VALUE PROPOSITIONS: A SERVICE ECOSYSTEM PERSPECTIVE

Pennie Frow* Associate Professor of Marketing, Discipline of Marketing, The University of Sydney Business School, NSW 2006, Australia. Email: pennie.frow@sydney.edu.au

Janet R. McColl-Kennedy is Professor of Marketing, UQ Business School, The University of Queensland, Brisbane, Australia. Email: j.mccoll-kennedy@business.uq.edu.au

Toni Hilton is Dean of Business & Management and Professor of Marketing, Regent’s University London, UK. Email: hiltont@regents.ac.uk

Anthony Davidson is a Strategy Advisor and Facilitator of Executive Education, UQ Business School, The University of Queensland, Brisbane, Australia. Email: a.davidson@business.uq.edu.au

Adrian Payne is Professor of Marketing, School of Marketing, University of New South Wales, UNSW Sydney 2052 Australia. Email: a.payne@unsw.edu.au

Danilo Brozovic is a PhD candidate, Stockholm Business School, Marketing Section, 106 91 Stockholm, Sweden. Email: dbr@fek.su.se

*corresponding author
VALUE PROPOSITIONS: A SERVICE ECOSYSTEM PERSPECTIVE

Abstract

Despite significant interest in value propositions, there is limited agreement about their nature and role. Moreover, there is little understanding of their application to today’s increasingly interconnected and networked world. The purpose of this paper is to explore the nature of value propositions, extending prior conceptualisations by taking a service ecosystem perspective. Following a critical review of the extant literature in service science on value propositions, value co-creation, S-D logic and networks, and drawing on six metaphors that provide insights into the nature of value propositions, we develop a new conceptualisation. The role of value propositions is then explored in terms of resource offerings between actors within micro, meso, and macro levels of service ecosystems. We illustrate these perspectives with two real world exemplars. We describe the role of value propositions in an ecosystem as a shaper of resource offerings. Finally, we provide five key premises and outline a research agenda.

Keywords: value proposition, network, service ecosystem, collaboration, resource integration, value co-creation
**Introduction**

Value propositions have recently attracted increased interest, especially in the context of customer-supplier interactions and co-creation (Vargo and Lusch, 2004; 2008). This perspective is distinct from early conceptualisations in the 1980s and 1990s (e.g., Kambil et al., 1996; Lanning, 1998; Lanning and Michaels, 1988), which describe value propositions in terms of positioning a firm, highlighting favourable points of difference and determining promises of delivered value. This early work considered value propositions in the context of value delivery (e.g., Bower and Garda, 1985) and value exchange (e.g., Alderson 1957). More recent scholarship suggests value propositions play a role in value that is co-created through interactions between supplier and customer (e.g., Prahalad and Ramaswamy, 2004). However, both perspectives align on two important roles of value propositions: first, in impacting relationships; and second, in shaping perceptions of value.

An important recent development in the value proposition literature is the notion of moving from a narrow dyadic, customer-supplier perspective, to a much broader view that includes multiple stakeholders, or ‘actors’ within a service ecosystem. Research addresses several important themes, including how knowledge sharing and dialogue shapes value propositions (Ballantyne and Varey, 2006b), the reciprocity of value propositions, and their role in ‘balancing’ stakeholder relationships (Frow and Payne, 2011), value co-creation within business-as-system (Lusch et al., 2008), and within a service ecosystem (Vargo and Lusch, 2011).

Classic stakeholder theory (e.g., Freeman, 1984) suggests that stakeholders are distinct and mutually exclusive, with a focal firm linked to a stakeholder network. This narrow approach has been criticised ‘for assuming the environment is static’ (Key, 1999; Luoma-aho and
Palovita, 2010). Recently, researchers have called for a broader perspective that considers interconnected relationships within a network, recognising that the actions of a focal firm have both direct and indirect effects on other actors. Accordingly, ecosystem theory can assist in understanding how networks of individuals and groups of individuals are connected through ‘porous boundaries’ (Bhattacharya and Korschun, 2008).

Interacting social and economic actors are linked through value propositions that offer value co-creation opportunities (Vargo and Lusch, 2010). Here, actors connect with other actors using a common language of symbols, institutions and technology, purposefully integrating their resources and co-creating value. A service ecosystem perspective suggests that the system adapts to changing situations, rather than determining the nature of relationships contained within it (Kandiah and Gossain, 1998). However, the characteristics of this process and especially the role of the value proposition within an ecosystem is largely unexplored.

The purpose of this paper is to extend the concept of the value proposition beyond the customer-enterprise dyad and the enterprise-stakeholder perspectives, exploring its nature and role within the broad context of a dynamic service ecosystem. We make three important contributions. First, we define the value proposition from a service ecosystem perspective, drawing on diverse literature and metaphors that illustrate the characteristics of the concept. Second, we explore the role of the value proposition, describing how it contributes to the well-being of the service ecosystem through the dynamic process of resource sharing and shaping. Third, we provide five key premises relating to value propositions and outline a research agenda.

The paper is structured as follows. First, following this introduction, we review relevant literature on the development of the value proposition concept. Second, we examine the nature of value networks and service ecosystems in marketing. Third, we explore the nature
of value propositions within a service ecosystem, distinguishing the nature of the concept at the micro, meso and macro levels. We consider the nature of value offered, value sought and value shared among actors in a service ecosystem. Fourth, we identify several metaphors that illuminate and contextualise the value proposition concept, offering a richer picture of its features and purpose. Fifth, using these insights, we propose a new definition of the value proposition concept from a service ecosystem perspective. Sixth, we use two exemplar organisations, from the for-profit and not-for-profit sectors, to explore value proposition evolution. We review how the evolving value propositions have impacted the market relationships of these organisations and how they are now explicitly considering their value propositions within an ecosystem. We identify key aspects of value propositions within a service ecosystem, offering five premises that provide guidelines for value proposition development. Finally, we outline a compelling agenda for future research.

**Development of the value proposition concept**

The value proposition concept plays a key role in business strategy (Payne and Frow, 2014b). Kaplan and Norton (2001) argue that the value proposition is ‘the essence of strategy’. It is a statement that represents the core strategy (Lehmann and Winer, 2008) and describes the distinctive competitive advantage of a firm (Collis and Rukstad, 2008). Moreover, value propositions are highlighted as a key research priority by the Marketing Science Institute (2010).

Although the term ‘value proposition’ has become widely used in businesses today (Anderson et al., 2006), the term is often used in a casual, even trivial manner, without proper strategic underpinning (Lanning, 2003). This view is supported by a survey of over 200 enterprises, which identified that despite common use fewer than ten per cent of organisations
have a formal process for developing and communicating their value propositions (Frow and Payne, 2013). Clearly, exploring the value proposition concept is an important topic for both scholars and marketing practitioners alike. In this section we describe the origins and evolution of the value proposition.

