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How to build an experience differentiation strategy for software business

Customer values perspective

Andrey Sirotkin





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Thesis for the degree of Doctor of Science (Economics and Business Administration) to be presented with due permission for public examination and criticism in Oulu Linnanmaa, at The University of Oulu, auditorium TA105 on the 5th of September at 12 o'clock noon.



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To the glory of God and Saviour, Jesus Christ

“Thus says the Lord, the God of Israel: ‘Like these good figs, so will I acknowledge those who are carried away captive from Judah, whom I have sent out of this place for their own good, into the land of the Chaldeans. For I will set My eyes on them for good, and I will bring them back to this land; I will build them and not pull them down, and I will plant them and not pluck them up. Then I will give them a heart to know Me, that I am the Lord; and they shall be My people, and I will be their God, for they shall return to Me with their whole heart...”

Jeremiah 24:5–7 (NKJV)

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Abstract

This thesis takes a human values perspective on the concept of differentiation. The aim is to understand how the concept applies to experience creation in a software company, and how decisions about experiences can be made. The monograph suggests a values-in-experience differentiation concept, develops a decision-making framework and a method for introducing values into the strategic decision process. A software case-company is used to implement the tool and attest the values perspective for experience creation.

The goal of a business strategy is to establish a unique position for the company's offerings in the minds of customers, while maintaining financial results. Historically, uniqueness was achieved by focusing on product and service features. The experience view, however, departs from the historical assumptions about the nature and sources of differentiation. This thesis examines both the assumptions and changes of differentiation by experience.

The apparent complexity of experiences requires research approaches of a matching complexity that suits the understanding of the challenges that managers face over the course of the experience creation. The thesis suggests that values provide both a stable platform and a flexible environment to guide the strategy process. The research contrasts the human values perspective with the traditional concept of needs and rational view. It proposes that the stability and the universal nature of values seem to provide grounds for combating the risks in experimentation, formulation and re-configuration of a unique position of company's offerings.

Keywords Experience, differentiation, strategy, values, decision-making, business, management, ICT, software, Cloud

Preface

Four years ago, late in the evening of November 18, 2009, I was in my Irkutsk apartment settling in for a life in Eastern Siberia after an intense season of studying on the MBA programme of Oxford Brookes University, UK. While looking at the darkness outside and feeling the coolness of my room, I read an email, which invited me to apply for a position at VTT – Technical Research Centre of Finland with an opportunity to work on a PhD thesis. The letter was from Dr. Tua Huomo, my former MBA classmate and at that time a coordinator of the largest Cloud programme in Europe under DIGILE, the Finnish Strategic Centre for Science, Technology and Innovation. Knowing her has been one of the greatest blessings in my life, and working with her has been a source of immense growth. This monograph owes its existence to my good friendship with Dr. Tua Huomo.

About a month later, I travelled almost 2,000 kilometres north to a small village where I spent Christmas with a family of friends, where I prayed, deliberated and discussed my possible move to Finland. There I met my future wife Rachael, whom I met again only the following Christmas of 2010, and married the following summer. Rachael has been an amazing friend, wife and tireless supporter. Her role in the completion of this thesis has been incredible. Together with my daughter Anna, she prayed, encouraged and offered the understanding that allowed me to devote myself to this work.

I thank my mother, who patiently listened to my struggles, and though she could not contribute to the subject matter, she encouraged me in her own way to continue working hard.

I cannot express enough gratitude to Prof. Minna Isomursu, my research supervisor, and Prof. Timo Koivumäki, my academic supervisor, who have followed my progress, read through multiple versions of the text, tirelessly commented, provided guidance and inspired me to improve the thesis.

My deepest thanks goes to Bronan McCabe, whose enthusiasm gave direction to this research, and without whose inspiration and sacrificial giving this work could not have been completed.

Also I wish to express my sincere appreciation to Kaisa Koskela-Huotari and Kaarina Karppinen for partnering with me in the analyses and discussions over countless meetings. Kaisa analysed all the demographic and contextual data, prepared reports, presentations and meetings on the customer project. The values part of that project became the case study for this work. Kaarina revised many of

the narratives and presentations. Her final touch always beautifully enhanced the work. I also want to thank Dr. Javier Lorente del Ser the MatLab-guru for his friendship and analytical insights, and acknowledge his ingenious contribution in writing the algorithms for cluster analysis.

I sincerely thank the two external reviewers – Dr. Robert Sweo and Dr. Jukka Heikkilä for providing insightful and encouraging comments on the original version of the monograph. The current version was much improved by attending to the reviewers' and supervisors' comments. Remaining shortcomings are entirely my own.

My sincere appreciation is to the team members and colleagues, who made up the fertile environment of working and researching the current software and business developments. I am especially grateful to the management of the case-company for their willingness to experiment, their hard work and feedback. The company's down-to-earth approach motivated the working process and made the research results practical. I thank the Director of external R&D collaborations, the Product and Product Marketing Manager of Consumer Security, the Usability and User Experience Specialist and the Chief Product manager. Finally, I am grateful to the dear friends, who have supported and prayed for me and my progress.

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1. Introduction

The dynamic development of information-communication technologies (ICT) imposes new demands on the traditional concepts and tools available for software business strategizing. The pressure of structural changes, brought about by technology and customer expectations, challenges both the managerial tools and concepts of the strategy domain (Prahalad and Hamel, 1994). Scholars recognise the need for a new perspective on strategy (e.g. D'Aveni *et al.*, 2010; Farjoun, 2002). They are re-examining existing concepts and working on new theoretical approaches that account for the changing reality of strategic management (D'Aveni *et al.*, 2010). Mintzberg (1994), for example, challenged the relevance of strategic planning, emphasising the importance of learning through the process and continuously changing mental models, which an organisation holds about its business, markets and customers. Prahalad and Ramaswamy (2000) emphatically pronounce, “the realisation that the product is subordinate to the experience will force managers to throw out their old assumptions about product development” (p. 85). We take on this challenge by looking at what would be a new model for experience offering development.

In the ICT industry the market opportunities are short-lived. In an environment where competitors can begin to provide virtually any service, the central challenge is maintaining differentiation continuously. Even dominant players can hardly enjoy competitive advantage for long because new specialist firms can have a sudden and decisive impact on the structure of competition. In this fragmented landscape, strategy tools must not only possess some elasticity to generate quick responses to the changes in environment, but also be resilient enough to establish a direction for differentiation. The strategic agenda, however, is mainly informed by the concepts of sustainable competitive advantage and core competences. Although these are powerful business ideas, they must be adapted to volatile and uncertain markets, like that of ICT (McGrath, 2013). The recent demise of Nokia and the history of such giants as IBM, Dell and Intel illustrate how traditional approaches to strategy may fail in sustaining the competitive position.

Software business is a part of the ICT industry and is subject to its influences and dynamics. A software company is one that relies on a ‘soft’ digital offering that instructs the functionality of a device. Software companies have several business specific characteristics (e.g. Cusumano, 2004). They provide a “highly malleable technology. The production of product copies is just a tiny fraction of development costs. They can even choose to give away their software aiming to win the audience and earn profits elsewhere (Anderson, 2007). Thus their business models are

peculiar to the software market. The categories and applications of software products are almost infinite from cooking stoves to space technology. Companies can focus on software as a product or as a service, or quite naturally combine both in their offerings (Cusumano, 2004). Their employees are engaged in creative activities, which make them significant contributors to the customer experience.

The unique characteristics of software business influence the strategy processes. Differentiation is largely shaped by the employees' creativity and the personalisation of experiences. In a seminal paper on experience economy Pine and Gilmore (1998) show that to survive, a business must learn to compete by providing experiences. Software companies are largely in that business. Prahalad and Ramaswamy (2000) show that the focus on experience changes business models and organisational processes. Schembri (2006) conceptualises service as personalised experience. Understanding experience becomes essential for developing and re-configuring competitive advantage (Clark and Fujimoto, 1990). Customers recognise and follow the lead of those companies that move with speed and decisiveness in seizing short-live opportunities.

For the functional level strategies this means that organisations need to develop synthesis across their processes in such a way that they will be able to deliver experiences. At the same time customers must recognise such experiences as both desirable and valuable, otherwise they will avoid engaging in them.

One of the central challenges of differentiating by experience is to understand how experiences can be created. Experience is personal and highly subjective. How does the current strategy literature help companies to design and differentiate with experience? The answer to the question seems to require a subjective character because personal conviction is the only basis on which evaluation of experiences can be legitimately grounded. However from the positioning school viewpoint (Mintzberg *et al.*, 1998), strategy development is an intentional activity. Thus, the discrepancy between the understanding that experiences are individually "arbitrary" and the fact that the strategy development process is often a rational, objectively grounded process, raises an important issue. Namely, how can management intentionally target experiences as differentiation strategies?

The goal of our research is to provide a framework for making decisions about creating customer experiences. The purpose of the framework is to systematise the decision-making process for the creation of differentiating experiences for the customer. To attain that purpose we first review the existing knowledge on differentiation strategies and develop the values-in-experience (ViEx) differentiation concept. The concept is a static presentation of the elements necessary for experience differentiation strategy. The decision framework (ViEx framework) is a dynamic interpretation of the concept. The framework more realistically models the process of experience strategy-making. The ViEx framework is attested in a case company with the help of the ViEx method, specifically designed for that purpose.

A combination of a conceptual model and decision framework can clarify how to manage and market experiences. A good conceptual model should uncover a fundamental difference between differentiating with experiences and differentiating with a product or service. The key issue is understanding the nature of business

change when experience becomes a primary source of differentiation strategy. Only when companies unambiguously recognise the concept of differentiation with experience can they begin to intentionally design experiences, rather than leaving them to chance.

Understanding the process of differentiating by experience requires a decision framework that can aid in managing and designing experience offerings. However, both a conceptual model and a dynamic decision framework are lacking today. Conceptual models of differentiation in general are many (Grönroos, 1990, 2007a; Kotler and Armstrong, 2004; Levitt, 1980; Storey and Easingwood, 1998) but implicitly or explicitly they view experience as a default outcome, which is innate to a product or service design. On the other hand, a growing amount of literature points to the primary importance of creating a positive customer experience in attaining competitive advantage (Teixeira *et al.*, 2012; Stuart and Tax, 2004; Prahalad and Ramaswamy, 2000; Pine and Gilmore, 1998). Therefore companies can benefit from systematic development of experiences.

Experience literature for the most part focuses on experience as a phenomenon (Ng and Smith, 2012; Schembri, 2006). The service and consumer behaviour literature provide an insight as to when the experience takes place. However, the question of *how* a business can formally develop experiences is under-researched. Hence, there is little understanding of the implications for business strategy where experience may often be regarded as an extension of existing product development procedures.

In this monograph we discuss how to understand and manage an experience as an offering; we also provide a methodology for making a decision about experience creation. We draw on strategy and marketing disciplines for understanding the differentiation sources; as well as sociology and philosophy for establishing the human values perspective. Although the two disciplines have different perspectives, from the differentiation viewpoint they share many concepts.

The monograph's structure can be broken down into four logical parts. The first is an introductory part (Chapters 1–5). It discusses the methodological issues of the research. The second part (Chapters 6–10) is devoted to the theoretical foundations of differentiation strategy and the human values perspective. The result of this part is the *concept* of differentiation from a human values perspective, or the values-in-experience (ViEx) differentiation concept. The third part applies the differentiation concept to the decision-making processes and develops a dynamic model for differentiating with experience (Chapters 11–12). The main result of this part is the values-in-experience (ViEx) *framework*, which guides a decision maker through the process of creating experiences. The final part describes the implementation of the framework in an ICT company (Chapters 13–15). In this part we develop a ViEx *method* to integrate customer values in the organisational processes. The main objective of this part is to attest the framework and discuss the practical aspects of using values as a basis for differentiation by experience. The monograph concludes with the discussion of results and implications.

Figure 1 illustrates the structure of the monograph and states the main message of each section.

1. Introduction

PART 1. INTRODUCTION AND METHODOLOGICAL ISSUES

- Chapter 1. Introduction
- Chapter 2. Research question and objectives
- Chapter 3. Research methodology
- Chapter 4. Research process and methods
- Chapter 5. Data collection and analysis

Main claim:

Experience and experience strategy are distinguished epistemologically. Positivist position for business strategy is selected.

PART 2. THEORETICAL FOUNDATIONS

Differentiation strategy

- Chapter 6. Differentiation strategies
- Chapter 7. Differentiation concepts
- Chapter 8. Experience differentiation

Values and valuation

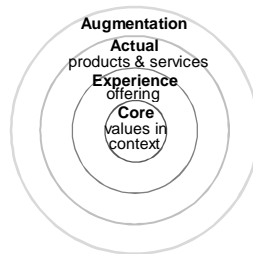
- Chapter 9. Foundations of values and valuations
- Chapter 10. The role of customer values in strategy

Main claim:

Experience differentiation strategies support customer values

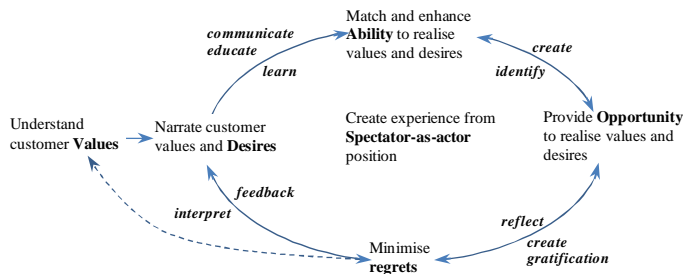
Main claim:

Customers want to have their values supported



PART 3. EXPERIENCE DIFFERENTIATION AND DECISION-MAKING PROCESS

- Chapter 11. How values and value are modelled for business decisions
- Chapter 12. Towards the Values-in-Experience decision-making framework



Main claim:

Companies can create forward-looking differentiation strategies through supporting customer values

PART 4. PRACTICAL APPLICATION AND ANALYSIS

- Chapter 13. Values-in-experience method
- Chapter 14. Results and discussion
- Chapter 15. Conclusion and recommendation

Main thesis:

Company has a strategic vector for experience when it focusses on values

Figure 1. Logical structure of the monograph.

The introductory part, first of all, states the challenge for the ontological and epistemological positions when addressing values, experience and strategy. The pivotal methodological issue of the research is the need to bridge the subjective and objective nature of human perception in the development of business strategy. This challenge demands a research methodology that can carefully guide the research. Thus, we distinguish between experience and differentiation by experience. We recognise the phenomenological character of experience but take the positivist position when developing an experience framework for differentiation strategy. This is followed by a discussion of the objective and subjective components of the study. We summarise the research methodology with the help of Burrell and Morgan's (2001) model of research paradigms. The introductory section concludes with a description of the research methods and context.

The main purpose of the first part of the thesis is to reveal the lack of strategic concepts that capture customer values in experience. Just as the variance between service and product differentiation is important for business strategy (Grönroos, 2007b), the understanding of experience differentiation can enable organisations to systematically introduce offerings targeting experience. This chapter illustrates existing differentiation concepts and lays out the hypothesis for a new experience strategy concept. Given the objective of the section, the strategic concepts are presented in a concise manner and are not discussed in detail.

The second part deals with the value and valuation theories as a central point of human experiences. The values are defined in an axiological sense. They are principles and beliefs that people use to evaluate the goodness, fairness and legitimacy of their experiences (Boudon, 2001). Values are motivational in a sense that they guide individuals' choices and behaviour (Kahle, 1996; Schwartz, 1992; Rokeach, 1973). They also serve as criteria for the justification and evaluation of experiences (Williams, 1979).

This part continues with the review of how values are modelled in business decision-making processes, and suggests a framework that integrates both the rational and irrational views of values and value. The new framework (values-in-experience) essentially transforms the static experience differentiation concept, developed in the first part, into a dynamic framework. The chapters point out that in product and service differentiation, companies adopt an instrumental or rational view of value. The rational perspective is defined as a way of reaching a goal, which is accepted as objective from an observer's viewpoint. Rational value was popularised by economics and has become a business understanding of value because of its practicality. This standpoint explains many behavioural phenomena, but it excludes an irrational character of values and norms, which are integral to experience. The suggested values-in-experience (ViEx) framework captures both rational and irrational beliefs for developing a customer experience.

The final chapters present the values-in-experience method. The method is a practical way of implementing values into business processes. The empirical study is a case in the ICT industry. It is a Finnish multinational company, which provides software security products and related services. It has 20 offices around the world and headquarters in Helsinki. The chapter concludes with suggestions for

improvement of the ViEx method and implications for experience strategy differentiation.

1.1 Differentiation by experience

Differentiation is “acting to distinguish ... products and services from those of ... competitors” (Mintzberg, 1988, p. 17). Traditionally the way companies achieve differentiation is by focusing on features and technologies. This differentiation is proving to be short-lived because of dynamic changes in the market and because competitors catch up quickly. Instead, companies are turning towards more intangible things such as customer relationships and experiences. The focus on experiences demands new skills for competition.

Experience redefines the competitive regime. Experiences are ephemeral and volatile; they emerge only for a time and continue as memories. The traditional barriers to entry give way to the competitors, who can come from any industry and deliver an alternative experience (McGrath, 2013). In these conditions companies need to learn how to transfer their existing knowledge and skills to differentiation in the new environment.

The challenge of creating a strategy for differentiation by experience lies in understanding how an experience can be created as an offering. We take on a human values perspective to develop the basis for a customer-centric view. The role of values is not to improve or develop market scoping techniques but to develop strategies for experience creation that will differentiate a company and attract customers. The topic of integration of values in the process of developing experience differentiation is under-researched.

Our research contributes to the discussion of experience as the focus of differentiation. We validate the research through a case study in the ICT industry. The expansion of cloud-based services in the ICT industry opens up vast opportunities for customers. The sheer availability of choices, however, may be overwhelming. As a result the company’s visibility decreases and the challenge to cut through is ever urgent. At the same time businesses need to help the customers navigate through thousands of choices to the best experiences they can have. This is essential to adaptation of customers’ point of view. This research looks at the elements required to build an experience differentiation strategy in the Cloud environment by taking a customer values perspective.

1.2 Values perspective on experience

Experiences engage a person on an emotional level, where a person begins to perceive a meaning and identity (Damasio, 2003; Cacioppo *et al.*, 2001). They may help a person know what life is about. The experiences are remembered and recalled as narratives. They are not fantasies, they are a way of seeing and knowing the world. When retold, experiences portray reality. People are attracted to experiences for the things that they desire to see more of. The concept of

desirable is a common definition of human values (Rokeach, 1979a, 1973; Schwartz, 1992). It helps people align their experiences with their values. Desire connects people's values to experiences, products and services.

In turn, the experiences we choose influence our value beliefs. This is because experiences can reaffirm or contradict our values. Virtually any experience that has an effect on the way we think, feel, or act is a formative experience. Repetitive experiences may support or discourage the realisation of our personal values. The experiences that happen around products and services also support or discourage the realisation of our values.

A company that focuses on experience needs to consider how its strategy links experience, values, products and services. We propose a values-in-experience approach which begins with determining what values customers desire to realise, then working out how an organisation might help that to take place. Particularly, the method constructs narratives around surveyed customer values to "read" the clues for customer desires. The process of creating experience strategy is a creative process because the relationship between values and experiences is ambiguous and is subject to contradictory interpretations. The customers, however, operate in that complexity; therefore companies must adopt that perspective.

To make a good narrative a company needs to decide why and how an experience it provides is the best for customers to have. The best experience is the one that supports customers in the desire to realise their values. It is essential for the organisational management to understand how the customers' values are structured and how they are represented. This will help the company to differentiate their experience offerings.

The values perspective on business offers a description of the problem situation that companies face when targeting customer experiences in strategy. Values explicitly put strategy in an appropriate social context, in which companies can compete by knowing what experience customers want to have and should have. Differentiation strategy extends beyond an immediate description of the market situation. The pleasure of experience is made up of what a person desires to have and what he or she deems important to have. The concept of values at the core of differentiation strategy enables companies to target such complete experiences.

Complete experiences are made possible because of what values are for an individual. They are enduring concepts that guide behaviour, assess past experiences and evaluate actions from the observer's standpoint. In contrast to needs, which can be latent, values can be used as a vector in developing offerings for future experiences. Even newly discovered needs are motivational only while unsatisfied. In contrast, values are always motivational.

Although the discussion of understanding customer values, needs and beliefs as a starting point for planning products, services and experiences has been around for decades, the discussion mostly focused on understanding current and/or anticipating latent customer needs. The challenge with needs is that customers are quite weak in explaining their needs until they see how those needs can be met (Brown, 2006; Kim and Mauborgne, 2005; Kotler, 2003; Ulwick, 2002; Morita, 1986). The role of values, as a distinct concept, has not been explored in

depth in differentiation strategy for the creation of an experience. The universal and enduring nature of values and the concept of desirable seem to provide solid ground for the development of differentiation strategies. It follows that to take the perspective of human values on business strategy means building organisational strategy in a certain way, which follows the principles:

1. The role of a company in the development of differentiation strategy is focused on the ability to provide experience offerings that are underpinned by customer values. Traditionally it has been assumed that a company's differentiation ability is a function of addressing needs through unique exploitation of a given set of resources.
2. The development of experience is possible when a company uses values as a vector for interpreting what experience a customer would want to and should have. Traditionally it is believed that observation of current desires is the most important factor in competition for a customer's attention. Moreover the traditional perspective implies that intentional experience differentiation strategy is impossible because experiences are created between a company and a customer at the moment of consumption.
3. From the values perspective, the more successful customers are in living out experiences in accordance with their values, the better it is for the company. In other words, the more a company can enable customers to follow through with their values, the better experiences customers are going to have. As a result, a company creates greater chances for its own success. Traditionally it is believed that companies compete by finding and exploiting customer existing needs.

Values perspective suggests that a customer's enjoyment and evaluation of an experience occurs simultaneously. Customers perceive experience both as actors and observers. In the actor role, a customer is integral with the experience and views it from the inside. As an observer, however, customers take an outsider perspective to evaluate the experience. In this role, customers desire to cultivate a sense that any independent external observer would approve of their choices and behaviours. Thus, in an experience, a customer consistently maintains the role of an actor-as-observer. A company's ability to find an actor-observer balance in the experience it creates may greatly influence its competitiveness. Traditionally, companies seek to understand the customers' role as actors. The knowledge of customers is a source for internal organisational processes. Competitiveness is a function of the coordination of internal processes.

In this thesis the universality of values includes three main concepts. First, the universality of values refers to the fact that values are limited in number (Rokeach, 1979a) and are understood and interpreted in a similar manner across different countries and cultures (Schwartz, 1992). Although values are subject to interpretation, people have a sense of values objectivity (Williams, 1979).

Second, the universality refers to the general structure of values. That is, the conflict among and compatibility of values form a consistent pattern across various cultures. This does not mean, however, that value priorities are the same in

various situations. On the contrary, people prioritise values in accordance with experience. The universal structure of values “refers to the relations of conflict and compatibility among values, not to their relative importance to a group or individual” (Schwartz, 1992, p. 3).

Finally, values serve as the criteria people use to select and justify actions and to evaluate people and events (Rokeach, 1979). In other words, values are the embodiment of standards, against which the assessment can take place. A person uses values to filter the perception of reality when he or she evaluates and makes judgements about the experiences. As a result values mediate what is desired internally and what is experienced in external reality.

We explore the concept of universality in more detail in section 5.2 ‘Modelling experience differentiation: Values perspective’. We also compare the concept of values with that of needs and argue that because of the universality principle, values better suit the creation of an experience differentiation strategy than needs do.

1.3 Framing the research context

The case study in the ICT industry frames the empirical context of our research. While a brief description of the business case follows, at this point we discuss the important trends and changes in the software industry that influence the company’s business. Arguably, the most influential force driving the changes in the software industry is Cloud technology. It requires companies to review their development processes as well as business and marketing strategies.

The term ‘Cloud’ has evolved from the long history of internet-based technologies (Cardoso and Simoes, 2011; Vouk, 2008). Generally, the usage of the word ‘Cloud’ in ICT combines two related yet distinct concepts – technology and business. First, Cloud is used to describe a type of technological solutions used in a company’s operations. In this meaning, Cloud is identified as *Cloud computing*. It describes a combination of hardware and software technologies configured into a dynamically scalable system. Vaquero *et al.* (2009) reviewed and collected over 20 definitions of Cloud computing. Scalability in response to the load and provision of virtualised resources is a key characteristic of cloud computing. The objective of the Cloud is to optimise resource utilisation.

Cloud computing can be understood as the provision of shared resources and systems that are scaled and configured on demand. Cloud computing covers such areas of technology as virtualisation, elasticity, scalability, ubiquitous access (Cardoso and Simoes, 2011) and service oriented architecture (Vouk, 2008). It builds on related technologies, such as grid computing, utility computing, virtualisations and autonomic computing (Zhang *et al.*, 2010). Although Cloud technology has its own specificity, it is not an entirely new IT technology. What is mostly new about Cloud, however, is its business model. The business side of the Cloud is the other meaning of the concept.

In 2006 Google’s CEO, Eric Schmidt, captured Cloud innovation in describing the company’s strategy for providing services over the Internet (Schmidt, 2006).

He explained how current technology made it possible to create “a new business model that’s funding all of the software innovation to allow people to have platform choice, client choice, data architectures that are interesting, solutions that are new” (Schmidt, 2006). Cloud “brings together existing technologies to run business in a different way” (Zhang *et al.*, 2010, p. 8). In a business sense, the Cloud is a provision of services on-demand. Its main characteristic is the availability of a broad range of services through flexible pricing models. The objective of Cloud business is to provide innovative solutions for customers to access a diverse functionality and wide audience without the need for costly upfront investments in technology or skills.

The business model of the Cloud has a large potential because of analogous transformations that took place in the history of the electric power and telephony industries (Carr, 2009). With these transformations, the business model, resource ownership and availability, and access to services underwent significant adjustments. By the time the restructuring of the independent providers was completed, these industries became what we know as “utility industries” today. The parallels between the history of the utility industries and the current transformation of ICT industry suggest that the effects of Cloud phenomenon are dramatic and lasting.

The initial adoption and subsequent reliance on Cloud technologies and Cloud business models is becoming paramount for the competitiveness of ICT businesses. Cloud phenomenon shapes the industry (Zhang *et al.*, 2010; Buyya *et al.*, 2008), opens up vast market opportunities (Anderson, 2007), creates unique challenges for organisational processes (Cardoso and Simoes, 2012) and demands redefinition of business strategies (Buyya *et al.*, 2008; Anderson, 2007). One of the outcomes of the changing business models is that companies are encouraged to pursue both differentiation and low cost leadership strategies (Kim and Mauborgne, 2005).

Organisational strategy must account for the changes in at least three main business functions: financial models, internal processes and relationship with customers. In financial models, companies need to adjust to the new cost structures (Murphy and Samir, 2009; Anderson, 2007). As software becomes a service rather than an application sold for an isolated environment, it alters the flow of revenue (Campbell-Kelly, 2009). Unusual pricing models, when economies of scale allow for zero or close-to-zero prices, become valuable strategies in reaching vast markets (Anderson, 2007).

In the area of organisational process, service-based software undergoes standardization required to support reuse and scalability of services (Buyya *et al.*, 2008). The reuse of software elements is crucial for deployment of services in different environments. On-demand scalability is integral to Cloud computing (Cardoso and Simoes, 2011). In the software development process, cloud scalability services eliminate the risk of both over and under-capacity computation resources inside a company. This minimises the threat of overinvestment in hardware, or loss of potential revenue in case of insufficiency of resources. Software engineers can avoid investing in large amounts of capital resources and implement innovative ideas by taking advantage of Cloud virtualisation.

Finally, in relation to customers, the perceived value of experience becomes a key differentiation factor. Cloud resources assist new and innovative ideas in finding their way into the market speedily. As a result, the barriers of competition in the software industry change. The growing challenge for ICT companies is to be differentiated from the growing number of rivals.

New pricing models – key elements in reaching wide markets – become an industry standard, and therefore reduce the range for price-based competition manoeuvres. Companies, which successfully implement zero or close-to-zero prices, still face the need to differentiate their services from other free offers on the market. Other companies may choose to focus primarily on differentiation at the outset. For both kinds of companies creating a differentiation experience offering is of strategic importance.

To summarise, The Cloud is a disruptive phenomenon, which forces businesses to adjust their ways of doing business. Its dynamic nature challenges the relevance of the existing concepts and tools of the strategy field (Prahalad and Hamel, 1994). Two decades ago Prahalad and Hamel (1994) outlined the failing capacity of traditional strategy concepts to meet the demands of the contemporary business realities. Their call to formulate new concepts for describing the realities of business strategy is all the more urgent today.

The combination of experience and the Cloud defines a specific area where the rethinking of strategy is particularly warranted. Differentiation strategy based on experience is difficult to develop and implement because of the uncertain nature of experience, which takes place in the mind of customers. The perception of experience evolves continuously over time. Despite these and other challenges, the understanding of experience as differentiation strategy is a crucial task for a simple but profound reason – whatever unique characteristics a company may possess, if they are not perceived by the customers, they are of no benefit to the business. Thus, customer experience becomes a conduit for winning the audience, building relationship and delivering value to customers.

The Cloud provides a unique opportunity for developing experience differentiation strategy in a couple of ways. First, in the Cloud, a company has access to large quantities of data, which it can use to understand its customers better. The resulting information can be fed into the continuous improvement of customer experience (Meyer and Schwager, 2007). Secondly, a company can categorize its customers and gather feedback at the moment of contact. This information becomes available by analysing customer choices and behaviour. As a result, the Cloud makes the continuous adjustment of differentiation possible.

