, and enables meaningful managerial implications, for example as to what is required for co-creation of value, and also further theoretical elaborations.

Key words: Value creation; value co-creation; value spheres; service logic; service-dominant logic; interaction

Introduction

Creating value for customers has been recognized as a key concept in marketing (e.g. Sheth & Uslay 2007; AMA definition of marketing, Chartered Institute of Marketing definition of marketing; see also, for example, Rust and Oliver 1994; Alderson 1957; Drucker 1954), making value and value creation important topics to study. However, in the literature on service-dominant logic (S-D logic) a thorough and rigorous discussion of the relationship and difference between value creation and value co-creation has mostly been ignored. For example, value creation and value co-creation as well as co-creation are not explicitly defined, and without explicit indications value is used in different ways, sometimes as value-in-use, sometimes as value-in-exchange, and yet sometimes when both firms and customers are involved in value creation as something that is neither of these. Customers are claimed always to be a "co-creators of value" (e.g. Vargo and Lusch 2004; Vargo and Lusch 2008). Moreover, it is claimed that "the firm cannot deliver value, but only offer value propositions" (Vargo and Lusch 2008). Furthermore, the firms role is emphasized not as a value creator but as a co-creator of value (e.g. Vargo and Lusch 2008; Vargo, Lusch and Akaka 2008; Lusch, Vargo and Wessels 2008). However, it remains unclear what is meant by value in these contexts.

Regularly value-in-use is mentioned, but statements such as "the firm cannot deliver value" and "the firm is always a co-creator of value" do not only contradict each other (how can you co-create something you cannot deliver?), but they also contradict the value-in-use concept. The use of the value-in-use concept seems to relate to how value is experienced by users, which again contradicts the meaning of value-in-use, according to which value is not only experienced by the user, but more importantly also created by the user.

The article *Evolving to a new dominant logic for marketing* by Vargo and Lusch (2004) successfully proposed that service should be seen as a perspective on value creation and marketing (see also Edvardsson, Gustafsson and Roos 2005). The service-dominant logic is grounded in eight (Vargo and Lusch 2004) and subsequently ten foundational premises (Vargo and Lusch 2008), of which several relate to value creation and co-creation and their implications for marketing. Despite the centrality of the concepts in the service-dominant logic literature, value creation and value co-creation have not been analyzed or even discussed in a rigorous manner. Ballantyne (2011:203) argue that "at this stage of the development of the S-D logic, fuzzy definitional problems associated with many of the terms used remains", indicating a need to systematically reflect on them and analyze their meanings.

It is claimed that a firm's "activity is best understood in terms of *input* for the *customers' resource-integrating, value-creation activities* rather than it is in terms of its *own integration of customer resources for the 'production' of valuable output*" (Vargo 2008: 214). We agree with this conclusion, but it demands well structured definitions of the value, value creation, and value co-creation concepts.

"The customer is always a co-creator of value" is a straightforward statement. However, in order to be able to develop theory and managerial decision making, one has to scrutinize this statement. When the statement is analyzed in detail, the relevance of the question asked by Vargo, Maglio and Akaka (2008) becomes obvious: "Exploration of value co-creation raises as many questions at it answers. For example, *what exactly are the processes involved in value creation*?" (p. 151; emphasis added). Is the customer´s creation of *value-in-use* the core of value creation or does value creation refer to a more overriding and comprehensive all-encompassing process, which the S-D logic literature generally indicates. Is value-in-use for the customer only a subset of an overarching value concept, according to which value is created and determined differently by different beneficiaries (e.g. customer, firm etc.)? If this is the case, is value ontologically something objective which is created by multiple parties? If this perspective is supported, what are the consequences for the content of the customer´s experience of value-in-use?

The *purpose* of this article is to analyze value creation in service by analytically defining value co-creation and value creation by focusing on the *roles* of the *customer* and the *firm* in this process, and by analyzing co-creation as a function of *interaction*. This is important in order to be able to define in which *value spheres* value is actually created, and by *whom* it is created. In our view, a theory of value creation and co-creation in service logic cannot be based on differing value concepts used in different contexts and different parts of the value creation process, and value cannot be created and determined based on differing value concepts. Moreover, central concepts have to be explicitly and clearly defined.

Although it is recognized that value for the customer and financial value for the firm are two sides of value creation (Gupta and Lehman 2005), the present article focuses only on value creation for the customer. To avoid unnecessary complexity in the analysis, value creation is analyzed without emphasizing the network context in which it often takes place (cf. Gummesson 2006).

Because the analyses and discussions are about a 'dominant logic' (Prahalad and Bettis 1986) based on service, we prefer to use the expression *service logic* as an abbreviation of service-based dominant logic, instead of the normally used service-dominant logic or S-D logic. In the present article we use the latter expressions when we refer to publications labeled S-D logic. In other contexts we use service logic, which we consider a more logical expression.

The paper is structured as follows. First, value creation is discussed through a review of previous literature on service-dominant logic. Next the roles of the customer and provider in value creation are analyzed by conceptualizing different value spheres, after which the roles of the customer and provider are specified, using the interaction concept. Finally, theoretical and managerial implications regarding the value creation spheres and the interaction concept are outlined.

Theoretical background

Several attempts to create holistic conceptualizations of value have been put forth (e.g. Woodall 2003; Khalifa 2004; Sánchez-Fernández and Iniesta-Bonillo 2007; Sánchez-Fernández, Iniesta-Bonillo and Holbrook 2009) revealing the heterogeneity and elusiveness of the value concept (Woodall 2003). Generally value has been conceptualized on an individual level (Holbrook 1994; 1999), as an assessment of the tradeoff between benefits and sacrifices (Zeithaml 1988; Day 1990; Woodruff and Gardial 1996), or as means-ends-models (Howard 1977; Gutman 1982; Zeithaml 1988; Woodruff 1997). More recently the cognitive perspective has shifted to a more holistic and experiential perspective recognizing value in the context of customer experiences (e.g. Heinonen and Strandvik 2009), as part of extended social systems (Epp and Price 2010; Edvardsson, Tronvall and Gruber 2010) or as monetary gains created mutually by business partners (Grönroos and Helle 2010). On a general level value creation has been recognized as a process which increases the customer´s well-being through which the user becomes *better off* in some respect (Grönroos 2008; cf. Vargo, Maglio and Akaka 2008). When conceptualizing value creation and asking what value is, and where, how, by whom and when value is created, the complexity of the value concept becomes evident (Voima, Heinonen and Strandvik 2010).

For someone a vacation may create value, whereas for someone else value relates to having the possibility to meet with friends enabled by the vacation. Another person may experience value already in the process of dreaming about the vacation or when planning the trip, and for yet another person the memories, new friendships and cultural experiences and learning processes are the sources of value (Heinonen et al 2010; Voima, Heinonen and Strandvik 2011). Although value has been referred to as the most ill-defined and elusive concept in service marketing and management (Caru and Cova 2003; Sánchez-Fernández and Iniesta-Bonillo 2007), very little is known about the actual process of value creation, where it starts, what it consists of, when it ends.

When value creation is analyzed in detail the expression of *value creation* needs to be addressed. As most customer practices and experiences are everyday, mundane and spontaneous activities, being more or less unconscious (Schatzki 1996; Thompson et al 1989), arguments have been put forth that value is not something objective that is consciously created. This unconscious, dynamic and long-term process could more accurately be described with value *emerging* or being *formed* (e.g. Korkman 2006; Voima, Heinonen and Strandvik 2010; Grönroos 2011, Echiverri and Skålen 2011). In spite of this, the currently used and widely accepted term ‘value creation’ is used in the present article.