**The value proposition concept: origins and evolution**

The first discussion of the customer value proposition within the managerial literature appears in the work of Bower and Garda (1985), who briefly introduced the concept. Three years later, a more detailed description appeared in an internal McKinsey staff paper (Lannings and Michaels, 1988). This work describes a value proposition as a promise of value to customers that combines benefits and price. Furthermore, a successful value proposition provides the means of achieving differentiation and forms the foundation for the on-going supply-customer relationships. This latter paper also highlights that the customer perspective of benefits requires clear articulation.

In the decade following Bower and Garda's pioneering work, there was little further discussion of value propositions until Treacy and Wiersema’s (1995) contribution. These authors discuss value propositions in terms of operational excellence, customer intimacy, and product leadership. Since this work, interest in value propositions has increased. However, as Gummesson (2008b) notes, views associated with the value-chain paradigm assume distance between the company and its customers, suggesting a gap between a value proposition and value realisation. Robust value propositions need to take into account customer inputs.

Normann and Ramirez (1993; 1998) advocated a more interactive view of the role of value propositions. In describing value constellations as complex value-creating systems of various actors, value propositions are viewed as ‘offerings’, i.e., ‘tools’ that mobilise assets and link
them together to leverage value-creating processes (Normann, 2001). Offerings are manifestations of relationships (Ramirez, 1999), because the company creates them to match the customers’ value-creating processes (Normann, 2001). However, value propositions are still viewed as static offerings (e.g. Kowalkowski et al., 2012) since they are defined as ‘frozen’ value (Normann, 2001).

Further work explores the value proposition in terms of the types of benefits that a focal firm offers. For example, Anderson et al. (2006) argued that enterprises adopt one of three approaches when developing value propositions: (1) all benefits - identifying the overall benefits an enterprise can offer to customers; (2) favourable points of difference - identifying the differentiating benefits that are offered, relative to those delivered by key competitors; and (3) resonating focus – offering specific key benefits that are highly valued by select customers.

Recently, the dynamic nature of value propositions has been highlighted (Kowalkowski 2011) and interest in the concept has been reignited largely as a result of work in S-D logic (e.g., Vargo and Lusch, 2004; 2008). This interest is not surprising as value propositions form a central foundational premise of this logic; for example: ‘The enterprise can only make value propositions’ (Vargo and Lusch, 2008: 7). As value is co-created, value propositions serve as a mechanism for determining expectations of value-in-context (Vargo et al., 2008). However, there is little attempt to explicate value propositions, which is the focus of our current contribution.

Before examining in more detail value propositions in the context of service ecosystems, we explore the use of the concept beyond the narrow customer-enterprise dyadic perspective.
Value propositions: addressing other stakeholders

The value proposition concept is most commonly considered in terms of a customer value proposition. For example, Lanning and Michaels’ (1988) early description of the value proposition discusses how a firm’s offering adds value for a customer. Other researchers, including Smith and Wheeler (2002), place emphasis on the importance of the customer experience that is inherent in a value proposition. However, as the focus of marketing activities has expanded beyond customers, scholars have broadened the usage of the value proposition concept and applied it to other stakeholders (Bhattacharya and Korschun, 2008).

Employee value propositions are principally concerned with attracting and retaining talented employees (e.g., Chambers et al., 1998; Heger, 2007). Recent discussion emphasises the need for multiple employee value propositions, reflecting varying values, aspirations and expectations of different segments of the workforce (e.g., Guthridge et al., 2008), although the inter-connectedness of these various propositions is unclear. From an employee perspective, value propositions set out the comparative benefits of employer organisations, describing not only contractual benefits such as wages, but also other important differentiators including, for example, the corporate brand (Bell, 2005).

The supply chain literature discusses value propositions with suppliers, focusing largely on their co-ordinating role. Some authors adopt a unidirectional perspective, considering how each member of a supply chain aligns its value proposition to the benefits sought by the next member (e.g., Bititci et al., 2004). Others consider the reciprocity of value propositions, for example, suppliers gaining information on sources of raw materials in return for their commitment to supplying high quality products at low prices (Normann and Ramirez, 1993). Value propositions identify opportunities for value creation between individual suppliers and a focal enterprise. In the context of supply chain management, Lusch et al. (2010) describe
value propositions as dynamic connectors between the company and its suppliers and customers. The most attractive and compelling value proposition should result in the highest performance. However, this advantage may be lost unless the organisation adapts to the changing needs of the customer. Furthermore, value propositions for customers’ customers have to be considered as well (Lusch, 2011).

Density
In the context of other stakeholder groupings, there is relatively little discussion of value propositions, despite being recommended within value creation frameworks (Ramirez, 1999). However, some implicit work on value propositions suggests their importance to key influencers, including shareholders (e.g., Kaplan and Norton, 2001), though companies are not necessarily successful in crafting such propositions (Macgregor and Campbell, 2006). More recently, Frow and Payne (2011) reviewed the extant literature that exists on value propositions for non-customer stakeholders in terms of stakeholder ‘market domains’ (Payne et al., 2005), including: supplier and alliance; recruitment; internal; referral; influence; and customer markets.

A focal firm can consider offering value propositions for each of these market domains that represent a subsystem of a stakeholder network. Research suggests that a process of knowledge sharing and dialogue is essential in co-creating value propositions with key stakeholders (e.g., Ballantyne and Varey, 2006a). Indeed, Ballantyne et al. (2011) suggest that relationships are successfully maintained through reciprocal value propositions. Similarly, Kowalkowski et al. (2012) explore the dynamics of value propositions through reciprocal exchange of knowledge between resource-integrating actors using the lens of S-D logic.

In sum, to date, most research on value propositions has focused on the narrow customer-firm perspective. Despite calls for extending investigation of the value proposition, there remains
limited detailed discussion. In the next section we address the nature of networks and service ecosystems, followed by considerations of the value proposition concept from a service ecosystem perspective.

**Networks in marketing**

Studying networks in marketing is not new (Wilkinson, 2001). Early work on networks in marketing initially focused on the impact of flows and interdependencies in: (1) distribution channels (Reilly, 1931; Steward et al., 1939; Breyer, 1924); (2) industrial marketing and purchasing, particularly the relations between buyers and sellers (Hakansson, 1982); and (3) the business-to-business environment (Iacobucci, 1996; Achrol and Kotler, 1999). While this work examines the network implications for firms, especially through business-to-business networks, much of the discussion upholds the traditional economic view that value is created by firms and passed down the supply chain as goods and services to or for customers who ultimately consume its value (Porter, 1985). However, current understanding of how customers interact in networks (Iacobucci and Hopkins, 1992) challenges the view that customers are passive recipients of dyadic exchange, suggesting the active engagement in ‘many-to-many’ interactions (Gummesson, 2006) within value networks.