It is expected that understanding differentiation by experience will aid in managing and designing experience offerings. Current differentiation concepts (e.g. Grönroos, 1990, 2007a; Kotler and Armstrong, 2004; Levitt, 1980; Storey and Easingwood, 1998) view experience as one of the outcomes which happens as a result of product or service design. But a growing amount of literature argues that experience is the differentiation factor (e.g. Ng and Smith, 2012; Pine and Gilmore, 1998). Thus knowledge about how experiences can be developed systematically is crucial to competitive strategies.

2. Research question and objectives

The aim of this research is to use a knowledge of customer values to construct a framework for developing an experience differentiating strategy. The empirical context of the research is services in the Cloud environment.

This study centres on the following research question:

How can a company build an experience differentiation strategy by taking a customer values perspective?

The reason this is an important question is because many experiences can differentiate a company, but in the absence of a decision, the framework and choice may be less than optimal.

People organise business operations in accordance with strategic choice, thereby deliberately developing their personalities, knowledge and skills. The chosen orientation of business institutions, however, redefines people's views of themselves and influences their value beliefs (Schwartz, B., 1990). Organisational practices encourage specific behaviour (Ferraro *et al.*, 2005). Marketing activities promote aspirations and influence value principles.

Differentiation by experience implies that a company aims at communicating certain values and behaviour that is good and valuable for customers. Value delivery is the central theme for the strategy in a customer-oriented business. In experience, value and goodness go hand in hand (Ng and Smith, 2012). This means that it is not enough for a company to understand what customers will value, but also what will be good for them. How a company decides what is best for its customers to experience is the motivation for this research.

Experience differentiation presupposes that organisational systems and activities give "goodness" to customers. It would be erroneous to conclude, however, that business transactions are "good" because one or more participants benefit. When experiences lead to the decisions for the destruction of vital natural resources or weapon distribution, for example, many would question the "goodness" of such strategies. While natural resources and weapons may be extreme examples, the gaming industry, information security and other on-line experiences can be analysed with the same presupposition as the starting point. If the analysis condemns some experience, should this mean that it destroys value?

Meaningful study of customer experience creation must evaluate management practices. Its goal is not to be critical, but to stimulate an improvement in business

practices. The evaluation needs to extend beyond the analysis of only the best case examples of customer experiences because they may be insufficient to determine what constitutes “best” customer experience.

While this work contributes to the awareness that experience shapes personal values, it is far from social corporate responsibility research. The central figure of this study is a decision maker. The goal is to provide a method for thinking through customer experiences and implementing the results into a differentiating strategy.

Although companies are encouraged to focus on customer experience (Pine and Gilmore, 1998), it is not entirely clear how that experience can be provided as an offering. The challenge of an experience strategy is the level of customer engagement.

Since the level of customer engagement cannot be predetermined, companies will have to give customers as much choice and flexibility as possible – in the channels of distribution and communication and in the design of products. But companies can also help direct their customers’ expectations by guiding public debate about the future of technology and economy (Prahalad and Ramaswamy, 2000, p. 84).

An indirect influence on customers’ expectations is an important part of product- or service-business activities (Coye, 2004). Customer value, satisfaction and loyalty seem to be connected to expectations (Flint *et al.*, 2011; Mascarenhas *et al.*, 2006; Fishbein and Ajzen, 1975). More recently, the anticipation, management and understanding of customer expectations has drawn attention of business research (Blocker *et al.*, 2011; Henning *et al.*, 2012). The intelligence about customer values and customer value enhances market orientation, which has a positive effect on product and service performance (Carbonell *et al.*, 2010; Tsiotsou, 2010), profitability (Baker and Sinkula, 2009) and innovation (Carbonell *et al.*, 2010).

We are interested in the specificity of customer experience in understanding and managing customer engagement. In other words, when a company shifts its emphasis from products and services to customer experience as the main element of differentiation, what then specifically needs to change in its strategy?

We argue that in experience a company creates value when it supports customer values. Therefore, competition means striving to help customers realise their values, while at the same time meeting the company’s own objectives. Differentiation by experience demands a thorough understanding of customers.

The objective of this work is to equip businesses with a theoretically sound and attested framework that enables managers to make decisions for differentiating by experience. Understanding how companies can create experiences is of the utmost importance for the competitiveness and longevity of a business. If customers do not recognise the value of a new offering, they are unlikely to pay for it. As a result, the company investment of resources and its competitive positioning will suffer.

The achievement of this goal depends on finding an answer to the research question, which can be broken down into three sub-questions. First, how does a focus on experience affect the differentiation concept? Second, what role do

customer values play in experience and its valuation? Finally, what is the decision-making process for differentiating with experience?

The structure of this work addresses these questions sequentially. As we look at the differentiation strategies in the first part of the monograph, we propose a differentiation concept with values at the core and the emphasis on intentional creation of experiences. The review of human values theories reveals that experiences need to attend to both rational and irrational reasoning. Values are shown to be a more suitable orientation of experience creation than needs, because customers are known to have difficulties in articulating a need until they see how this can be met. Values, on the other hand, can be articulated with greater ease. The main goal of the decision-making framework – developed in the second part – is to guide a decision-maker through the process of experience creation. This part focuses in particular on establishing the link between the differentiation concept and its implementation. The decision framework is attested through a series of steps, together called a Values-in-Experience (ViEx) method. The method is a validation of the decision-making framework. In addition to ViEx, the framework was validated through a series of interviews with management. The analysis of these interviews, together with the results of the implementation, concludes the discussion of the experience differentiation.

3. Research methodology

The challenge of taking a values perspective on research experience business strategy lies in producing practical and applicable results. The subjective nature of experience and customer value may be compelling to take a subjective approach with interpretivist epistemology. Although contemporary research demonstrates such a position, it pronounces reality non-existent apart from in the actor's mind. This means that epistemologically personal experience is a black box for an outsider, and it is impossible to prescribe how to develop an experience as an entity because subjectivist ontology rejects the standpoint of an observer. Nonetheless, the development of strategy implies an observer viewpoint.

It seems paradoxical to recognise the complexity of experience under interpretivist and subjectivist thought, yet seek to develop a framework for providing customer experiences. Central to this paradox is the argument that a strategy of competing on experience implies that experience can somehow be manipulated. But subjectivity of creation, co-creation and re-creation of experience makes it difficult to isolate, understand or manipulate the experience.

Our view of experience agrees with that of American philosopher and psychologist John Dewey, who asserted that experience "recognizes in its primary integrity no division between act and material, subject and object, but contains them both in an unanalysed totality" (Dewey, 1958, p. 198). In the words of Schembri (2006), "a focus on customer's experience entails a non-dualistic ontology where person and world are considered the one relation, along with a socially constructed epistemological position where multiple realities are recognized and constructed through social action" (p. 387). This understanding of experience is, however, different from the view of strategy management, for which we assume an objectivist position with positivistic epistemology, and we discuss this in the following section.

Bhaskar (2008) asserts that reality and observations operate along two dimensions: intransitive and transitive. The intransitive dimension represents ontological reality, which is fairly stable and unchanged. The transitive dimension, on the other hand, is an epistemological dimension, which recognises that observations are always value-laden. These two dimensions span subjective and objective views of reality and help to form a foundation for managerial thinking about objective strategy for targeting the subjective nature of experience.

Epistemologically, the purpose of this study is to seek to understand the role of values in developing an experience strategy. The object of the research is

strategy, which together with the offerings, their features and functionality, is taken to be objective. Customer value and experience are ways of knowing the reality and, hence, are subjective.

Human values in this research are understood in an axiological sense. That is, values are beliefs that people hold in aesthetics (e.g. beauty, harmony, goodness) and ethics (e.g. right, wrong, fair, legitimate). Schwartz (1992) and Rokeach (1973) argue that values constitute grounds for actions. Boudon (2001) explicates values as strong reasons on which choices, behaviours and valuation of experiences are based. This research acknowledges, therefore, that the subjectivity of experience can neither be isolated from nor properly understood apart from customer values.

Although personal values are interpreted and applied uniquely to each situation, in this study, values are regarded as objective in the same way as scientific conjectures form objective grounds for enquiry into reality (Bouldon, 2001). Values form a ground for behaviour. They are objective in a sense that people justify and explain causality of their actions with the help of values. Values were found to be stable and enduring beliefs (Rokeach, 1973) that transcend situations (Kahle, 1996) and are universal in nature (Schwartz, 1992). Scholars research values as psychological and sociological structures that define identity, underlie choices and guide behaviour. Values exist on organisational, cultural and universal levels.

The subjective nature of social interactions between companies and customers defines experience as changing and evolving continuously. As a result there is no single experience entity that a company could design. This is where customer values become particularly important. They are viewed as the means for interpreting and attributing meaning to experiences. They help to make sense of the complexity of created and re-created experiences. Therefore, understanding the role of values in experience can help us understand the creation of experience strategy.

3.1 Business strategy: objective and positive perspective

By looking at the strategies over the dimension of time Mintzberg *et al.* (1998) suggests that strategies can be intended and realised. Strategies that are realised can also include emergent (unintended) strategies. In contrast to intended strategies, which are formulated and pursued, emergent strategies form over time.

Such an objective view of business strategies is representative of business literature. Porter's (1985) cost, differentiation and niche strategies, Prahalad and Hamel's (1990) core competences, Kim and Mauborgne's (2005) blue ocean, Doz and Kosonen's (2008) fast strategy, and McGrath's (2013) innovation proficiency for transient competitive advantage – all strategies take an objectivist stance in describing management's strategic role. Indeed, a strategy has a structure, goals and people who are responsible for its implementation. It can be designed, implemented, pursued and modified.

Mintzberg *et al.* (1998) defines strategy as a *plan* of future actions; a consistent *pattern* of behaviour over time; the creation of a unique product *position*; an organisational *perspective* on the way of attaining goals; and a *ploy* of competitive

manoeuvres. McGrath (2013) takes an entrepreneurial view of strategy. She characterises strategy as skills that include making an investment in the future while minimising risks; learning from failures; continuously recognising opportunities; allocating resources to drive innovation; identifying product “jobs”; finding new business models for innovation; and deploying different leadership behaviours. In the technology industry, Moore’s (1999) now classic *Crossing the Chasm* described strategies for gaining market share by spanning the gap between the early adopters and the early majority. Moore (2011) discussed growth strategies. Cusumano (2004) challenges software companies to make a conscious strategic choice in becoming primarily a product, a service or a hybrid company. In a word, strategy is intentional. It is a deliberated business practice, which assumes an objective and positivist research philosophy.

Standing on the shoulders of giants, this research maintains an objective position in strategic management. The research approach is constructive. It aims at developing a framework for integrating values in strategy development. The constructive approach is a problem-solving method, frequently used in management and ICT research for developing and evaluating novel theories, techniques and frameworks. In particular, this work focuses on the problem of developing an experience differentiation strategy from human values perspective. The research relies on human values and business strategy theories. It aims to produce and attest a framework for creating a differentiating experience.

The constructive approach assumes a positivistic epistemological position. By ‘positivism’ we mean an approach to knowledge development, which seeks “to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements” (Burrell and Morgan, 2001, p. 5). More specifically, we review existing differentiation concepts and build hypotheses about the place of values in a business that competes in the field of customer experience. With this approach, we analyse the business strategies for integrating values into product and service development, and suggest a framework for developing differentiation strategy.

It is important to note that this research does not attempt to establish “causal relationships” in the philosophical sense of identifying the existence of a single causal reality. That is, we avoid claiming causal linkage for the purpose of segregating reality into effects and causes. In this monograph, causality refers to law-like generalisations derived from sets of systematically related principles. The aim is to increase the understanding of differentiation in the field of customer experience through describing the role of customer values in experience and strategy. The law-like generalisations enable us to create a testable hypothesis and transition to the prescriptive (normative) framework for a decision maker.

Positivist research is appropriate for management studies, especially for those demanding an observer standpoint. The position of an observer entails making decisions based on information about expectations and possible consequences. Companies that compete by developing products and services for experience make judgements about what are reasonably the best consequences of experience for a customer. By creating experiences they are involved in both rational and

ethical decisions about the direction of a customer experience. The direction of experience is determined by what values are supported explicitly and implicitly, what are the restraints on experiences and how the issue of conflicting values and norms is addressed.

During the process of conceiving and creating an experience, a company may take an actor's (insider's) position in order to understand the nature and elements of experience. When sufficient knowledge about possible customer experience is gained, the company generates an objective view of future experience based on the available knowledge. In fact, managers oscillate between observer and actor perspectives while creating experiences and designing products and services for them. As a result, a prescriptive and normative model, which systematises objectives and resources to make sense of the alternative courses of action, is likely to benefit a decision-maker. Positivist research provides an avenue for the development of normative models with the law-like generalisations (Hunt, 2010). A normative model generalises the observed reality, and suggests solutions for how experience differentiation strategy can be undertaken.

The notion of the *creation (development, design) of experience* is understood in the light of the objective positivism. Such treatment of the *experience creation* is crucial for understanding how organisations can compete by providing experiences as offerings. By creation (development) of experience we mean the performance of activities and consideration of constituent elements that make customer experience possible. While experience itself is a subjective phenomenon, a company influences customer experience. It creates opportunities for experiences, aims at a certain level of customer abilities, and works to reduce subsequent negative effects with the intention of creating an envisioned experience. In this sense, companies create experience because they deliberate about preferred experiences. They intentionality think through opportunities, abilities and effects with a wished-for experience in mind.

In a positivist epistemology, a researcher sets out to search for answers to problems in the management sciences. One of the essential components of this approach is heuristics, which includes a systematic analysis of existing models and step-by-step development of new ones. The new solutions are tested and their scientific and practical validity is discussed. The current research analyses existing concepts of differentiation and experience. It suggests a model for creating experiences based on the knowledge of values. The solution is applied in a case study. The results attest the empirical applicability and functionality of the solution.

Another constituent of the positivist approach is the quest for innovation. Classical positivism originated with the aim of applying scientific knowledge to the betterment and reform of society (Hunt, 2003). Innovation is an essential part of discovering answers to the research questions and applying the findings in practice. Essentially, positivist approach is a creative process guided by scientific rigour.

Positivist research has been criticised for giving a mechanistic (Thompson *et al.*, 1989), "reactive and deterministic" (Ozanne and Hudson, 1989, p. 1) view of humans and their behaviour. These and other authors argue that such a view has dominated consumer research. Therefore, Ozanne and Hudson, for example,

suggest interpretivism as “an alternative approach for seeking knowledge” (Ozanne and Hudson, 1989, p. 1). Thus phenomenology and interpretivism can be favoured over positivist approach in marketing. As a result, studies in social sciences, marketing and management are increasingly associated with qualitative research, whereas positivism is criticised for its deterministic and quantitative methods (Thomson *et al.*, 1989; Ozanne and Hudson, 1989). This association between positivism and quantitative research is a misconception. The architects of positivism “actually opposed the use of statistics in sociology” (Hunt, 2010, p. 268). They recognised the importance of interpretivist research and the role of an external observer.

Hunt (2010) shows that the claim that the positivist scientific method is deterministic or mechanistic is ahistorical and even naïve. Nor does positivism seek to uncover the “real” causes of events. Hunt traces the historical origins and development of positivism in the second half of the twentieth century, and concludes that even in the case of quantum mechanics only a probabilistic protection is sought. “It should be emphasised that only prediction is sought, not “deeper” or causal explanations. Theories and laws, therefore, must be treated solely as calculation instruments for making predictions” (Hunt, 2010, p. 270).

The parallel between natural and social sciences suggests modelling factors that ‘bring about’ a given event is a scientific activity, which helps understanding the observed. The positivist view does not mean that only one interpretation of reality exists. On the contrary, it postulates multiple interpretations of the observed world, which is external to the human mind. The question is not whether something exists or has a causal explanation, but rather whether the factors employed describe what we observe.

An alternative interpretivist position is of little help in experience creation strategy, because its subjective and relativistic elements do not say anything about reality. Both the model and its elements are tied more closely to one’s perception rather than to reality. In experience creation, a company conceives of future reality, which – while interpreted individually by customers – is brought about by factors that a company chooses to manipulate. Such a perspective is quite helpful for strategic management.

3.2 Positive and normative approach to strategy

The positivist approach gives support to the normative decision-making framework – the main result of the research. The values-in-experience (ViEx) framework assists a decision maker in deciding how to pursue the creation of experiences as an offering, given the objectives and customer values. The framework is a generalisation. It is a prescriptive and normative model. Its purpose is not to uncover final and causal explanation; nor is it to seek prediction, but rather to benefit a decision maker. Positivist explanations and predictions that lead to the development of the model are derived from an existing body of knowledge in

sociology, social psychology, economics, strategy and marketing. The ViEx framework provides an understanding of the nature of differentiation by experience.

Hunt (2010) discusses how positive and normative theories differ in structure, purpose and validation criteria. First, the structure of the positive theory is the law-like generalisations, which explain an observed phenomenon. A purely normative theory, however, contains prescriptive principles, which may not necessarily explain the phenomenon.

The difference in structure reflects the variance in purpose. Namely, a positive theory aims at increasing the understanding of a phenomenon, whereas the objective of a normative model is to give guidance in a decision-making process. This second difference between the two types of models is somewhat obscure because a theory, which explains, predicts and increases understanding, will be also useful in decision making. In fact, Hunt asserts: “good normative theory is based on good positive theory” (Hunt, 2010, p. 211). Also, “normative statements are normally antecedent conditions in scientific explanation” (Arndt, 1982, p. 31). That is, when we understand how something works, we develop models that prescribe how to make it work better. At the same time, the desire to make something better guides the exploration of reality. Thus, in marketing, positive and normative are closely intertwined. This is fundamental to understanding the differentiation strategies in customer experience – every company that desires to create an experience for customers will inevitably be deciding what experience their customers should have.

When a company wants to create an experience for its customers, the understanding of that experience is essential. A good conceptual model may describe experience. But a normative model is necessary to understand how experience can be created as an offering. Only when a connection between concept (positive theory) and prescribed actions is established can we expect to be successful in creating customer experiences. This leads us to the final distinction between positive and normative theories, namely, the validation criteria.

The positive theory is validated by its internal consistency and testable experiments. Normative theories, on the other hand, are validated by their “usefulness”. When a model operates with available resources and is relevant in different situations, then it is useful for managerial tasks. Normative statements about what ought to be cannot be empirically tested as can the positive principles of what is. Nevertheless, normative theories abound in marketing research. Hunt (2010) observes that “much of the theorising in marketing is normative” (p. 210). Normative theories are verified and tested by their usefulness. Similarly, this research validates the ViEx framework by how well it assists management in making decisions about experience. If managers find the model helpful in creating unique experiences, then we can conclude that the model is useful and, therefore, valid.

3.3 Rational and ethical normative approach to values

Normative theories deal with at least two aspects of what “ought” to be. “One embodies an *ethical* “ought”; the other, a *rational* “ought” (Hunt, 2010, p. 211, italics original). Ethical normative theories discuss desirable and appropriate human behaviour. Rational normative models are those that assist “a decision maker in rationally or systematically choosing from among a limited set of alternative actions or strategies, given certain (1) objectives, (2) consequences or payoffs, and (3) states of nature” (ibid.). This distinction between rational and ethical normative models clarifies one’s analysis of normative models. However, such thinking is hardly representative of the world we live in. It becomes especially difficult to delineate the two types of theories when discussing experience.

The framework suggested and tested in this research falls into the rational category because it guides managers through the process of making decisions about future customer experiences. Although the framework represents a rational model, it recognises that the value judgements and experiences can be both rational and irrational. Customers can make decisions and evaluate their future, current and past experiences from a mixture of rational and irrational perspectives. This is because personal experience combines rational and irrational, material and immaterial in a total whole (Dewey, 1958). To create a decision model that views experience only from a rational perspective is to abridge the evaluation of it only to utilitarian and consequentialists outcomes. Limiting experience to mostly rational or irrational processes is not useful for a company’s strategy, because this is not how a customer perceives an experience.

The complexity of human convictions is simplified by rational value theories. Without the knowledge of customers as both rational and irrational beings, a resulting model is incomplete. The rational view portrays a customer’s desires, choices and behaviour as the outcomes of reason. It implies that they review possible alternatives and calculate the best way to satisfy their desires before engaging in experience. While this is true in some cases, it is certainly not true in many. Customers may follow their emotional states, habits or ethical convictions without seeking to maximise the benefits. Moreover, decisions may contain an irrational element even when the best outcomes can be learnt through reason (Ariely, 2009).

The rational view has influenced much of theorising about marketing. In general the concept of customer satisfaction is an example of a rational view of the customer. In essence, the concept proposes that with some degree of accuracy a company can foresee customer expectations, and then it can analyse the elements of its offering with regard to their contribution to the anticipated outcome. This view is helpful in modelling some market realities but not experience, which is shaped by many factors in addition to possible expectations. Thus, it is important that neither ethical nor rational convictions are barred from the customer experience model.

3.4 Experience and values from positivist viewpoint

Earlier we argued that experience is far too complex to lend itself to only a rational explanation. We maintained that the rich insights into this complex world are lost when experience is reduced to a consequential or utilitarian model. Would it be consistent to maintain a positivist position for describing values and experiences? The law-like generalisation of positivist research is criticised precisely for the reduction of a phenomenon to a series of statements.

The academic and business discussions of the *nature* of experience and the *nature* of value creation for the most part assume an interpretivist epistemology and a subjective ontological position (e.g. Ng and Smith, 2012; Prahalad and Krishnan, 2008). Interpretivism holds that the complexity of the business and management worlds are difficult to explain in the positivist tradition. The richness of experience and the resulting customer value is lost when reduced to law-like generalisations.

In an analysis of value, Ng and Smith (2012) take a phenomenological perspective – an intellectual tradition which preceded interpretivism – “phenomenological value therefore regards objects as inherently conceived in the experience of it” (p. 5–6). Epistemologically in this tradition objects are not independent of the mind that knows them. “The value is emergent and experienced between object and subject” (Ng and Smith, 2012, p. 6). In other words, the reality is part of the observer's mind. Other scholars adopt phenomenology in understanding marketing function (e.g. Grönroos, 2007a, Vargo and Lusch, 2004), service design (Schembri and Sandberg, 2011), and experience (Schembri, 2006).

In marketing, phenomenology includes interactions between organisations and customers. The processes of interaction and communication are important in creating an individual response. The customers' perception always changes as it adjusts to the behaviour of other people, circumstances and their understanding of the situation. Central to phenomenology is the idea that people change in response to the environment, in which they operate. An example of a change evoked by the external environment is the transition of data stored on personal hard drives to a cloud storage service. This change affects people's sense of identity, perception of reality and value. Thus companies and their customers continuously construct and reconstruct the value of experiences.

Subjectivist ontology follows the interpretivist philosophy. Subjectivism views reality as a social phenomenon created from the perception of social actors. It puts emphasis on understanding the reality through the exploration of subjective meanings that influence the actions of social actors. Simply put, different people perceive the *same* phenomenon differently.

Customers and organisations as social entities will interpret situations and the value of an offering differently because of their varying worldviews, values and past experiences. Ontologically, this research views customers not only as interacting with products and services but also as interpreting the events that

accompany interactions and attributing meaning to their experiences. Interpretation and drawing meanings helps customers make sense of interactions and the reality of experiences. In turn, companies, seeking to create customer experiences, can only make them meaningful in the context of socially constructed interpretations and meanings.

Interpretivism advocates the importance of understanding the context. Context accounts for the way the interaction between object and subjects takes place. The perception of an object results not only from interactions, from individual intentions, but also from the context. This research displays interpretivist epistemology by referring to customers as “social actors”. Although this is a well-known and appropriate terminology in business and management research, particularly in marketing, it can become so familiar that its meaning is overlooked. The term “social actor” suggests a metaphorical picture of a theatre. Theatrical production takes place with props as a context, with actors, who act out their roles in accordance with their interpretations. In their seminal paper, Pine and Gilmore (1998) expand this metaphor to business competition in experience economy, where experience takes place in the customer’s mind.

Classical positivism originated with the purpose of “the promotion of a more just society through the application of the knowledge generated by science and the scientific method” (Hunt, 2003, pp. 45–46). The ‘father’ of sociology, August Comte (1798–1857) was a positivist and believed that proper investigation of social phenomena would reveal law-like patterns, which can be used for the betterment of society. He also contended that sociology “gave meaning and purpose to the other sciences” (Hunt, 2003, p. 46). Hunt (2003) observes that any knowledge generated by science can be positively applied to social issues.

Furthermore, Ernst Mach (1838–1916) took a phenomenalist and sensationalist view and reformulated Newtonian physics, the foundation of modern science at that time. Einstein was inspired by Mach’s positivism. He questioned Newtonian absolutes of time, space and mass, and developed his first, special and, then, general theory of relativity. The theory of relativity and quantum mechanics sent shockwaves through the philosophical community, demanding a theory that would accommodate both the “bizarre” nature of Einsteinian relativity and quantum mechanics, for instance, its functions, which used imaginary numbers to explain reality (Hunt, 2003, p. 62).

Logical positivism that was born as result of this challenge embraced the conflict between the desire for knowledge with absolute certainty and the continuous discovery of new fundamental explanations. Positivists learnt that “only by adopting the very conservative procedure of restricting the knowledge-claims of science to directly observable phenomena and relationships among those phenomena could another Newtonian debacle be prevented” (ibid. p. 70). They contended that observations of correlated events never lead to inferences about causal relationships.

Because no amount of empirical support could possibly confirm a theory with certainty..., theories should be construed as instruments to summarise observations economically, rather than be postulated as truly representing the actual "hidden structure" of the world (ibid. p. 71).

Sociological positivism follows this principle that theories are instruments for the description of the reality, and takes scientific knowledge beyond the facts. It uses the instruments to apply and solve social issues.

To address the question of subjectivity versus objectivity in positivist research, we need to distinguish between ontological and epistemological objectivity. Ontological objectivity is concerned with the existence of entities independently of perception. Epistemic objectivity refers to the justification of the knowledge claims. In this sense objectivity

has to do not with the subject matter of a claim but with its justification. It pivots on the way the claim is substantiated and supported – namely without the introduction of any personal biases or otherwise distortive individual idiosyncrasies, preferences, predilections, etc. (Rescher, 1997, p. 4 In Hunt, 2010, p. 319).

In short, objectivity can be approximated but never fully attained. "Pursuing objectivity (minimizing know sources of bias) differs from the claim that one has attained OBJECTIVITY (maintaining that one has eliminated all bias)" (Hunt, 2010, p. 322; original emphases). Thus, objectivity in science refers to the movement to objectivity rather than claiming it.

Hunt (2010) analyses the issue of objectivity in social science by reviewing the Nagel-Weber debate on the topic. He provides several reasons why social science can and does produce objective knowledge. First, Hunt suggests that all sciences are value-laden, and thus social and natural science stand on the same grounds. At the outset, the selection of research topics reflects a researcher's values. The desire for a new order will affect the understanding of the current one. Since all knowledge – both in natural and social sciences – is biased in that sense, social scientists are encouraged to maintain a "self-corrective mechanism". They need "to state their value assumptions fully" and carefully "distinguish between statements that characterize states of affairs (i.e. positive) and those that appraise those states (i.e. normative) (Ibid., p. 328).

Second, the reliance on empathetic understanding of subjects "could rightfully constitute scientific knowledge" after it is verified (Ibid, p. 327). Marketing research must rely on an empathetic understanding of customers. Therefore, researchers produce scientific knowledge by empathetically projecting themselves into the experiences of their subjects. The verification of the resulting claims requires the reproduction of the context.

Third, multiple causes of social events fall into objective categories. For example, many external influences on social behaviour can be easily observed by the public. "Therefore, knowledge-claims relying on such factors are also objective" (Ibid.) That said, it is important to emphasise that we reject the view that

objectivists “treat human beings as machines or biological organisms and social structure as if it were a physical structure” (Burrell and Morgan, 2001, p. 102).

Finally, to claim objectivity in natural or social sciences one must transcend their social position to claim that someone’s knowledge is value-laden. If one can transcend the social position to make such a claim, why would it be impossible for a social scientist to do this?

To conclude, we recognise the subjective *nature* of values and experience as an unobservable personal concept, which continuously evolves. As people interact with the external environment, their goals and motives change, values take various priorities and experience emerges. It is impossible to box and make an experience as a product. However, in the light of the research purpose we view the creation and delivery of experience from the viewpoint of a strategy maker.

The goal of the research is to provide a normative framework for making decisions about customer experiences that will differentiate a company’s offerings. For this purpose we take a positivist position to describe the *valuation* of experience. Epistemologically, we treat experience as objective knowledge in order to make the discussion of experience strategy meaningful and the provision of experience as an offering practical.

3.5 Research paradigm

Burrell and Morgan’s (2001) four social analysis paradigms are helpful in summarising the epistemological and ontological position of this work. Paradigms represent general methodological perspectives on examining, understanding and explaining social phenomena.

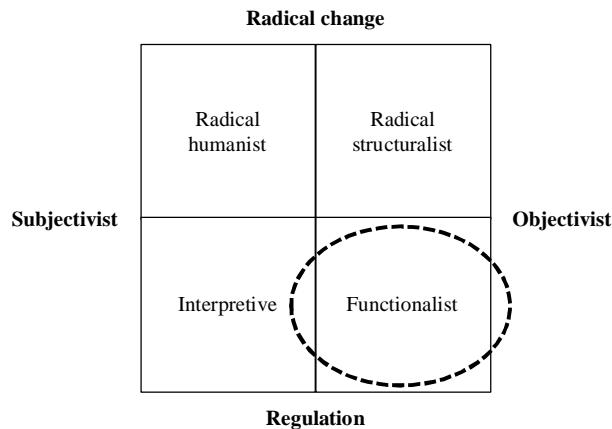


Figure 2. Four research paradigms of social analysis. Source: Burrell and Morgan (2001).