Defining value creation

Although it has not been defined in publications on service-dominant logic, value creation has been treated as co-creational, emphasizing value creation as an all-encompassing process including both service provider and customer actions. This treatment of value has resulted in the conclusion that both the service provider and the customer are always co-creators of value. When the production oriented perspective emphasized value delivery (value-in-exchange), more recently the element of use has been emphasized in service research (Vargo and Lusch 2004; 2008; Vandermerwe 1996; Holbrook 1994; 1999; Ravald and Grönroos 1996; Wikström 1996; Normann 2001; Prahalad 2004; Grönroos 2008). Despite the fact that value has been widely accepted as “perceived and determined by the customer on the basis of value-in-use” (Vargo and Lusch 2004:7), the current treatment of value creation as an all-encompassing process leaves the underlying locus of value unclear. It cannot be value-in-exchange because the customer´s actions are involved. It cannot be value-in-use either, because the service provider´s activities are involved. For the same reason it is unclear what the nature of value is. The nature of value-in-exchange is a utility, embedded in a resource and existing as a singular entity at a given point of time that can be exchanged for a given amount of other utilities (or which reflects a benefit that the customer is prepared to pay a given amount of money for). The nature of value-in-use is the extent to which a customer feels better off (positive value) or worse off (negative value), where value accumulates over time through experiences during usage (Grönroos 2008; 2011). Value-in-use as a concept means that value is created by (or emerges for) the customer during usage. *Logically, value does not exist before it is created (or emerges) in the usage process, where it is accumulating, and it cannot be assessed before usage.* In Figure 1 the difference between the nature and occurrence of the two value concepts – value-in-use and value-in-exchange – are illustrated.

FIGURE 1 ABOUT HERE, PLEASE

Figure 1 is a simplification for illustrative reasons. The value creation process of the customer is not a linear process which automatically follows the provider´s activities (production). For example, dreaming about a new car may be part of the value creation process of the customer already before the new car is even ordered and produced. Value-in-use is therefore customer driven and accumulating over time in the customer´s sphere, which means that value is created by the customer in different spatial and temporal settings. Furthermore, value-in-exchange does not necessarily exist in only one given point in time, instead it can exist as multiple singular entities over time. For example, a vacation for a family may include multiple choices (purchases) at different points in time during the vacation. Value-in-exchange exists in each situation as a singular entity embedded in the good or process considered to be chosen (bought) or not.

The problem arising from value being seen as an all-encompassing process including both provider and customer activities lies in the fact that this type of value logic is ontologically dualistic (c.f. Thompson et al 1989). Hence, as the ontological basis of value creation is not defined, value is treated as a concept that may be perceived differently and constructed differently by different actors (provider and customer) during this all-encompassing process. Grounded in these conflicting thoughts, it is impossible to describe what the nature of value is. Therefore, no theoretical or managerial implications as to the roles and scope of the service provider and the customer, respectively in value creation can be drawn from this way of defining value creation. More bluntly put, value creation as an all-encompassing process becomes an empty concept without content.

The treatment of value creation and co-creation in S-D logic publications puts the firm in control of value creation, and the customer is invited to join this process as co-creator. This provider emphasizing perspective on co-creation has originally grown from the customer engagement literature (e.g. Prahalad 2004; Zeithaml 1990; Berry and Parasuraman 1991; Peppers and Rogers 1993; Rust, Zahorik and Keiningham 1996; Pine and Gilmour 1999; Heskett, Sasser and Schlesinger 2002; Vargo and Lusch 2004), where the role of the customer has evolved from involvement in self-service, through firm-scripted staging of customer experiences to co-designing and finally the coproduction of service (Prahalad 2004; Vargo and Lusch 2004). As a conclusion, a joint production perspective is emphasized, where the company "invents value by enabling customers´ own value-creation activities" (Normann and Ramirez 1993:67).

Logically value creation as an all-encompassing process contradicts the whole marketing concept, according to which the point of origin and core is *the customer* (e.g. Romilla 1912; McKitterick 1957; Keith 1960; Levitt 1960). From this customer-centric perspective, marketing is recognized “as a process of adapting an organization to meet the needs of customers” (Brennan, Turnbull and Wilson 2003: 1638), or as McKitterick (1957) formulated it in his seminal American Marketing Association paper: “… the principle task of the marketing function ... is …. to be skillful in conceiving and then making the business to do what suits the interests of the customer”. Based on these views, and as suggested by the value-in-use concept, the customers are in charge of their value. Hence, including value creation as an all-encompassing process and value-in-use in the same analysis includes a serious logical flaw. It is simply not possible.

FIGURE 2 ABOUT HERE, PLEASE

As illustrated in Figure 2, when value is defined as value-in-use, the comprehensive production process (in the figure including design, development and manufacturing of resources and back office and other processes) is not part of value creation (Grönroos 2008; 2011). As will be shown, only under certain circumstances when the customer becomes involved in these production-related activities, such activities may become part of value creation. For the customer, production of resources generates only potential value, whereas through use real value is experienced by the customer (cf. Gummesson 2007; Vargo and Lusch 2011). A model which includes both creation of value-in-use by the customer and value creation as an all-encompassing process including value-creating activities by both the customer and the firm is not logical. In such a model a logical analysis of how value is created and of the firm’s and customer’s roles in the process is impossible. Either one of the value creation approaches may be used separately, but not together and overlapping each other as currently in S-D logic publications. Depending on how value creation is defined, the co-creation concept will get different meanings. When viewing value creation as an all-encompassing process, co-creation becomes a simplistic concept – everything is co-creation, everybody co-creates – which does not allow for meaningful further developments and use. As our analysis will demonstrate, defining value creation as the customer’s creation of value-in-use leads to a view of value co-creation which is meaningful for further theoretical and practical elaborations.

Value as customer´s creation of value-in-use

In the literature on the S-D logic both customers and firms are seen as co-creators of value, but the roles of the customer and the firm remain unspecified. There is a lack of discussion about the relative importance of the two parties, their roles in the total process as well as what the actual processes of value creation or value co-creation are (Grönroos & Ravald 2011). Moreover, as we have noted, it is not possible to describe what the nature of value created in an all-encompassing value creation process is. Value creation seen as an all-encompassing process only helps to explain that value is not created by the firm only, which the management literature wanted to establish, but that actions taken by the customer as well have an impact on value being created, and are thus on equal terms part of the value-creating process. However, beyond that it explains nothing. No theoretical or managerial implications as to the roles and content of the service provider and the customer, respectively in value creation can be drawn from this way of defining value creation. Moreover, from a value-in-use perspective this conclusion is incorrect. In the same argument, value cannot be created both by the firm and the customer, and by the customer alone.

In this paper our analysis rests on a non-dualistic ontology, where value creation is seen as the customer´s creation of value-in-use during usage, where value is socially constructed through experiences. (c.f. Berger and Luckmann 1967; Thompson et al, 1989; compare also Edvardsson, Trondvoll and Gruber 2011) . Different authors seem to explore alternative ways of formulating the nature of this phenomenon, and recently value has been recognized at least as being created in context (Vargo 2008), in social context (Edvardsson, Tronvall and Gruber, 2011), in practice (Korkman 2006; Holttinen 2010) and in experience (Ramaswamy 2011).