Vargo and Lusch (2004; 2008) suggest that customers are central actors in value networks and in the process of value co-creation. This view is consistent with Normann’s (2001) description of value constellations, which suggests that value creation is realised through a dynamic constellation of activities that directly involve customers in the processes of production and service delivery. Through this experience, the customer interacts within a network of firms and customer communities in order to satisfy their unique preferences (Prahalad and Ramaswamy, 2004). Accordingly, markets no longer simply deliver value, but
become ‘a place where dialogue among the consumer and the firm, consumer communities and networks of firms can take place’ (Prahalad and Ramaswamy, 2004: 11). Parolini (1999) is one of the first authors to incorporate an explicit link between a network and a value proposition. Building on the work by Normann and Ramirez (1993), Parolini defines a value network as a set of activities linked together to deliver a value proposition for the end consumer.

Within the value network, actors are continuously involved in planning, searching, selecting, negotiating, and evaluating a range of value propositions that are available to them. Through this experience, actors are engaged, informed, connected and empowered (Prahalad and Ramaswamy, 2004). This process of co-creation of value suggests the market is a place where dialogue takes place between the customer, the firm, customer communities and networks of firms (Edvardsson et al., 2011).

According to Prahalad and Ramaswamy (2004:11), within a value network, the roles of the company and the customer converge; they ‘are both collaborators and competitors, collaborators in co-creating value and competitors in extracting economic value’. This convergence demonstrates the ‘inseparability of business and society’ (Granovetter, 1985), and exemplifies that all economic behaviour is embedded in a network of interpersonal relationships and therefore the social and economic values are subject to evaluation. As both firms and customers interact within ‘interdependent webs of relationships, their conduct is guided by social rules, sensitivity to the opinion of others, obedience to the dictates of consensually developed systems of norms and values and internalised through socialisation of codes of social conduct’ (Granovetter, 1985: 483). Within value networks, firms benefit from engaging in interactions with the aim of building long term relationships with customers that extend beyond episodic, one-off economic transactions.
From a broader perspective, value networks exist within the structure of a ‘marketing system’ (Layton, 2011). Accordingly, a marketing system can be described as a ‘network of networks’ where interactions between networks at higher and lower levels of aggregation are influenced by social forces (Edvardsson et al., 2011). These forces include social roles, social structures and the reproduction of social structures through the purposeful action of actors embedded in value networks.

**Dynamic service ecosystems**

In the sciences, an ecosystem describes entities that can adapt to changes in the environment, or collapse if the changes are too traumatic (Pickett and Cadenasso, 2002). In the context of markets, an ecosystem is a useful term for describing the interdependence between actors, their adaptation and evolution. If changes are too great and actors cannot adapt in line with the new conditions, then the ecosystem may collapse. In the management literature, some writers use the two terms of ‘network’ and ‘ecosystem’ interchangeably (e.g., Battistella et al., 2012; Chesbrough, 2007; Kudina et al., 2008; Yiu and Yau, 2006). Recently, Vargo and Lusch (2011) describe a ‘service ecosystem’ as a more generic conceptualisation of economic and social actors who create value in complex systems, while Maglio and Spohrer (2008) describe these as ‘service systems.’ As Wieland et al. (2012: 13) argue ‘a system view differs from a network view in that each instance of resource integration, service provision, and value creation, changes the nature of the system to some degree and thus the context for the next iteration and determination of value creation.’ To address this higher-level system, Vargo and Lusch (2011: 15) define service ecosystems as ‘relatively self-contained, self-adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange’.
Within a service ecosystem, exchange occurs because no one actor has all the resources to operate in isolation, and is therefore required to participate in resource integration practices, even in the face of sometimes competing and conflicting priorities and preferences. The service ecosystem thus becomes a ‘value-creating system’ (Normann, 2001) that operates as a complex web of interdependent relationships between actors. Their focus is finding resources that are useful, developing learning processes that can be sustained, and in maintaining meaningful relationships through economic and social exchange. Value propositions arise from the value potential inherent in the resources possessed by actors (Hilton et al., 2012). Customers have diverse motives for engaging in resource integration practices, and increasingly, wish to co-create personalized experiences, sometimes using the same resources, but creating unique and phenomenologically determined value for themselves (McColl-Kennedy et al., 2012).

Within a service ecosystem there are arguably three levels - micro, meso and macro. Value propositions operate within each level, between the levels and also serve to shape the levels. These three levels relate to the concept of ‘nestedness’ (Mars et al., 2012), suggesting that actors interact across levels, providing resilience to the collapse of the ecosystem. At the micro level of the value network, the interactions between buyers and sellers, firms and customer communities are central. In value networks, the exchange practices between individuals can be observed, who specialise and exchange their services for services of others, as they seek to improve their well-being.

At the meso level, the focus of analysis shifts to the focal firm. Firms can collectively be seen as entities guided by a set of rules, concerned with the co-ordination and efficient distribution of commodities and commercial services. The actions of a firm are undertaken to achieve efficient service flows and are governed by regulations and ethics. The firm’s exchange
practices may include competing or cooperating across several dimensions including price, quality and resource availability (Layton, 2011). Although potentially any actor may attract the focal firm for resource sharing, at the meso level value propositions operating between employees and suppliers are often the most important. These two actor groups commonly are closely linked to the focal firm, offering many interaction and knowledge sharing opportunities.

At the highest level, the macro level, the focus is on the market. Markets are defined as a set of institutional arrangements, in which even ‘society can be viewed as a macro-service provision institution and ... within a market-driven society, markets emerge to serve humankind’ (Vargo and Lusch, 2006: 409). As Gummesson (2002) points out, an ability to interact within a broad range of market relationships is instrumental to the success of an organisation. These relationships are characterised by complexity, chaos and non-linear, systemic interdependencies (Capra, 1997, p 290).

**Value propositions and the service ecosystem**

Having reviewed the nature of networks and service ecosystems, we now consider value propositions from a service ecosystem perspective. Essentially, we argue that a discussion of value propositions should move beyond consideration of an enterprise’s relationships with customers and other proximate stakeholders to consider their role within a service ecosystem. As Leith (2013: 1) argues, ‘an ecosystem differs from a stakeholder system in that it includes entities not generally viewed as stakeholder groups, such as ‘anti-clients’, criminals (part of a police force ecosystem), activist groups …. and competitors’. Drawing on Leith, this wider perspective is illustrated in Figure 1. Value propositions at micro, meso and macro levels for
global supermarket chain Tesco plc are provided, relating to the focal actor (firm), the stakeholder system, and the service ecosystem, respectively.