Figure 2 illustrates the four paradigms arranged along two dimensions: subjectivist versus objectivist and radical change versus regulation. The subjective – objective dichotomy describes the general approach to social science. These concepts were discussed above in the sections on business strategy and experience. The radical change and regulation dimension describes the assumption about the relationship with reality. In a business and management context *radical change* stands for seeking alternatives rather than maintaining the *status quo*. What is potentially possible is as important as the current state of affairs. The sociology of *regulation* is primarily concerned with providing explanations of existing order and suggesting improvements within the present framework.

The dimensions form four general paradigms, which summarise the assumptions about the scientific approach and nature of society thereby demarcate the route for a research. Although typology identifies four separate paradigms, each paradigm is wide and shares common characteristics with the adjacent ones. Therefore, it is not surprising that the current research spans over at least two of the paradigms. Despite some ambiguity, Burrell and Morgan's (2001) model is useful in understanding various research approaches.

For the most part, this research represents a functionalist paradigm. Central to this paradigm is the intention to provide a rational explanation to an existing problem. In particular, we are concerned with the practical use of human values in developing experience differentiation strategy. A researcher with a functionalist view seeks to generate knowledge which can be applied into practice. Such a problem-oriented approach is in-line with the constructive and positivistic nature of this work. The research emphasise the importance of understanding the existing structure of customer values in order to 'regulate' current differentiation strategies, influence the environment and gain control over organisational competitive position.

The functional paradigm fits the problem-orientated approach of this work because it is concerned with creating a framework that will guide a company in the understanding and provision of experiences. In this sense, a company engages in a sort of "social engineering" by which it influences the existing social order. When a company thinks of experience as a factor of competition, it is concerned with how to effectively influence and maintain the experience. Recognising that the nature of experience is beyond the mechanical means of analysis and measurements, we attempt to model the processes creating and providing an experience as an offering. For the purposes of modelling the experience as offering, we focus on how customers evaluate their experiences. Similar to the general theme of the functional paradigm, this work is concerned with the practical use of experience valuation in decision-making processes and differentiation strategy.

As a side note, Burrell and Morgan's (2001) functionalist paradigm needs to be distinguished from the functionalist research method. The former is a meta-theoretical characteristic of direction of sociological thought. Paradigm is "a term which is intended to emphasise the commonality of perspective which binds the work of a group of theorists together in such a way that they can be usefully regarded as approaching social theory within the bounds of the same problematic" (Burrell and Morgan, 2001, p. 23). The functionalist research method characterises

the logical assumptions behind a chosen way for studying and solving a research problem. In this sense, the functionalist approach to science views parts of an identified system in terms of how they serve that system. In social science, “functionalism generally seeks to understand a behaviour pattern or a sociocultural institution by determining the role it plays in keeping a given system in proper working order or maintaining it as a going concern” (Hunt, 2010, p. 274). Specific to marketing, Alderson (1965 in Hunt, 2010) applied the functionalist view to describe the competitive behaviour of firms in the marketplace. He explained the firms’ survival strategy by competition for the patronage of the households (i.e. market segments).

The boundaries of the Burrell and Morgan functional paradigm are not clear cut. The paradigm includes the elements of German idealism, Marxism and sociological positivism. Thus, it was influenced by the philosophical thought of subjective paradigms, such as an interpretive one. Such theories rejected the deterministic interpretation of the world, and instead embraced the understanding of society from the perspective of social actors. The problem of competing by providing experiences and the application of customer values in the creation of experiences demands a subjective interpretation of experiences from the customers’ viewpoint. For this reason, we include the interpretive paradigm as part of the research methodology.

The research shares elements of interpretive paradigm because it unearths some irrationalities in the organisational view of experiences. Specifically, we point out the dominance of a utilitarian view of value in business strategy and emphasise the importance of understanding irrational value when dealing with experience. It is argued that customer experience stretches beyond the cost-benefit and consequential analysis inherited from economics. Despite the practicality of economics perspective, it is an abridged view of customers when experience is sought to be the basis of differentiation.

“The interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience” (Burrell and Morgan, 2001, p. 28). We acknowledge the interpretivist position in understanding the nature of customer experience and valuation. In order to study the evaluation of and creation of experience as an offering, we maintain the positivist perspective. That is, a positivist view is required to suggest how the current view of reality can be ‘regulated’ to better match the experience model of business. Namely, the research advocates using both rational and irrational values when developing experience for customers. Integration of both irrational and rational values in business poses particular challenge, which we propose to address with the ViEx framework.

4. Research process and results

This section describes the research process, and summarises the theoretical and practical contributions.

The research objective of this work is to develop a decision-making framework for building a differentiating strategy by providing experience offerings, implementing the model in the case organisation and testing its practical usefulness. In the case study, the values-in-experience (ViEx) method is used for integrating customer values in the process of experience creation and thus validating the decision framework. To attain the purposes of the research based on the ontological and epistemological assumptions, the constructive research approach was selected as the most appropriate. The constructive research focuses on developing new “constructs” – such as models, decision-making frameworks and methods – to solve existing business problems.

The constructive research approach in this study roughly follows the framework presented by Kasanen *et al.* (1993). In the first step, a research problem was identified, namely, experience differentiation with a values perspective. Then the literature study gave the pre-understanding of the topic. After that, we constructed the values-in-experience differentiation concept followed by the values-in-experience decision framework that addresses the research questions. Finally, we tested the ViEx framework in a case study. The testing phase led to the implications and discussion section, which provided a feedback for the theoretical contribution.

The research carried out in this monograph dissertation contains three parts. The process is represented graphically in Figure 3.

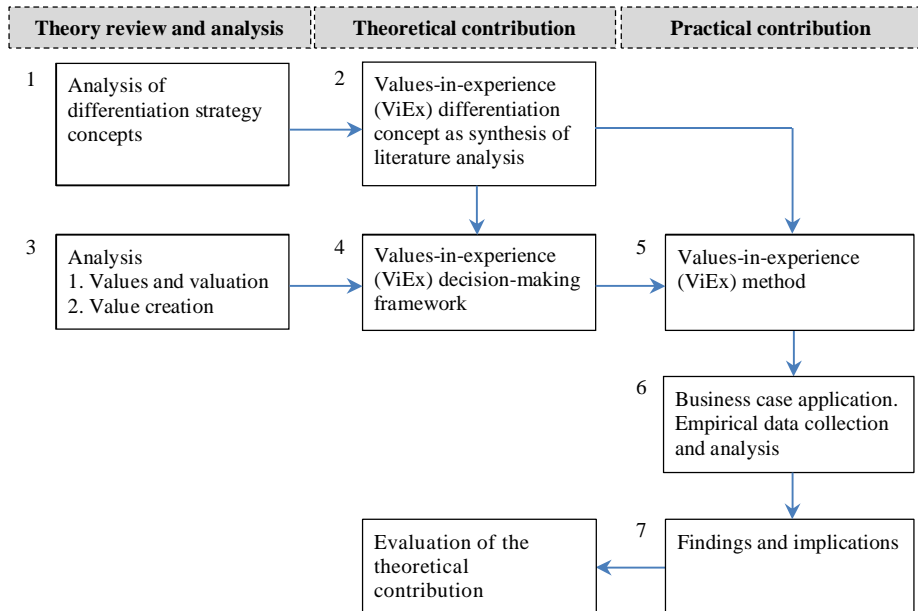


Figure 3. The research process.

The ViEx concept was developed not only on the basis of literature study but also as a result of the original case study research on user and customer experience in a software company, different from the case-study company. Although that research prompted the development of the ViEx concept and, later, ViEx framework, it is not included in the current thesis. Three main reasons support such a decision. The first reason lies in the general objective of this work to demonstrate the human values perspective on differentiation strategy. The initial research was not a part of the human values perspective study and, therefore, complicates the structure and disturbs the cohesiveness of the monograph in such a way that it becomes difficult to follow the story line. Second, the description of the initial case study had been included in the early drafts of the thesis, but later the chapters were removed. After several consultations and discussions with the supervisors it became clear that additional chapters contributed little to the main theme of the research and distracted the reader from the understanding of the topic. Finally, the first case study triggered intuitive ideas about the differentiation by experience model. Those ideas led to the intentional literature analysis for finding theoretical and practical grounds for what later became the ViEx concept and framework. The description of the original case study can be found in Sirotkin and Väänänen-Vainio-Mattila (2013) and Sirotkin and McCabe (2011).

4.1 Theory review and theoretical contribution

The first result of the research is the values-in-experience (ViEx) differentiation concept. It is proposed as a result of the literature analyses informed by the research objective. In particular, we begin with the contemporary understanding of differentiation strategy and move on to develop the concept. The ViEx concept takes the customer values perspective on experience differentiation and, subsequently, forms the foundation for answering the main research question. Figure 4 illustrates the ViEx concept of integrating values into strategy when competing by experience.

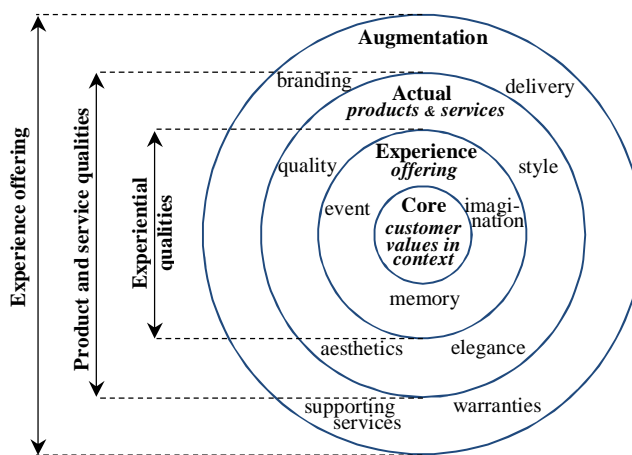


Figure 4. Values-in-experience differentiation concept.

The ViEx differentiation concept is a generalised perspective on the creation of customer experience. It orders the key elements of experience creation. In some cases, however, the contribution of augmentation to experience may take priority over that of the actual product. For example, the Coca Cola brand may have a greater influence on the experience than the content of the bottle. In the software industry, however, experience largely depends on the performance of a software product. Product or service functionality created an opportunity for customers to have a desirable experience. It is plausible, therefore, to conceptualise customer experience in a software context in the order it is illustrated in Figure 4.

The ViEx differentiation concept is a static model. It organises and presents the elements necessary for the introduction of values into the strategy. The concept is helpful for understanding the phenomenon of competition by experience. It is an objective perspective on experience strategy, and shows the components that need to be present in order to create an experience offering. The concept contributes to

the theoretical understanding of competing with experience by focusing on customer values.

The values-in-experience decision framework – the main result of the thesis – transforms the differentiation concept in a dynamic model. The framework more realistically models the integration of values for the creation of experience. It captures the creation of an experience strategy in process. The dynamic aspect of the experience strategy is essential because experience is dynamic by definition (Ng and Smith, 2012). Customer experience exists as a continuous process, which unites the delivery and consumption of an offering in one whole. Therefore, any suggested experience differentiation concept also has to reflect the dynamism of experience.

To understand the role of values in experience we continued with the analysis of human values theories and their applications in business research. Much of the application of values in business is done through the behavioural models. The review of some of the common models demonstrates how the values are generally integrated in the decision process, and shows that previous research has concentrated only on parts of the values concept in business. Until this study, a dynamic framework for experience differentiation from customer values perspective has remained undeveloped.

The focus on customer axiological values provided a way for assessing the existing business approaches of integrating values in customer value delivery. Boudon's (2001) typology of fideist, sceptical and rational theories (Boudon, 2001) was applied to the current business approaches in order to identify the required elements for experience creation based on values. As a result, we proposed the ViEx decision framework, which may guide the process of focusing on customer experience for business strategy development (Figure 5).

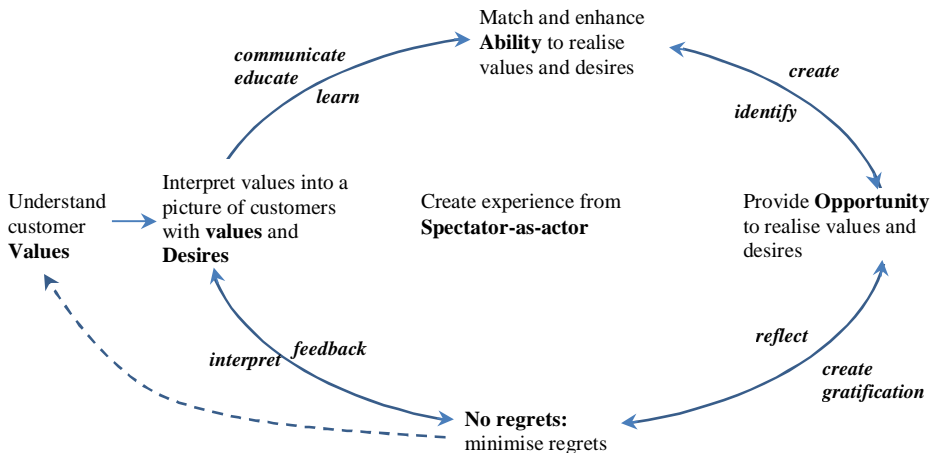


Figure 5. Values-in-experience decision framework.

Unlike the ViEx concept, the decision framework is a dynamic representation of customer experience development process. It shows the elements of experience and demonstrates the need for aligning organisational process for the development of desired experiences. Unlike product development, experience cannot be produced in accordance with a specification, because experience is perceived and unfolds at the time of consumption. For this reason, the tradition of product differentiation cannot accurately describe experience differentiation. To successfully compete in a new business environment, an organisation must not only have a new concept of differentiation, but also adjust its internal processes to become an experience-oriented business.

Alignment of organisational processes for the development of experience begins with the integration of customer values into the processes. In the framework, this is accomplished through the understanding and interpretation of customer values. At this point, the company looks into customer desires and extrapolates what they would appreciate. The following two steps – match ability and provide opportunity – are distinct but are hard to separate in practice. It is a process of matching customers' abilities to benefit from the experience and the organisation's readiness to provide an opportunity for customers to have the experience. Ability and opportunity need to go hand-in-hand so as to minimise the risk of customer regret. A company fails to differentiate with experience if customers fail to appreciate or understand it.

In the next section we describe the values-in-experience (ViEx) method for integrating customer values into organisational processes. The method was developed and applied in an ICT company for the design of new and improvement of existing experiences.

4.2 Method

The third result of the thesis is the values-in-experience (ViEx) method, which was developed to attest the ViEx decision framework. The method is a practical step-by-step process for integrating customer values into the business processes. The method's goal is to assist the alignment of organisation with the experience creation guided by customer values.

The values-in-experience framework was implemented in a Finnish ICT company. The implementation included all the steps of the framework with the exception of the 'no regrets' one. In practice, the method consisted of the following steps: (1) Analysis of customer values in context, (2) Identification of value-dimensions and patterns, (3) Composition of narratives, (4) Integration of values in business processes, and (5) Evaluation of the ViEx method.

The case company's core business is developing information security services. Originally, the company's goal was to extend its offerings from passive to active customer participation. This is the management wanted to provide engaging customer experiences. The use of values dimensions in business strategy helped the case company develop new services and extend existing ones into new areas.

The integration of narratives in the organisational processes helped the company to unify software engineers around a shared concept of a customer. Thus, the ViEx method helped generate new ideas for a software product targeted at improving customers' on-line experience. For the in-depth discussion of the case-company's strategic objectives, please see Section 5.3. 'Case study: Application and analysis'.

5. Data collection and analysis

The data for the research was collected from secondary and primary sources in three stages. First, we reviewed the literature on strategy, value and values. Then, a case study was conducted to validate the constructs built, based on the literature study. Finally, a series of semi-structured interviews provided information about the effects of the implementation and possible improvements for the ViEx method.

5.1 Theoretical foundation

Theoretical research concentrated on three areas essential for creating an experience by companies – differentiation, values and experience. The theoretical research interweaves the knowledge areas of strategy, marketing, sociology and behavioural psychology. The combination of a number of disciplines is justified by the research problem, which requires an understanding of strategy and customer behaviour. Moreover, the idea of experience creation demands a thorough investigation of human values from the sociological and philosophical traditions. Given the research task on the one hand and the combination of diverse subject areas on the other, we cannot avoid moving across the disciplines without attracting criticism for taking on a task that clearly exceeds a size of one monograph. Nevertheless, we deliberately decide to sit on several stools, convinced that multidisciplinary approach is the only way to advance a practical understanding of constructing experiences for differentiation (Chase and Dasu, 2001) and that business, philosophy and social sciences will be more effective in the understanding of customer experience if they transcend the boundaries of an academically defined division of labour.

In the first part of the theoretical analysis the aim is not to explain what is the place of experience differentiation among other types of differentiations, nor is it to speculate how it is superior to other strategic approaches in given conditions, but rather to discuss a problem which seems to be quite fundamental in building a competitive offering for experience, namely, how can an experience offering be produced. If, as some scholars argue, competition is about experience (e.g. Pine and Gilmore, 2011; Prahalad and Ramaswamy, 2000) and experience is personal and subjective, what should a business strategy for synthesising organisational functions in a coherent whole mean for the provision of experience?

The analysis of differentiation strategies begins with outlining the levels of differentiation in an organisation – corporate, business and functional. We focus

on an overview of the business differentiation strategies and discuss their relevance in experience differentiation. This section also observes the arguments of the opponents for the customer-centric view of marketing, who suggest that, in practice, customers are a very weak source of information about their future desires. We conclude that, given the need to adapt the differentiation concept to the creation of experience and the need to predict future desires, the creation of experience should begin with understanding of customer values.

5.2 Modelling experience differentiation: Values perspective

The second pool of the literature review combines economics, sociological and philosophical perspectives on value and human values. This chapter discusses a well-accepted distinction between value, as a result of economic activity, and human values, as axiological principles of one's life. We review how economics and marketing disciplines distinguish among several concepts of value – use-value, exchange-value and value-in-context. The theory on human values is presented from both rational and irrational viewpoints. It is shown that, although the concepts of value and values can be discussed separately, they can hardly be analysed independently in experience. This is because what people value reflects their values. In other words, the valuation of goods, services and experiences is grounded in and is inseparable from the axiological values of beauty (e.g. good and bad) and ethics (e.g. right and wrong). Thus, customers not only want to derive value from an experience; they also want to have their values supported through the experience.

The main claim of the two themes of the theoretical reviews is that differentiation strategies support customer values. A company that develops a strategy for supporting customer values is said to have a “vector”. A vector or a strategic vector is an idea of management intentionally considering the opportunities, abilities and effects of the experience with the aim of supporting customer values. In other words, a company creates experiences as offerings when it creates opportunities to have experiences but, by doing so, the company is intentional about supporting customer values.

The final part of the theoretical research reviews the current application of customer values in business. This review is called forth by the need to develop a dynamic framework. Thus, to assist decision makers in creation experiences as offerings, we first turn to the existing knowledge. The ViEx differentiation concept and the idea of establishing a “vector” are spelled out in the values-in-experience (ViEx) framework. The framework, more realistically than the concept, models the integration of values in the strategy process.

5.3 Case study: Application and analysis

The case study is used to attest the values-in-experience framework built as a result of the literature study and subsequent theoretical inferences. The research

case is a Finnish multinational ICT company with its headquarters in Helsinki and 20 offices around the world. Founded in 1988, the company has been a global provider of information security services through operators. The beginning of the 2000s marked the move to new market segments and the development of a business model based on the Cloud. For the Product and Product Marketing Manager of Consumer Security the strategic challenge is

“to find new areas of growth. And it is not necessarily in the business we are in right now. We still have to compete and make greater products to maintain where we are today, but in order to find that new thing, new space, we have to search somewhere else. And that’s where we are discussing market understanding, trying to find trends or figures or indications of where we can play a role.

The management’s primary objective was to expand into new areas of differentiation by creating engaging customer experiences. Figure 6 below is based on Pine and Gilmore’s (1998) realms of experiences. It illustrates the current position of and desired strategic moves by the company.

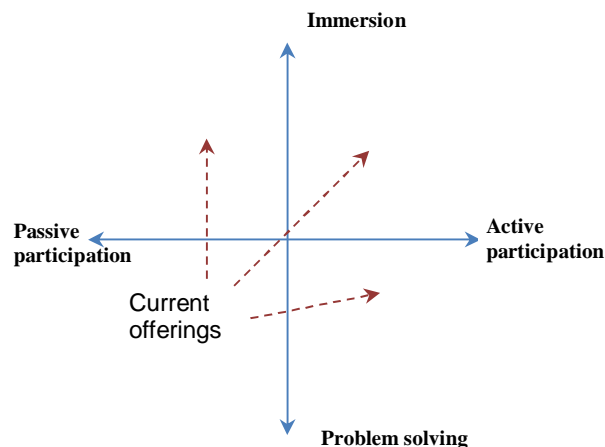


Figure 6. Current and targeted experiences.

Based on Pine and Gilmore (1998)

The horizontal axis corresponds to the degree of customer participation. At one end, customer experience is passive. An example of such an experience is watching a movie. While pleasurable, it does not require any active response from a customer, and he or she does not have any influence on experience offering. By contrast, in active participation customers influence the experience and are part of it. The supporters of a football team at a stadium, for example, contribute to the

experience by cheering and engaging with the game at a different level than those who watch it on TV.

The other dimension of experience describes the customers' relation to the experience. At the bottom, customers receive a solution to the problem they have and, thus, are consumers of experience that they know they need to have. At the other end of the spectrum lies immersive experience. This quality of experience connects customers to experience through values, emotions and desires for learning, exploration, curiosity and more.

The two dimensions of experience create four quadrants that characterise experiences. Software security is a passive, problem-solving experience. The case company recognises the need to move to other segments of experience in order to engage with other market segments. The company plans to create bundles of existing services and create new ones to have a range of offerings that represent various kinds of experiences. As a result, the company planned to serve not only telecommunication operators but also to attain a stronger position on the consumer market. The goal was to provide services tailored to the needs of the operator community and end customers beyond Internet security.

It is an interesting and challenging case also because the company is moving from the operators' market to becoming more consumer-focused. The company had operated for over 20 years in the industrial market and has only recently begun the movement closer to customer market. The company recognises that its competitiveness largely depends on understanding their customers' customers. Even in the negotiations with the operators, management has a need to understand the operators' customers. This knowledge of customers can give a valuable insight into the buyer's business.

The move to interact with the end customer and transform its business accordingly supports Prahalad and Krishnan's (2008) observation that "In the new competitive arena of one customer at a time and global networks of resources, B2B and B2C definitions converge" (p. 16). One of the drivers of the convergence is the changing nature of competitive environment. In particular, the transition from transactional relationship with the buyers to a service relationship with the customer, to designing individual experiences demands that B2B partners understand and contribute to the formation of value for the end customer (Ng and Smith, 2012; Prahalad and Krishnan, 2008; Meyer and Schwager, 2007; Pine and Gilmore, 1998). Meyer and Schwager (2007) emphasise the importance of B2B partners to understand the value that the end customers receive in order to "make a meaningful contribution" (p. 119) into it.

Another reason for convergence is the changing perspective on values delivery (Vargo and Lusch, 2011). A B2B, like a B2C, company serves to fulfil customer needs and solve their problems. In both markets the goal is to provide trouble-free, reassuring and emotionally rewarding experiences.

When the company only sells internet security software through operators it looks more like a B2B business. But when the company works with end customers to improve their services, when it educates the end customers, researches their needs and uses feedback to improve customer experience, it looks more like a

B2C organisation. Although the company's financial streams may reflect B2B operations, they are only one component of a diverse business model, which has a B2C structure.

The company's business goal is to provide value to B2B partners while improving end customer experience. This goal requires an understanding of customers' values, abilities, skills and behaviours, and their dynamics. Studying customers' past and present experiences, as well as their perceptions and disappointments can give the necessary knowledge for the creation of future experiences. Thus, the course to improve both buyer and customer experiences is one and the same. It goes hand-in-hand with the research problem of this thesis; namely, how does a company know what are the best experiences for both the B2B partners and their customers?

5.3.1 ViEx method values survey

The following three sub-sections describe three categories of occasions when data was collected as part of the case study. In the beginning the data was gathered with the on-line survey. This was the company's chosen method for customer values analysis. Its main purpose was surveying respondents' values in an on-line interaction context. The second instance stretched over a period of time when workshop and focus groups were conducted. The third time the data was collected through a series interviews. The interviews were structured around the elements of the ViEx decision framework and aimed at understanding the effects of the ViEx method implementation.

The values survey was an initial step in the ViEx method. It asked respondents about their values in an online interaction experience. The survey of customer values was the company's chosen method for gathering data about values. The company could have chosen one of the phenomenological methods, such as interviews or observations, but the goal was to study customer values in several countries with a repeatable method. Also, the management desired to survey a larger group of customers in a time- and cost- effective manner. Thus the on-line survey was developed so as to meet the company's objectives.

The survey instructions were given in the following manner: "We all make judgements about the experiences we have. We would like you to think about your experiences with online interaction (with PCs, laptops, and mobiles, etc.) and, in particular, when it is for your personal use. Please rate how important the following factors are for judging this experience". The list of values was partitioned into three sections. Every new page began with the instructions.

Respondents completed the tasks in the following order: first, respondents provided general information about themselves. Then only those respondents, who indicated that they or their family possessed a broadband internet connection, could continue with the rest of the survey. Before proceeding to the next section, the subjects were asked four additional questions on preferred means for accessing the internet and frequently visited web-sites. Second, respondents

completed a modified Schwartz value survey. The survey consisted of 56 values from the Schwartz value survey. Lists of values were divided into three sub-sections. Each new sub-section began with the same instructions. The third section probed for additional information about the online interaction context of the study. It consisted of 25 attitudinal and behavioural statements about online sharing, information protection and security issues. The respondents used a seven-point Likert scale (1 – Totally disagree to 7 – Totally agree) to express their opinion. An example statement in this section asserted, “Free downloads are risky” or “I would like have personalised information about apps/software/services from my Internet provider”. On average it took 47 minutes to complete the survey.

The survey was conducted in Finland, Sweden, Italy, France, Germany and Brazil in May 2011. F-Secure ordered the study of values and selected the countries based on current and potential target markets interests. The sample size was five hundred respondents in each country, except Finland, where 505 people completed the survey. Thus, the overall sample size was 3005 responses. The data was gathered by Digium Enterprise data collection service. SPSS Statistics version 19 was used to perform most of statistical analysis, except for K-means clustering analysis, which was done in MatLab R2012a.

Before the analysis, the respondents were dropped if they had used the same response for all questions in either the second (values) or the third (context) section. Although the Likert scale does not force respondents to rank the values and allows for equally important ratings, it was assumed that respondents who did not meet the above criteria failed to make a sufficient effort in completing the survey. As a result, 7.69 percent of the respondents were excluded from the subsequent analysis (5.29% from value survey, and 5.26% from service related questions). The proportion of dismissed responses ranged from 4.95 to 10 percent on a country by country basis. The sample remaining contained 2,774 respondents.

5.3.2 Workshop and focus groups

Workshops and focus groups are useful for collecting data from several participants on a given topic. The discussion is loosely structured around a research topic and aims at seeking out meanings that underpin the participants' views. Both workshops and focus groups may provide rich knowledge of participants' experiences and beliefs (Sauders et al., 2009).

The initial introduction of the ViEx method in the business process generated data about the acceptance of the method. First ViEx was presented at the “Global marketing workshop”, which was held on 16 February, 2012 in Helsinki, Finland. It was a workshop dedicated to the marketing planning where the ViEx presentation and discussion was one part of the event. The workshop was organised by the case-company personnel and VTT.

Considering the business targets of creating new opportunities in the customer experience sector, the company must make major moves towards significant changes in the current marketing approaches. In this light, the workshop aimed to

contribute the overall goals of the company by communicating the customer values research and also ascertaining whether the ViEx constructs can tackle the challenges set forth by required changes in marketing and sales.

The workshop objectives were to introduce and discuss the following topics:

1. Differentiation by experience: customer values perspective;
2. Customer values research process;
 - a. Values and valuation theory;
 - b. From values to values dimensions;
 - c. Values patterns and narratives;
 - d. Detailed information about the narratives;
3. Example of narrative description from Brazil;
4. Application of values in marketing.

The researchers from VTT presented the information on the importance of integrating customer values into the experience differentiation strategy. They provided an overview of the research process and explained each step in detail, addressing the audience's questions. The discussion was launched with the introduction of a sample one-page narrative from the Brazilian data. The participants were invited to apply the narrative and values to marketing.

The participants discussed the latest challenges brought in by the changing business emphasis. They expressed that the research meets a definite need in their practices and shared insights about how they may use values analysis in marketing campaigns, negotiations with telecom operators and branding. ViEx was challenged with regard to other countries where the values data had not been gathered. Finally, the steps for future development were outlined.

The three focus groups that involved the analysis of customer values related to the (1) on-line content management, (2) security services for tablet devices and (3) family security. Each focus group targeted a set of customer values with a particular service. One of the goals was to integrate the customer values concept into the service design process. The motivation of the focus groups was to create customer experience that would be different from the offering already available on the market.

The participants for all the focus groups were selected by the company and researchers. The primary language of the focus groups was Finnish, and thus the script for the focus groups and moderation of the discussion were given in Finnish. With my lack of Finnish language proficiency, I have not participated in the focus groups themselves, but have received the analysis of the participants' value structure. My contribution involved preparation of narratives and the analysis of value patterns, which were later compared to the participants' inputs on the discussed topic.

The on-line content management focus group discussed the experience of creating and sharing information, files and pictures across different platforms. The discussion was conducted in the Owela VTT online platform, built specifically for

facilitating interactions between customers and companies. The discussion was conducted over a period of several days with a total of 104 participants.

The tablets' security focus group targeted the values of privacy, autonomy and belonging to a family. The goal was to investigate the customers' views on the meanings of interactions among family members together with the vulnerability of tablets and their contents. Two focus groups with seven and nine participants were held respectively on 5 and 6 June, 2013 in Oulu, Helsinki. The focus groups helped gain insight into the family's perception of on-line interaction security and the reasoning behind it.