The underpinning logic is the fact that value emerges, is formed or is created, during the process of the customer's integration of resources and processes (and/or their outcomes) obtained from a firm, or otherwise needed and in the possession of the customer, where skills held by him or her are applied. The customer integrates resources and processes from a firm with resources and processes from other firms dependent on the customer´s individual, relational and collective goals (cf. Epp and Price 2010). Hence, value emerges during usage of such resources, where *this process of usage is the defining concept*. In our analysis, context which can be at least social, physical, temporal and/or spatial, *determines how value-in-use is experienced*. From an axiological perspective, Mattsson (1991) puts it in this way: "… value patterns are the effects of an on-going evaluative act by a consumer on being exposed to a product" (p. 42). Hence, expressions such as value-in-context or value-in-social context describe what influences how value-in-use is created, but do not replace value-in-use as the fundamental value concept. Therefore, we use value-in-use as the concept that theoretically in a correct way describes the transition from value being embedded in resources as value-in-exchange to value emerging for the customer, or being created by the customer, *as an accumulating experience during the usage (or resource integration) process*.

Value-in-use means that the customer as the user creates value and is *the* value creator, not only assesses or determines value. The customer creates and assesses value in a longitudinal and experiential process of usage. Therefore, in the same way as the firm controls the production process and can invite the customer to join it as a co-producer of resources (e.g. Eiglier and Langeard 1975), *the customer is the one who controls the value creation process and may invite the service provider to join this process as a co-creator of value*. Value creation during usage is a longitudinal, dynamic and experiential process which may include phases of both construction and destruction (cf. Echeverri and Skålen 2011) in different temporal and spatial settings, where the user is the one experiencing the process.

If the role of the customer as *the creator of value* is not recognized, the role of the firm grows to wrong proportions, reverting the evolution from value-in-use back to value-in-exchange and a functional view of value, where value is created during the production process (value as an all-encompassing process with the firm as the driving force and the customer invited as a co-creator).

In summary, *value-in-use emerges (or is created) through the user´s accumulating experiences with resources, processes (and/or their outcomes) in social, physical, temporal and/or spatial contexts.* Hence, value creation is here defined as the *customer´s creation of value-in-use* (Grönroos 2011), a view grounded already in Aristotle's value theory, according to which value is *subjectively experienced* (Gordon 1964; 117-118; cf. Holbrook 1994:27: "Value is an interactive relativistic preference experience" and Mattsson 1991:42: "Value experiences are the ultimate effects of consumption").

In conclusion, when defining value creation as an all-encompassing process, "everything is possible", and therefore no analytical conclusions as to the roles of the actors in the process, or to the scope, locus and nature of value and value creation are possible. Moreover, neither theoretical nor managerial implications about how to understand and develop value and value creation can be derived. To be able to do that, one needs to have specific answers to the questions of roles, scope, locus and nature. The differences between value as the customer's creation of value-in-use and value as an all-encompassing process, and of the scope, locus and nature of value and value creation according to these two views as well as of the implications of them, are summarized in Table 1.

TABLE 1 ABOUT HERE, PLEASE

As Table 1 shows, when value creation is seen as the customer´s creation of value-in-use, the conclusion is that the *customer is always the value creator*. The scope of value creation is shifted from a provider driven all-encompassing process to a customer driven process. Value-in-use is created through the user´s accumulating experiences with resources, processes (and/or their outcomes) in different contexts (e.g. social, physical, temporal and/or spatial) (Voima, Heinonen and Strandvik 2010; Voima et al 2011). The locus of value creation is defined as the customer´s physical or mental activities, practices and experiences, value being realized in, for example, possession, usage and mental states (Heinonen et al 2010; Grönroos and Ravald 2011). When the customer is the value creator, value is experienced by the customer as becoming better or worse off. Value creation becomes a structured process where firms and customers have defined roles and goals.

When value is seen as the customer´s creation of value-in-use, theoretical and managerial implications are possible. When the customer is the one who creates value through experiences in an accumulation process, the firm as service provider may facilitate customer´s value creation by producing resources and processes that represent potential value or expected value-in-use for the customer. The customer is however the one who constructs and experiences value by integrating resources and processes in the customer´s own social contexts. To conclude, the customer is the value creator, and the firm is a value facilitator.

If the customer is the one who creates value in use, who is actually the one who co-creates value, and when does co-creation take place? In this article we state that value co-creation need to be analyzed through the roles of the customer and firm by recognizing the *value spheres of the provider and the customer*. If the system is closed for the customer, co-production cannot take place in the production process. On the other hand, value co-creation cannot take place in the customer sphere, if the system is closed for the provider. Co-creation may only take place where two or more parties have an effect upon each other, which in the service marketing research, and beyond, is referred to as the *interaction* concept. Next, this phenomenon is analyzed in a value creation and especially value co-creation context.

The interaction concept and value creation

Interactions have mostly been recognized in the context of buyer-seller relationships and in interaction and network models (Håkasson 1982; Håkansson and Snehota 1995). Interactions have been a central concept in for example an industrial context, branding research, information process research, firm performance research and consumer culture theory research, (e.g. Fyrberg and Jüriado 2009; Homburg, Wieseke and Bornemann 2009; Arnould and Thompson 2005). The interaction concept has been recognized as a key construct in service marketing as buyer-seller interactions (e.g. Gummesson 1991), interaction quality (Lehtinen and Lehtinen 1991) and part-time marketers (e.g. Gummesson 1991). Recently the implications of interaction for value formation was also emphasized in a practice-based study (Echeverri and Skålén 2011), which supports the definition of interaction used here, stating that *interactions are situations where the interacting parties are involved in each other's practices* (Grönroos & Ravald 2011). The core of interaction is an element of physical, virtual and/or mental contact where the provider creates opportunities to engage with its customer´s experiences and practices, thus enabling it to influence their flow and outcomes. Opportunities for interacting are naturally created in service encounters but they may also be created in goods-marketing situations, e.g. in order taking, logistics, problem diagnosing and call centers.

Interaction is a dialogical process (Ballantyne 2004; Ballantyne and Varey 2006). The customer´s and the provider´s processes merge into one coordinated and interactive process where both the customer and the provider are active (cf. Grönroos and Ravald 2011), for example, when a customer orders a vacation from the tour operator. In direct interactions the customer´s and the firm´s processes are simultaneous and intertwined. Both parties have the opportunity to influence this dialogical process, a conclusion which is supported by a recently reported study of process and outcome interdependencies in service encounters by Ma and Dubé (2011). For example, when a customer asks if it is possible to upgrade the hotel room, or rent a car with children´s car seats, he or she directly influences the service provider´s production process. At the same time, through its actions the service provider may directly influences the customer´s value creation process and how it proceeds. If the tour operator says the change is possible and a suitable car with children´s car seats is easy to fix, positive value accumulation probably takes place. If the tour operator explains that due to various reasons it is not possible value may even be destroyed for the customer. *The role of the customer and the provider in value creation and co-creation are therefore dependent on the sphere where potential value and real value is created.* Only in a *joint sphere* co-creation of value is possible.