Within the relationship marketing literature, Gummesson (2008a) is one of the few scholars who views relationships beyond a consideration of direct stakeholders to include those he terms ‘special’, ‘mega’ and ‘nano’ relationships. This broader perspective has become important because of the increasingly networked and systemic nature of exchange and co-creation. However, as Wieland et al., (2012:13) note, ‘the full extent of the interconnected, massively collaborative, and systemic nature of value (co)creation seems to be often unappreciated and not well understood’. From this point in our discussion, in the context of service ecosystems, we mainly adopt the terms ‘actor’ and ‘actor-to-actor’ relationships, rather than ‘stakeholder’ and ‘stakeholder relationships’ to reflect the dynamic aspects of ecosystems. Wieland et al. (2012: 13) argues that ‘an actor-to-actor (A2A) orientation is essential to the ecosystem perspective’. We also concur with Leroy et al. (2012), who point out that individual actors within specific stakeholder groupings differ substantially in terms of the focus of their value propositions and their resource offerings. Moreover, describing value propositions at the macro ecosystem level, the term ‘actor’ is more appropriate, as we emphasise the value sharing and shaping role rather than any specific resource focus.

**Figure 1: The Focal Actor, Stakeholder System and the Service Ecosystem**
Within a service ecosystem there is a complex set of value offered and value sought by different actors. Springman (2012) argues that in an ecosystem, actors co-create and share value. However, not all actors will be treated equally. Mars et al. (2012) refer to key players on which an ecosystem depends, as without their essential resources other actors would not be able to operate. Some actors will be in a position to negotiate a more favourable value exchange than others, and thus the focus of a business strategy is balancing the value co-created and extracted from each group so that overall benefit can be sustained.

The importance of adopting an ecosystem perspective becomes apparent when specific industry contexts are considered. For example, companies such as Microsoft and Intel are not only concerned with the closest and most obvious actors - customers such as Dell and Lenovo - but also with a whole range of intermediaries, resellers, application developers and important end users, including corporate customers. Accordingly, the well-being of this ecosystem depends on value propositions that support this web of relationships.
While value co-creation is most obvious and common with customers, the earlier discussion emphasises that the concept of value co-creation applies to all actors within the ecosystem. The role of the value proposition within an ecosystem moves from the proposal of a resource offering between actors, to shaping of resource integration between actors within the system. An actor seeks to fill resource gaps, responding to value propositions that offer valuable resources. As such, the value proposition plays an important role in determining which actors interact within the ecosystem and how resources are shared between them. The value proposition describes the potential benefits of resource sharing and therefore facilitates the resource integration process. The resource offering of each actor has implications for the offerings of other actors. For example, changes in a value proposition offered by one supplier has implications for the resources an enterprise will seek from another supplier and on the overall offering an enterprise makes to its customers. Accordingly, value propositions serve to shape resource integration within the entire service ecosystem. As Lanning (2003: 8) points out, the enterprise ‘must determine its own role in working with other players in the chain to deliver the appropriate value proposition to be the primary actor in the chain’.

To illustrate this point, Table 1 outlines the various offerings from the different actors, the respective value sought, and value shared in shaping an ecosystem.

Table 1: Illustrative value offered, value sought and value shared, shaping an ecosystem

<table>
<thead>
<tr>
<th>Actor</th>
<th>Value offered</th>
<th>Value sought</th>
<th>Value shared shaping an ecosystem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>• Pay (premium/fair)</td>
<td>• Staff loyalty</td>
<td>• Shared purpose/</td>
</tr>
<tr>
<td></td>
<td>• Equity in business</td>
<td>• Championing company</td>
<td>• Shared vision</td>
</tr>
<tr>
<td></td>
<td>• Job security</td>
<td>• Ideas for improvements</td>
<td>• Shared identity</td>
</tr>
<tr>
<td></td>
<td>• Training and Career path</td>
<td>• Involvement, commitment</td>
<td>• Flexibility</td>
</tr>
<tr>
<td></td>
<td>• Work-life balance</td>
<td>• Productivity</td>
<td>• Shared image</td>
</tr>
<tr>
<td></td>
<td>• Pride in job / Community status</td>
<td>• Health and safety</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Health and safety</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>• Product/service performance</td>
<td>• Retaining existing customers</td>
<td>‘One stop shop’</td>
</tr>
<tr>
<td></td>
<td>• Choice</td>
<td>• Broadening/deepening relationships</td>
<td>Access to ecosystem actors’ goods and services</td>
</tr>
<tr>
<td></td>
<td>• Convenience</td>
<td>• Recommendations to prospects</td>
<td>Reduced costs</td>
</tr>
<tr>
<td></td>
<td>• Responsiveness</td>
<td>• Expansion of customer base</td>
<td>Stronger relationship bonds</td>
</tr>
<tr>
<td></td>
<td>• Security</td>
<td>• Improving customer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Feel-Good</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier</td>
<td>Profitability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>--------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume guarantees</td>
<td>Ideas for improving service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price (premium / fair)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment terms / Contract length</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Status (platinum, etc)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information sharing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recommendation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply security</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply prioritisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost savings - supply chain integration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost savings – price paid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information sharing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shared knowledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrated supply chain with ecosystem actors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduced risk, time, cost and offers flexibility</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater stability of relationships</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Partner</th>
<th>Supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td></td>
</tr>
<tr>
<td>Status (platinum, etc)</td>
<td></td>
</tr>
<tr>
<td>Information / IP sharing</td>
<td></td>
</tr>
<tr>
<td>Recommendations / introductions</td>
<td></td>
</tr>
<tr>
<td>Shared marketing</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
</tr>
<tr>
<td>Partner performance</td>
<td></td>
</tr>
<tr>
<td>Status/accreditation enjoyed</td>
<td></td>
</tr>
<tr>
<td>Information received</td>
<td></td>
</tr>
<tr>
<td>Recommendation / introductions</td>
<td></td>
</tr>
<tr>
<td>Shared marketing</td>
<td></td>
</tr>
<tr>
<td>Shared knowledge</td>
<td></td>
</tr>
<tr>
<td>Access to partner relationships across ecosystem</td>
<td></td>
</tr>
<tr>
<td>Shared trust</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk profile</td>
<td></td>
</tr>
<tr>
<td>Returns profile (capital growth, dividend etc.)</td>
<td></td>
</tr>
<tr>
<td>Profits growth</td>
<td></td>
</tr>
<tr>
<td>Economic value added</td>
<td></td>
</tr>
<tr>
<td>Shareholder loyalty (as appropriate for private, private equity, public ownership)</td>
<td></td>
</tr>
<tr>
<td>Support for further fundraising</td>
<td></td>
</tr>
<tr>
<td>Premium valuation</td>
<td></td>
</tr>
<tr>
<td>Referrals / introductions</td>
<td></td>
</tr>
<tr>
<td>Shared risk</td>
<td></td>
</tr>
<tr>
<td>Shared knowledge</td>
<td></td>
</tr>
<tr>
<td>Shared trust</td>
<td></td>
</tr>
<tr>
<td>Shared profits</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Society</th>
<th>Shareholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical behaviour / example</td>
<td></td>
</tr>
<tr>
<td>Investments in sustainability</td>
<td></td>
</tr>
<tr>
<td>Carbon usage reduction</td>
<td></td>
</tr>
<tr>
<td>Compliance (match/exceed)</td>
<td></td>
</tr>
<tr>
<td>Charitable support</td>
<td></td>
</tr>
<tr>
<td>Staff development</td>
<td></td>
</tr>
<tr>
<td>Enhanced reputation</td>
<td></td>
</tr>
<tr>
<td>Lower risk of regulatory investigation / savings on mandatory investigations</td>
<td></td>
</tr>
<tr>
<td>Support from government</td>
<td></td>
</tr>
<tr>
<td>Regulatory benefits</td>
<td></td>
</tr>
<tr>
<td>Shared purpose</td>
<td></td>
</tr>
<tr>
<td>Shared</td>
<td></td>
</tr>
<tr>
<td>Sense of well-being</td>
<td></td>
</tr>
<tr>
<td>Less reactive and more proactive behaviours</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Springman (2012)