5.3.3 ViEx method follow-up interviews

The follow-up interviews took place at the fifth stage of the ViEx method. The aim was to discover whether the method helped management to create opportunities and scope customers' abilities. The main reason for the interviews was to gain visibility of how the ViEx method affected the organisational activities, and whether its use validated the ViEx decision framework. This was done mainly because the researcher had a low visibility of the organisational processes since the introduction of the method. The interviews also highlighted ways to improve the method.

The goal of the interviews was to understand how the values and narrative descriptions are currently used in the company. In particular, the interview focused on the impact of using customer values in marketing and software development. Additional feedback was gathered regarding how the values had been introduced to the organisation's personnel, and were planned to be used in the future. Thus, interviews provided information on the acceptance of customer values within the company, which competes by focusing on customer experience.

This research develops a method for integrating customer values into customer experience creation. The interviews were a feedback mechanism for understanding the validity of the ViEx framework and areas for improvement. They provided information about how the customer values are adapted, interpreted and used by the personnel who were and were not directly involved in the process of the research.

The interviews were conducted with managers who either participated in the development and implementation of the ViEx or used its results in their work. The average interview lasted approximately 30 minutes. All interviews were recorded with the interviewee's permission and transcribed verbatim within a week after the event.

The interviews were semi-structured in the form of guided conversations. The design of the interviews was guided by the critical incident technique method, that is to say the interviewee did most of the talking, leading questions were avoided, and open-ended questions, followed by other probing questions, were employed. To ensure some comparability between the responses, to allow sufficient control over the interview process, and to adhere to the research objectives, an interview guide was designed. The following four main themes gave structure to the interview questions:

1. The use of customer values in management, strategy and marketing.

2. Customer values in identifying opportunities, abilities and minimising regrets for new customer experiences.
3. Influence of customer values on business transformation to the B2C and to the Cloud.
4. Desired improvements for the use of values in organisational processes.

The first theme inquired into the use of values in managerial processes. The second theme aimed at evaluating the ViEx decision framework, whose elements served as guidelines for this section of the interviews. The third part focused particularly on the goals that had been set by the organisation at the beginning of the customer values research. Finally, the interviewees were asked to provide any other feedback on the use of values in the organisational processes.

A total of four interviews were conducted. Interviewees represented both management (marketing, business strategy, customer experience) and software/UX/UI engineers. Listed according to the time of the interview, the interviewees were: Product & Product Marketing Manager of Consumer Security (interviewee 1), Usability and User Experience Specialist (interviewee 2), Director of external R&D collaborations (interviewee 3) and Chief of Product (interviewee 4). The interview process took place in March–April 2013. The knowledge gathered from the interviews shows the effect of customer values on organisational activities over a period of two years.

Once interviews were transcribed they were analysed with the help of the QSR NVivo 10 software package, which handles qualitative data analysis research projects. The interviews were coded in an iterative manner, working back and forth to structure the data around the themes and identify emerging patterns.

6. Differentiation strategy

This chapter marks the beginning of the second part, which includes the Differentiation section (Chapters 6–8) and Values and valuation section (Chapters 9–10). The first half of this part lays the theoretical foundation of experience differentiation strategy. It begins with the discussion of differentiation, its levels and forms (Chapter 6) and continues by reviewing various concepts of product, service and experience differentiation suggested in the literature (Chapter 7). The section also addresses the notion of anticipation of customer desires and investigates what it means to take an experience perspective on differentiation. The evaluation of differences and commonalities of the concepts is summarised in the generic concept of differentiation at the end of Chapter 7. Finally, Chapter 8 suggests a new values-in-experience (ViEx) differentiation concept, which emphasises the centrality of customer values.

The second half of this part is devoted to the values and their role in business strategy. Chapter 9 deals with the general understanding of values and valuation processes. We emphasise that both rational and irrational theories of human values must be taken into consideration when analysing experience. Chapter 10 shows how the sociological discussion of values applies to strategic management and its goals. We specifically argue that the interpretations of some empirical studies may suggest that customers desire to have their values supported. This part lays the foundation for the dynamic decision framework put forth in part 3 and attested in part 4.

The aim of this part is not to explain the place of experience differentiation among other types of differentiations, nor is it to speculate how it is superior to other strategy approaches in a given conditions, but rather to discuss a problem which seems to be quite fundamental in competition, that is, how can a company compete in the experience economy (Pine and Gilmore, 1998)? We believe that the business world has changed and, therefore, as skilfully articulated by Pine and Gilmore (1998) and other strategy scholars (e.g. Prahalad and Krishnan, 2008; Mintzberg, 1994), the creation of experiences should become management's primary concern. To be effective, management needs a systematic approach for providing customer experiences as offerings.

6.1 Differentiation, scope and experience

Differentiation, together with scope, is one of the two basic dimensions of strategy (Mintzberg, 1988). It identifies the company's fundamental distinctiveness in the marketplace. Scope defines how a company views the market, its size, composition and targets.

Differentiation is "acting to distinguish ... products and services from those of ... competitors (Mintzberg, 1988, p. 17). Thus, to differentiate is to make an offering unique in some way. Since the uniqueness has to be recognised by the customer, differentiation is, typically, understood in terms of delivering a value to the customer (Blocker *et al.*, 2011; Butz and Goodstein, 1996; Mintzberg, 1988; Porter, 1985). For this reason, the importance of customer perspective (Butz and Goodstein, 1996), desires (Belk *et al.*, 2003) and values (Mills *et al.*, 2009; Hitlin and Piliavin, 2004) has long been acknowledged in strategy. However, theoretical models and methods that would explain how a company can take a human values perspective in developing differentiation, and, particularly, differentiation with experience, have not been developed. Human values have been used for defining the scope, but very little is known about how to integrate values for the purpose of differentiation strategy.

Although scope is closely tied to the concept of differentiation, it is a very distinct construct. Scope is the demand-side of the strategy, which relates to identifying market size and segments. Segmentation is a way of scoping the market. It is a creative process of categorising customer behavioural patterns. The goal of scoping is to create a model of what customers value. Customer value defines what is important in differentiation and what the company is after. This is normally achieved through market analysis. The results of market analysis determine how differentiation is operationalized within the company, and also how selective the company is in carrying out its strategy. Market segments help in dealing with *types* of products and services that a particular customer group might value. In contrast, differentiation refers to the specific characteristics of products and services.

The transition to experience economy (Pine and Gilmore, 1998) requires the re-thinking of both strategy and scope. The concept of differentiation has changed because a customer co-creates value rather than consumes the value manufactured by a producer. The change in the concept of scope is even more dramatic because experiences are not broad segments, customised products or personalised services. In fact, a finer categorisation of customers harms the company's ability to differentiate effectively. Ever finer scoping leads to more trivial differentiating steps (Christensen *et al.*, 2005).

Experiences take place in the mind of customers. Therefore, they can hardly be pre-defined by manufacturers. Pine and Gilmore (1998) however challenge the companies to make a transition to a business of experience. It follows that, in order to take on a challenge, a company must develop a new approach to strategy and delivering value.

Despite the changes in the nature of competition, both customer value and experience remain central to differentiation. Even effective mechanisms of fine-tuning offerings to customers' desires, needs, and expectations cannot displace the value, which is recognised and created in an experience (Ng and Smith, 2012; Schembri and Sandberg, 2011; Schembri, 2006). Essentially, the experience perspective on an offering means that customer knowledge, personalisation of choices and market strategy cannot be hard-wired to produce and deliver value. Although many arguments exist for the importance of customer experience, there is little understanding of how experience can be included in a company's organisational processes precisely because a personal experience cannot be manufactured by an outsider.

6.2 Levels of strategic differentiation

Differentiation can refer to corporate-, business- and functional-level strategies. At the *corporate* level, the research concentrates on the discussion of a core business. Following Galbraith's (1983) analysis of the organisation's centre of gravity and Mintzberg's (1988) systematisation of differentiation strategies, we define core business as the focus area of a company, where it aims to achieve its success. This is the area to which company's structure, processes and people are adapted, and where the expertise, know-hows and management competences are concentrated. The discussion of the corporate level strategies that involve business portfolio management is beyond the scope of this work. We analyse the experience perspective on differentiation at the other two levels of strategy, namely the business and functional levels.

Business strategies aim to show what type of strategic behaviour is appropriate for the business and how it leads to sustainable competitive advantage. *Functional* area strategies describe strategies in the specific domain of procurement, marketing, manufacturing, etc. The objective of strategy at this level is the development of function-specific and inter-functional competences. Functional strategies explain why some form of strategic behaviour is appropriate for developing a competence. To summarise, business strategists deal with the universal side of strategy (also called "strategic thinking"), while functional area strategists would be in charge of the particularities of the implementation and contextualisation of the strategy.

6.3 Business-level strategies

Differentiation strategies "identify what is fundamentally distinct about a business in the market place, as perceived by its customers" (Mintzberg, 1988, p. 17). The differentiation strategy is about an extent of uniqueness, which gives a company a competitive advantage and is recognised as valuable by customers (Porter, 1985). This viewpoint maintains that differentiation is a strategic choice, which organisational management makes in pursuit of competitive advantage (Porter,

1985, 2008). Although any part of the values chain can be a source of differentiation, it arises from coordinated efforts across all company activities, not only a given one.

Mintzberg *et al.* (1998) categorised Porter's viewpoint as a positioning school. According to its spirit, an organisation defines the basis of product or service differentiation in the marketplace. Porter's business-level differentiation positions do not accommodate the dynamism of market conditions and presume that "certain 'strategies' are inevitably more important than others" (Mintzberg, 1988, p. 3).

Differentiation is an act of intentional positioning of an organisation in the economic market place in relation to its competitors (Levitt, 1980).

Developing a typology of generic business strategies, Mintzberg (1988) identifies five forms of differentiation strategies: price, image, support, quality and design. He also adds one more form of differentiation, which is an absence of such, i.e. products and services that are deliberately undifferentiated. Under the first three forms, the product or service is similar to that of competitors, but the differentiation is created by price variations, perceived differences and additional services that are offered with the main product. Unlike Porter (1985) who marks cost-leadership as a separate type of competitive advantage, Mintzberg views pricing as a form of differentiation. When a company enhances product performance without adding new functionality, it competes on quality. The most extensive form of differentiation is the one based on design. This is when a company develops a truly unique set of features or service solutions.

Differentiation is "acting to distinguish [organisational] products and services from those of its competitors (Mintzberg, 1998, p. 17). It is seeking to develop a competitive advantage by offering some form of perceived or real uniqueness. Marketing differentiation is a "prevalent condition, in which all products are not perceived as equal on each of the product characteristics" (Dickson and Ginter, 1987, p. 5). Fundamentally, every business-level strategy aims at some form of differentiation, whether of price, functionality, quality or perception. Mintzberg (1998) discriminates six forms of differentiation – quality, design, support, image and price. MacMillan (1983) identifies a "pre-emptive" form of differentiation, which involves taking risks in upsetting the market balance by investing in future technologies, securing access to resources or developing particular skills. Levitt (1980) suggests that a mere commodity product is a misnomer because some form of differentiation can be developed for any product.

Strategy and marketing disciplines agree that differentiation includes concepts of uniqueness and value creation. In practice, the distinction between strategic and marketing differentiation is blurred because company positioning is closely tied to the marketing of its offerings. The distinction of products and services takes place in the minds of customers (Ries and Trout, 1982). Recently, there was more discussion about the importance of the marketing strategic role in an organisation (Grönroos, 2007a), which further brings the two perspectives together. As a company adopts a customer-orientation and develops relationships with customers, differentiation strategy becomes integrated throughout the organisation (Grönroos, 1994). Differentiation cannot be developed by independent units in a company, nor can it be maintained separately from understanding customer perception

because “differentiation that is not perceived in the marketplace has no strategic meaning” (Mintzberg, 1988, p. 22).

McGrath (2013) proclaimed the end of competitive advantage as it was postulated, for example, in five-forces (Porter, 1985) and core competence (Prahalad and Hamel, 1990) models. McGrath (2013), Prahalad and Krishnan (2008) and Brown and Eisenhardt (1998) emphasise that the current conditions of the competitive environment demand that a company acts as one entity to take advantage of short-lived opportunities, establish incremental and continuous innovation and maintain access to a wide variety of resources in order to attract and retain customers.

Recently strategists turned to the discussion of anticipation of customer needs (Flint *et al.*, 2011), prediction of desires (Flint and Woodruff, 2001), and proactive market orientation (Blocker *et al.*, 2011). This is an attempt to compete in the future. Companies develop methods for uncovering latent customer desires so that they are the first to meet them. This discussion originated from the opponents of the customer-centric view of marketing, who point out that in practice customers are a very poor source of information about their future desires. That is, they may not know or are unable to articulate what they will want in the future.

6.4 Functional-level strategies

Porter (1985) suggests that differentiation can be based on characteristics of product or service itself, customer needs and distribution system. Levitt (1980) also lists three sources for differentiation: a unique combination of activities that a company develops in order to produce goods or services; satisfying particular customer needs; and becoming a major local player, who competes by serving specific small communities that global player normally underserves. Earlier he argued that marketing approach can be a source of differentiation (Levitt, 1960). Focusing on marketing of services Grönroos (1978) argues that accessibility, personal interaction with customers and customer participation are the three distinct characteristics of service differentiation. Customer experience is another source of differentiations (Pine and Gilmore, 1998).

From the differentiation viewpoint, both strategy and marketing disciplines emphasise market orientation for the entire company, making a choice in pursuing a strategy and creating markets rather than solving a problem of fitting the market. In 1960 seminal “Marketing myopia” (Levitt, 1960) declared that “the entire corporation must be viewed as a customer-creating and customer-satisfying organism” (p. 55).

In service marketing, Grönroos (2007a) presents a view that customer orientation should not be the prerogative of a marketing department but must be integrated throughout all business activities. His “internal marketing” (p. 102) approach is one of the means for a “philosophical shift” (p. 139) for all employees to internalise the marketing paradigm of providing a service for and managing relationships with customers. How exactly marketing – or any other function – can systematically unify various organisational areas around coherent differentiation concept? What are the ways for such a “soft” discipline as marketing to earn

6. Differentiation strategy

respect by representatives of technical and concrete areas such as R&D and manufacturing? Our objective is to develop a theorised understanding of differentiation by experience and to illustrate it with the Values-in-experience (ViEx) differentiation concept, while relying on interdependencies among business, philosophy and sociology in explaining differentiation, values and experience.

7. Differentiation concepts

So far we have discussed differentiation as a general principle of competition. In particular we have contrasted differentiation with market scope and showed that both dimensions influence companies' ability to recognise market opportunities. That discussion pointed out a need for a model that integrates values into a differentiation dimension, rather than in scope, which loses its meaning in experience competition. We also described three levels of strategic differentiation and recognised the need to coherently coordinate strategy at all levels in order to successfully and creatively pursue an experience differentiation. Thus, the previous chapter outlined the challenge and importance of differentiation at an organisational level.

This chapter begins a review of differentiation concepts. At this point the discussion establishes what areas of product and services influence differentiation. For this purpose, we first turn to the concepts of product, service and experience differentiation. Generally speaking, these concepts are represented by static models and illustrate the possible areas that – when designed differently – have a potential to uniquely position an offering on the market.

We begin with a brief introduction of product and service differentiation concepts. There are three reasons why product and service differentiation are useful for understanding experience differentiation. The first and foremost reason originates from the fact that products and/or services are an important part of customer experience (Patrício *et al.*, 2011; Pine and Gilmore, 1998). Therefore, they need to be included in the understanding for experience differentiation. Second, we learn much about the differentiation from the long history of management theory that has reached a general understanding of product and service differentiation and of the focus areas for designing uniqueness. In the traditional product differentiation, however, customer experience is not directly recognised as important in competition; it remains on the outside of the organisational efforts to differentiate. Experience simply happens as a result of production or development processes. What we seek to understand in the traditional service and product management is how it can be combined with the new paradigm of experience co-creation, when an organisation and customers partner in relational exchanges to co-create experiences (Grönroos, 2008). The third reason for the analysis of product and service differentiation models is to benchmark them against the existing experience concepts. It is important to analyse how new experience concepts add to the existing knowledge of differentiation and, in particular, how they help decision makers to choose and

develop experience strategies. It is in the benchmarking that we show the need for the ViEx differentiation concept.

Experience creation in business has received more attention in the last decade. Authors highlight different elements of the experience concept in business. We review four of those concepts and synthesise them into the ViEx concept. Specifically, we conclude that the experience differentiation concept has human values at its core and concentrates on the conception of experience prior to product or service design.

The list of concepts reviewed in the chapter that follows is not comprehensive. They are only representative of the three areas of differentiation, namely: product, service and experience. Although a selective review of differentiation concepts is recognised as a limitation, we contend that there are only a few formidable concepts that set the tone for many others with finer improvements. Thus, while this chapter refers to more concepts, it reviews in detail those summarised in the table below. Table I combines concepts and their authors by the area of differentiation.

Table 1. Differentiation concepts reviewed in the chapter.

Area	Concept name	Source
Product/service	Total product concept	Levitt, 1980
	Three levels of products and services	Kotler and Armstrong, 2004
Service	Augmented service offering	Grönroos, 1978, 1990, 2007a
	Augmented service offering	Storey and Easingwood, 1998
Experience	Customer experience modelling	Teixeira <i>et al.</i> , 2012
	Conceptual model of customer experience creation	Verhoef <i>et al.</i> , 2009
	Rating customer experiences for decision-making process	Meyer and Schwager, 2007

7.1 Total product concept (Levitt, 1980)

Theodore Levitt, whose seminal “Marketing myopia” made managers to ask what business they were really in, developed the ‘Total product concept’ to capture the four levels of product differentiation. When developing the model, he looked at the product from the sellers’ and buyers’ perspective. For the producers, “product is a promise whose commercial substance resides in reputation,.. packaging... [and] physical content” whereas for potential customers “a product is a complex cluster of value satisfactions” (Levitt, 1980, p. 84). Levitt’s total product concept is a synthesis of generic, expected, augmented and potential products (Figure 7).

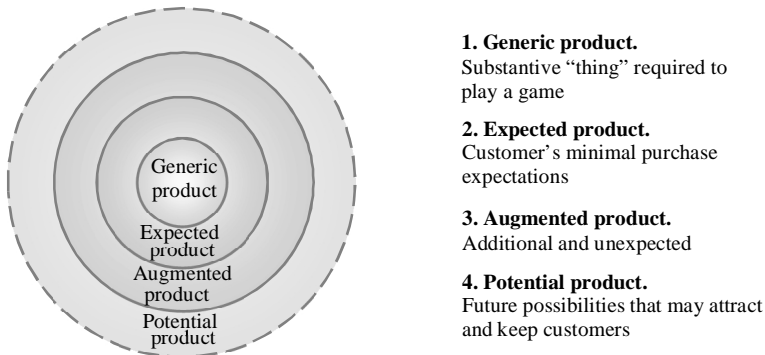


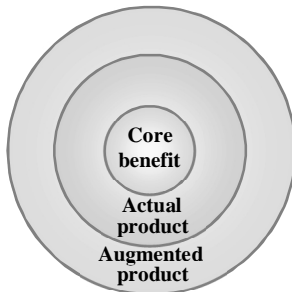
Figure 7. Total product concept (Levitt, 1980).

Levitt argued that customers bought products for reasons other than what *generic* product (a physical thing) delivered. They were attracted and kept by the entirety of expected and unexpected (augmented) products (services) offered by a firm. Thus the main areas for product differentiation were *expected* and *augmented* products. In addition, future possibilities or *potential* product can draw customers, hold their attention and make them into returning customers. This potential level of differentiation embodies the idea of how a product could evolve in order to maintain its competitive position in the future.

Although Levitt (1980) did not use the word “experience”, we speculate that he would agree with the concept of differentiation by customer experience for several reasons. First, Levitt emphasised differentiation by the entirety of customer-satisfaction, which transcended product attributes. Second, the delivery of this entirety was a manageable process. Thus, an organisation attains competitive advantage not only through product qualities, but primarily through creating business distinctiveness and managing marketing processes.

7.2 Three levels of products and services (Kotler and Armstrong, 2004)

Kotler and Armstrong’s (2004) model of ‘Three levels of products and services’ describes *what* a customer actually buys (Figure 8). The model lays out the product categories that add customer value. The authors put the three levels in a dynamic framework by discussing the decisions that have to be made when designing an offering. They explain that the first step of product design is defining “the core, problem-solving benefits or services that consumers seek” (p. 279). Thus at the core, a product or service appeals to a known customer need with the actual product designed to satisfy it. Augmented product includes additional services and benefits that give customers a complete solution for their need.



1. Core benefit.

A core need satisfied by a product or service

2. Actual product.

Physical properties: features, design, packaging

3. Augmented product.

A complete solution: additional services, warranties, installation, and etc.

Figure 8. Three levels of products and services (Kotler and Armstrong, 2004).

Customer experience is not part of the model. Actual and augmented products include benefits that seem to contribute to experience. Although customer experience is not a part of the concept, nor is it explicitly included in the discussion of organisational processes, it appears to be implicit in the way customers receive product and service benefits. In fact, Kotler and Armstrong recognise customer experience as a new level of competitive differentiation. They state, “To differentiate their offers, [companies] are developing and delivering total customer experiences” (Kotler and Armstrong, 2004, p. 277, original emphasis). It seems that the authors could speak about developing and marketing of experience offers as part of organisational processes, yet they leave experience unanalysed.

7.3 Augmented service offering (Grönroos, 1978, 1990, 2007a)

Grönroos (1978, 1990, 2007a) argued that, if companies recognise and own the differences between goods and services, this will help them develop effective competitive strategies. He emphasises the importance of customer perception in service differentiation. His augmented service model (Figure 9) summarises service management and development in four steps: service concept, basic service package, augmented service offering and finally image and communication.

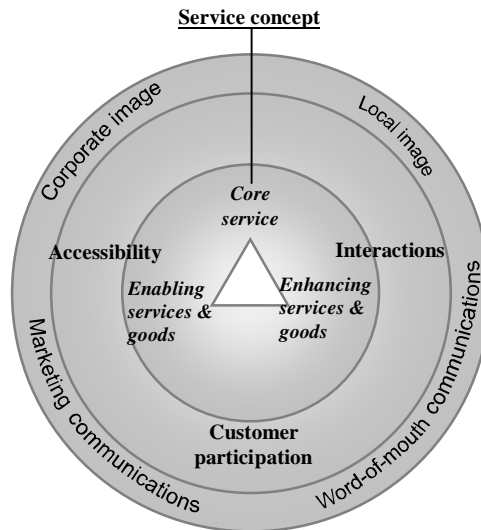


Figure 9. Augmented service offering.

Service concept embodies “the intentions of the organisation” (Grönroos, 1990, p. 74) and guides the development of augmentation. It is a ‘roadmap’ for making decisions regarding services, their support, interactions and so on.

Differentiation begins with the basic service package, which includes core service, facilitating and supporting services. The basic service package is not what customers perceive; it is what they receive from an organisation. Perception, as a process of service consumption, extends over time and can be managed through buyer-seller interactions, which together with the basic package create augmented service offering. Service offering is a process that is framed by a degree of service accessibility, ease of consumer participation and character of customer interactions with the organisation and its representatives. Thus, these process elements structure a variety of perceptions of the basic service package and impact organisational competitive position.

For Grönroos (1990), customer experience is *how* customers perceive service offering. Organisational communications and image also affect customer perception, that is they “filter” what a customer perceives.

The originality of the model is represented by the three elements outside the circle. Grönroos suggests that, rather than discussing the manner of service delivery, organisations need to plan for service *accessibility*, which includes not only physical location but time, systems required for access or the employees who deliver the service. The principle of accessibility is a critical element that distinguishes a service from a physical product in marketing. The second element is *interactions* or personal market communications, which suggest the need for involving all of the company’s employees in managing relationships with customers.

This is critical for marketing of services because the whole company is offering a service, not only the front-office workers. Finally “an extensive view of the service” (Grönroos, 1990, p. 34) includes customers in service production. By consuming a service, a customer brings it into reality and, thus, becomes an integral part of service production.

7.4 Augmented service offering (Storey and Easingwood, 1998)

Storey and Easingwood (1998) studied financial services and evaluated relationships between the elements of ‘Augmented service offering’ (ASO, Figure 10) model and service performance measurements. Their work is particularly important because it establishes an empirical connection between differentiation efforts and profitability, market opportunities and sales performance. To start, they defined several service components, which were then grouped into three main levels of an ASO model.

- 1. Service product**
Product quality, product adaptability, product distinctiveness, physical evidence, perceived risk
- 2. Service augmentation**
Distribution strength, reputation, customer experience, staff/customer interactions, effective communication
- 3. Marketing support**
Staff training & skills, effective operations, launch strategy, market knowledge, investment in systems.

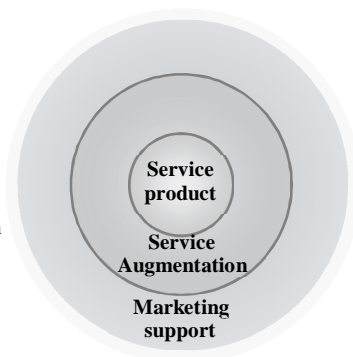


Figure 10. Augmented service offering.

At the core of the model is the *service product*, which consists of services and products that address customers’ requirements for the service. Since the core offering of services is quite similar across various service organisations, it is difficult for companies to differentiate themselves on the service offering alone. Differentiation happens at the next *service augmentation* level. This level represents how a company communicates and the customer receives a service. It includes organisational image, customer experience, distribution, marketing communications and staff/customer interactions. Coordination of service augmentation determines its competitiveness. The final element of the ASO is *marketing support*, which sets a context for bringing an offering to market. It includes market studies, staff training, sales strategy, etc. Customers do not perceive this element directly and thus do not differentiate a service based on it. However, marketing support influences the impact a service will have on the market.

Storey and Easingwood (1998) discovered that all three elements contribute significantly to profitability, sales performance and market opportunities. In particular they found that core offering affects market opportunities, improvements in service augmentation influence profitability and sales performance. They also found that marketing support is related to all three performance measurements. Thus, they concluded that service success is dependent on managing trade-off and interconnections of the three elements of augmented service offering.

For Storey and Easingwood (1998), customer experience is part of *service augmentation* and is viewed more as an outcome rather than a process. Customer experience was developed as a result of the interview analysis. It is a factor that consists of three other service attributes: “product was made available to existing customers”, “customers are familiar with this type of product” and “complete competitive range of products”. Cronbach’s Alpha value for this factor is 0.42, which is a quite low measurement. Customer experience was found to affect only profitability but not sales performance, or enhance opportunities. However, there is other indirect evidence that customer experience influences a firm’s performance. For example, Rust *et al.* (2002) find that companies that focus on customer satisfaction and customer loyalty produce a better performance. Mittal *et al.* (2005) that efficient processes and customer satisfaction supports long-term financial performance. These studies give evidence that customer experience contributes to the organisational competitive position.

7.5 Specificity of experience differentiation

Businesses and academics have identified experience as a separate source of competitive advantage (e.g. Verhoef *et al.*, 2009; Meyer and Schwager, 2007; Shaw and Ivens, 2005; Gilmore and Pine, 2011). Pine and Gilmore (1998) argue that customer experience defines a new regime for business competition, which is characterised by deliberate design of experiences. Thus, intentionality in designing the experience is the initial key distinction between experience and any other form of competition.

Definitions of customer experience normally combine two perspectives – the company’s and customer’s. A company’s perspective deals with what it provides for an experience to occur. An example of such a definition can be found in Pine and Gilmore (1998) – “An experience occurs when a company intentionally [using] services as the stage, and goods as props, to engage individual customers in a way that creates a memorable event” (p. 98). The other side of an experience is what a customer goes through before, during or after an encounter with a company’s product or services. Pine and Gilmore (1998) continue “experiences are inherently personal, existing only in the mind of an individual who has been engaged on an emotional, physical, intellectual, or even spiritual level” (p. 99). Meyer and Schwager give a similar definition, “Customer experience is the internal and subjective response customers have to any direct or indirect contact with a company. Direct contact generally occurs in the course of purchase, use, and

service and is usually initiated by the customer. Indirect contact most often involves unplanned encounters with representations of a company's products, services, or brands and take the form of word-of-mouth recommendations or criticisms, advertising, news reports, reviews and so forth" (Meyer and Schwager, 2007, p. 118–119).

Schembri (2006) conceptualises service as experience. She emphasises the importance of understanding customer experience for advancing the knowledge of service development. Thus, knowledge about experience can propel the business and its services. Experience shares some qualities of services: customers and companies bring experience into reality over a time period. Pine and Gilmore (1998) discuss the need to use both products and services for building customer experience. This is to say that organisational processes need to be systematised with a differentiation concept that includes existing product and service knowledge and captures the uniformity of experience through which customer perceive experiences as desirable and valuable.

The above definitions suggest that experience takes place in the relationship between company's knowledge implemented in the form of products, services, bands, etc. and customers' interactions with that knowledge. American philosopher and psychologist John Dewey said that experience "recognizes in its primary integrity no division between act and material, subject and object, but contains them both in an unanalysed totality" (Dewey, 1958, p. 198). A combination of an event and the state of a person's mind creates a unique personal experience. For a business to provide experiences as offerings is to engage in a differentiation strategy on a personal level, where people may neither have two identical experiences, nor can one person fully reproduce an experience twice.

An experience differentiation strategy must combine the customer and company perspective not only because experience is an "unanalysed totality", but also because, while the elements of differentiation originate with a company, they are recognised by the customers. Therefore, an experience strategy is concerned with what we call a "vector", which originates with the company and continues to customer. For this reason, we are interested in what can define the direction of an experience vector. By direction we mean how a company will decide what experiences it will provide. This decision will largely determine the use and prioritisation of the resources in creating experience offerings.