The two parties have different roles in interaction. *The customer takes the role of a co-producer* (co-designer or co-developer) in the firm´s production process, where the customer is a resource in the firm's production process. The role of the firm is different. The customer's value creating process is closed to the firm (Grönroos & Ravald 2011). However, since the interaction potentially is *one merged and co-ordinated process* and not two separated parallel processes, the interaction may provide the firm with access to the customer's sphere. In this way a joint sphere is created, where the firm gets an opportunity to influence the customer´s experiences and practices during the usage process. For example, the tour operator may suggest a bigger hotel room with a separate kitchen which is suitable for a family with small children. Since value is created in usage, the interaction provides a window to usage for the firm, and through the interaction the value creation process becomes accessible for the provider. As a consequence, the provider may take part in the customer´s value creation process – *as a co-creator*. In the next sections, we analyze value spheres and the interaction concept in more detail.

Value creation spheres

Figure 3 illustrates that the roles of the firm and customer varies dependent on the *value creation sphere*. The firm is responsible for the production process (in this article a global term for design, development, manufacturing and delivery phases, back-office and front-office processes), and in the *provider sphere* the provider's production of resources and processes is only *value facilitation,* since only potential value is formed. In the *joint sphere* the role of the customer is twofold. The customer is a *co-producer* of resources and processes with the provider. Although the customer opens up a joint value creation sphere for the firm, the customer is, however, always the *value creator*. Therefore, if direct interactions occur the provider may only get an opportunity to engage in the customer´s value creation process and take on the role of a *value co-creator* with the customer. In the rest of the *customer sphere*, which is a closed system for the provider, the customer creates value independently from the provider. Because no direct interactions exist, where the provider could take part in the customer´s experience of value-in-use and influence it, the system is closed.

FIGURE 3 ABOUT HERE, PLEASE

The process may not be as linear as the figure implies. Value may be created in the different spheres at different periods of time and reflect spatial heterogeneity. The different value spheres may follow each other in different sequences and form different types of *value creation patterns*. Although, value facilitation normally precedes value creation experiences, an active customer may also give input as a co-developer or co-designer, and even as a co-manufacturer. Then the joint sphere is widened, and the whole process starts directly in a joint value sphere. For example, value creation for the customer may begin already through a joint development process. This is then a value co-creation opportunity for the firm. Next the different value spheres are discussed in more detail.

Provider sphere. The provider sphere is characterized by generation of potential value. Thus, activities performed by the firm in this sphere *facilitate the customer's value creation*. In the provider sphere the firm takes on the role of a *value facilitator*. The resources that customers use are innovated, designed, developed, manufactured and finally delivered with few or no direct interactions with the customers. The firm is in charge of these processes, which can take different physical and virtual forms. Through them potential value emerges which by the customer may be turned into real value. Therefore, the role of the firm in the provider sphere is formulated as follows: *The firm is fundamentally a value facilitator* (Grönroos 2008:308). Because it does not take place in the customer sphere, *value facilitation is not part of value creation* (of value-in-use). *Therefore, in this sphere the firm only produces resources that facilitate customer´s value creation (of value-in-use).*

To conclude, the provider sphere is defined as the *provider-dominated sphere outside direct interactions where activities performed by the provider (referred to with the collective term production) result in production of resources and processes (potential value) that customer´s may use in their value creation process*. From the value creation perspective of this article, the *joint sphere* and *customer sphere* are further discussed in the next paragraphs.

Joint sphere. Interaction makes value creation a dialogical process, which Wikström (1996) refers to as value-in-interactions. The customer is the one who is in charge of value creation in the joint sphere, but through the dialogical process of direct interaction the provider may influence the customer´s value creation process and take the role of a *co-creator*. Co-creation takes place only through the existence of direct interactions, where interactions form a platform for fruitful co-creation of value. *If there are no direct interactions, no value co-creation is possible* (Grönroos and Ravald 2011; Grönroos 2011). Interactions are however not an automatic shortcut to customer´s value creation. The firm´s engagement in customer´s interactions may influence customer´s value creation both positively and negatively, or no influence may occur. If the firm uninvited by the customer creates interactions with him or her (e.g. calls the customer), the risk for value destruction rise, since it is difficult for the firm to know in what situation and mental state the customer is at that specific moment.

Echeverri and Skålén (2011) emphasize that the interactive value formation process in which the customer and the firm are involved may be a creative but also a destructive process. The quality of the interactions becomes fundamental for customer value creation (cf. Fyrberg and Jüriado, 2009) as well as the firm's understanding of the customer´s holistic process of experiential value creation outside the interaction in the customer sphere (Voima et al 2011). Understanding the customer and the customer´s way of combining resources in interactions becomes important for changing the role of the provider from a mere facilitator to a co-creator of value. Therefore, the firm's employees that communicate and interact with the customer have a crucial role as part-time marketers (Gummesson, 1991).

For effective management of customer interactions the firm needs to learn more about the customer and about the customer´s individual and collective context, which influences the customer´s value creation process during interactions in the joint sphere and in the customer sphere (cf. Voima et al 2011). What is important to realize is that the different value spheres are dynamic. The provider may invite the customer to join as a co-producer (co-designer, co-developer) at different times of the production process, which influences the dynamism in value spheres and broadens the joint sphere. The customer may also become active and cross the boundary to the provider sphere. By becoming active the customer moves the boundaries of the joint sphere and widens the interaction platform, and thus provides the firm with new joint value co-creation opportunities. For example, a customer may call an upper-level manager about a service failure, and depending on how this situation as an expanded joint value sphere is handled by this manager, the customer's value creation may take either a favorable or a destructive turn.

Conversely, the firm may also expand the joint sphere, for example by creating direct interactions with its customers (e.g. call centers). In these cases, the two ellipses in Figure 2 move towards each other, thus increasing the joint sphere, and the possibilities for the provider to co-create value with the customer increases. When direct interactions are created at an early stage, the joint sphere may dominate in value creation. There may also be situations where almost no direct interactions occur, and value is to the most part created in the customer sphere, in the form of the customer's *independent value creation*. In that case, the firm is mostly or only a value facilitator, providing only potential value to its customers.

To conclude, the joint sphere is defined as *a sphere where the customer is in charge of value creation (of value-in-use), but through a dialogical process of direct interactions the provider may get the opportunity to influence the customer´s value creation process as a value co-creator*.

Customer sphere. Traditionally, in the context of value creation the customer sphere has largely been ignored. The role of the provider has been emphasized, which is natural when value has been recognized as a function of activities controlled by the firm. Recently, the importance of the customer sphere has been recognized (Grönroos 2008; Heinonen et al 2010; Epp and Price 2010; Voima, Heinonen and Strandvik 2010; compare, for example, Woodruff and Gardial 1996, Vandermerwe 1996; Holbrook 1994). Grönroos (2008; 2011) refers to value creation in the customer sphere as *sole* or *independent value* creation, emphasizing the fact that during this phase value creation by the customer is independent from the provider. Because the system is closed for the provider, the provider has a passive role in the customer sphere. In independent value creation the customer only interacts with resources obtained from the firm. These resources may, for example, be physical, virtual, mental or imaginary.

Independent value creation may take several different forms, and take place both in multiple different temporal, spatial, physical and social customer contexts, and both on an individual as well as a collective level (Voima, Heinonen and Strandvik 2010; Epp and Price 2010; Voima et al. 2011). The customer independently combines different resources in a way that makes value creation possible. Here, the way the customer integrates resources is dependent on the context. In value creation the customer may have individual, relational as well as collective goals (compare Epp and Price 2010). The customer´s value creation process is often also influenced by a wider *customer ecosystem*, consisting of other customer related actors (e.g. family, friends, etc.), who outside the firm´s control influences the customer´s value creation process (Voima et al 2011). Outside direct interactions when developing, designing, manufacturing and delivering potential value to the customers in the form of resources used and experienced by the customers, the firm is no longer a co-creator of value, but a *value facilitator*.