**Defining the value proposition within a service ecosystem**

Until now, within S-D logic and the service science literature, the concept of the value proposition has not been explicitly defined (Grönroos and Voima, 2013). Consequently, defining the value proposition concept in the broader context of a service ecosystem represents an important issue that needs to be addressed in marketing theory. To assist in clarifying the characteristics of value propositions we now consider various metaphors that help illuminate the concept. Then, building on current conceptualisations of the value proposition and using additional insights from these metaphors, we propose a new definition of value propositions from an ecosystem perspective.
Contextualising value proposition through metaphors

Since the time of Aristotle, metaphors have been recognised as a means of creating understanding, emphasising parallels between familiar and unfamiliar concepts, and viewing one context in terms of another. Importantly, metaphors open up our thinking (Mintzberg et al., 1998). Zaltman et al. (1982) observed that marketing relies more heavily on the use of metaphors than do other areas of social science enquiry, assisting in shaping and structuring ideas, illuminating the issue under consideration (Tynan, 2008), and assisting individuals to think differently (Thibodeau and Boroditsky, 2011). Metaphors have the power to shape reality (Kendall and Kendall, 1993) leading to new ways of understanding (Ridley, 2011). Metaphors can enhance our comprehension of a situation and frame our understanding in a manner that can add new understanding and insight (Morgan, 1986).

The major metaphor underpinning this paper is the ‘ecosystem’. However, we identify six more metaphors that help illuminate particular characteristics of value propositions and relationships between actors. These metaphors are: (1) promises; (2) proposals; (3) invitation to play; (4) bridge connecting our worlds; (5) wild card; and (6) a journey to a destination. These metaphors are described in Table 2. We now consider how the metaphors in this table relate to the micro, meso and macro levels of the service ecosystem. The levels for the metaphors shown in Table 2 relate to their primary focus. However, it is recognised that each metaphor may also operate at other levels. For example, the proposal metaphor may also operate at the meso level as well as the micro level.

Promises and proposals.

Promises and proposals describe how value propositions might operate at the micro level because they align most closely with the integration of specific resources to achieve defined
benefits by specific focal actors. *A promise* is distinguished from a proposal because it is unidirectional: a promise of in-use value that is offered to an actor (Grönroos, 2011). Promises are also more explicit. As such, promises are either accepted or rejected by non-active customers. In contrast, a *proposal* implies the reciprocity between active actors (Ballantyne and Varey, 2006). Here, value propositions are considered as operating to and from actors, e.g. suppliers and customers, seeking an equitable exchange of value. The operation of promises and proposals at the *micro* level is suggestive of stable market relationships where there is high congruence between the value proposition and the value-in-context experienced by relational actors.

**Invitation to play and bridges.**

*Invitation to play* and *bridge connecting our worlds* operate at the *meso* level and emphasise that firms within the actor network need to adapt and attract the resources of collaborators to achieve beneficial outcomes. The emphasis within an *invitation to play* is the reciprocity of resource sharing, while the bridge metaphor focuses on both sides needing to build their propositions to meet in the middle. In both cases, there is the implication that resource collaboration will result in the achievement of beneficial value that is greater than the sum of the resources applied separately. These metaphors demonstrate how actors might modify their resources and the resultant value propositions as they seek to achieve reciprocal value sharing. They are relevant to explaining how actors might develop new relationships that are mutually rewarding (Ballantyne et al., 2011; Truong et al., 2012).

**Table 2: Value proposition metaphors, level of primary focus and perspectives**

<table>
<thead>
<tr>
<th>Metaphor</th>
<th>Perspectives highlighted by the metaphor</th>
</tr>
</thead>
</table>

20
<table>
<thead>
<tr>
<th><strong>Value Proposition as a ‘Promise’</strong></th>
<th><strong>Micro level</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Martinez (2003) defines a value proposition as ‘an implicit promise’ a company makes to its customers to offer a particular combination of values. Other authors suggest such a promise is much more explicit. ‘A value proposition is a promise – one the company makes to customers about which benefits it will deliver for a given price’ (Gattorna, 2003: 58). Promises are therefore explicit and can be used to form specific representations by the firm as in, for instance, a sales brochure or an advertisement. Promises imply an active role for the actor providing the promise but an inactive, or passive, role for the recipient of the promise.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Value Proposition as a ‘Proposal’</strong></th>
<th><strong>Meso level</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Holttinen, (2011), drawing on Korkman et al. (2010) and Vargo and Lusch (2004), argues that value propositions are firms’ proposals of how customers can derive value from integrating the firms’ offerings with other resources. Ballantyne and Varey (2006b) argue that value propositions should be considered as proposals of value, where there is an expectation of reciprocity. Reciprocity implies active roles for all actors.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Value Proposition as an ‘Invitation to play’:</strong></th>
<th><strong>Meso level</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The concept of an ‘invitation to play’ is a key principle of interactivity (Polaine, 2010), that draws on an expression used by Pesce (2000). It involves encouraging an actor to engage through touch points with other actors. A prototype of an offering or value proposition may be used as an ‘invitation to play’ in an exchange relationship. Within a ecosystem such prototypes should turn customers and other actors into collaborators (Schrage, 1999).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Value Proposition as a ‘Bridge connecting our worlds’</strong></th>
<th><strong>Macro level</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The use of a bridge as a metaphor relating to value propositions is mainly used in a managerial context. For example, one consulting firm proposes that building a good value proposition can be compared to building a bridge. ‘The analogy we draw is that notably a bridge is built from both sides, as too should a value proposition be formed between a provider and a buyer – an offering from the provider on one side and value drivers (wants and needs) of the buyer (channel) on the other… The right to travel across the bridge with respect to delivering value …. is always ……relevant ….’ (Beyond 19 Partners, 2013). In considering how to create a unique value proposition, McClure (2013) proposes that different types of ‘bridge’ need to be built for different types of customers.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Value Proposition as a ‘Wild card’</strong></th>
<th><strong>Macro level</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value propositions can also be considered in the context of the metaphor of a ‘wild card’. The term ‘wild card’ in the context of card games refers to where a particular playing card may be substituted for any other card, or with respect to when potential low-probability, high-impact events may occur. In the context of value propositions, such wild card analysis involves gaining awareness of the potential of disruptive, disintermediating, playing-field altering, opportunities and threats that impacts any actors (Lisle, 2008). This metaphor is used widely within the computing and software sector (e.g., Boehm, 2005). In this context, Lisle argues that strategic planning, value propositions and wild card analysis constitute three strategic imperatives for corporate growth.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Value Proposition as a ‘journey to a destination’</strong></th>
<th><strong>Macro level</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value propositions can be viewed as an envisioned future destination point towards which enterprises might journey. A value proposition may emerge through a dynamic process of knowledge sharing and dialogue, which may require vertical or horizontal integration of actors within the service ecosystem, or both, to achieve. The destination represents the beneficial outcomes that are valuable to those that embark on the journey. In the managerial literature, a value proposition describes a journey that requires a detailed and carefully articulated road map, which can guide an organisation in a specific direction (PwC, 2008).</td>
<td></td>
</tr>
</tbody>
</table>