The fact that customers' experiences are unique does not imply that they are differentiating. A strategy of experience must create an event that encourages a customer to desire more of similar experiences. Thus, not all experiences are desirable for the company or beneficial for the customer. There is a great need to create a system by which the company can make decisions about what experiences it would like its customers to have and which ones it will work to avoid.

It would be unfair to claim that experience literature can be divided into two groups – one that assumes the customer perspective and the other that takes the company's perspective. Although some writings lean more toward one of the two sides, they still consider both the company and customer roles in experience. In fact, regardless of which position the authors of experience research concern

themselves with more, they emphasise the role of co-creation and interactions between the provider and customer.

Service research acknowledges the importance of customer experience in service business. Schembri (2006) conceptualises that “services are dynamic experiences co-constructed with customers...” (p. 386). Teixeira *et al.* (2012) analyse customer experience for service design processes. The notion that interactions between customers and company can have a profound effect on service experience is also discussed by Grönroos (2008). In service-dominant logic (Vargo and Lusch, 2004) emphasises the importance of experience is recognised in value co-creation (Vargo, and Lusch, 2008) where “the value is customer is emergent and experienced between subject and object” (Ng and Smith, 2012, p. 212).

The efforts to model customer experience are many (Teixeira *et al.*, 2012; Pine and Gilmore, 2011; Hassenzahl, 2010; Verhoef *et al.*, 2009; Frow and Payne, 2007; Gentile *et al.*, 2007; Meyer and Schwager, 2007; Schembri, 2006; Stuart and Tax, 2004; Prahalad and Ramaswamy, 2000). Below we review some of the most recent and prominent.

7.5.1 Customer experience modelling (Teixeira *et al.*, 2012)

Teixeira *et al.* (2012) propose a concept for customer experience modelling for service design. Their model includes physical artefacts, non-human systems and interactions with other customers – all influencing customer’s requirements for experience (Figure 11). It is the knowledge of these requirements or needs that leads to designing specific activities. They interpret the model at three levels of service design: delivering value constellation, providing service experience and managing service encounters, i.e. specific touch points.

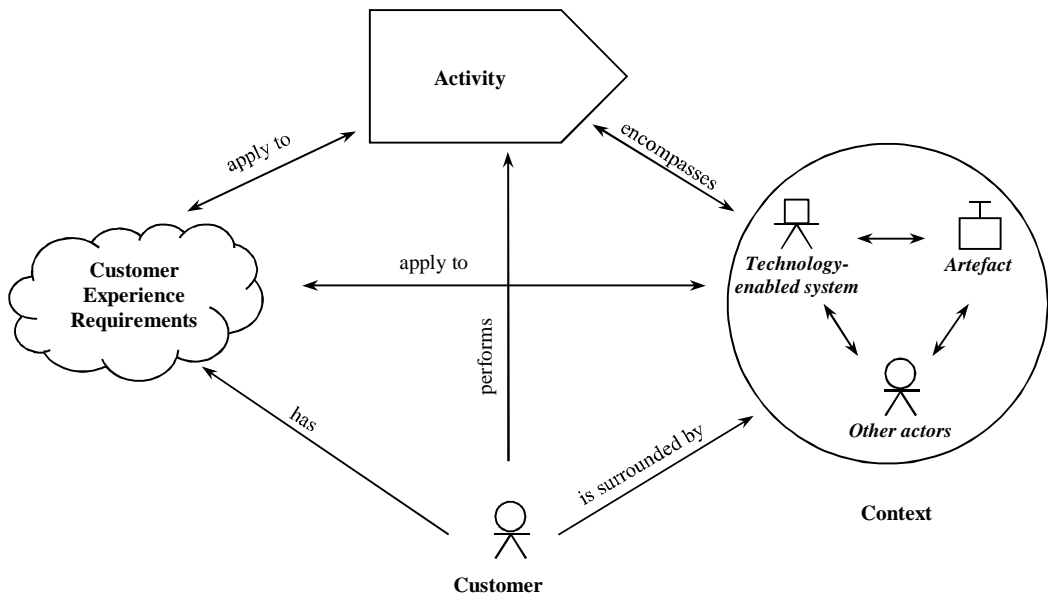


Figure 11. Customer experience modelling (CEM) and their relationships (Teixeira *et al.*, 2012, p. 367).

The first level essentially refers to understanding the basic customer need. The authors give an example of the hospitality industry, which addresses a core need for accommodation, while providing supplementary value in catering and recreation. The study of how customers perform these activities gives a general understanding of which activities need to become part of the hospitality experience.

At the second – service experience – level, activities are applied to the context of a specific provider. Thus a company begins to develop single services that meet customer needs. At the service encounter level, each individual touch point of service is reviewed in order to capture specific information relevant to a single service encounter.

Although Teixeira *et al.* (2012) proposes to model experience, essentially they give a dynamic perspective of the service differentiation concepts discussed above (e.g. Grönroos, 1990). The authors focus on understanding customer requirements for designing service activities. Following the service concept, they suggest that observations of customers together with their requirements make up the foundation of service design.

7.5.2 Conceptual model of customer experience creation (Verhoef *et al.*, 2009)

Verhoef *et al.* (2009) looks at the customer experience management strategy by identifying the determinants of customer experience in retail industry, such as social environment, service interface, retail atmosphere, assortment, price, experiences in alternative channels, brand and past experiences. The authors view customer experience as a separate construct, which is “holistic in nature and involves the customer’s cognitive, affective, emotional, social and physical responses” (p. 32). They recognise that the creation of experience takes place through the factors that can and cannot be controlled. As a result, Verhoef and colleagues put forth a conceptual model for customer experience creation, which essentially emphasises the importance of managing the determinants while accounting for situational and personal aspects. The model is reproduced schematically in Figure 12, below.

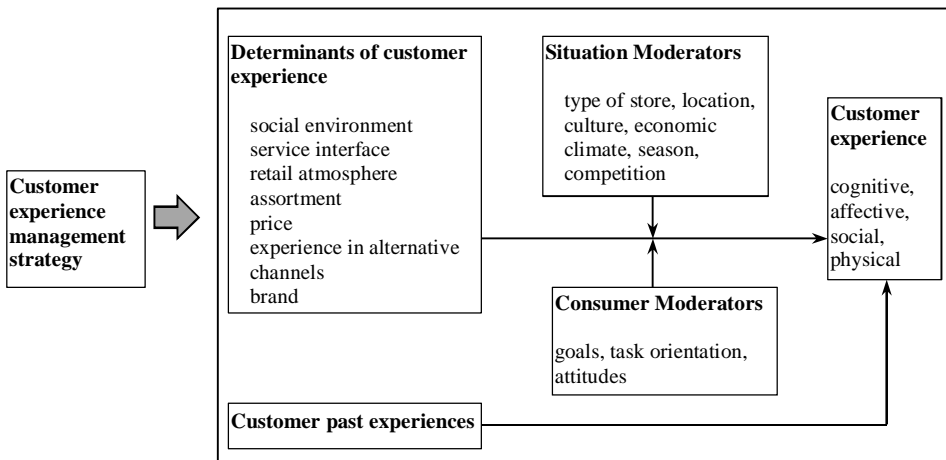


Figure 12. Conceptual model of customer experience creation (Verhoef *et al.*, 2009).

7.5.3 ‘Perfect’ customer experience (Frow and Payne, 2007)

Frow and Payne (2007) outline managerial areas that contribute to the ‘perfect’ customer experience. Essentially, the authors take a process view of delivering customer experience. They emphasise the understanding of customer needs for closing the gap between customer expectation and their experience. The result of their analysis is summarised in ten managerial areas:

- continuous improvement, which is achieved through understanding customer segments, their perception and expectations;

7. Differentiation concepts

- indication of areas where experience can be co-created;
- mapping out of experience and analysing what would be a perfect customer experience;
- management of ‘touch points’ so as to achieve consistency and eliminate confusion in experiences;
- adaptation of measurements of customer experience;
- monitoring the consistency of experience across multiple channels, which customers use to engage in experience;
- recognition of customer needs at the different stages of relationship lifecycle and meeting them accordingly;
- consideration of feasibility and profitability of delivering experiences in various customer segments;
- management of consistent communications and brand messages
- enhancement of employee motivation to create ‘perfect’ customer experience.

7.5.4 Rating customer experiences for decision-making process (Meyer and Schwager, 2007)

The aforementioned Meyer and Schwager (2007) discuss the importance of monitoring and probing for the full range of customer experiences. They emphasise the need for thorough integration of the knowledge into an organisational process, because “customer experience does not improve until it becomes a top priority and a company’s work processes, systems, and structure change to reflect it” (p. 126). The authors structure experiences in past, present and potential patterns (Figure 13).

The *past patterns* are the topic of many surveys that often focus on transactional improvements and provision of new product or service functions. While the importance of the information collected should not be underestimated, “the secret of a good experience isn’t the multiplicity of features on offer” (p. 119).

The analysis of *present patterns* evaluates meanings and successes of recent encounters. This information provides an understanding of “customer’s awareness of alternative suppliers, new features the customer might desire, and what it sees as challenges to its competitiveness” (p. 122).

Finally, *potential patterns* for experiences can be gleaned from the interpretation of customer data and observation of customer behaviour. The three patterns combined characterise customers and provide insights into how to enhance their experiences.

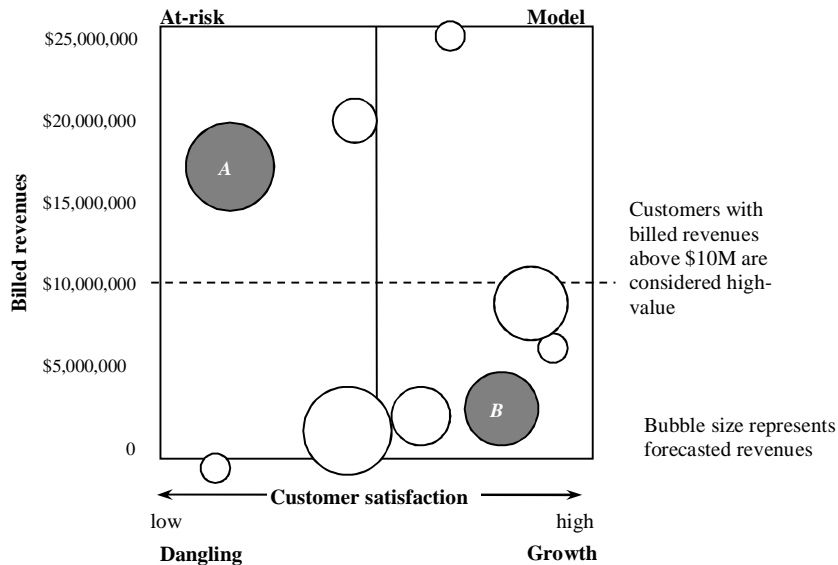


Figure 13. Rating customer experiences for decision-making process. (Meyer and Schwager, 2007, p. 124).

The authors suggest a decision-making system for determining for which customers the enhancement of experience is crucial. They propose a diagram with a measure of customer satisfaction on one axis and the amount of the billed revenue on the other. The customers are designated by bubbles, whose size reflects the amount of forecasted revenue. The diagram shows that customers who are not satisfied with their experiences but potentially can bring a large share of revenue for the company should become a priority. Their experience must improve in order for them to remain loyal.

The decision about experiences should engage all functional divisions. The role of marketing is to communicate tastes and standards. Service operations must ensure the quality of processes at every touch point. Product development should focus on designing experiences and not only physical features. The IT department is responsible for providing information about the company's performance in a way that would create a pleasurable employee experience. Human resources contribute by developing employees' individual capabilities matching the required customer experience. Finally, account teams need to focus on the analysis of the touch-points so as to anticipate customer latent needs.

Meyer and Schwager (2007) conclude that companies need to learn about the thoughts and emotions of their customers in order to design services. "Yet, unless companies know about these subjective experiences and the role every function plays in shaping them, customer satisfaction is more a slogan than an attainable

goal" (p. 126). The authors focus on the analysis of customers and the importance of creating the desired experiences for them.

To summarise, the conceptualisation of experience differentiation is more diverse than that of products and services. The reason for this could be that customers are unlikely to recognise any structure behind experiences and perceive the complexity of experience in totality (Gentile *et al.*, 2007). Contrary to our understanding of experience, which suggests that experience defies analysis (Dewey, 1958), many customer experience management models condense experiences to a list of factors that need be administered in order to provide experience offerings (see discussion in Schembri, 2006).

The analysis of the customer reflections about experience suggests that experience can hardly be relegated to a series of manageable factors. A company that differentiates with experience is required to understand what experience is and how customers evaluate it. The concept of experience must, therefore, assist companies in gaining this knowledge. The research that enumerates the determinants of experience is helpful but it can be both overwhelming and simplistic. It is overwhelming when the company needs to monitor all the aspects of experience. It is simplistic because lists can scarcely describe the complexity of individual experiences.

Furthermore, the suggested models assume that a decision about which experience to provide had been already made. The models do not explain how a decision should be made.

Differentiation by experience naturally drives quality and design innovations, which are the means for achieving it. The inspiration for differentiation can be drawn from customer needs as in a traditional view of it, or from anticipation of customer desires. The idea of proactive approach in meeting customers' future, latent or unrealised needs has been widely discussed in the literature. Much of this discussion presumes the understanding of customer values. We now turn to the review of anticipation of desires as a means for building differentiation strategy.

7.6 Differentiation through the anticipation of desires

Cooper and Schendel (1976) observe that leading firms may fail when faced with technological change because they defend existing technology by increasing the investment in traditional technical approaches. IBM, for example, created and continued to dominate the mainframe computer market, but it missed the emergence of personal computers for many years. In the 1980s Seagate Technology, the leading manufacturer of 5.25-inch disk drives, missed the market for 3.5-inch drives despite the fact that Seagate had prototyped new models long before the competition from new technology intensified. It is believed that Nokia had declined the project for touch-screen technology prior to Apple's creation of the new market for the iPhone.

Leading firms that carefully monitor the competition and fine-tune their radars for listening to their customers may still lose their competitive grounds. Christensen and Bower (1996) suggest that customers view their needs within the established framework. They can provide a robust explanation of the need for improvements within that framework. Innovation, however, may shift the reference framework and uncover latent needs.

Companies desire a predictive framework that will help them to be successful not only today but also tomorrow. Experience is spread through time – customers anticipate it, live through it and take away memories of it. Companies develop methods for uncovering latent customer desires so that they are the first to meet them. Anticipation of customer value (Flint *et al.*, 2011), needs (Blocker *et al.*, 2011), concealed longings (Meyer and Schwager, 2007) and proactive market orientation (Narver *et al.*, 2004) are all aimed at the competition for the future needs. This discussion originates from the opponents of the customer-centric view of marketing, who point out that in practice customers are very poor source of information about their future desires. That is, they may not know or are unable to articulate what they will want in the future.

The prediction of customer needs is problematic if not impossible for several reasons. First, current customers largely determine the needs and expectations of product innovation. Christensen and Bower (1996) show how resource allocation systems are geared to support the known customer needs and starve innovative projects because of the poor information coming from the market. It is not surprising, however, to gather weak market figures, because the market is as yet non-existent. This leads to the second reason of needs prediction, namely, the non-existence of market for conducting a study. The subjective nature of the marketing research establishes at the outset the selection of research topics that reflect researcher's values. In the example above, in 1943 Thomas Watson, president of IBM, estimated the market size for five personal computers in the world. By acting upon that belief the company missed the opportunity for growth and expansion. By contrast, Akio Morita, the co-founder and then a CEO of the Sony Corporation in 1971–1994, pursued the development of the Walkman despite the predictions of low market demand. The business became a well-known success story. The view of the new market order always influences the understanding of current market conditions. Therefore, the imagined future gives way to personal values and bias in evaluation of the company's opportunities.

The third reason is a social one. The subject matter of social science deals with human motives, intentions and goals. These are private, unobservable and subjective experiences of individuals, understanding of which requires such techniques of inquiry as introspective reports, verbal and non-verbal responses and empathetic projection into subjects' context. As a result, the analysis of the market conflates fact and value judgements. The statements that describe the state of affairs and the statements that appraise those states are hard to distinguish. Consequently, prediction is largely subjected to personal values and beliefs.

Finally, customer experience is an open social system, where every event has multiple causes. Customers continuously interact with external environment, which

affects their goals, desires and motives. In addition, customers' internal states, attitudes and emotions influence the perception of experience. These and other factors (Ng and Smith, 2012) determine the emergent nature of experience as an open social system where true predictions are impossible (Dobson, 2009).

Researchers make predictions about future customer experience by empathetically projecting themselves into the experiences of their subjects. After an in-depth review of customer demands for disk drives Christensen and Bower (1996) conclude "the pioneering engineers in established firms that developed disruptive-architecture drives were innovative not just in technology, but in their view of the market." They assessed risks and returns but "intuitively perceived opportunities" and information about the existing market "was at best hypothetical" (p. 211). In the Sony Corporation, Akio Morita relied on empathic understanding of customers but not on market research data. He reproduced the context in which his analysis was made to test his knowledge.

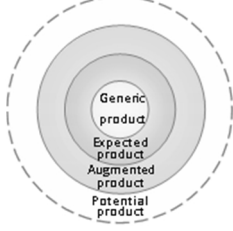
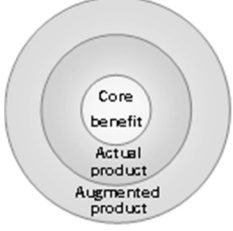


The knowledge acquired with the help of emphatic inquiry is scientific (Hunt, 2010). The verification of it requires the reproduction of context. In other words, the testing of knowledge requires the creation of the desired framework, in which the hypothesis was originally developed.

In the final analysis we must admit that differentiation by experience occurs when the current understanding of the reality is combined with the researcher's value system and intuitively projected into the future.

7.7 A generic model for differentiation concepts

The models of product and concept differentiation have four common characteristics: (1) the core offering satisfies one or several known customer needs; (2) the benefit is understood in terms of need satisfaction; (3) product design and augmentation are prioritised over experience; (4) experience is not considered as a separate construct of differentiation. In these differentiation models, experience is influenced indirectly through product development, augmentation and marketing activities. Experience is expected merely to follow the organisational activities of product or service development. Later research, however, shows the importance of customer experience for business differentiation (Teixeira *et al.*, 2012; Verhoef *et al.*, 2009; Frow and Payne, 2007; Meyer and Schwager, 2007). The summary of the generic product and service models in Table 2 demonstrates that existing generic product and service concepts lack a customer experience perspective. Thus, a concept that models experience as an intentional element of differentiation strategy can contribute to theoretical and practical business knowledge.

Table 2. Comparison of generic product and service models.

Name	Total product concept	Three levels of products and services	Augmented service offering	Augmented service offering
Representation				
Author	Levitt, 1980	Kotler and Armstrong, 2004	Grönroos, 1990, 2007a, 2007b	Storey and Easingwood, 1998
Core of the offering	Generic product, a substantive thing	Core problem-solving benefit	Delivering customer benefits with a "core service [which] is the reason for being on the market" (1990, p. 74)	The service product includes services and products that address the customer's requirements for a service
Sources and nature of differentiation. How company differentiates	Product attributes, meeting customer expectations, surprising customers, keeping them interested in future benefits. Entirety of customer satisfaction. Management of marketing processes and business distinctiveness.	Product attributes and qualities, services and complete customer solutions, organisational brand. It is recognised that companies differentiate by developing and delivering customer experiences	Basic service package (supporting and facilitating services) is the main source of differentiation. Customer perception is <i>how</i> the differentiation is attained	Service augmentation is the main source of differentiation. It describes the process of how organisations communicate their services and how customers receive the service.

<i>How customer differentiates a product or service</i>	Customer evaluates all potential levels of product satisfaction influenced by expectations and company's reputation	Customer experiences the products and services, perceives the benefits and value.	Perception influenced by companies image, marketing communications and word-of-mouth communications	(mostly company perspective is discussed)
<i>The role of customer</i>	Evaluation of potential benefits, product consumption and assessment of received benefits	Consumption of products and services; evaluation of received benefits	Customer is co-producer of services	(mostly company perspective is discussed)
<i>What is the concept of customer experience?</i>	The word "experience" is not used. However, experience could be implicit in unexpected augmented product and in differentiating through managing the <i>process</i> of marketing	Customer experience is not in the model. Experience is how the customer receives the benefits. Companies can, however, differentiate by developing and delivering customer experiences	Experience is <i>how</i> the service offering is perceived. Experience is the process of service consumption.	Customer experience is part of service augmentation and is viewed more as a result than a process of service consumption.
<i>Ways to develop differentiation</i>	Management, marketing research, imagination	Management, development, marketing research	Co-production	Managing trade-off and interconnections of the three elements of augmented service offering.

Historically, generic product and service models relate to and are descriptive of an entire business, which is defined by a given product or service. Initially popularised in the 1980s by Theodore Levitt's epic question, "What business are you in?", the concept continued to evolve throughout marketing history (Table 2). Levitt's main objective was to provide a frame of thinking for combating the imminent decline in industrial growth. Levitt virtually asserted that a company's decline is a managerial failure, not a matter of market saturation (Levitt, 1960). In a word, in order to lead successfully, a company management must ascertain customer needs and desires, and then develop products and services that will differentiate a business by how they meet customer needs (Levitt, 1980).

The continued development of generic concepts and their application urged organisations to use the concept to redefine their industries in such a way as to allow them to take advantage of growth opportunities. The idea of industry redefinition goes back to the creative destruction of Joseph Schumpeter (1883–1950), who formulated the progress paradox – the existing economic structures sometimes have to be destroyed from within in order to build new and more efficient ones. The generic models represent a business application of this view. Their main benefit is the identification of areas for differentiation and growth. From the view of a generic product or service concept, organisational management has the authority and is thus largely responsible for finding new areas of growth.

The application of product and service concepts produced the development of axillary organisational functions, such as delivery, warranties and branding. These activities have become industry qualifiers and are rarely sufficient for business differentiation today. As a result, recently the whole concept of differentiation by product or service augmentation has been challenged (e.g. McGrath, 2013; Kim and Mauborgne, 2005). A new generic differentiation concept, however, has not been offered until now.

A common generalisation of product and service differentiation concepts is shown in Figure 14. It summarises the four points above and models the experience as the outermost layer of differentiation. We argue that, with the unaltered perspective on differentiation, this is how experience differentiation is viewed within the company. Experience happens around products and services, and is peripheral to the established view of differentiation. For companies, experience is an attribute of consumption.

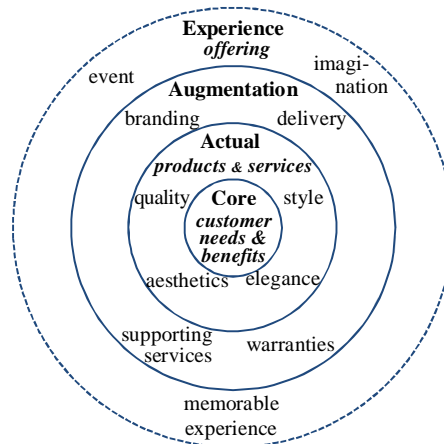


Figure 14. Generic concept of differentiation.

It should be noted that traditional models demonstrate an implicit awareness of experience as an element of consumption. They discuss and analyse products and services with the purpose of delivering value and satisfying customer requirements. Customer satisfaction is a part of experience research discussion (e.g. Meyer and Schwager, 2007). Notwithstanding the implied acknowledgment of experience, the conventional concepts lack intentionality in delivering customer experiences. Without fundamental changes in the understanding of differentiation, a company is likely to change the language but not the substance of their offerings. Simply renaming product and services into experiences and proclaiming the focus on customer experience contributes little to the development of differentiating strategy by experience.

In those companies where a product is at the centre of the design process, experiences are outside the deliberate organisational strategy. They view experience as an incremental improvement of the existing product, and their customers remain the sole agents of experience creation. Customers are left to have experiences around the products but those experiences are not a part of differentiation strategy.

The generic concept of differentiation illustrates the conventional business view of product augmentation. At the core, the product appeals to a known need, and the actual product is designed to satisfy it. Services are then added to the actual product to provide some level of differentiation. Experience is just another augmentation layer for achieving more differentiation. Corporate management treats experience product in much the same way as it does the other layers. This viewpoint impedes how differentiation by experience is integrated in the organisation. That is, in traditional product differentiation paradigm experience is an extra layer of augmentation.

The challenge with this approach is that current business processes do not intentionally aim at creating experiences and, therefore, the offering may fall short of delivering pleasurable and meaningful experiences. Furthermore, the problem compounds because experiential qualities are not inherent to the product, but are attributed to it by customers. Thus, the customer's contribution to the creation of experience is not recognised in the differentiation strategy. The application of the generic concept to the differentiation by experience conflates the actual and augmented layers because they are both part of customer experience, but they are not distinguished in differentiation. This hinders the company's ability to concentrate the resources, systematically develop and communicate the added value of experiences effectively.

The research into experience does not map experience onto the differentiation concept. The authors primarily discuss the nature of experience (Ng and Smith, 2012; Pine and Gilmore, 1998) and how it is created (Verhoef *et al.*, 2009; Frow and Payne, 2007). On the process level, the integration of customer values in technology is a subject of human-computer interaction research, but little has been said about using values in developing differentiation by experiences.

Differentiation is a company-level approach to the creation of experience. It combines technology, product, services and marketing communications in organisational strategy. The development of strategy depends on the shared understanding of the problem and the use of common language for the agreement on a future course of action. Because the concept of differentiating by experience is lacking, management tends to adopt the current paradigm of differentiation for creating experiences. The assumption that differentiation of a product or service is the same as differentiation by experience leads management to continue focusing on product and service development and expecting experience to follow. This leads to little or no change in organisational processes, strategy management or understanding of customer. As a result, the business approach to strategy remains intact and customer experience is crowded out by the other priorities of the traditional product strategy.

Few would disagree with Levitt (1980, 1983) that there is a noticeable difference between organisations that sell products with and without augmented services. Such companies would possess marked differences by appropriating divergent differentiation strategies. A move from one level of competition to another (i.e. from an actual to augmented product offering) demands that an organisation develops certain corporate capabilities (Grönroos, 1990). If we believe that customer experience spells out a new regime for competition, then by the same logic, a similar organisational transformation must take place when a company moves from differentiation by additional services to differentiation by experience.

In the next section we explore differentiation by experience in detail and propose a new conceptual model that accounts for a new competitive regime.

7.8 Differentiation by experience

In this section we review the generic differentiation model from the perspective of experience creation. We evaluate how the model could be applied to experience development. By doing this, we take a dynamic view of the differentiation concept. The proponents of the reviewed differentiation models could argue that they did not aim to reconstruct the emergence of product, service or experience, but to lay out what differentiation as a phenomenon should contain. However, the attainment of competitive advantage requires an understanding of both what and how something is done. Furthermore, differentiation by experience requires a dynamic aspect because experiences are inherently dynamic. By definition, experience not only combines development and consumption processes but also unites product, service and consumer (Schembri, 2006). Hence, development of a differentiating model from an experience perspective includes a dynamic perspective.

Company's perspective on experience entails that an organisation emphasises the competencies that enable experience design. In other words, corporate management aims at certain kind of experience and designs offerings to support it. This perspective creates a need for business change, which begins with the transformation of the company's viewpoint and focuses on the development of capabilities (Rawson *et al.*, 2013). The challenge is to combine diverse resources and deliver personalised experiences in all business areas that a customer comes into contact with.

The experience business model differs from the traditional one because its main principle is that of staging an experience, rather than the sole focus on product and service elements (Pine and Gilmore, 2011; Meyer and Schwager, 2007). A companies' production process brings together talents, resources, goods and services in a coherent whole that engages individual customers (Rawson *et al.*, 2013). Consumption becomes a co-creation of experience, in which both customers and a company are involved (Ng and Smith, 2012). This means that corporate management should view all the company's outputs, processes and resources as the means for making a platform where customers can create their personal experiences in partnership with the organisation. In the business of experience there is a great need for this new mind set. Re-evaluation of the business viewpoint and re-alignment of the capabilities and strategies are the prerequisites of offering experience as a product.

The focus of development shifts from manufacturing a product to staging an experience. The goal of market research also moves from surveying needs to understanding the value of experiences. Knowledge of values enables a company to shape the context around them and to empower the customers to have their diverse needs met as they engage with a product on a personal level.

Contrary to the conventional product development view, the step that follows value analysis is not actual product but experience design. Since needs are subjective and context-dependent, it is sensible to understand how the company will shape the experience. Therefore, any organisational offering should start by

answering the question, “What kind of experience should this product or service be designed to deliver?”. Experience becomes a central concern and the product is designed around it. The value of the product is attributed to it by the customer either during an experience or a series of experiences. It is an attribution process that makes the product highly valuable to the customer.

As a result of the changed business viewpoint, an organisation makes not the product, but the experience central to its development process. Experience becomes central to the design offering with actual product and additional services supporting the experience design. The support for such a perspective requires an organisation to develop a strategy for investing in corporate capabilities. These new capabilities support the transition to the next level of differentiation, which is an essential ingredient for gaining competitive advantage.

The chapter following summarises these principles in a ViEx differentiation concept.

8. Values-in-experience differentiation concept

In this chapter we first present the values-in-experience (ViEx) differentiation concept (Figure 15) and then explain in more detail its significance and implications. The objective of the ViEx concept is to account for the changes discussed in business strategy and to provide a viewpoint for creating experience. The ViEx concept does not aim to explain the immense complexity of experience. It proposes modifications to the traditional differentiation concept (Figure 14) with the aim of capturing the new differentiation regime for companies. The modifications are simple, but their implications are quite far-reaching. They form the basis for the ViEx decision framework. In this chapter we describe the ViEx concept, discuss its implications and build propositions for the ViEx decision framework.