To conclude, the customer sphere is defined as the *customer´s experiential sphere outside direct interactions, where value-in-use (real value) emerges (or is created) through the user´s accumulating experiences with resources, processes (and/or their outcomes) in social, physical, temporal and/or spatial contexts.*

Interaction and the roles of the customer and service provider

In this article, from a value creation perspective the focus has been on the *joint sphere* and the *customer sphere*. The interaction concept is central in the joint sphere, which next is further developed from a value creation perspective by distinguishing between two different types of interactions: *direct interaction* and *indirect interaction*.

Direct interaction refers to a *process* where the customer´s and firm´s resources (personnel, system, servicescape, etc.) interact through an ongoing coordinated dialogical process. Traditionally, in service marketing research production and delivery processes have been in focus. Direct interaction takes place in the parts of these processes which occur simultaneously with the customer’s use process. However, direct interaction may take place in any type of process where the customer interacts with the firm’s resources in a dialogical manner, e.g. in design or product development.

Indirect interaction refers to situations where the customer uses or consumes resources that are *outputs* of a firm’s processes, e.g. the customer uses a product provided by a firm, and thereby interacts with this resource. The resources can take multiple different forms and be, for example, physical, virtual or mental. In a service context this usually means that when the direct interactions have ended, the customer interacts with the resource or the outcome of the service process, e.g. the customer uses a shirt which has been picked up at the laundry, and value is created when he feels well dressed when speaking at an important seminar. Indirect interactions may also take place before direct interactions e.g. when the customer reads a service provider´s travel brochure and searches for alternative vacation sites for the family.

By analyzing the joint and customer spheres in value creation through different types of interactions, a more profound understanding of *the roles of the customer and the provider in value creation* is gained. Figure 4 shows that the roles of the customer and the provider vary in the different value creation spheres. In the joint sphere value creation or value destruction is always to some extent a dialogical process, whereas in the customer sphere the value creation process is dominated and controlled by the customer in an independent process.

FIGURE 4 ABOUT HERE, PLEASE

The customer may create value by interacting directly with the service provider´s resources in a merged dialogical process in the joint interaction sphere. The customer may for example order a bank card at the bank desk, or virtually interact with the service provider´s systems through online bank services. The customer may however also create value independently from the service provider in a one-sided process where the customer interacts with the service provider´s resources in a closed customer sphere (indirect interactions with the service provider). An example of this is when the customer cuts the old bank card and throws it away. This is done independently without the service provider being able to influence the value creation process or taking part in it, except through the output (bank card) of the service provider´s previous processes.

The service provider is not the value creator and may therefore only take on the role as *either a value co-creator or a value facilitator*. If the customer invites the firm to take part in the customer´s value creation process as a co-creator, the firm may get the opportunity to engage in the customer´s value creation process. This opportunity lies only within the open joint interaction sphere, where the firm through direct interaction may get the opportunity to interact with the customer´s resources in a merged dialogical process. For example an opportunity to engage with the customer´s value creation process may open up when a bank serves the customer, or whenever the service provider succeeds in creating a direct interaction with the customer and has a possibility to interact directly with the customer´s resources (mental, physical etc.). The service provider may also facilitate the customer in the customer´s independent value creation process. This may be done by providing the customer with resources that the customer can use for value creation in the closed customer sphere, e.g. by mailing the new bank card to the customer. However, the value facilitation process is not a merged dialogical process as is the case with direct interactions in the joint sphere. The service provider does not have the possibility to directly monitor or influence the outcome of the firm´s value facilitation.

Discussion and conclusions

As we have demonstrated, the discussion of value creation and co-creation in publications on service-dominant logic is based on a non-existent definition of value creation and an unclear view of what value is. The underpinning, albeit never explicitly formulated, view of value creation is that this is an all-encompassing process including activities by service providers, customers and possibly also other actors, leading to a conclusion that everything is value creation and everyone co-creates value. As we have concluded, value creation can be defined in this way as well, but according to our analysis, this makes value creation meaningless for further theoretical and practical elaborations. Moreover, it cannot be combined with the underpinning logic of the value-in-use concept. Therefore, in the present article we suggest another approach to defining value creation.

What is required for one's understanding of service as a perspective or service logic is a structured definition of value creation, based on a clear, formal and consistently used definition of value. The contemporary literature clearly demonstrates that value is best defined as *value-in-use*, based on "an interactive relativistic preference experience" (Holbrook 1994:27), which already over two millennia ago Aristotle pointed out in his value theory (Gordon 1964). Logically, the value-in-use concept also implies that value is created in use, i.e. by the user (e.g. a customer or some other beneficiary) during the process of using resources, demonstrated also by Becker (1965) in his theory of the household as a utility-producing unit. Although sometimes, for example, context, social context, interaction and possession are suggested as alternatives, use is the fundamental concept in the analysis of value and value creation. It is through use and during usage that value emerges or is created. Naturally, what level of value is derived through use is due to, for example, the social, spatial, temporal and physical context in which usage takes place, and depending on how these aspects of the context of use changes.

Consequently, in our analysis of service logic *we define value as value-in-use*, created by the user during usage of resources, processes (and/or their outcomes). Usage can be a physical, virtual and/or a mental process, and it can also be mere possession. Logically, *value creation is defined as* *the customer's creation of value-in-use*. In this way value creation as a process is clearly defined, and only one well-defined value concept used. This is important, because in a scholarly argument several differing concepts of a key concept cannot be accepted. This rigorous definition of value creation and value enables an analysis of the roles, nature, scope and content of value creation in the service provider's and customer's value spheres. It also demonstrates how through the creation and use of direct interactions with its customers, firms can get access to an otherwise closed customer value sphere, and if this opportunity is successfully managed, directly and actively influence the customer's value creation. On the other hand, if such situations are mismanaged, value destruction may occur.

Our analysis of value creation in service logic shows that the value-related foundational premises of the service-dominant logic (Nos. 6, 7 and 10) are too simplistic for theoretical and managerial elaborations, and may also lead to incorrect conclusions. In Table 2 a reformulation of these foundational premises are presented, grounded in the structured definition of value creation and value as value-in-use, which we have argued for in the present article (compare Grönroos 2011, where reformulations of these and other premises are presented). As our analysis demonstrates, these three premises actually include six statements about value creation. However, to keep the original numbering we label the revisited statements 6 (the customer's role in value creation), 7a 1 (the firm's fundamental role in value creation), 7a 2 (the firm's expanded role in value creation), 7b (the firm's marketing opportunities in value creation), 10 1 (how value is created/emerging), and 10 2 (how value is perceived and determined).

TABLE 2 ABOUT HERE, PLEASE

The customer as the value creator. In the original foundational premises it is claimed that the customer is always a co-creator of value. This, and the follow-up statement that the firm is also always a value co-creator, only holds in situations where everything is considered value creation, and the actors involved are given no specific role in the process. However, such an unstructured, all-encompassing view becomes an empty concept that makes no further elaborations possible. Due to this problem, we argue that value creation has to be defined rigorously and grounded in the value-in-use concept. Consequently, by defining value creation in service logic as the customer's creation of value-in-use, we come to the conclusion that instead of always being a co-creator of value, *the customer is always the value creator* (cf. customer dominant logic, Heinonen et al. 2010).