**Wild card and journey destination.**
At the *macro* level value propositions are described as the *wild card* and the *journey to a destination*. These metaphors identify how value propositions might shape the development of the service ecosystem, in both relational and resource terms.

Here the focus is on value propositions as a means to envision beneficial outcomes (or avoid disruptive ones). This desired state can only be achieved through collaboration, with the value proposition setting out the potential opportunities that are offered within the ecosystem. As a journey, the value proposition sets out the road map for each actor to reach a desired destination.

Before summarising some of the key characteristics of value propositions highlighted by these metaphors, it is important to note some limitations in their use. Doving (1994) noted the danger of over-extending a metaphor and attributing characteristics that are redundant or inappropriate to the target object. Our discussion reveals some contradictory characteristics if any of the six metaphors are elaborated beyond their usefulness. For example, a promise and a proposal have different purposes and could suggest alternative perspectives. However, they are useful in our context to highlight specific characteristics; for example, a promise highlights the active role of the focal firm while the proposal suggests reciprocity and dialogue.

Similarly, the metaphor of a bridge suggests both sides will meet, a characteristic that does not always occur with value propositions. However, however, we identify the specific characteristic from this metaphor of building a bridge from both sides, an important feature of value propositions. Below we discuss the specific attributes of value propositions that are highlighted in the six metaphors.

**The value proposition: a new conceptualisation**
These metaphors offer several insights into important characteristics of value propositions. These include: reciprocity, expectations of value-in-context, interactive actors, dynamic knowledge sharing and dialogue. Drawing on these characteristics, together with existing representations and definitions of value propositions, we propose a new definition of the value proposition from a service ecosystem perspective.

Suggesting that the value proposition has similarities with the concept of product positioning, Webster (2002: 62) considers this latter concept as more limited and ‘essentially a communications strategy’ (see Ries and Trout, 1972). However, we contend that value propositions represent a fundamental component of marketing strategy, as they determine resource commitment. Value propositions are a strategic imperative for organisations with finite resources, determining how to apply those resources and achieve the most beneficial outcomes. A value proposition supports the well-being of the ecosystem as it sets out the resource sharing that sustains each actor.

Thus, we define a value proposition as a dynamic and adjusting mechanism for negotiating how resources are shared within a service ecosystem. Drawing on this definition, we now discuss the application of value propositions within the service ecosystems of two organisations and we demonstrate how the evolution of the value proposition concept represents changes in their strategic direction.

**Illustrations of value proposition evolution in service ecosystems**

In this section we review how value propositions have evolved within two organisations in the for-profit and not-for-profit sectors. These two illustrations demonstrate the evolution of value propositions through the three broad stages described previously: value propositions to customers (the micro level); value propositions to key actors (the meso level); and value
propositions within the service ecosystem (the macro level). As enterprises grow in size and complexity, the emphasis typically extends from a primary focus on the micro level to a focus on the meso and the macro levels. Such value propositions may be implicit or explicit (Frow and Payne, 2011). Payne and Frow (2014a) provide an example of how an implicit value proposition can be developed into a formal explicit value proposition.

**Exemplar 1: Tesco plc**

The global supermarket chain Tesco plc operates more than 5,300 stores and employs over half a million people around the world. Tesco provides an illustration of how an enterprise has progressively evolved its value propositions, focusing initially just on the customer, and evolving later to offering attractive value propositions to each key stakeholder. More recently, Tesco has adopted a more macro perspective, aligning its value propositions to sustainability objectives that have implications throughout its entire service ecosystem. Tesco’s success, however, involves many aspects in addition to enlightened value proposition evolution including strong leadership, a highly focused strategy, deep customer insights and CRM systems, and excellent management processes.

**Phase 1: Value proposition to customers:** The original founder of Tesco, Jack Cohen, adopted a simple value proposition: ‘We pile them high, so we can sell them cheap’, and this served the company well up to the early 1990s. However, at this point in time, the competitive landscape intensified in the UK grocery market and increasingly customers demanded higher quality and variety across food product ranges. The entry of discount grocery chains eroded Tesco’s distinctive value proposition, causing the retailer to reconsider its positioning within the competitive market. Tesco was losing customers and this loss of revenue impacted not only the value propositions that the company offered to customers, but also there were implications for value propositions offered to other important stakeholders.
For example, no longer could Tesco offer shareholders ‘A great return on your investment’, as profits were declining. Also, Tesco could not confirm a key attribute of the employee value proposition, job security for employees, as the retailer was faced with cost cutting.

Tesco recognised the need to redefine its strategic objectives and reconsider its core value proposition. To do this, the company required a much more detailed understanding of its customers. Market research at the time revealed that a broad range of customers shopped at Tesco, seeking better value products and a great customer experience. Tesco came to the understanding that achieving these goals required in-depth knowledge of each individual customer and their shopping habits every time they entered a Tesco store.

The launch of the ‘Tesco Clubcard’ in 1995 allowed the company to gain these in-depth insights into their customers. Every time a customer shopped in a Tesco store, details of their purchases were recorded and mapped on to their specific profile. Using this information, Tesco could redefine the shopping experience offered to customers, focusing on excellence in customer service, variety and value. Accordingly, the retailer offered a value proposition to customers captured in the slogan ‘Every little helps’.

Phase 2: Value proposition to key stakeholders: Tesco then turned greater attention to its other stakeholders, appreciating that the promise to customers could only be fulfilled through nurturing these additional critical relationships. Each stakeholder group needed to support the Tesco promise. For example, suppliers were required to offer the best quality, variety and prices. Tesco committed to support them in achieving this aim, for example providing them with access to their massive data bank of customer insights. In 1998, Tesco launched the Tesco Information Exchange system, allowing electronic data exchange across the supply chain. This enabled Tesco to work with its suppliers, managing inventory, minimising stock
outs, developing products that related to customer demands and improving every aspect of the customer shopping experience.