8.1 New focus for differentiation: values and experience

The need to understand “an unanalysed totality of experience” (Dewey, 1958, p. 198) re-evaluates the focus of differentiation. A new regime of differentiation by experience requires a different mind-set in the development of anything. One of the areas that requires re-evaluation is the management’s model of how customers perceive products and service. This is necessary because mental models regulate decisions and actions in strategy implementation (Senge, 1990). They specify what is important and, thus, regulate the allocation of resources. This creates a tension between where an organisation is and where it needs to be, thus inviting a re-alignment of processes with the new picture of reality. The ViEx concept (Figure 15) invites management to review its customer models and re-align organisational processes accordingly.

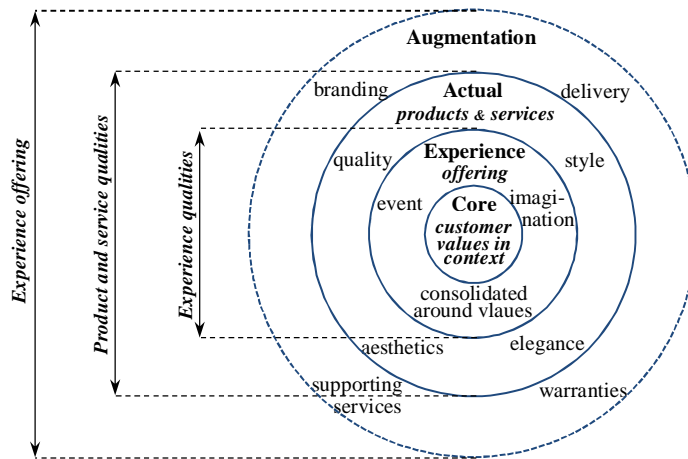


Figure 15. Value-in-experience differentiation concept.

The ViEx concept makes experience central to differentiation as was discussed in the previous part. This means that volatile and personal experiences inform the product and service differentiation. This idea is radically different from the concept of sustainable competitive advantage, which is based on the assumption of a relatively stable market environment (McGrath, 2013; Brown and Eisenhardt, 1998). The ViEx concept more realistically depicts the nature of experience differentiation. It implies that companies need to organise their processes in a way that exploits the dynamic and short-lived nature of experience.

Customer values bring in an element of stability to experience creation. Values are enduring concepts that remain stable even at times of crisis (Rokeach, 1979a). They are at the core of an experience offering because they are the summations of customers' desires and basis for experience valuation (Schwartz, 1992). In other words, they bridge customers with organisational processes. Customer values can form a common ground for bringing together the customers' and the company's perspective on experience. (The actor-as-observer position is discussed in Chapter 13).

Researching value priorities in different contexts may provide a variety of insights for innovation. Functionality and improvements that are introduced based on the analysis of customer needs quite quickly become industry standards because it is likely that many rival companies define the market in a similar way. Consumption of similar products and services establishes a framework for needs and their satisfaction (Ulwick, 2002). As a result, the suggested improvements to meet customer needs better rarely "break the mould" (Brown, 2006). The concepts based on needs and product features determine behavioural patterns and organisational strategic moves (Levitt, 1960, 1980). Thus, the discovery of a unique value proposition becomes a real challenge.

Management's mental model of customers should not only correspond to how customers actually perceive experiences, but must also approximate how customers *will* evaluate experiences.

A company attains a competitive edge by engaging in the in-depth understanding of customer perception and shaping of the future (Courtney *et al.*, 1997). The discrepancy between the managers' and the customers' view of reality limits a company's ability to close the gap between the current state and future reality. For management, whose task is to attract customers in such a way that they will pay for an experience, the infusion of a new organisational perspective can stimulate creativity and reveal opportunities. The ViEx concept creatively redefines the core of an experience business and hence the organisation of its functions.

Knowledge of current customer perception can come in the form of qualitative and/or quantitative data. The anticipation for the future, however, is a creative activity. It comes primarily through shaping the future and educating the customers. By shaping the future we do not mean discovering 'latent' needs. Rather, it is an active creation of a new framework where customers can realise their values more effectively than before. Needs may be effective in understanding customers' current perception, but values are more likely to point how experiences will be evaluated in future.

The rest of Chapter 8 describes the details of the ViEx differentiation concept and its development.

8.2 Values, needs and experience offering

Generally speaking, in product or service differentiation the identification of customer needs and benefits is a prerequisite of development. However, this is not always the case in the software industry. Many companies design products not because they have defined a need or benefit but because they have an idea or technological innovation (Ulwick, 2002; Morita, 1986). A new product can emerge from developers' creativity or professional interests (Morita, 1986). Facebook – initially designed for close friends – is an example of how an idea in a developer's mind creates a market demand. Software services may originate out of organisational knowledge or a general feel for customers' desires. This is because organisations – unlike their customers – possess the knowledge of technological advancements and possible innovations. They can propose solutions that deliver what customers value, but perhaps in an unexpected and technologically advanced way.

It is important to distinguish values from needs, which can also be a focus of experience. Although values and needs carry "many conceptual properties in common" (French and Kahn, 1962, p. 11), they are for several reasons very different concepts. Values are a representation of needs (Rokeach, 1973) formed into an interrelated system (Schwartz, 1992). In addition to the representation of personal needs, values represent societal demands and expectations (Williams, 1979). They are cognitively assessed and socially justified motivations for desirable, which is shared and approved in social terms. Values attribute meaning to

desirable and validity to needs. As a result, values – unlike needs – can be used as valid justifications or claims (Rokeach, 1979a and Williams, 1979) and cannot easily be denied (Rokeach, 1973). Finally, values unlike needs, are always motivational, whereas needs are motivational only when they are not satisfied (Maslow, 1964). For example, values motivate achievement of self-esteem and social self-concept, which can be goals of technological innovation (Brey, 2010). Values, being rather stable (Rokeach, 1979a, 1979b), can be an inspiration for a greater technological innovation than needs (Ulwick, 2002).

To target a need is to believe that customer choices are guided by self-interest. That is, customers are rational actors in the sense that their decisions can be described with a direct linkage between desirable consequences and the reasons for pursuing those. This connection is a result of weighing advantages against disadvantages and finding an optimal solution.

A benefit as the centre of attention implies that the primary means for attracting customers are their utilitarian concerns, the rationality that the benefits should exceed the cost. Customers' actions are viewed as instrumental, namely that their choices can be explained by the wilful actions to attain a goal. While this is a plausible generalisation, it does not explain all cases of experience (Boudon, 1998).

A customer may also desire an experience without an objective to maximize net benefits or generate a specific outcome, but rather because of a web of principles and convictions he or she endorses. An actor may be unconcerned with maximisation of benefits and, thus, his actions are not purely instrumental. Moral and normative values exemplify non-consequential reasons. Actions also can be grounded in the values for sympathy, duty, fairness, or goodness. A desire for experience may grow from the enmeshing of conflicting beliefs rather than the deliberation of consequences (Boudon, 2001).

The notion of needs seems to carry the implication that there is a direct and logical linkage between goals and means for their achievement. It is difficult, however, to conceive of values as false when they deviate from this logic. Values can hardly be questioned as irrational or even false because they carry broader meaning than needs do (Boudon, 2001). When values are dissected into goals, means and consequences, the linkage among the constituents may be clear and direct or, on the contrary, obscure and faint, nevertheless people still act upon their beliefs. They use values to justify their behaviour and evaluate experiences.

It seems plausible to suggest that needs give a narrower perspective on customer than values do because the former accounts for a smaller number of customer choices and experiences.

Furthermore, one of the organisational consequences of focusing on needs is the measurement of customer satisfaction, which is also a limited view of experience. Few firms succeeded in measuring customer satisfaction well, and others fail to act on the knowledge collected (Dutka, 1994). Thus, satisfaction measurements have not brought expected results. This is not to argue that needs are irrelevant to business strategy or should be replaced with a concept of values. The point is that focus on needs and satisfaction is insufficient for building

experience strategy. We suggest that the understanding of values may give a wider perspective on experiences differentiation.

8.2.1 The use of values in business

The lack of scientific understanding of values impedes their integration into business processes. The creation of value while focusing on customer values seems to be an obscure task because of the difficulties associated with gauging the effects. However, partial satisfaction measurement, which broadly means a comparison of expectations to perceptions, makes needs appear more as final motivators. This makes absolute criteria for a product fairly clear and easy to define. This ease is associated with rational behaviour. It is challenging to define absolute criteria for a dynamic experience. We suggest that the experience measurement should be defined relative to the evaluation criteria (not segmentation criteria or needs), i.e. values, whose priorities varies with the changing situation.

Many researchers have focused on customer values as a source for developing competitive advantage. Gutman (1982), for example, proposed an end-means model for relating perceived product attributes with customer values. His model suggests potential improvements of product specifications through an understanding of customer preferences and values. Homer and Kahle (1988) studied buyers' behaviour and attitudes towards natural foods. With the structural equation analysis, they demonstrated how a knowledge of customer values and attitudes assists in understanding their behaviour. Kennedy, Best and Kahle (1988) showed how customer values can enhance segmentation procedures and help target promotion campaigns through an understanding of customer preferences in the automobile industry. For mapping values into product characteristics, Durgee, O'Connor and Veryzer (1996) put forward a value-means-product method and show how it can assist in the advertising and promotion of new products. The method determines consumers' core values and maps them to products. The authors utilised a combination of 28 values and analysed the means for making product choices by identifying customer wants and their consumption patterns. Lages and Fernandes (2005) developed the Service Personal Values (SERPVAL) method for relating customer values with the service perception. The method focuses on improving customer services by knowing customers values, expectations and behaviours. Schembri (2006), for example, argues that "services are dynamic experiences co-constructed with customers in accordance with *their views*" (p. 386, my emphasis). The views here are an expression of customer values because – as Schembri explains – they guide the "constructing and evaluating in accord with what they [customers] understand a quality experience to be" (ibid.).

The above examples first establish a theoretical approach for using values in product or service design and then suggest methods for doing so (for the summary of theory and methods see (Table 3). Although methods are not necessarily contradictory to the theory, they are not connected with clear methodological approach (Kahle, 1996). A robust methodological approach can

advance scientific understanding of the relationship between personal values and the perceived value of product or service. It can also assist in developing more precise practical tools for designing valuable offerings. Moreover, such methodology can help integrate existing tools into organisational processes. Methods for bringing the customer view into an organisation are many (Woodruff and Gardial, 1996). Recent example of customer-centric methods include the network concept for providing service experience (Tax *et al.*, 2013), customer value constellation (Patricio *et al.*, 2011), customer journey touch points (Zomerdijk and Voss, 2010). Thus, the problem is not the lack of tools but their engraftment into business practices. The lack of a common perspective on suggested approaches encumbers their assimilation into organisational learning. Therefore, companies can benefit from a systematic understanding of methods for developing valuable customer experiences.

The focus on the tools when translating customer values into product and service attributes leaves the subject of creating customer value through knowing customer values under-researched. Current knowledge shows that values are a suitable means for product and service differentiation. Thus, a good methodology could clarify the implications of values-based marketing strategy for existing organisational processes. It can enhance the use of the existing and benefit the development of the new and perhaps more effective methods.

Table 3. Theory and methods in customer values and strategy research.

Article	Primary theoretical background	Method
Lages and Fernandes (2005)	Human values theory (Rokeach)	Service Personal Values (SERPVAL)
Durgee, O'Connor and Veryzer (1996)	Human values theory (Rokeach) Social adaptation theory (Kahle)	Value-means-product
Homer and Kahle (1988)	Social adaptation theory (Kahle)	Values-attitude-behaviour
Kennedy, Best and Kahle (1988)	Social adaptation theory (Kahle)	List of Values (LOV)
Gutman (1982)	Human values theory (Rokeach)	End-means model

8.2.2 The insufficiency of needs for business strategy

Human needs theories posit that needs are finite, few and universal (Maslow, 1954). Desires, on the other hand, are ambivalent and insatiable. Although the effect of desires on human conduct could be vague and is difficult to observe, their influence on human behaviour is clearly identifiable.

Needs can be material (e.g. food, drink), psychological (e.g. safety) and social (e.g. recognition). Scitovsky (1976) discusses also false needs. These are the

needs that the modern society engages in satisfaction but, contrary to common expectations, they destroy personal well-being.

The means for meeting the different kinds of needs are not all equally satisfying. Berry Schwartz (2000) shows how a rational choice perspective can be destructive in meeting the social and psychological needs. He argues that the expansion of opportunities in American society creates unrealistic expectations. People are always left “with a dissatisfied feeling that they might have done better” (Schwartz, , 2000, p. 84). Sirgy (1998) made theoretical predictions that material orientation leads to dissatisfaction with life in general. It is shown, for example, that consumption is negatively correlated with satisfaction with life in Australia (Ryan and Dziurawiec, 2001) and with quality of life in America (Roberts and Clement, 2007). Consumption is not linked to subjective well-being in Europe (Donovan *et al.*, 2002) or China (Easterlin *et al.*, 2012). In their study of large sample of adolescents, Manolis and Roberts (2012) found that ‘time affluence’ moderated the relationship between materialism and well-being. That is, when people felt that they lack time for life activities, their perception of well-being negatively correlated with materialism.

The needs-based perspective of society is criticised for an inability to identify the means of satisfaction and enhancement of well-being. Nonetheless, the language of needs has found its way into economics and business discourse. The concept of needs satisfaction retains a prominent position in business strategy, customer studies and marketing activities.

Perhaps the best known proponent of human needs is Abraham Maslow. Criticised for his lack of scientific rigor, his writings still influence contemporary thinking about human needs. He argued for the universal properties of needs and recognised the contribution of social demands to their formation. Despite the common representation of his work in the form of a pyramid, Maslow did not see needs in a fixed hierarchy, but on the contrary described them as variable and simultaneously present. Thus, needs have some commonalities with values, but they are essentially different concepts for several reasons.

First, needs represent desires for what is lacking. Although this is a very narrow definition of needs, it captures the core concept of a need. It requires an awareness of need, expected satisfaction and means to achieve satisfaction. To simplify, needs are met by obtaining utility. For example, in the analysis of brand perception MacInnis and Jaworski (1989) distinguish between utilitarian and expressive needs. Utilitarian needs arise with a requirement to find a solution to a problem. Such needs can represent desires for products, services or information. Expressive needs are requirements for “social and aesthetic utility” (MacInnis and Jaworski, 1989, p. 2). This type of need is similar to Maslow’s categories of esteem and aesthetic needs. Note that both types are defined with the help of utility concept.

Second, not all needs are motivational but only those that are unsatisfied. Among the unsatisfied needs, the most pressing one motivates us the most. Thus, if a person recognises a deficit in need fulfilment, his or her behaviour will be directed towards the satisfaction of that deficit. Herzberg researched the motivational factors at the workplace and found that satisfaction of some needs

does not improve work motivation (Herzberg, 1968; Herzberg *et al.*, 1959). He discovered that, in order to prevent dissatisfaction, employers need to address 'hygiene' needs, which are different from the needs that improve employees' motivation for higher performance. In general, hygiene needs refer to the context of work, for instance, work conditions and relationships with boss and peers. The motivational needs are more related to values of, for example, achievement, recognition and responsibility.

In business the emphasis on needs dictates a certain understanding of motivation. That is, it implies that effective marketing function can target the highest priority need first, otherwise customers may lack interest in a company's offering. Moreover, the analysis of needs suggests that businesses can establish a link between a need and its satisfaction. But even then needs and means for their fulfilment differ. Not everyone is seeking to meet the same needs in the same manner. In the era of service personalisation and the provision of unique experiences, the complexity of market needs analysis surges beyond what is manageable.

Third, the essential distinctiveness of needs is their fluidity. Fulfilled and unfulfilled needs continuously supersede each other and are present simultaneously. Moreover, almost any categorisation of needs can be criticised for not accounting for individual and cultural specificity. By contrast, values are stable and enduring concepts of beliefs (Rokeach, 1979a, 1979b). Values were found to have universal structure across different contexts (Rokeach, 1979a) and cultures (Schwartz, 1992; Hofstede, 1984). Ulwick (2002) showed how values can be a greater source for technological innovation than needs.

Finally, both humans and animals can be described as having needs, whereas it is only meaningful to speak of humans as having values. Values are uniquely human characteristics. They attribute meaning to what is desirable and validity to what is needed. In other words, with the help of values people justify their choices and actions. They use values to confer meaning to needs and desires (Rokeach, 1979a; Williams, 1979). Values substantiate arguments and, thus, cannot easily be dismissed (Rokeach, 1973). This characteristic of values is especially important for building long-term business strategy.

8.2.3 Values key role for experience creation

Values underlie a broad range of experiences and, while far from being exclusive, they are perhaps the most important determinants of behaviour (Homer and Kahle, 1988; Kahle, 1996; Williams, 1979). Yet values do not have a strong presence in business strategy development. One reason for their dismissal is the emphasis on the subjectivity of values, that is a view that some values do not have rational grounds. While subjectivity is also true of needs, the values rationality is quite different from that of values. Boudon (2001) writes:

... rationality is currently used as a major concept by two disciplines, namely economics and philosophy of science. To economists, rationality means instrumental rationality, in other words: adequation between means and

8. Values-in-experience differentiation concept

ends. To historians and philosophers of science, being rational has an entirely different meaning: I am rational if, to the best of my knowledge, I endorse a stronger rather than a weaker theory (p. 149).

Thus, values endure until they are disproved or replaced with stronger values. Boudon gives an example that “it became irrational to believe that the Earth is flat once the proofs had accumulated showing that it is round” (p. 149). Earlier we described needs as enduring until they are satisfied.

Values subjectivity does not preclude an understanding of how values influence behaviour. Bound (2001), developing the third postulate of the cognitivist theory, suggests that people hold values and experience something as good or bad because they have strong reasons for believing so. However clear or convincing the reasons may be, they explain why people view some experiences as congruent with their values and therefore desirable and other ones as undesirable. Consequently, adherence to values can be understood and explained. The fact that values are not always based on instrumental rationality does not make them or the reasoning for them irrational or incomprehensible. This includes the empirical observations of people endorsing values without well-articulated arguments for them (e.g. Maio *et al.*, 2001).

Individual values are not idiosyncratic, but are shared and considered as valid by others. Consciously or intuitively, people are convinced that others would or should accept them as “valid claims” (Williams, 1979, p. 48). Values are perceived as good reasons for desired experiences not only by an individual but also by other people. In other words, a social individual endorses values with a conviction that other people would or should share his or her feelings. Despite subjectivity, values are adequate and sufficient for explaining choices, behaviours, desired experiences and convictions. Values as criteria for what is desirable (Rokeach, 1979a) and what constitutes “valid claims” (Williams, 1979) operate on the feelings that the reasoning for them is common, strong and readily accepted by others (Boudon, 2001).

Rokeach (1973) developed a classification of human values and proposed that the number of human values is limited to a few dozens. Values are representations of person's beliefs and preferences for achieving desirable “end-states of existence” (equality, peace) and behaviour (honesty, respect of others) (Rokeach, 1979a, p. 227). He also theorized that individuals have a system of values prioritised in various degrees of importance. Building on this theory, Shalom H. Schwartz (1992) gathered evidence that human values have a universal structure. That is, the trade-offs among competing values and value priorities have similar patterns across countries. This finding is supported with information gathered from other values studies. For example, Kahle (1996) conducted multiple cross-cultural studies on values with a List of Values (LOV) survey and discovered that values can help in understanding not only customer behaviour but also political and economic relations among different communities (Kahle, 1996).

At least two propositions can follow from the values structure observed by Schwartz and other researchers. First, it is possible that common reasons

underpin the values structure. Second, the structural similarity across many different cultures suggests that reasons for values transcend the cultural context. Schwartz' study questions the notion of subjective idiosyncrasy of values because it shows that values are universal in nature. Boudon (2001) supports this by saying that "...people have the impression, not less today than yesterday, that ... the values they endorse, far from being private or from being mere emanations of particular cultures, can be considered as objectively valid" (p. 74).

In addition to universality of values, their orientations remain stable both in general and with regard to specific situations (Seligman & Katz, 1996). Multiple studies across different countries reveal a convergence of findings about values of social communities (Kahle, 1996). While the salience of values can grow or fade over time (Kahle, 1996), during the previous century no totally new key values have emerged, nor has any major value disappeared entirely (Lipset, 1963). Furthermore, the resilience of values to change increases with the degree of their importance for an individual. The more central the values are, the more individuals resist the change (Williams, 1979). This cannot be said about needs, which are more fluid and decrease in importance when satisfied (Schwartz, B., 2000).

The focus on customer values may offer a wide and relatively reliable platform for creating experiences. Values may safeguard a company from developing "me too" products by getting too close to the customer (Ulwick, 2002). Understanding customer values becomes potentially more fruitful than asking about their needs. Knowledge of values enables a company to construct experiences and empower customers to have their diverse needs met as they engage with a product or service on a personal level (Friedman and Kahn, 2008).

For the reasons mentioned above the ViEx differentiation concept suggests that customer values need to be at the core of the experience offering (Figures 15 and 16). It also follows that the decision framework should include values as the initial consideration for experience. That is, the companies that design experiences should be gaining intelligence about customer values. For this reason, the ViEx differentiation concept graphically shows that:

The process of creating a differentiating experience has customer values at the core.

8.2.4 Value priorities adjust to context

Both Rokeach and Schwartz surveyed respondents by asking them to rank or rate each value "as a guiding principle in my life". The survey instructions oriented respondents to think in general about their value preferences. They had no information about the context for prioritizing one value over another. The respondents had to abstract to the general – "life" – standpoint and reflect on their priorities. It is plausible to suppose, however, that values priorities would be different if the survey instructed respondents to rate values for a specific situation. For example, the priorities would somehow change if the respondents reflected on their values "as a guiding principle for making everyday shopping decisions".

Regardless of the context, individuals have intuitive and conscious reasons for making judgements about which values have higher or lower importance. Thus, we could expect that distribution of values in a context would be also highly structured. Therefore, it is possible to reconstruct people's feelings of values priorities by application of general principles to specific situations.

Seligman and Katz (1996) suggested that a different value-system corresponds to each specific context. In other words, an individual value-system is dynamic. People dynamically construct a system of value priorities for a situation at hand, thus possessing multiple systems of values. Seligman and Katz showed that people who are guided by different values when requested to prioritize values while thinking about abortion or environmental issues. They also provided evidence that individuals' value priorities change in response to different situations, instructions and perception of their actual and ought values.

Lynn R. Kahle observed the varied importance of values in different consumer contexts (For an overview see Kahle, 1996). He also found values variability across cultures (Kahle, 1996) and different geographic regions within a country (Kahle, Liu and Watkins, 1991). Kahle's findings show that, within the parameters of the context, the value systems remain stable. This is because the locality of values produces a sense of objectivity and an expectation that others would understand and that an independent observer would approve of a behaviour based on localised value priorities.

Although the meaning of values, their salience and interpretation, varies under different circumstances (Rokeach, 1979a, 1979b, 1979c; Schwartz, 1992; Boudon, 2001), individual value systems retain their relative stability for a given situation (Seligman & Katz, 1996). That is, in each particular context values are enduring concepts of what is desirable. As situations alter, people's value priorities adopt and form new systems. Thus, individuals may have several related value systems for various life settings. It can reasonably be expected that values will still be structured in a context and will still be based on objective reasoning, which other people are likely to accept and share. Thus, it can be proposed that values have an explanatory power in various situations.

The ViEx differentiation concept summarises that with the 'in context' statement, which specifies that context influences value priorities. In other words,

The process of creating a differentiating experience has customer values – as understood in a specific context – at the core.

Figure 16 illustrates this principle for the ViEx differentiation concept.

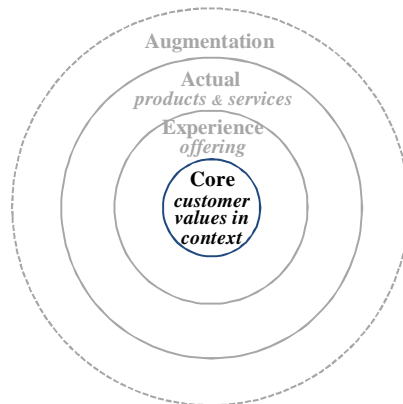


Figure 16. Values at the core of experience differentiation.

This does not mean that analysis of values in context will deny inferences or predictability across contexts. Context is defined by a set of parameters – events, ideas and surroundings – that make the understanding and interpretation of value systems possible. It is likely that the value systems are stable within the same parameters. It is, therefore, plausible to think about categories of contexts, for which value systems will be similar. This is an interesting area for future research. In Chapters 10 and 11 we provide a more detailed discussion of values in experience and business.

8.2.5 Values as guides for experience creation

Values as generalised concepts of ideal are far from being specific requirements. They have to be interpreted in a specific context of design in order to contribute to the design process. If a company shares the same values with its customers, then this may facilitate the creation of desired experiences. However sharing values is not an imperative for developing differentiating strategies, but nevertheless the understanding of customer values is important.

People present values as valid claims and justifications of choices, behaviour, attitudes, etc. (Williams, 1979). They expect others to consider and accept their values as valid (Bound, 2001). Hence, it is important for business institutions to view themselves as part of a social system that rejects or supports customer values (Hitlin and Piliavin, 2004). In experience creation, therefore, it would benefit businesses to deliberate on customer values throughout the process. The basic principle of experience design with values can be illustrated by the work of the Swiss psychologist and philosopher, Jean Piaget (1896-1980), who was the first to systematically study the development of children's understanding.

Boudon (2001) looks at particular case of children engaged in a game of marbles. He interprets Piaget's work by explaining that children playing marbles will reject cheating not because they were taught that cheating is bad or because

8. Values-in-experience differentiation concept

they are motivated by personal ideals or cultural tradition, but because cheating ruins the experience. Children play marbles because they find it interesting. They have strong reasons to condemn cheating because it makes the game uninteresting. Bound concludes that values ensure smooth and efficient social interactions. Violations of experience-guiding principles are detrimental to experience within the social system and are therefore rejected.

To adopt Piaget's findings, the experience in company-customer interactions is interesting when the engaged parties understand and endorse each other's values. The aim of customers' values analysis is to provide an explanation of customer beliefs, actions and choices. It is likely that, if the customer values are made clear, the company will endorse them and be guided by them in the development process. Thus, values that "make sense" may support the interactions and make the "game" engaging.

The ViEx concept implicitly shows the influence of values on the creation of experience. We turn to the dynamic decision framework of experience creation in Chapters 11 and 13. In the ViEx concept, however, the values influence on the organisational decisions can be explicitly depicted with arrows (Figure 17). And the effect of values on decisions can be stated concisely in the following manner.

The role of values in experience creation process is to shape the strategic decision-making about the kinds of experience a company should engage its customers in.

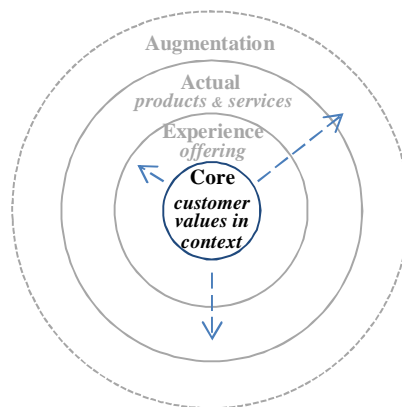


Figure 17. Influence of values on other constituents of differentiation.

The experience element of differentiation should not be left to chance. The competitive position benefits from the development of various possible constituents of differentiation (Brown and Eisenhardt, 1998). Experience is one of them. Deliberate attention to the creation of experience, together with the product and service development, is likely to lower the risk of leaving customer experience to

chance. We suggest, therefore, that a decision framework needs to help management focus on customer experience by making it realistic to create one.

8.3 Experience shapes development

The subjective nature of experience obscures differentiation discussion, which is already largely based on the abstract idea of customer perception (Porter, 1985). In the 1980s Levitt helped managers develop unique differentiation strategies by asking what business they were in. A redefinition of business or its markets often precedes innovative moves (Christensen *et al.*, 2007; 2005; Levitt, 1980). To draw a parallel with Levitt's and Christensen's arguments experience differentiation pushes managers into redefining their businesses as businesses of experience and consequently redefining the ways they operate their businesses. "While differentiation is most readily apparent in ... goods, in the design ... or in the features ... differentiation consists as powerfully in how one operates the business" (Levitt, 1983, p. 91). A search for new ways of differentiation forces companies to redefine their businesses continuously.

Product functionality and services influence customer experience. Quality, performance, reliability, etc. are critical in designing experience. As discussed in Chapter 7, unfortunately product or service focus often neglects experience from sources of differentiation by regarding it as an abstract and weakly controlled outcome or as a by-product. Perhaps in relatively stable markets, product differentiation with experience-as-by-product would be justified. It would make sense, because managers could avoid unnecessary organisational complexity while taking time and resources to develop a product to carefully match known and slowly changing customer expectations. But in an environment of uncertainty – such as that represented by the software industry – with short-lived opportunities, creating experience becomes a strategic priority (Pine and Gilmore, 2011). The question of what experience the customers desire to have reveals the importance of being intentional in experience differentiation. Thus, experience from the periphery moves to a central position and becomes a primary driver for the design. Since experience cannot be added with a function or a service, it has to be designed for. To paraphrase Levitt (1983), it is the experience, not just the product, that differentiates. Prahalad and Ramaswamy (2000) conceive of goods and services as experiences in essence. They say that goods and services are "artefacts" for customer experiences.

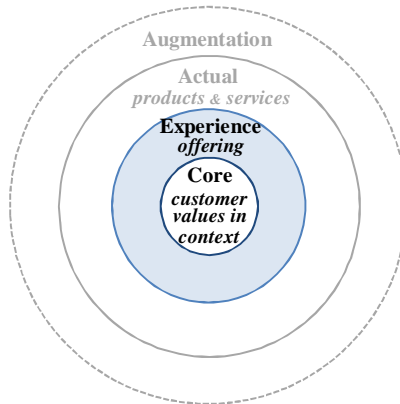


Figure 18. Understanding of experience shapes development.