Only if the firm can get access to the closed customer value sphere, a join value creation sphere is created, and under such circumstances customers may become involved in joint value creation with the service provider. Then an only then the customer is a co-creator of value with the firm. Consequently, this premise is formulated as follows: *The customer is always the value creator* (No. 6).

The firm as value facilitator. The seventh foundational premise includes two statements (see Table 2), which are discussed separately. The first statement claims that the firm cannot deliver value. If the firm is considered a co-creator of value, and thus creates value, logically the value created must be transferred to the customer. Hence, following this, the firm's contribution to value has to be delivered to the user, although what value is remains unclear in this foundational premise. However, when defining value creation as the customer's creation of value-in-use, the customer is the value creator, and consequently, the fundamental role of the firm must be different. Basically, the firm operates in a closed sphere, and produces (designs, develops, manufactures, delivers, etc.) resources, which represent only potential value, but when used by customers make value emerge for them. Consequently, the firm facilitates its customers' value creation. Hence, this can be formulated as follows: *Fundamentally, the firm is a facilitator of value for the customer* (No. 7a 1).

Opportunities for the firm to co-create value with the customer. Basically, the customer's value sphere is closed to the firm. However, if contacts between the firm and its customers exist or can be created, direct interactions occur, and the firm gets access to this closed customer sphere. If the firm as service provider manages to engage with the customer´s value creation process in the joint sphere that is created, opportunities for value co-creation with the customer exist. This follows from the observation that, unlike what is implied in service-dominant logic publications, the service provider's process and the customer's process do not flow in parallel without any reciprocal influence, but rather may *develop into a merged, dialogical and coordinated process*, where both parties operate inside each other's processes. However, the existence of this joint sphere with its direct interactions is a platform for co-creation only. The two processes do not necessarily merge and become dialogical. Because the outcome may be either co-creative or co-destructive (Echeverri and Skålén 2011), the firm must manage to handle this interaction platform in a successful way.

Finally, our analysis demonstrates that it is not the customer's alleged role as a co-creator that is unique to service logic. Rather the unique break-through of adopting a service logic as compared to a traditional goods perspective, is the fact that under certain circumstances the firm can become a co-creator of value. Consequently, *Provided that the firm can engage with its customers' value-creating process during direct interactions, it has opportunities to co-create value jointly with them as well* (No. 7a 2).

Opportunities for the firm to influence its customers' value creation. The statement that firms can only offer value propositions is based on a belief that during direct interactions the firm's and the customer's processes flow in parallel, and the actions of one party does not influence the other party's process and cannot change the actions of the other party. As we have demonstrated, interactions cannot logically be understood in this way. Instead because the direct interactions occurring in the joint value creation sphere can develop into merged dialogical processes, on the contrary the firm as service provider can actively and directly influence and change the flow and outcome of the customer's process, and hence also of his or her process of value creation. Consequently, *a service provider is indeed enabled to go beyond making value propositions only*. The statement that firms can offer only value propositions seems to be based on a goods perspective on business and marketing, where no direct interactions exist. Hence, from a service logic perspective this statement is reformulated as follows: *The firm is not restricted to making value propositions only, but has an opportunity to directly and actively influence its customers' value creation as well* (No. 7b).

The emergence or formation of value. According to the tenth foundational premise value is considered to be always uniquely and phenomenologically determined by the customer (or any other beneficiary). We will return to this statement later. However, first one can observe that neither in this premise nor in any other of the foundational premises, the fundamental question regarding how value is formed or emerges during value creation is covered. Given that publications on service-dominant logic do not include an explicit, rigorous definition of value creation, this is of course understandable, albeit not acceptable. It is fundamental to the understanding of value creation that one understands how value emerges (as value-in-use). As we have discussed, value-in-use does not exist as a singular entity at any given point in time. In the same way as service quality is accumulating throughout the usage process (cf. Grönroos, 1984; Parasuraman Zeithaml and Berry 1985) the experience of value and the whole value-creation process is accumulating as a dynamic process comprising both creative as well as destructive phases. Value-in-use indeed emerges over time throughout the usage process through physical, mental and/or possessive actions by the customer in the customer´s dynamic contexts. Consequently, this is formulated in the following way: *Value is accumulating throughout the customer's value-creating process* (No. 10 1).

How is value perceived and determined. Before value is determined or assessed by the customer or by any other beneficiary it has to be perceived (or experienced), otherwise there is nothing to assess. Hence, how and by whom value is perceived must also be included. Because the foundational premises are not based on an explicit definition of value creation, it has of course not been possible to include a statement about this among the premises. However, as the tenth premise states, value is determined uniquely by the customer, and in addition is also uniquely perceived by the customer. The premise also includes the word phenomenologically. As ‘phenomenologically’ may carry many meanings, we suggest that a more explicit expression is used. We emphasize that customers do not only determine value, they holistically experiences value (Helkkula and Kelleher 2010). This means that value is a concept which is contextually bound, is longitudinally developed and accumulating, and is therefore always a dynamic experience (Voima, Heinonen and Strandvik 2011). Hence, we reformulate this part of the tenth foundational premise in the following way: *Value is uniquely and both experientially and contextually perceived and determined by the customer*.

Managerial and research implications

Defining value creation as the customer’s creation of value-in-use, and the conclusion that co-creation of value only may take place in a joint value sphere, point out that service providers have to look at their processes and activities in a structured manner. Managers will observe that many of the firm’s processes, those which take place in a provider sphere without direct interactions with customers, have no *direct* impact on real value for the firm’s customers. They only enable the firm to produce potential value as expected value-in-use. This view also helps managers refrain from using customer aversive language such as ‘the firm delivers value or added to value to its customers’, which is conflict with the contemporary view that value is created by the firm’s customers, not by the firm. As we have shown, through their actions in the provider value sphere, rather than delivering readily created value to customers firms facilitate their value creation.

Another important implication is the observation that value co-creation is not an unspecific process including unspecified activities in unspecified contexts, but is restricted to a joint value sphere of direct interactions. In this sphere, on one hand, the customer has been invited to join the firm’s various processes, and on the other hand, the firm thereby gets access to the customer’s value creation, and may engage in his or her value-creating process. For managers this shows in which contexts the firm indeed can influence the emergence of value for its customers directly and actively, in contrast to other contexts – the firm’s provider sphere closed for the customers – where the firm only may facilitate its customers’ value creation by producing and providing resources for the customers’ use. The role of goods and other resources as carriers of potential value only is clarified. From a managerial perspective, it is also noteworthy that by changing some temporal, spatial, physical and/or social aspects of the context of value creation, the firm may influence its customers’ experiences with the firm, and thus possible also their value creation.

Our analysis demonstrates the importance for service providers to get access to its customers' value sphere, which otherwise remains closed for it. It emphasizes the need for firms to make use of existing direct interactions with it customers, and when appropriate, to strive to create additional such interactions. However, it also points out the fact that the existence of direct interactions is a platform for value co-creation with customers only, which the firm will have to be prepared to successfully utilize. Wrongly or ineffectively used, this direct interaction platform may lead to value destruction in the customers' processes, or in the best case have no significant impact. To be able to understand what has positive or negative effects on value creation, firms need to analyze the behavioral logic of their customers.