Engaging the commitment of dedicated employees was also vital to the retailer and Tesco embarked on extensive training programs and an improvement in working conditions. Tesco encouraged recruitment from a wide demographic, recognising that customers favoured employees to whom they could relate. The store developed an innovative shift system that encouraged young mothers to work during school hours and retirees to re-enter the work force for short shifts. Across all stakeholder markets, Tesco and its stakeholders shared reciprocal value propositions. The value proposition: ‘Better, simpler, cheaper – the way we work’ now related to multiple stakeholders and also indicated the reciprocal offer from stakeholders directed back to Tesco. The retailer understood that creating value propositions with each stakeholder group was an important contribution to achieving its strategic ambitions.

*Phase 3: Value proposition within the ecosystem:* Entering the 21st Century, Tesco gained massive global strength, operating in 13 countries with significant success (their recent problems in the US and Japan are exceptions). Tesco progressively recognised that it operated within a complex ecosystem, with value propositions connecting a web of relationships. Tesco acknowledges the responsibility that comes with global leadership; the retailer has a commitment to become a zero carbon business by 2050. To achieve this goal, the retailer addressed the redesign of its value propositions throughout its service ecosystem.

Achieving these sustainability goals requires the support of a huge network of suppliers, ensuring that these actors use environmentally friendly processes through all stages of production and logistics. The company offers attractive trading arrangements to suppliers who share these sustainability goals. Tesco requires suppliers to state clearly on packaging
the carbon footprint of each product, encouraging customers to build their awareness and track their carbon usage. Customers are encouraged to support Tesco, for example, through increased use of internet shopping, reducing car usage and carbon emissions. Employees are educated to support the sustainability goals, with the promise of ‘Treat people how we like to be treated’. In the investment community, Tesco offers attractive opportunities for socially responsible investors. The retailer aims: ‘to be seen as the most highly valued business in the world’. Achieving these promises requires engaging the commitment not only of proximate stakeholders, but the broader global ecosystem in which Tesco operates. Tesco states: ‘By operating responsibly, we not only benefit and secure the future of our business, but we can bring real benefits to the communities in which we operate’ (Tesco Annual Report, 2012). The retailer operates within a service ecosystem with the value proposition offered to each actor impacting others within a broad web of actor relationships. Tesco’s implied value proposition conveys the mutual assistance actors offer to making the world a better place for everyone, captured in: ‘Do right, by doing good for society’.

Poor alignment of one value proposition results in a need to rebalance others. For example, Tesco recently announced that operations in the US were closing, with resulting substantial financial losses. This failure has contributed to poor profit performance, impacting promises implied to shareholders. Tesco argues that it has now realigned its business, to deliver sustainable and attractive returns that offer long-term growth for shareholders. To achieve this goal, the company is reassessing every aspect of the consumers’ shopping experience, supporting its promise of providing customers with ‘the best shopping experience’, retraining employees and closely aligning suppliers to its goals. The company aims at rebalancing relationships through carefully considering value propositions throughout its ecosystem.

Exemplar 2: Care Connect aged care
Within the health care sector, innovative service providers are responding to the shift in consumer-directed care by offering new value propositions that are co-created, reciprocal and dynamic. For example, a leading Australian health care organisation, Care Connect, has realigned its service model from an ‘expert prescribed’ business to a ‘person-centred’ practice, which recognises that consumers prefer to be treated as individuals, to have choices, and to have their specific needs and desires better understood and addressed.

Care Connect is a non-denominational, not-for-profit, registered charitable organisation, providing aged care services, with facilities in three states across Australia. They provide services and support to help individuals remain independent and engaged in their community. Care Connect’s mission is to support frail aged persons, people with a disability and carers to live independently at home and in the community (Care Connect, 2013).

*Phase 1: Value proposition to customers:* In line with its new focus to be person-centred, Care Connect developed a new value proposition to its clients and potential clients. Its new *My Life, My Choice, My Way™* service model shifts control away from case managers, so that clients have more choices and can make their own decisions. Service processes are designed to adapt to clients’ needs and enable them to determine from which providers they prefer to receive support. The implicit value proposition is: *‘Control and choice to live independent lives at home and in the community’.*

Care Connect’s approach is collaborative, working not only with end users but with many service providers and suppliers. They aim to provide a respectful service that values the rights of each individual and their support network. Each client has her/his own case manager, who is the client’s single point of contact. Case managers are skilled professionals who will visit individuals in their own home and keep in touch by phone. Case managers work with clients to determine what the individual client wants and helps them plan specific needs-based
preferences. Specific services may include personal care/showering assistance, home maintenance, laundry services, help with meals, in-home respite and social outings.

**Phase 2: Value propositions to key stakeholders:** To maximise client choice and service options, Care Connect has partnered with national and state-based associations, hospital networks, primary care providers and specialist community organisations in over 80 local market networks across Australia. These networks of government agencies, community organisations and specialist providers cover the spectrum of aged care, disability, mental health, transitional care, preventative care, dementia and respite services. As a result, Care Connect has been able to collaborate with hundreds of quality-tested providers, which have a similar philosophy towards aged care, customising value propositions to meet specific client needs.

Using a case management and brokerage business model, Care Connect engages these providers using service level agreements to negotiate quality standards, service processes and care practices. It also provides back-end support systems and services to small to medium sized providers to assist them with meeting growing regulatory and compliance obligations and customer expectations. The value proposition offered is: ‘Best of breed services at a competitive price’.

For employees, the new customer value proposition represents a change in key attitudes and behaviours that are required to deliver the best outcomes for clients. In an industry dominated by low skilled personal care workers who receive relatively low incomes, the Care Connect employee value proposition has centred around increased training, support and technology that improves service processes, care practices and working conditions.
Phase 3: Value proposition within the ecosystem: In the highly regulated and competitive healthcare sector, Care Connect has recognised that the tightening of government funding for aged care means that providers must innovate or they will be unable to continue to operate in a viable manner. At the same time, the company knows that innovation lies in developing services and systems that are aligned to the government’s new policy of enabling Australians to age at home, rather than in nursing homes, and to have greater input into the support they require in order to stay in their own homes. Care Connect also understands the increasingly important role of ‘citizens as actors’ within its ecosystem. In response, it aims to be ‘Australia’s leading community care organisation, actively sought for its innovation, care leadership and community participation’ (Care Connect, 2013), with an implied value proposition of: ’Innovative care services that build stronger local communities.’

Within its ecosystem, the Care Connect value proposition has an impact on other actors within the web of industry relationships. Government funding has been redirected to community care programs, forcing many competitors to adopt a similar person-centred approach to Care Connect. Long established competitors now represent potential partners who can benefit from the increased resources that each actor has to offer. Community organisations that are unable to meet new government reporting standards, view partnerships with Care Connect as a pathway for ensuring they can continue to represent their ‘community of interest’ into the future. At the same time, Care Connect has to ensure that it continues to develop and refine its value proposition in a constantly changing environment.