“If designers are aware of the way in which values are embedded into artifacts, and if they can sufficiently anticipate the future uses of an artifact and its future context(s) of use, then they are in a position to intentionally design artifacts to support particular values” (Brey, 2010, p. 50). Developers – like customers – have a tendency to believe that people outside the company will share their values and worldview. However, not all values may be experience-relevant (Flanagan *et al.*, 2008). With Figure 18 and the changes to the tradition differentiation concept we suggest that

the focus on customer experience is shaping the development process

Because experiences can uphold or damage the realization of values, it is crucial to consider them at the very beginning of the development process. For example, in computer ethics, research technology is not neutral with regard to values (Nissenbaum, 1998). Friedman and Kahn (2008) say, “technological innovations implicate human values” (p. 1242). Experiences around technological products and services carry the propensity to support or discourage the realization of particular human values.

If relevant values are not intentionally set forth in the experience creation, then the company will operate with assumptions. It is possible that a service will reflect a combination of the creators' individual values, values of other people who have significant influence over system development and value categories of organizational, cultural and societal context.

8.3.1 Experience creation as the binding element of development

People from different levels of an organisation, dozens of technologies and other customers contribute to the creation of customer experience. Whether customers

will value an experience depends on how the company organises its experience design processes.

The customer creates an experience together with a company on an individual level (Schrembri, 2006). As Pine and Gilmore (1998) point out, the distinct property of experience is inherent personalisation. "Experiences ... [exist] only in the mind of an individual who has been engaged on an emotional, physical, intellectual, or even spiritual level". Thus, each experience is unique, resulting from "the interaction between ... the event ... and the individual's state of mind" (Pine and Gilmore, 1998, p. 99). For the current discussion, this view implies a transformation in the understanding of customers because traditionally customisation focuses on service or product independently of the customer's experience.

Assimilation of customers or knowledge about them into organisational processes is probably one of the most frequently discussed functions of marketing. Sometimes companies make potential customers a part of the technology design processes as in participatory design (Kautz, 2012), voice of customers (Yang, 2007), involving lead users (Mahr and Lievens, 2012) or 'ordinary users' (Magnusson, 2009) and other methods. Sometimes the knowledge about the customer comes in the form of market segmentation, personal development and other means for representing customer groups. Without conducting a systematic review of different methods of customer integration, we would suggest that these two categories probably account for the majority of methods. That is, customer intelligence is gained through the presence of actual individuals at some or all stages of service development, through descriptions of market segments or a combination of these two approaches.

The involvement of potential customers or lead-users is a method for improving functionality, adding new features and creating technologically fresh and advanced solutions (Mahr and Lievens, 2012; Magnusson, 2009). Customers can help bring products to the state-of-the-art level by asking for features that competitors already offer (Ulwick, 2002; Hamel and Prahalad, 1994). This method of customer integration makes use of people's natural tendency to expect others to empathise with their own value principles, trusting that others perceive the world in a similar way (Mead, 1934).

Customer integration is an important task for improving existing and designing new products and services. However, the two approaches have limitations when applied to experience creation. First, experience is not the main objective or driver of development, but technological innovation and unique services are. Second, they do not account for customers' individual idiosyncrasies and unique experiences. Customer experiences cannot always be reduced to situations where people behave in the same generalised way, motivated by clear understandable goals.

Therefore, the objective for marketing in experience business is to explain actions, beliefs and choices at a personal level. The management challenge is to create and disseminate new model of customers within the organisation.

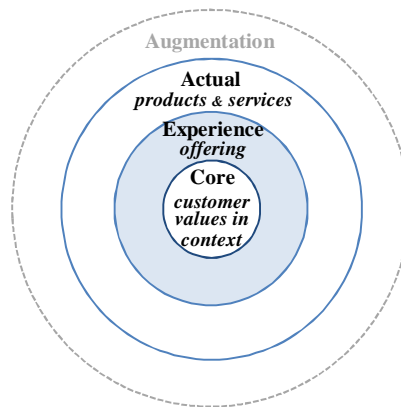


Figure 19. Values and experience central to product and service development.

The objective of experience differentiation is facilitation of unique experiences and anticipation of individual desires. Organisational processes need to dovetail in preparation for a customer to have a one-off experience.

The ViEx concept brings together the important elements of the differentiation strategy based on experience creation. It merely represents the aspects of business that need attention for making strategic decisions (Figure 19). Its aim, however, is to point out that

the focus on customer experience is shaping and binding element of the development process

The dynamic decision-making framework, discussed in Chapters 11 and 13, explicitly illustrates this idea with the self-re-enforcing loop.

8.3.2 Experience creations facilitates the market analysis and augmentation

Market analysis aggregates preferences, behaviours and values for the purpose of making product or service specifications. It normally identifies static segments with a limited number of characteristics. The way companies define the market and view its segments may lead to innovative differentiation strategies (Dickson and Ginter, 1987; Levitt, 1980). Generalises customers characteristics are translated into functional and non-functional product specifications, service requirements and marketing messages and handed down to a corresponding organisational department for implementation.

The common principle of customer analysis is to aggregate individuals into various market segment characterised by shared demographics, typical qualities or idealised behavioural traits. Segmentation makes it acceptable to deal with a general character of customers, whose behaviour is understandable and quite

rational. A typological customer, unlike an actual person, has clear motivation. This form of market analysis is helpful in standardising experiences that should lead to the same results from one individual to the next. With this principle in mind, analytics can identify obvious reasons for behaviour before proceeding to the more subtle and complex one. Analytics, however, tend to describe experiences that they themselves are interested in and that can be explained by fairly strong relations between desires and outcomes (Kjellberg and Helgesson, 2006).

The challenge of this management method is that it is purposed for production efficiency and not for experience creation. Experience creation is segregated from the rest of the management processes and is often thought of at the end of product development, or just left to happen. "In effect, a focus on the product as either goods or services negates any focus on how the customer experiences that product" (Schembri, 2006, p. 385). Experience is different from the "extras" in Levitt's (1983) "complex cluster of values satisfactions" (p. 84) and demands a more complex model of customers.

Figure 20 completes the observation of the ViEx differentiation concept. It illustrates a company's perspective on customer experience, and aims to prioritise the key elements of experience creation in software design.

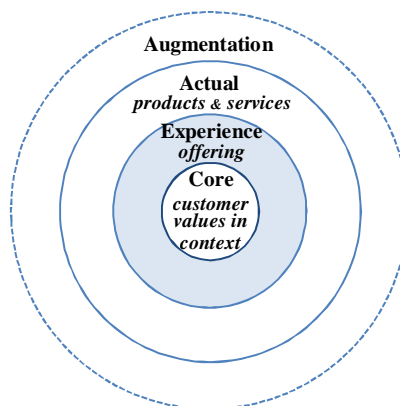


Figure 20. Values and experience central to augmentation.

Although the ViEx concept places actual products and services next to experience, it could be debated whether it is actual product or augmentation that should be next to customer experience. Admittedly, for some types of products branding may influence experience more than the product itself. The Coca-Cola brand, for example, may contribute to customer experience more than the content of the bottle. Possible exceptions notwithstanding, many software enterprises view the actual product or service as critical to customer experience. This is because software must work in order to contribute to a positive experience.

Management's perception of what is primary in differentiation shapes both the internal organisational processes and external competitive position (Kjellberg and Helgesson, 2006). Similarly, how an organisation defines the characteristics of customer segments affects its thinking about what will differentiate its offerings (Vargo and Lusch, 2011; Woodruff, 1997). The market is likely to have a dynamic nature and multiple characteristics rather than a static and uniform one. Differentiating with experience requires a sophisticated understanding of customers and their experiences (Patrício *et al.*, 2011).

To summarise, we argued that differentiation by experience requires the understanding of customer values because (1) values comprise the core of customer experience, and context adds important information about values; (2) understanding of experiences shapes and binds the development process; (3) focus on values extends the market analysis and augmentation. The ViEx differentiation concept summarises the three propositions graphically.

This concludes the first half of the second part of the thesis where we have discussed different differentiation concepts, summarised them in a general concept, proposed a new ViEx concept and justified it. In the second half (Chapters 9–10) we will complete the foundation for developing the dynamic decision framework. In particular, the remainder of part 2 discusses the nature of values and valuation process, distinguishes rational and irrational values and emphasises the importance of including both types of values in the experience creation. We show the connection between rational and irrational through the actor-as-spectator metaphor. We also discuss values and customer value. On the one hand, we suggest that values link to value through the valuation activity. On the other hand, we argue that value, when made general and abstract, is expressed in values. Both are interconnected and one is an expression of the other. Finally, the part concludes with the examples of approaches for incorporating values in business strategy. We relate this proposition from this chapter to the ViEx decision framework, which aims to guide decision makers through the process of deliberating about experiences.

9. Foundations of values and valuation

The importance of customer value is much discussed in business literature. Although the concept of value is somewhat ambiguous, philosophy and sociology in general agree that it relates to assessment of something as good and valuable through the valuation process (Ng and Smith, 2012). Valuation is a process of recognising that something is good or bad. Implicit or explicit valuation can correspond to real or unreal, abstract or specific objects. When people value something and hold it as both ideal and general (i.e. not tied to any specific object or situation), such things become representations of their beliefs and are called values (Rokeach, 1968, 1973). Values, in turn, serve as criteria for what is desirable. That is, values correspond to desirable ideal states or conditions and help people assess whether such conditions are attained (Schwartz, 1992). To have a value is to desire it to be realised. A realised value of honesty, for example, would mean that idealized desires for people to be sincere and free from deceit are matched by conditions in the actual world. To describe it differently, the valuation process is treasuring something. Value is what one holds as treasure.

In the ICT industry, when the experiences that customers have of a product or service systematically uphold or damage the realisation of values, we may say that “technological innovations implicate human values” (Friedman and Kahn, 2008, p. 1242). The embedded values approach in computer ethics, initially developed by Helen Nissenbaum (1998), upholds that technology is not neutral with respect to consequences of its use. The recurring consequences of use are implicated in computer systems. Therefore, technology carries the propensity to support or discourage the realization of particular human values. This means that, if relevant values are not intentionally set forth in software development, designers will work with assumptions. It is likely that a product will reflect a combination of the creators’ individual values (Flanagan *et al.*, 2008), values of other people who have significant influence over system development and value categories of organisational, cultural and societal context (Friedman and Nissenbaum, 1996; Brey, 2010).

Experience differentiation strategy creates experiences with recurring consequences. Companies that pursue differentiation by experience need to be aware of and intentional about what values they will support by their offerings, and how. We refer to such awareness as an experience differentiation vector.

In business the discussion of the relationship between values and value concentrates more on value or, more specifically, on customer value. In sociology,

however, greater attention is given to human values. A business viewpoint holds that the value of a product or service depends on customer perception. Perception is personal and transient. It is context-dependent. The context is important for the in-depth understanding of nuances and specific consequences of product use, service consumption and experience perception. In certain situations satisfaction can be used to describe value. Satisfaction is also a context-dependent measurement. Thus, the awareness of situational conditions influences organisational ability to offer value. An effective strategy, therefore, needs to factor in an anticipation element of what the target audience may value in the future.

The sociologists' starting position assumes that values form a relatively stable system, which functions as guiding principle in various life situations. Sociologists observe variations of values with time and context, and focus on explaining why the observed behaviour is appropriate in a given context but may not be so in another. In other words, sociologists take a concept of relatively stable values and move from general principles down to the particularities of valuation processes. Managers, on the other hand, tend to deal with the particularities of products and service perception moving to up toward generalisations about customer value perception.

So far we have followed the managerial position and emphasised contextualisation as an integral to the knowledge of customer values and value delivery. The decision framework demands a balance between the in-depth situational knowledge and forward-looking trajectory of strategy. Both positions are important in a strategy development that centres on values and aims at offering experience that customers will value. The aim of this combination is not to explain a hidden mechanism of the transformation of social values into economic behaviour, but rather to show that (1) values and value are related concepts, and that (2) they are combined in a whole in an experience. These objectives are better attained by taking a sociological and managerial perspective together rather than independently of each other. Neither position can sufficiently develop a decision framework that exploits the interconnection between values and customer value in experience.

The goal of the following section is to discuss the relations between values and value. It attempts to show that values provide a broad view of experiences and, as a result, it establishes the theoretical background for interconnecting values and customer value in experience. More specifically, first we discuss the general principles of values and valuation (Chapter 9). Then we focus on the nature of values, their rationality and irrationality. We also show how a customer unites the roles of actor and spectator in experience and, thus, comfortably combines both rational and irrational values. We conclude with a discussion of relationships between values and value (Chapter 10).

9.1 Theories of human values

On the basis of how values and valuation theories address the question of why people endorse values, sociologist Raymond Boudon classifies them into three broad categories (Boudon, 2001). The first two categories – *fideist* and *sceptical* –

represent irrational theories, and *rational* theories form the third class. The *fideist* theories hold that values and valuation are grounded on ultimate principles, whose validity needs to be accepted and does not need to be demonstrated. Such principles are treated as self-evident and absolute. According to *sceptical* theories, values are individual and do not have absolute grounds. They either arise from a free decision or result from such psychological, biological or social causes, of which an individual is unaware. Finally, *rational* theories attribute absolute qualities to the valuation principles. Absoluteness of values is pragmatic and is revised in a manner similar to the revision of scientific conjunctions when they are superseded by better ones.

Table 4 below describes the categories of theories of human values and provides examples of the leading ideas.

Table 4. The theories of value perception.

Category	Description	Examples
<i>Fideist</i>	<i>Fideist</i> theories assume the validity of value principles to be absolute. The validity of values is treated as self-evident and, therefore, should be accepted without need for demonstration.	Maz Scheler developed a phenomenological theory of values. According to this theory, people's sense of values operates in much the same way as their sense of colours. Phenomenological analysis can reveal this intuitive understanding of values. Thus people's sense of values appears to be universal and "is provoked by some attributes of the object itself" (Boudon, 2001, p. 29).
<i>Sceptical</i>	<i>Decisionist</i> theories maintain that value choices derive from free decisions, are expressed in statements and are not grounded on intuition or reason	Jean-Paul Sartre, for example, maintained that people cannot justify their value choices without a contradiction. Thus the choice of values is indemonstrable and "absurd". Leo Strauss's interpretation of Max Weber: Strauss a political philosopher saw Weber as the one who wanted to separate values from science. He argued that politics cannot be examined with a value-free judgements.
	<i>Causalist</i> view suggests that value beliefs are produced by biological, psychological or sociological causes. Mental states are explained by 'material' causes	The notion of "false consciousness" is an example of a causalist approach to sociology and psychology (K. Marx, S. Freud, D.E. Durkheim, V. Pareto) Pareto and Freud represent authors, who viewed affective causes as reasons for value beliefs. K. Marx and F. Nietzsche explained values by their function, specifically their ability to promote social and psychological interests. "Culturalist" theories view values as a product of different cultures (C.J. Geertz).

9. Foundations of values and valuation

Category	Description	Examples
Rational	<i>Utilitarian</i> theories attribute absolute validity to value principles responsible for human behaviour. From this perspective, values formation takes place as a result of individual interests. This is a type of instrumental rationality which describes relationships between means and goals.	Rational choice theory (Harsanyi, 1961, 1977) interprets values as the maximisation of gains under constraints. I. Kant argued that reason is the source of morality. He viewed human experiences as structured by the concepts of mind. He wanted to establish the connection between experience and reason in order to eliminate the metaphysical (philosophical) concepts, that exist outside human perception.
	<i>Functional</i> theories view individual interests as embedded in social systems. Systems' value is determined by its functionality and ability to satisfy individual interests.	J.B. Rawls developed a theory of justice which sought to guide the parties' conduct. The parties pursue their ends but seek mutually acceptable terms with other parties. The principle of justice presupposes a hypothetical "original position" when parties make a decision without knowing their social status, material possessions, physical and mental capacities.
	<i>Cognitive</i> viewpoint holds that social actors define common procedures (as opposed to principles) that bring about values and norms	I. Kant and J.B. Rawls explain normative but not axiological beliefs. Kant's categorical imperative roots morality in the rational capacity of the human mind. Reason can develop a principle according to which any ends will be established as moral. Rawls' procedure of determining moral principles holds that moral acts are those that people, who are unbiased and free of social and political status, would agree upon.

Based on Typology of the theories of moral feelings (Boudon, 2001)

The scientific approach to an investigation of phenomena sets aside the fideist and sceptical theories. A scientific method of inquiry requires empirical and measurable evidence to form assumptions and develop conclusions in accordance with observable facts. It is assumed that the fideist and sceptical theories do not allow for systematic experimentation and, therefore, require a scientist to believe in their underlying principles. The fideist view is often disregarded as a belief in unexplainable but self-evident principles. According to the sceptical perspective scientists need to agree on the value principles that would be accepted as evident but which cannot be validated. For this and other reasons, fideist and sceptical theories gave way to pragmatic assumptions of rational theories. As a result the rational view of values and valuation dominated in economics, marketing and business research.

Rational theories focus on external procedures that lead to a formulation of convictions. Rational theories assume that the value of external procedures can be investigated with the help of scientific method. Therefore, these theories expect

to identify rational causes for the formation of values. A rational approach provides grounds for researching human convictions in much the same way as scientific knowledge is created. The practicality of this position led to its dominance in economics and business.

The assumption behind the rational theories is that value constructs are formed by material causes. As a result, one concept of customer value can be traced to the economic theory of utility, which is a measure of the relationship between attractive and aversive outcomes as perceived by an economic agent. Economics postulates that individuals seek to maximise utility, thereby attaining maximum satisfaction. This means that personal interests drive the valuation process. Although such interests may be shaped by a social context, the individualistic approval or disapproval of certain values and acknowledgement of their absoluteness determines the level of the utility of a social actor.

Initially, marketing developed as a discipline of applied economics (Ellis *et al.*, 2011). Therefore, the economists' view largely influenced marketing literature on customer behaviour. As marketing focused on the business application of economics it inherited the assumption of rational consumers, who desire to attain outcomes that maximise net results. Marketing value arises from a perceived trade-off between benefits and costs. This form of value assessment does not only involve monetary operations or their equivalents, but also includes what a customer receives as compared to what he or she gives up in a broad sense. For example a customer may gain or need to sacrifice time, efforts, priorities, opportunities or relationships. Other non-monetary costs and benefits characterise the customer's mental, physical or psychological experiences (e.g. stress, fear or frustration). To summarise, the rational perspective provides a scientific process for generating knowledge about customer value, which includes both monetary and nonmonetary considerations of a social individual.

The strength of the rational models is their fairly direct applicability to the analysis of economic stimuli of customer behaviour. Generally, the rational principles are considered to be solid because they can support individual interests, social demands or the need survival. The irrational behaviour, by contrast, is most likely to be taken as random (Becker, 1962) and, therefore, unpredictable. The dismissal of irrational behaviour – despite the advantages of economics assumptions in marketing research, – is what makes the rational model weak in the analysis of customer experience.

The scientific determination regards the endorsement of values as irrational and, consequently, either dismisses it as inconsistent or seeks for a rational – behind the scenes – explanation in biological, affective and social causes (Boudon, 1998). Until the rational description is devised, the act of value endorsement is considered illusory and treated as input data for value-conforming behaviour. Value conformity is rational because people are expected to act in accordance with their preferences. The values are illusory because people are unaware of the real cause of their values and, therefore, tend to justify their values rather than explain them with observable truths. The scientific approach presupposes that causal order is independent of human perception. Therefore, it

rejects subjective justifications and searches for different causes, which are not subject to personal interpretation.

An observer who accepts the rational position as general is likely to seek out cues that provide a rational rather than irrational explanation. Although effective in natural science, rational interpretation may be less than optimal in the social sciences. It may identify the causes of behaviour in a self-fulfilling manner and as a result label values as illusory (Ferraro *et al.*, 2005; Schwartz, B., 1990, 1997).

Contrary to rational assumptions, value beliefs can be subjective and irrational, justified by feelings. They are historically and contextually contingent. Any rigorous analysis of contextual contingencies may confuse what *is* the cause of values with what *should* be the cause of values. Thus, the assumption of a rational position risks imposing an explanation rather than discovering it.

Another kind of values, considered 'irrational' from the rational standpoint, is following a feeling that something is worthwhile. Values may guide behaviour by a principle or feeling. There is no obvious goal, which leads to some consequences, but only feelings or (unarticulated) convictions. In this case, there may not be a desire for maximization of benefit or an attainment of a specific outcome. A customer, for example, may behave out of a *sense* of legitimacy, duty, sympathy, justice or any other normative or moral principle that he or she endorses. Such beliefs can be perceived as strong without being good (Mazar *et al.*, 2008) or based on convictions that change quickly (Kahneman and Tversky, 2000), or they can be outright false (Boudon, 1998) and biased (Kahneman and Tversky, 2000; Tversky and Kahneman, 1974). Andrade and Ariely (2009) show that brief emotional experiences can become the lasting basis for future decision making. These studies provide examples of value which are not purely utilitarian. Although it is difficult to measure such experience, clearly, it can be observed, and thus its importance cannot be neglected.

The consideration that consequential explanation is rational, while mental states provide an irrational one, seems inconsistent. Individuals hold both values types and are likely not to delineate that one type is more rational than the other. Why should some reasons be described as illusory? Arguably, the explanation of the 'illusory' reasons with utilitarian principles makes the understanding of value beliefs seem final (Boudon, 1998). One the explanation is treated as final, a need for a different explanation is deemed superfluous.

The application of rational determinism to all values and valuation processes is unjustified. If values are formed by mental processes, then reasoning can be considered as the primary source for values principles. However, if non-mental causes prompt mental reasoning, which, in turn, forms grounds for value formation, then rational explanation would be short of complete.

The perspective of rational theories is not sufficient in explaining complex value convictions (Boudon, 2001). Deprived of the irrational perception, the rational model of customers is incomplete. It relegates customer's desires, choices and behaviour to rational considerations, external causes and wilful actions. It grants people an ability to rationally calculate the best way to satisfy their desires. This

makes customers predictable agents and, consequently, informs all the processes of product and service development as well as experience creation.

It should be noted that despite the criticism of the rational view, it has succeeded in identifying sociological, psychological and biological material causes that shape customer valuation processes. It has advanced economic theory, and remains helpful in modelling some market realities. Customer satisfaction, for example, extensively utilises the rational perspective. A company that can dissect customer expectations with a high degree of accuracy can also analyse the elements of its offering with regard to their contribution to the desired outcomes.

Nevertheless, understanding of the consequences of the rational and irrational perspective on customers is important because it influences what the company considers important. Organisational priorities will determine how the company differentiates its offerings and, thus, how it allocates the internal resources.

The rest of Chapter 9 reviews value theories that have contributed to the rational and irrational views. Chapter 10 presents a discussion of the role of values in strategy. We then turn to the models of values for the business decisions (Chapter 11), which lead to the development of the values-in-experience decision framework in Chapter 12.

9.2 Rationality: Rational Choice Theory

Rational Choice Theory is a well-accepted model for describing human actions. Partly due to its success in explaining market dynamics from economics perspective, the theory influenced social sciences and their practical application in business and customer relations.

The term *rational* refers to behaviour, which can be observed as an objectively good way of reaching a goal. In other words, actions are explained from an instrumental viewpoint in terms of the actor's need to achieve a goal. The attractiveness of the rational approach stems from dealing with the question why a person chooses one thing rather than another. The answer given by the rational theorist is 'because, for that person, the former is more advantageous than the latter'. Such an answer appears to provide a final explanation. As a result, the rational choice model is accepted as a general theory of choice (Boudon, 1998).

The rational choice model assumes a wilful attainment of goals. In other words, the individual actions are instrumental. Despite many evidences that support rational view, sociologists have clearly observed non-instrumental behaviour. That is, a person may act out of a belief independent of benefiting consequences and outcomes. Moreover, even an instrumental behaviour may originate from beliefs and values that cannot be explained by rational theories.

When applied to value-beliefs rational choice theory (RCT), for example, provides only a limited explanation of social phenomena because it do not apply to all situations (Boudon, 2001). "The weakness of the [rational choice model] derives mainly from the fact that it ignores beliefs or at least is uncomfortable with beliefs" (Boudon, 1998, p. 183).

The theory does not contribute to the explanation provided by, for example, sceptical theories regarding value-beliefs. It merely describes human processes with a different language, namely, that of economists. The use of language is hardly a validation method. That is, language makes the construction and communication of meanings possible. But it does not validate or refute explanation offered by biological or psychological perspective. For the RCT value rationality is a “black box”; it says little about value-beliefs. It “struggles against the assumption that beliefs could be compatible with rationality postulate” (Ibid.) for two reasons:

The first one is that it seems impossible to propose a rational theory of false beliefs: How can false beliefs be explained rationally? The second one is that, given that ought cannot be derived from is, it is impossible to propose a rational theory of normative beliefs either (Ibid.)

These arguments against the generalizability of RCT are not new and are normally refuted in two ways. First, although the actions may appear as non-instrumental, in reality they still are instrumental. The proponents of this view insist that beliefs are a product of self-interest and, thus, imply that an instrumental explanation lies behind the surface of non-instrumental values.

The second way to defend the RCT position is to take a pragmatic approach, which focuses on the usefulness of a theory. That is, a theory is considered to be general when it correctly explains and predicts behaviour in practice. This approach alleviates the importance of practicality and implies that the causes of actions cannot be known. Therefore, any assumption about the causes of behaviour is as good as any other.

The first defence of RCT exposes the weakness of the RCT viewpoint in dealing with non-instrumental or subjective activities. It demonstrates the readiness to reject the subjective and irrational and to assume rational propositions instead. For example, duty as a reason for carrying out an action needs to be re-interpreted for the identification of ‘real’ causes. Boudon (2001) explains that implicitly or explicitly, RCT treats irrational reasons as either illusory or superficial. As a result, an observer is motivated to look for different causes. On the one hand, this motivation may appear scientific because it seems to welcome explanations based on the causes of self-interest, goal-orientation and need-satisfaction. On the other hand, this position opens doors for ascribing rather than observing the causes.

An assumption that irrational reasons are ‘fictitious’ appears implausible. Actor’s self-reports and outsider’s observations are accounts of the same nature. The choice of the latter over the former reveals a preconceived position.

Actors do not feel that their reasons are irrational or subjective. On the contrary, they often sense that their observations are objective (Ariely, 2009; Boudon, 2001; Williams, 1979). It is possible that instrumental rationality may appropriately predict customer behaviour (Blocker *et al.*, 2011; Flint *et al.*, 2011; van der Haar *et al.*, 2001). However, in the area of individual experiences, the predisposition towards rationality may cursorily lead to a curtailed view of the customer and, consequently, to an inaccurate model of market.

Similarly, the pragmatic argument for RCT may apply to some but not all cases. The challenge with the presentation of any general theory, and RCT in particular, is that it invites everybody in an audience to respond personally. The judgement of the theory depends on whether one finds a particular explanation interesting. The one who does tends to use the theory to justify his or her actions by paying attention to the conditions that verify the theory (Ferraro *et al.*, 2005). Thus, interest or disinterest may lead to the construction rather than observation of reality (Ferraro *et al.*, 2005; Boudon, 2001; Schwartz, B., 1990, 1997). Therefore, pragmatic approach deters the efforts to understand and explain human values.

Boudon (2001) observes that the argument that the real causes of behaviour cannot be known does not legitimise the substitution of irrational for rational explanation, or vice versa. The fact that a substitution does take place suggests that the reason for actions is assumed to be arbitrary. Furthermore, an explanation must be given to why the reasons for the observed behaviour are considered arbitrary while the reasons for the observer's behaviour are not.

Instrumental and non-instrumental behaviour is observed by sociologists (Boudon, 2001), psychologists (Schwartz, B., 1990) economists (Ariely, 2009; Ferraro *et al.*, 2005; Sen, 1977) and seemingly even by neuro-psychologists (Libet, 1993). According to philosophical and sociological postulates the causes and meaning of actions for an actor reside in *reasons*. The RCT model propagates only a kind of rationality that is based on sacrifice-versus-benefit considerations. We conclude that self-interest describes the choices of an economic agent, who is not sufficient for modelling human experience.

9.3 Irrationality

Irrationality lacks the motivation of profit maximisation and cannot be explained by the utility principle. Irrational behaviour may occur under conditions of scarcity of information, lack of time or individual preferences. Irrational behaviour is not necessarily identified post hoc when availability of current information makes past decisions seem poor or biased (e.g. Kahneman and Tversky, 2000). But holding beliefs and adhering to them without utility maximisation can be qualified as irrational. It is irrational to hold beliefs that seem false or are proven to be false (the belief that the earth is flat or performing tribal rituals to cause rain). "Unconscious behaviour" and emotional short-cuts for decision making, illogical behaviour and decisions based on inadequate reasoning, actions that seem to be less useful than alternatives (Ariely, 2009) are examples of irrationality.

Furthermore, people may not pursue the maximisation of outcomes in situations characterised by risk or uncertainty (e.g. Kahneman and Tversky, 2000; Tversky and Kahneman, 1974). Irrational behaviour can be hazardous and destructive for an individual or for the general well-being of many. Lack of a stable personal identity can lead to irrational choices. In experience, irrational behaviour can include unrealistic expectations, taking offence or being irritated at a situation

that has not yet occurred. Agitation without an observable reason or irresponsible behaviour towards oneself or others can also influence experience perception.

Habits and routines can also exemplify the traits of irrationality. They allow people to act without engaging in an active decision-making process of outcomes evaluation. They reduce the extent of deliberate reasoning. Habits bring in automation in decision-making processes. They reduce the load of information processing with the help of recurrent patterns. Despite the fact that habits can be clearly observed, their understanding is obscured precisely because they minimise active rational reasoning. Thus, both habitual and affective responses weaken the validity of the rational model of customer behaviour.