From a theoretical perspective, the importance to distinguish between different value spheres – provider, joint, and customer spheres – and the pivotal role of direct interactions for value co-creation opportunities are critical to the understanding value creation in service logic. For example, further research on the effects of these spheres in value creation, and on when and where and how firm's may benefit from getting access to the otherwise closed customer value sphere are some of the research implications warranted by our analysis. Furthermore, how service providers can perform successfully in direct interactions, and what is needed for such performance, in order to favorably support customers' value creation, and not create value-destructing effects, are additional areas where further research is needed.

The importance of the joint and customer spheres in understanding value creation and co-creation emphasizes the need to further study customers' reactions and behaviors from a service logic point of view. Adopting service logic requires understanding of the customers' logic and value creation context (Heinonen et al 2010; Voima, Heinonen and Strandvik 2010; 2011). Further research into this area may require use of research methods applied less frequently in marketing research (e.g. ethnography).

Finally, service providers' opportunities to co-create value with its customers during direct interactions do not only influence the customers' value creation, but it also has an impact on their future purchasing and consumption behavior. Therefore, because making use of, for example, the interactive marketing, part-time marketer and servicescape concepts, marketing can be extended beyond its traditional promise making borders, and as shown by Grönroos and Ravald (2011; see also Grönroos 2011), firms are no longer restricted to making value propositions only, as they are according to a goods-based perspective, the many marketing implications of value co-creation in the joint value sphere need to be further explored.

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Table 1. Value as customer´s creation of value-in-use

	Value as an all-encompassing process		**Value as customer´s creation of value-in-use**	
	Value creation	**Value**	**Value creation**	**Value**
Role	Both the service provider and the customer are co-creators of value	Multiple subjects perception of value	The customer is the value creator	Customer´s experience of value-in-use (one subject)
Scope	Value creation includes both customer and provider activities	Unclear scope of value	The user´s accumulating experiences with resources, processes (and/or their outcomes) and contexts	Value-in-use
Locus	Value creation is located in e.g. design, development, manufacturing, delivery and usage	Unclear and fluctuating locus of value	Defines the locus of value creation as the customer´s physical, mental or possessive activities, practices and experiences	Possession, usage, mental states
Nature	An unstructured process with unspecified roles and goals	Unclear nature of value (neither value-in-exchange nor value-in-use)	A structured process where firms and customers have and goals	The degree of becoming better/worse off experienced by the customer
Implications	Impossible to define theoretical and managerial implications	Impossible to define theoretical and managerial implications	Theoretical and managerial implications are possible: The customer creates value, the firm as service provider facilitates customers' value creation. Direct interactions enable firms to co-create value with their customers	Theoretical and managerial implications are possible: The customer creates value through experiences in an accumulation process. The firms produces resources and processes that represent potential value or expected value-in-use

Table 2. Revisited foundational service logic premises based on a structured definition of value creation (Source: Based on a table in Grönroos, Christian (2011): Value creation in service logic: a critical analysis. *Marketing Theory* (forthcoming)

	Revisited foundational premises	Original premises
No. 6	The customer is always a value creator	The customer is always a co-creator of value
No. 7a	1) Fundamentally, the firm is a facilitator of value for the customer 2) Provided that the firm can engage with its customer's value-creating processes during direct interactions, it has opportunities to co-create value jointly with them as well	The firm cannot deliver value
No. 7b	The firm is not restricted to making value propositions only, but has an opportunity to directly and actively influence its customers' value creation as well	The firm can offer only value propositions
No. 10	1) Value is accumulating throughout the customer's value-creating process 2) Value is always uniquely and both experientially and contextually perceived and determined by the customer	Value is always uniquely and phenomenologically determined by the beneficiary (e.g. customer)

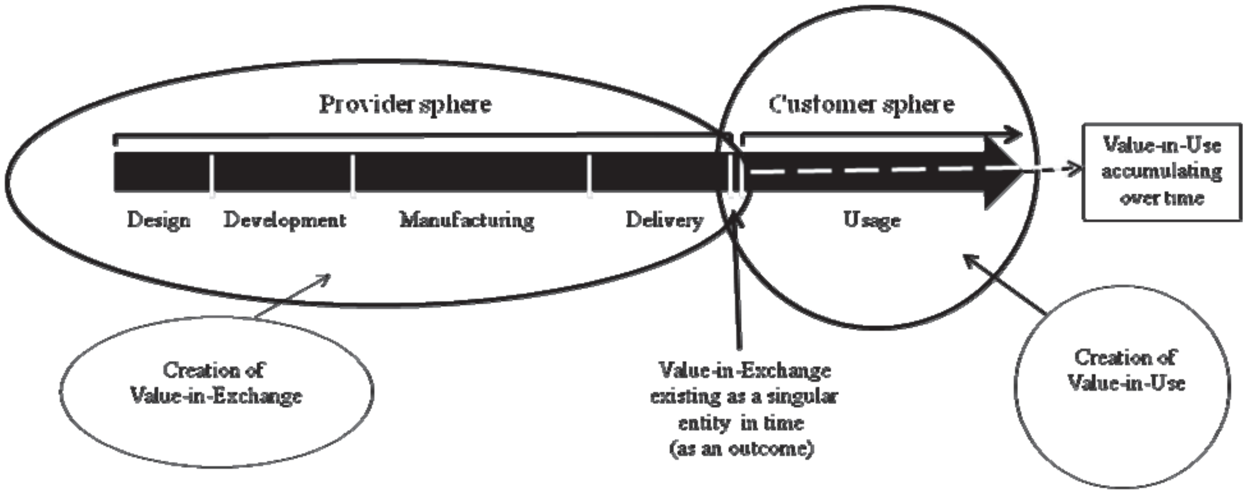

Figure 1. A comparison between the nature and locus of the value-in-use and value-in-exchange concepts

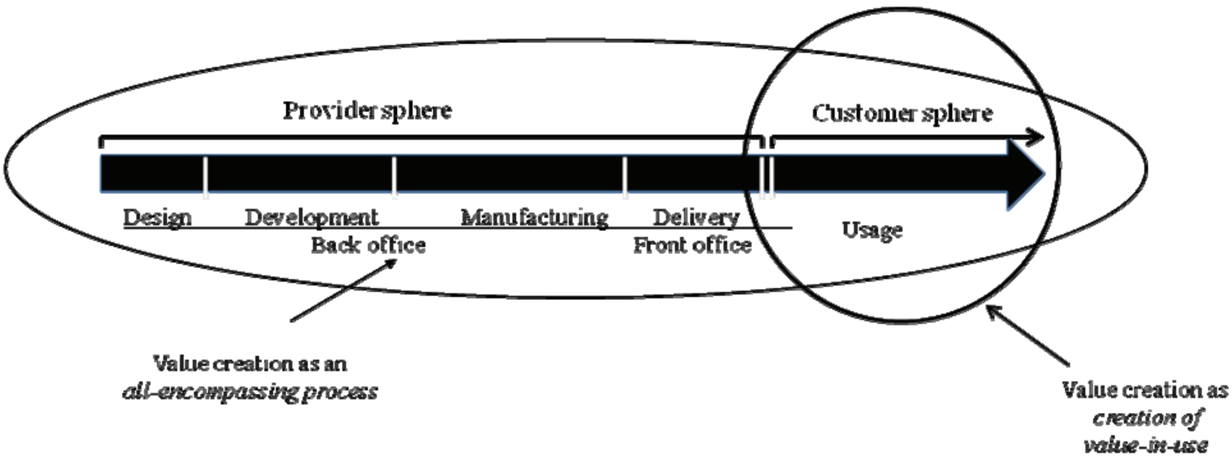

Figure 2. Value creation as the customer's creation of value in-use vs. as an all-encompassing process including provider and customer activities