Discussion and a research agenda

This paper contributes to the value proposition literature by addressing the role of value propositions in an ecosystem. While some recent research has examined value propositions
from the viewpoint of multiple stakeholders (Ballanyne et al., 2011; Frow and Payne, 2011; Kwan and Muller-Gorchs, 2011; Murtaza et al., 2010), this contribution is a first exploration of value propositions from a broader service ecosystem perspective. We develop a new definition of the value proposition from this ecosystem perspective and explore the role of the value proposition as a shaper of a service ecosystem. We conclude that value propositions contribute to the well-being of an ecosystem as they provide a mechanism for balancing resource sharing. To extend our work, we propose five key premises that are designed to guide development of value propositions in service science and provide an agenda for future research.

Value propositions: five key premises

Rather than viewing value propositions from the single perspective of the firm with the customer, the emerging literature in service science and our two illustrations suggest that value propositions are co-created, reciprocal and dynamic. For example, suppliers can gain information on sources of raw materials in return for their commitment to supplying high quality goods and services at low prices (Normann and Ramirez, 1993). As such, value propositions identify opportunities for value co-creation between individual customers, the focal firm and other suppliers. Indeed, Lusch et al. (2010) describe value propositions as dynamic and changing connectors between the company and its actor network. The most attractive value proposition will result in the highest performance, but will also require constant revision in accordance with customer changes in order for the advantage to be maintained. Ballantyne et al. (2011) highlight the reciprocal nature of value propositions and similarly, Kowalkowski et al. (2012) explore the dynamics of value propositions through reciprocal exchange of knowledge between resource-integrating actors. Hence:
Premise 1: VPs are a co-created and reciprocal mechanism through which actors offer and attract resources.

All actors in the service ecosystem have stocks of resources. Sharing of resources occurs within the ecosystem because no one single actor has all the resources needed to operate in isolation. Each actor can participate in resource integration practices, gaining access to desired resources that complement their own pool, even in the face of sometimes competing and conflicting priorities and preferences. Actors can offer their resources and seek the resources of other collaborators, through a process of negotiation between and among actors. Actors have diverse motives for engaging in resource integration practices. Participating actors must be able and willing to contribute their resources to others to recognise and realise the value proposition. Hence:

Premise 2: VPs in ecosystems arise from the value potential inherent in actors’ resources.

The Industrial Marketing and Purchasing group (IMP) literature considers markets as networks of interconnected, long-term exchange relationships between independent actors (e.g., Håkansson et al., 2004). Value propositions serve to determine the composition of networks, as they connect actors attracted by expectations of value that is co-created through their interactions. Value propositions serve to link actors, shaping their expectations of value-in-context (e.g., Vargo et al. 2008), that is co-created through interaction. The success of the value proposition in attracting and maintaining relationships between actors within a network depends on the extent that these value propositions fulfil each actor’s expectation of value-in-context. As such, the value proposition provides a market shaping mechanism driving change and determining the composition of a network and the nature of market interactions. Hence:
**Premise 3:** Value propositions influence the composition of networks, specifically determining with whom actors choose to engage, shaping the nature of market interactions.

We have argued that a value proposition within a service ecosystem is a proposal of a resource offering between actors that shapes resource integration between actors within the ecosystem. As such, the resource offering of each actor has implications for the offerings of other actors. For example, changes in a value proposition offered by one supplier has implications for the resources an enterprise will seek from another supplier and on the overall offering an enterprise makes to its customers. Value propositions may evolve over time and serve to shape resource integration within the entire service ecosystem. Hence:

**Premise 4:** Value propositions may change over time and shape new resource integration within the service ecosystem.

If actors do not perceive value propositions as mutually beneficial, then changes may occur in the service ecosystem. One option for actors is to modify their value propositions as they seek to achieve reciprocal value sharing. In this instance, value propositions serve to balance the mutual exchange and co-creation of value, shaping actors’ offerings. A second option for actors involves developing new relationships in which value propositions are reciprocated (Ballantyne et al., 2011; Truong et al., 2012) and mutually rewarding. Both options consider value propositions as a mechanism for aligning offers and impacting the nature of the market. Hence:

**Premise 5:** Value propositions act as a balancing/alignment mechanism in the service ecosystem.
Of course, a third option is the collapse of the service ecosystem, when the misalignment of value propositions is too great and balance cannot be restored.

**Future research agenda**

Our research identifies a general lack of scholarly research on value propositions, leaving many opportunities for further exploration. Some of these research opportunities relate to value propositions more generally and some address the ecosystems perspective of value propositions specifically.

First, empirical studies are required that identify the extent to which enterprises formally develop value propositions. Initial research by Frow and Payne (2013) suggests that only a small proportion of enterprises have a formalised process of value proposition development. However, there are no substantive studies that address this topic in the extant literature. While all enterprises may have an implicit value proposition, we contend that having an explicit process of value proposition development is more likely to facilitate the development of a more focused mission statement and successful fulfilment of their business strategy than having an implicit one or not having one at all.

Second, detailed study is required into how value propositions are developed and how they evolve over time, within the specific context of a given service ecosystem. This work could focus on the respective roles of organisations, customers, suppliers and actors. Understanding the mechanisms used to integrate the various resources of actors would also appear to be a fruitful avenue for future research.

Third, the literature does not sufficiently emphasise the importance of the reciprocal nature of value propositions. While some recent research has addressed this issue (e.g., Ballantyne et
al., 2011: Truong et al., 2012), there is a need for an in-depth exploration of what is reciprocated by the various actors in service ecosystems, and under what circumstances value propositions are reciprocated or rejected.

Fourth, whilst scholars point to the link between superior value propositions and organisational performance, this topic has not yet been subject to empirical research. Future research should investigate links between value propositions and satisfaction of the respective actors, and their mutual well-being.

Finally, an interesting aspect of value propositions that has attracted limited investigation to date involves considering how potentially damaging interactions and resource integration may result in value co-destruction. Value propositions that describe a firm’s offering can attract actors wishing to share their resources with beneficial outcomes. However, in some instances, they may attract inappropriate resource-sharing actors, even dysfunctional behaviours such as fraudulently claiming or sabotaging the resources of another actor (Wirtz and McColl-Kennedy, 2010), resulting in value co-destruction (Ple and Caceres, 2010) and the subsequent disruption of the ecosystem in which they are engaged. This topic is worthy of future research.

**Conclusion**

Clearly, value propositions play an important role in supporting the network of relationships in a service ecosystem, signalling those resource sharing relationships that are likely to promote the well-being of the ecosystem and offering an early warning signal of potential threats to its survival. The ability to attract a range of resources and successfully maintain diversity may assist in supporting survival of the service ecosystem (Cardinale et al., 2006). In today’s increasingly interconnected and networked world, developing robust, dynamic and
evolving value propositions is fundamental to successful market relationships and an important organisational priority.
REFERENCES


Reilly, W.J. (1931) *The Law of Retail Gravitation*. Houston, TX: University of Texas.


42