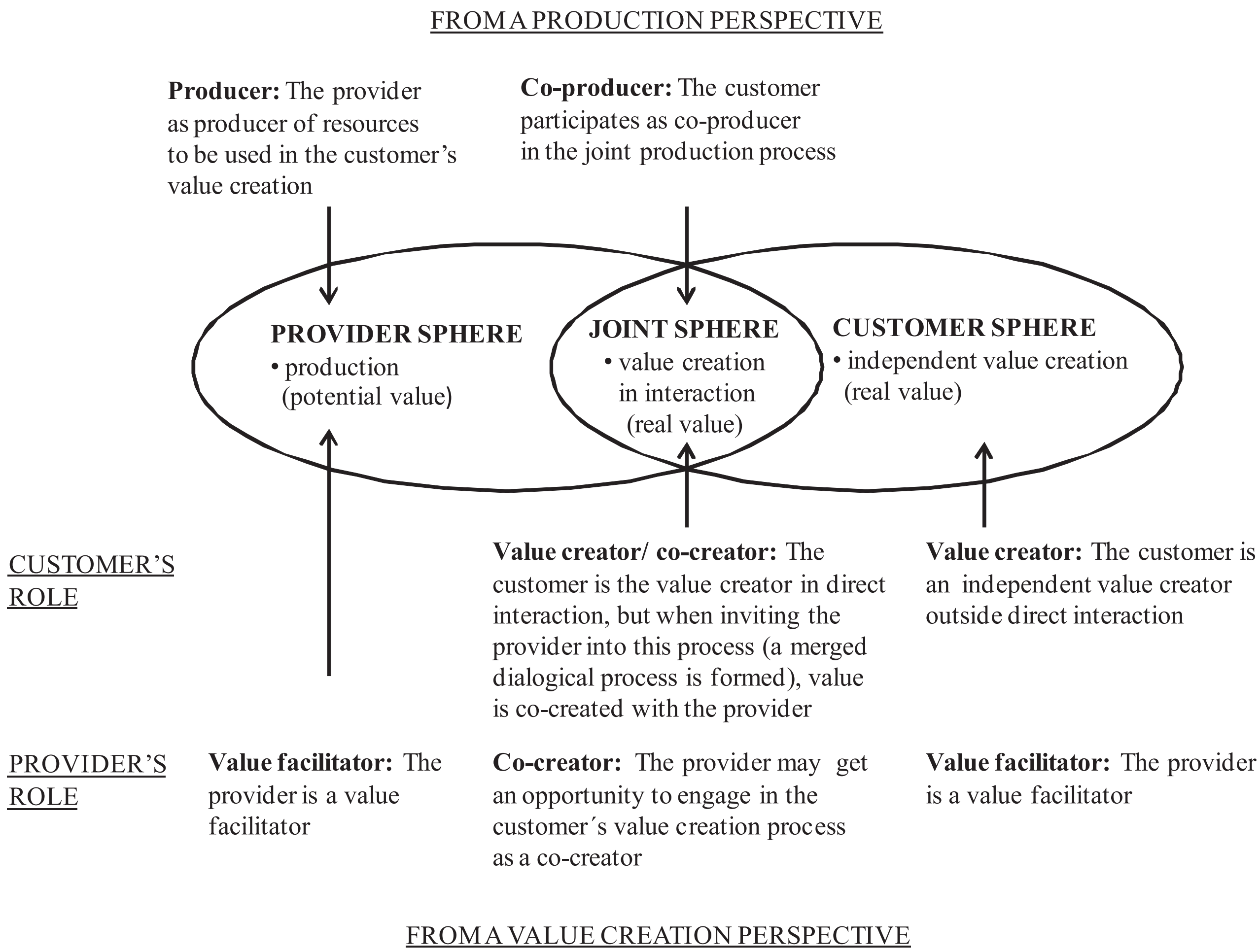

Figure 3. Value creation spheres

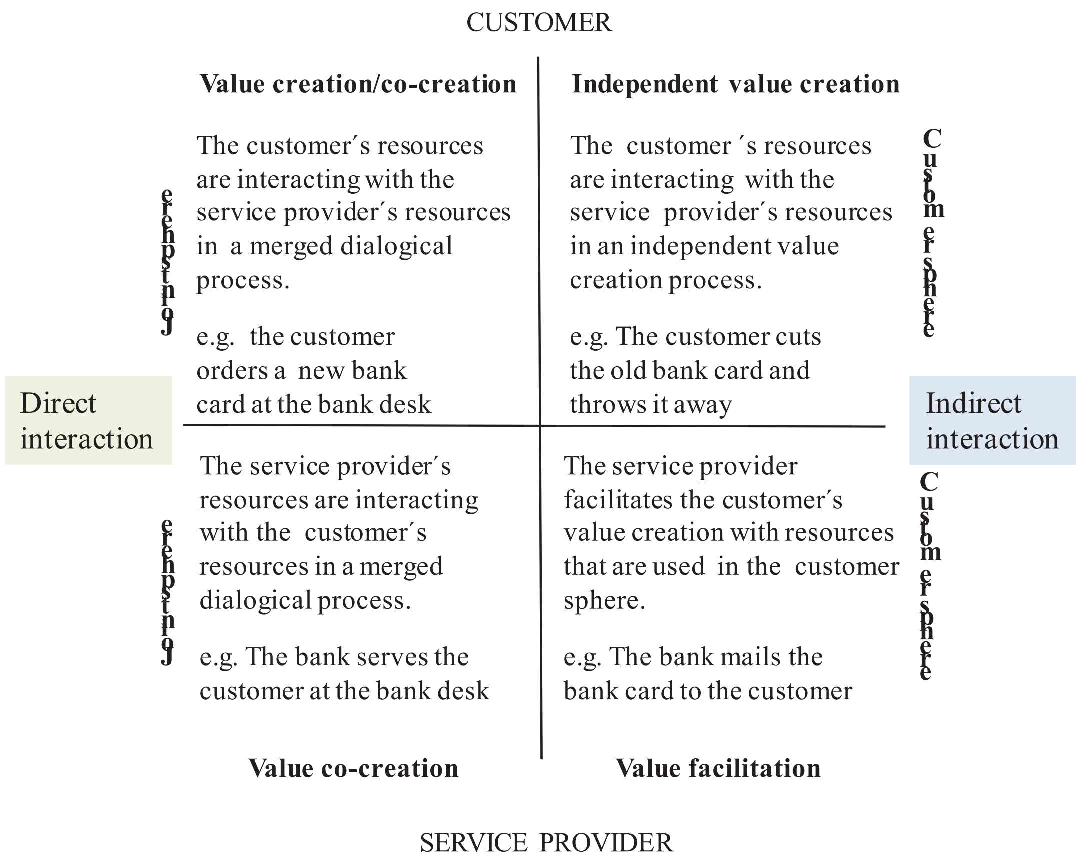

Figure 4. Direct and indirect interactions: defining the roles of the customer and service provider

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