Babcock and Loewenstein (1997) show how self-service fairness bias helps people persuade themselves that behaviour that they would normally deem to be unethical or socially unacceptable is beneficial and constructive. In unfamiliar circumstances (Kahneman and Tversky, 2000) or risk situations (Tversky and Kahneman, 1974) people can use ineffective techniques to make behavioural choices for the lack of adequate ones. Clearly, scientists can observe the bias phenomenon and use it to describe certain psychological processes. On the one hand, when properly interpreted, the concept of bias can be helpful in well-defined situations. On the other hand, the research on biased perception signifies the weakness of current behavioural science in explaining multiple areas of human experiences.

In effect, the word 'bias' leaves the question of *why* people prefer something to something else generally unanswered. When faced with this phenomenon, neither a rational paradigm nor the concept of bias gives a sufficient analysis of the reasons of people's choices. That is, these concepts put a certain category of human valuation in a black box labelled 'bias' without providing an answer to the *why*-question. As a result their explanation can hardly be final.

It could be argued that irrational behaviour is impossible to demonstrate because no clear guidelines exist for what is rational or irrational. We contend, however, that irrational behaviour occurs because people are unable to perfectly foresee, comprehend or calculate all the consequences of their own actions. Thus, irrationality is part of human character, which influences the experiences and their evaluation.

9.4 A look into a black box: Cognitive rationality theory

Boudon (2001) introduces "cognitive rationality", which he distinguishes from instrumental rationality for two reasons. First, cognitive rationality unlike instrumental rationality recognises that "endorsing a theory is a non-instrumental action" (p. 65). Second, it suggests that when facing a decision people do not follow a benefit maximization principle, but "check whether, to the best of [their] knowledge, an idea is acceptable" (ibid.). The author proposes that "cognitive rationality" addresses the question "why a set of arguments appears as defensible or not defensible" (ibid.). This question is more fundamental for the values discussion than asking why people hold certain values. It deals with the paradox that an observer may have difficulty seeing the rationality of a behaviour, which seems justifiable to the

actor. This can be the case, especially when an observer employs instrumental rationality to describe actions resulting from beliefs.

Cognitivist theory has four general premises:

1. People are rational in the sense that they have strong reasons for their actions and beliefs, even if those reasons are unclear to an observer.
2. Maximisation of cost-benefit balance is a particular case of cognitivist theory. Instrumental rationality describes some behaviour realistically. Normative or cognitive beliefs, however, represent different behavioural causes because such beliefs are not necessarily consequence-bound. That is, an actor may be unconcerned with maximisation of benefits.
3. Reasons for actions may refer to the trueness of beliefs, i.e. cognitive reasons. An actor may have strong reasons to choose a certain course of actions because he has an impression that his beliefs are true or are likely to be true.
4. In some cases an actor may hold axiological values. That is, he or she believes that something is good, fair or just and therefore behaves in a certain way. The relationship between actions and beliefs may be complex and not straightforward. Nonetheless, an actor has strong non-instrumental reasons for believing that such relationships exist.

Cognitive rationality” suggests that

action, decisions, and beliefs are meaningful to the actor in the sense that they are perceived by him as grounded on reasons. Even though he is unable to identify these reasons clearly, he has the intuitive impression that they are grounded on reasons (Boudon, 2001, p. 67).

Boudon explains human reasoning by employing the concept of intuition. He does not just substitute one black box (bias) for another (intuition). What the cognitive rationality theory does it alleviates irrationality to the same level with rationality, thus, admitting it to be a valid ground for reasoning.

In other words, people do not hold cognitive, normative or axiological beliefs without conceiving of them as grounded. Thus, the aim of cognitive rationality is to explain “not only the observed behaviour but the verbal statement of actors” also (Boudon, 2001, p. 68).

The view that irrational and rational valuation processes are legitimate grounds for customer experiences is an important shift in a mind-set for understanding experiences and the value-based justifications of them. The next two sub-sections further explore the effects of this observation on bringing symphysis to the concepts of values and value, as well as rationality and irrationality. The purpose is to make the development of experience differentiation strategies possible in accordance with the definition of experience, which “recognizes in its primary integrity no division between act and material, subject and object, but contains them both in an unanalysed totality” (Dewey, 1958, p. 198).

9.5 Values and value

Boudon's typology of rational and irrational theories of values (Table 2) and the subsequent cognitive rationality theory are useful in clarifying the linkage between value and values, and rational and irrational. This section takes a closer look at how values and value are independent from and interdependent on each other.

Kluckhohl (1951) views values as explicit or implicit cognition of desirable that influences individual choices of goals, behavioural modes, means of attaining goals and decisions. Rokeach (1968) builds on Kluckhohn's work and defines values as: "abstract ideals, positive or negative, not tied to any specific object or situation, representing a person's beliefs about modes of conduct and ideal terminal goals" (p. 124). In his later work, Rokeach (1979a) uses Robin William's definition of values. "Values are core conceptions of the desirable within every individual and society. They serve as standards or criteria to guide not only action but also judgment, choice, attitude, evaluation, argument, exhortation, rationalization, and, one might add, attribution of causality" (p. 2). Following Rokeach's ideas, Schwartz and Bilsky (1987) also define values as the concepts of desirable. Their view of values emphasises people's desire to abide by a guiding principle, attain certain states or modes of conduct. It follows that an endorsement of a value necessitates a desire for that value to be realised; as a result, values, although abstract, connect a person to the reality outside of him- or herself.

Values are abstract because they are detached from specific situations or contexts; but they provide a connection with the external environment in two ways. First, values are conduits of desirable, which originates in a person and extends itself into the environment. Values channel the desirable and guide actions, choices and behaviour. The second role of values in relation to reality is to serve as evaluation criteria. Standards are the other side of values. Here they function as filters for the experienced and perceived reality. They help evaluate the experiences and make judgements about them. To conclude, values mediate internal desirable and outside reality. They are general concepts held as both ideal and desirable.

The concept of *value* essentially represents a trade-off between means and goals. Customer value is the perception of the various benefits received before, during or after product or service consumption (Grönroos, 2004; Woodruff, 1997). The maximization of value guides customers' choices and actions.

The perceived customer value builds on value concept in three ways. First, it recognises the dynamic aspect of customer value. As customer expectations and needs change, so does the value that they perceive. Companies that fail to adapt to changing customer expectations may create dissatisfied customers and lose their relationship with them (Day, 2000; Parasuraman, 1997). Second, perceived value deals with the question of *why* people have certain values and preferences by avoiding giving a direct answer. This concept regards values and preferences as input data (ends) and focuses on the means of their satisfaction. Effectively, the means are interchangeable and are of particular interest to companies because they form the ground of their competitive position. Companies identify the means

leading to target market and abandon those that do not. Finally, value perception addresses – though does not solve – the problem of value contradictions. Perception allows for preferences that contradict each other. For example, a desire to receive personalised information on-line can contradict privacy concerns of being tracked by web-sites. Although value perception accepts such controversies as legitimate, their nature remains irrational.

The inability of the value concept to deal with the nature of values is resolved by the assumption that values and the means of their achievement are distinct concepts. This position justifies the experimentation with utility value in order to identify stimuli that repeatedly encourage desired outcomes. The dominance of the utilitarian perspective in economics and business has focused on how behaviour is controlled by consequences.

Businesses optimise their offerings to foster consumption, satisfaction and maintain relationships with customers. Unfortunately though, when utility value is introduced into social relationships, it is used as a proxy for personal values as a guiding principle of conduct (Ng and Smith, 2012). The more the stimulus of self-interest is promoted as governing social relations, the more it is accepted and shared, and the truer it becomes (Ariely, 2009). One of the benefits of the utilitarian view is that it can easily be replicated so as to achieve repeatable outcomes in company-customer relationships. In marketing the repeatability for attaining desired outcomes is paramount, and the more the utility concept is used to manage relationships with customers, the more it creates conditions under which its own view of human values becomes true.

The fact that value perception influences the values, which, in turn, re-enforce the conditions for the view of value to become true, contradicts the notion that value and values are *independent*. On the contrary, they are *interdependent* concepts. Rokeach captures this interdependency by defining values as both “ideals” and “desirable end-states” (Rokeach, 1979a). Desire of “ideals”, which reinforces the “desirable”, corresponds to the understanding of “values” and “value” in business context. Boudon (2001) interrelates these concepts as “axiological” and “instrumental” rationalities in the cognitivist model.

If it is true that rational and irrational are shaped by the same processes, then they are two sides of the same coin. Do social and behavioural theories support or refute that value and values complement each other? Is value a specific realisation of what is conceptualised as general and desirable?

9.6 Rational and irrational together

Benjamin Libet (1993), a pioneering scientist in the field of human consciousness and recipient of the Nobel Prize in psychology in 2003, discovered that unconscious processes preceded conscious decisions. In his neuro-physiological research he investigated the initiation of bodily movements and discovered that muscular activity preceded conscious decisions to perform volitional actions. He, therefore, suggested that people’s conscious choosing is a decision of whether or not to

continue with an unconsciously initiated action. In other words, unconscious neuronal processes precede and, thus, could lead to volitional acts, which are, in turn, consciously motivated by the subject.

Lebet's findings invite a revision of the assumed distinction and interdependence of rational and irrational. It appears that both volitional and intuitive activities in body and mind have their special purposes. The two work together as a whole to bring about desires and actions.

In business the distinction between rational and irrational concepts is rarely explicit, not because such a distinction is considered unnecessary, but rather because – as discussed in earlier in this chapter – of a tacit assumption that rational is a dominating guiding principle of customer behaviour. The tendency to conflate the two concepts or assume a rational position may rob a company of creating a better experience offering. Mazar *et al.* (2008), for example, shows that people clearly distinguish and balance behaviour based on beliefs for honesty or for material benefits.

The application of rational perspective on customers idealises their valuation processes. Implicitly or explicitly, a rational explanation suggests that customers provide irrational reasons for their conduct because they are unaware of the real causes of their actions. Consequently, an observer is motivated to look for “real” causes. While this motivation appears to be scientific, it opens up the opportunity for over-interpretation of data by ascribing causes of self-interest maximisation, goal-orientation and need-satisfaction.

A model of customers who maximise the outcomes limits the potential of experience. While such a model may be easy to disseminate throughout organisational processes, it is quite a simple model. We submit that a needs- and benefits-based view of the customer risks to portray customer experiences uniformly. On the contrary, experiences are diverse and in some situations irrationality is clearly observed and offers a better explanation (e.g. Andrade and Ariely, 2009; Tversky and Kahneman, 1974).

To make experiences the outcome of only rationally justifiable actions is to develop a model of customers, who have fairly clear expectations of experiences, services or products and, therefore, are able to predict their future value. To simplify, such customers can rationally calculate the best means for maximising value, weigh the options and make a choice in accordance with their (perfect) knowledge. The organisational strategic function in this model is to understand the customers' perspective and develop an offering that meets (exceeds) value expectations. As a result, competition is based on the company's ability to narrow the gap between the customers' and the company's value perceptions.

The rational model of customers can be useful in situations where cost-benefit analysis is an optimal form of reasoning. Industrial marketing research, for example, relies heavily on this principle (Blocker *et al.*, 2011; Flint *et al.*, 2011; van der Haar *et al.*, 2001). In the B2B relationship, optimisations of means to reach a goal is a critical business success factor. Although a useful model, it is not always valid because it defines rationality in a very specific sense. An understanding of good and bad, desirable and undesirable is not always exclusively linked to the

evaluation of consequences. Thus, a rational perspective lacks explanatory power outside the utilitarian, consequential and functional modes of behaviour. The study of ordinary customers shows that they are far from perfect in using their prior experience for identifying the value of a future experience.

Ambiguity of future experiences increases the complexity of valuation. Some elements of experience are not easy to anticipate and their effect on experience outcomes is not obvious. As a result, an accurate assessment of the contribution of experience to the customer's overall well-being is unattainable. Ariely, Loewenstein and Prelec (2006) show that, even when individuals have a foretaste of future experience, their evaluation may still be unreliable at the time of the actual experience. The authors challenge the existence of fundamental valuation processes as a basis for decision making. They point out individuals' desire to exhibit consistency in their reasoning: "people try to behave in a sensible manner when it is obvious how to do so" (Ariely *et al.*, 2006, p. 8). Consistency occurs when individuals use previous choice as an anchor to interpret future events around them, and make their past, current and future valuations coherent with each other (Tversky and Kahneman, 1974; Andrade and Ariely, 2009). Thus valuations, which are subject to the manipulation of the anchor, demonstrate a high degree of uncertainty, which questions people's assuredness about their own preferences.

In business research both scientists and practitioners observe that closely following customers' preferences may negatively affect innovation (Ulwick, 2002; Berthon *et al.*, 1999; Hamel and Prahalad, 1994) and weaken organisations' competitiveness (Narver *et al.*, 2004; Christensen and Bower, 1996).

The findings that customers may misjudge the utilitarian value of experience suggest that the human mechanism of both irrational and rational value perceptions may be of the same nature. This is what Boudon (2001) essentially suggest by the cognitive rationality: human value judgements are grounded on principles, which they accept as strong. These principles are reasons for actions and can be revised overtime. Revision of values does not weaken them but transforms them into different strong reasons. This is similar to scientific conjectures, which form scientific knowledge until refuted and revised. Phlogiston theory, ether and the geocentric universe are examples of scientific views superseded by later theories.

The cognitivist model provides insights into how value is constructed without dismissing irrational feelings for value. It represents a consumer's overall assessment of value perception based on assessment of what is received and what is given, as well as value feelings.

In conclusion, both rational and irrational value concepts contribute to customer experience. Rational perception is a specific form of human valuation process, which specifies benefits and outcomes of an experience. Irrational valuation is a story-like justification of behaviour, which may avoid the consequential logic. Despite its ambivalence, irrationality is a significant contributor to experience valuation.

Experience is a complex phenomenon and its modelling requires reasoning of matching complexity. The values perspective embraces the diversity of valuation ranging from cost-benefit analysis to story-like justifications, because customers evaluate experiences with a mixture of rational and irrational value feelings.

Regardless of the source of the value judgement, the strength of experience perception is grounded in reason.

Traditional application of rational theory emphasises the utilitarian value of experience. Therefore, one must be aware of the default view of customers because it dictates what is important in experience and, consequently, what is important for business. We argue that the reliance on customer values in differentiation by experience creates a trajectory for reaching the target audience. That is, the information about customer values can support organisational decisions for the direction of experience creation.

10. The role of values in strategy

10.1 Supporting customer values in strategy

The inclusion of irrationality in strategizing is particularly important because, together with rationality, it enriches the view of experiences. Without the understanding of an irrational customer an experience differentiation strategy is incomplete. One of the weaknesses of the rational perspective, for example, is its inability to explain the valuation of anticipated experiences. If we assume that experiences valuation is informed only by the maximisation of self-interest, then our model of customers' evaluation of unfamiliar experiences will be incomplete.

When an individual evaluates future experiences, he or she observes them from a distance, as a spectator observes a play. An observer is a generic position, which often takes on universal and axiological value principles. It is less concerned with immediate interests, but originates from general understanding of good and bad (Boudon, 2001).

The spectator's evaluations are guided by axiological reasoning (Boudon, 2001). It is erroneous to apply rational (consequential) reasoning, which works well in customer satisfaction research, to anticipated future experiences or the evaluation of the past experiences. Experience extends from anticipation through consumption to hindsight evaluation. Throughout an experience a customer may take on a role of a spectator at any time. This is why the creation of an experience requires the understanding of both a customer-as-spectator and customer-as-actor, and the unification of rational and irrational reasoning.

The fact that a customer has not had an experience does not mean that he has no opinion of its ability to satisfy his interests. However, it is likely that the perception of the usefulness of future experience is weaker than the evaluation of its goodness. At the same time, the evaluation of the general goodness of an experience may be influenced by the satisfaction of immediate desires at the time of consumption. Furthermore, in the post-experience valuation both usefulness and goodness are intertwined (Park *et al.*, 2012). It follows that customers can move freely between the roles of observer and actor throughout an experience.

The confusion of the actor and observer perspectives could be a reason why customers are criticised for their ability to predict the value of future product or service (e.g. Ulwick, 2002). Customers evaluate an existing product or service for their usefulness from the actor's position, whereas future experiences are subject

to the spectator analysis. While both perspectives can involve a mixture of rationalities, it is likely that actor's view can be more accurately described with the help of a utilitarian model and the observer's with universal and axiological values.

Stuart and Tax (2004) studied theatre production as a case for developing experience offerings. They recognise the new role of customers as guests and the need for the companies to remove distractions to create immersive experiences. The authors mostly focus on a company's role of as an observer. To create a differentiating experience, however, businesses must examine experiences as outsiders and insiders. This is where a new framework for experience differentiation fills the lack on both academic and business levels. The values-in-experience decision framework includes the actor-as-spectator view of experience.

The recognition that customers are both actors and observers of experience is crucial for development of experience differentiation strategies based on values. In his critique of relativism of values, Boudon (2001) shows that, when instrumental and axiological rationalities diverge, the universal values provide stronger reasons for judgements. Ariely and Norton (2009) show that abstract values (e.g. justice) affect consumers' perception of product value, which means that the perceived value of a product and the product's physical value may be independent of each other.

These observations suggest that people not only follow their individual interests but also take the position of an external observer to make judgements about their behaviour. In many cases the values of external observer have a stronger influence, especially in the long term. This observation means that, potentially by focusing on customer values, businesses can develop a differentiation strategy that supports long-term goals.

The long-term strategies can in particular support customers in living-out their values through the experiences that they desire. It could be suggested that a good offering empowers customers to experience their values. And since values have the capacity to release energy for action (Hitlin and Piliavin, 2004; Homer and Kahle, 1988; Rokeach, 1979a), a company anticipates customer desires when it provides opportunities for customers experience their values. Research on moral feelings suggests that people experience positive emotions when realising their values (Haidt, 2003) and negative emotions when not (Mikula et al., 1998). They also experience satisfaction when events help to realise their values (Selton et al., 2001).

10.2 Actor-as-spectator

At the risk of being lynched for distancing ourselves from the state-of-the-art and looking too far back into history, we bring in two concepts developed by Adam Smith, namely, "impartial spectator" and "partial actor". Smith, who wrote as a philosopher and social scientist, produced these metaphors that are still applicable in sociology and economics. Although the metaphors are the subject of extensive debate, our goal is not their interpretation but rather their application to the building of the experience strategy. It well may be that our use of Smith's concepts deviates from the conventional interpretation. The history of scientific inquiry,

however, encourages a researcher to mount onto the shoulders of the acclaimed giants and make a contribution by applying the time-tested ideas to the present-day reality. We believe that the concepts of “impartial spectator” and “partial actor” unite the rational and irrational views as well as substantiate the above discussion about supporting customer values in experiences.

In the *Theory of Moral Sentiments* Smith develops the concept of an “impartial spectator” who is subject to feelings and is capable of sympathy. In *The Wealth of Nations* he describes a “partial actor”, who is motivated by self-goals and economic benefits. These two concepts of selves combine two value systems in an insightful and profound way. That is, in a social environment people continuously oscillate between two “selves”. They make choices, evaluate behaviour and express opinions from a standpoint of one or the other, or some combination of both.

A similar notion is also taken up by David Hume. Seligman and Katz (1996) research the social concepts of two selves – actual-self and ought-self. Other studies have also investigated how people oscillate between two or more self-perceptions (Higgins, 1989; Markus and Nurius, 1986; Rogers, 1959). Rokeach (1973) used a self-confrontation method to achieve temporal change of value priorities by exposing the discrepancies between individual value priorities and their espoused values or values of other people, whose opinion is important to them (Ball-Rokeach & Tallman, 1979; Sanders and Atwood, 1979). There is evidence that people adjust their beliefs or behaviours so that they will become more consistent with self-conception values (Rokeach and Grube, 1979).

The “impartial spectator” and “partial actor” unify two value systems. The spectator lens represents general values as standards for what is desirable and as guiding principles of behaviour and attitudes. It reflects a self-concept on an abstract level. On the other hand, the actor lens relates to the perception of self in a situational reordering of values.

Our interpretation of Smith’s concepts of selves also bridges values with value for the purpose of creating experiences. The concepts combine the enduring value systems, which transcend contexts (impartial spectator), and value systems that adjust to the circumstances (partial actor), within one socio-economic individual. Enduring value systems reflect a person’s self-concept, whereas varied live situations demand values flexibility. Thus Smith developed a framework in which both stability and flexibility of values contribute to an individual’s self-concept and his or her behavioural motivations.

Individual values that trigger experience valuation through a series of cognitive processes may lead to conclusions and observations that something is good, bad, fair, favourable or harmful. The valuation process can be implicit or explicit and involve both abstract subjects and tangible objects. Both flexible (actor) and stable (spectator) value systems are active in that process.

The degree to which a person views a reality more like an observer or spectator will depend on various situational, sociological and psychological factors, shaped by both past and immediate conditions. These conditions make up a fascinating sociological and psychological research area. For the customer values discussion, however, the co-existence of “impartial spectator” and “partial actor” models customer

as a human being, who makes rational and irrational choices. Such a model of customer allows for the complex, obscure, simple or precise valuations of experiences. It also may help in accepting various valuations as grounded in reason.

For a company, the combined perspective of actor-as-observer may advance the development of experience differentiation strategy. Particularly, this viewpoint may help mitigate the regrets from an experience. For example, a customer may enjoy an experience as an actor, but regret it as a spectator. A decision-maker, who uses the actor-as-observer lens is likely to understand why a customer may experience regret better than a decision-maker who uses only one side of the model. Even if the “impartial spectator” is represented by significant others rather than by a self-state, a company that uses actor-as-spectator viewpoint may take actions to combat possible regrets, which may completely ruin the perceived value of experience (Park *et al.*, 2012).

Finally, the actor-as-observer position may enhance the creation of customer experience strategy because it speculates that customers find the experience valuable, pleasurable, good or exciting when a partial actor enjoys the immediate experience in the given context and an impartial observer continues to enjoy the memories. In other words, both valuations of a spectator and observer agree and reinforce each other. This speculation seems to be in-line with the Pine and Gilmore's (1998) call to compete on the creation of memorable events. The actor-as-observer experience valuation adds to Pine and Gilmore's understating of experiences and provides a frame for thinking through what kind of products, services and events should be created for desirable memorable events.

10.3 Customers want to have their values supported and realised

Research in sociology and particularly in consumer studies shows that individual behaviour often deviates from the professed values. One example of discrepancies between professed values and subsequent behaviour are customers who agree with the Fair Trade values or see the importance of supporting their local producer, but who rely on a different set of principles when buying groceries that are more affordable. Dan Ariely (2009) in 'Predictably irrational' also gives many examples of how customers make choices in disagreement with their prior logically derived conclusions. The observations where values and actions are in disagreement seem to favour the critique that values are insufficient grounds for the development of new offerings.

In marketing, critics of the customer-centred approach interpret such observations as a sign that companies should avoid making strategic marketing plans using the expressed consumer desires as the starting point. Managers are encouraged to be especially mindful of the information gathered about what customers think about their future needs. Kotler (2003) contributes to this discussion in the following manner.

“Many consumers do not know what they want in a product. Consumers did not know much about cellular phones when they were first introduced. Nokia and Ericsson fought to shape consumer perceptions of cellular phones. Consumers were in a learning mode, and companies forged strategies to shape their wants” (p. 21).

What Kotler points out is that, in reality, customers are an unreliable source of their future desires and needs. One of the reasons why customers do not know about their future behaviour and desires is their lack of knowledge about the future in general and possible technological advancements in particular. The BMW Mini, Chrysler minivan, Sony Walkman, Boeing 747 and more recently Ryanair services (Barber, 2012) are examples of products and services that became hugely popular despite the initial minor or no interest gathered by the market research. The uncertainty of future circumstances, change of internal states and motivations seem to explain why a person behaves differently from the values and beliefs expressed in anticipation of that future. King (1985) states that “consumer research can tell you what people did and thought at one point in time: it can’t tell you directly what they might do in the new set of circumstances”. The scholars who observe such a phenomenon conclude that customers are poor predictors of their future desires and seek other methods for developing products and services for the future ill-understood and unexpressed desires (Barber, 2012; Brown, 2006; Ulwick, 2002; Morita, 1986). Kim and Mauborgne (2005) in the research of strategic moves found that “customers typically want “more” of ... product and service features that the industry currently offers” (p. 27).

The opponents of needs research argue for the necessity to lead customers and create desires for breakthrough innovations rather than follow the customer. Henry Ford is known for saying, “If I’d asked my customers what they wanted, they would have said faster horses.” Akio Morita, the co-founder and a CEO of Sony Corporation in 1971–1994, describes the strategy of the company in the following way:

Our plan is to lead the public with new products rather than ask them what kinds of products they want. The public does not know what is possible, but we do. So instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public (Morita, 1986, p. 79).

The reconciliation between the customer-centric view and its critics was proposed in a dual-core concept by Borch back in 1950s. In essence, Borch suggests that a successful business does not only follow explicit customer desires but also creates them. Simply stated, a company should both listen and not listen to its customers. It should listen to customer needs and desires, but focus on those needs and desires that the customer is both aware and unaware of (Ulwick, 2002). Kotler continues his deliberations about customer as a source of knowledge with a quote from a private conversation with Carpenter, “Simply giving customers what they want isn’t enough anymore – to gain an edge companies must help customers learn what they want” (p. 21).

The creation of new customer wants requires a subsequent management of customers to influence their desires and to drive the demand. Thus, the view that business needs to balance between customer and selling orientation requires a mastery of persuasion. The persuasion to pay for a product or service happens through an extensive use of the company's resources, the art of marketing, selling and advertising techniques.

We agree that in some cases it is appropriate for a company not to listen to the voice of customers but, instead, create and take an innovation to the market, educating customers about their needs and desires. Organisations, however, do not need to create customer needs in order to be successful because the information about unexpressed desires may be gleaned from the expressed values. That is, values give an insight into understanding unexpressed customer needs and desires.

The observation that customer values poorly correlate with customer behaviour is not a threat or weakness but an opportunity. It is a mistake to conclude that values are unreliable for new experience or service creation, because behaviour may not always follow values. This conclusion is an interpretation of an observation. Thus it can be subject to revision and a different interpretation.

10.4 Helping customers to realise their values

Generally speaking, there is no reason to assume that customers are mistaken in their ability to judge their future desires and value-based behaviour. Studies show that, when people contemplate their values before acting, they are more likely to follow through with their values. It was also shown that value-based behaviour results in feelings of satisfaction.

People want to have their values realised. Instances when they do not follow through with their beliefs result in an experience of discomfort, sometimes called cognitive dissonance (Festinger, 1985). Dissonance can take place when people fail to attain their ideals. The emotional discomfort can lead to the feelings of frustration, guilt, anger, embarrassment and anxiety – the opposites of a desired experience. It is highly unlikely that a person would want to intentionally pursue such feelings. On the contrary, the theory of cognitive dissonance proposes that people are motivated to avoid or reduce discomforts related to dissonance. Thus, a failure to follow through with values does not invalidate values as basis for the creation of experience, nor does it discredit values motivational nature. It is quite the opposite. People want to minimise the dissonance and they are motivated to behave in accordance with values and beliefs (Voisin and Fointiat, 2013).

What the researchers who observe values-behaviour discrepancies in marketing leave out is the mechanisms that customers engage in in order to cope with the resulting feelings. The theory suggests that individuals can alter existing cognitions, add new ones, reduce the importance of the desired and find excuses (rationalise) to reduce anxiety about conflicting cognitions. In other words, individuals attempt to restructure their value systems so as to feel at peace with themselves again.

Hardly anyone in product development or marketing would find it acceptable for a customer to engage in such corrective mechanisms evoked by a dissonance.

In cigarette consumption, smokers reduce the amount of cigarette consumption when confronted with discrepancy between their professed values and actual behaviour. The behavioural change in smoking, however, persists, but for a limited period of time, after which the individuals may return to their habits. The fact that there are techniques available for enhancing customer experience by supporting their values suggests that companies can lead their customers with products and services to the realisation of their values rather than create and influence their needs.

Alternatively, when individuals behave in accordance with their ideals they experience a sense of reward and empowerment. This takes place when abstract concepts (i.e. values and beliefs) are realised in a specific behaviour. Therefore, the best desirable experiences not only address the expressed needs but use values as the basis for experience. Knowledge about values provides a starting platform for creating experiences that are a natural extension of the existing desires, but that stretch beyond what is well known already.

Absolute customer centricity as well as product and selling approaches, on the one hand, may be effective in the short-term strategy for individual companies. But in the long-term they will have damaging effects on strategy, markets and companies' ability to compete. Products and services that are created in response to the strong focus on customer wants may lead an organisation in the trap of producing 'me too' strategies with very little or no differentiation from the competition.

On the other hand, the concentration of efforts on authoritative solutions may result in a waste of valuable resources in customer persuasion. The success becomes a function of effective marketing and sales efforts with less emphasis on delivering genuine customer value. Such an approach is intuitively rejected by customers as constraining. Also, the lack of solid grounds for why one product should receive support over the other can be daunting for a decision maker. Furthermore, the growing emphasis on individuality transforms the understanding of markets. Strictly speaking, 'markets' lose meaning in the light of personalisation. 'Segments' and 'markets' are replaced by individuality. Therefore, it is not the markets that should be targeted or penetrated, but individuals who should be understood within their universe of internal and external influences.

10.5 The role of imagination in experience creation

Values, unlike future needs, can be expressed. They are summations of what is desirable and serve as guiding principles for personal behaviour. The motivational character of values shapes intentions and desires. Despite the characteristics of values, creating an experience to support them can be challenging. It seems easier to design products or services for the known customer needs, at least in the short-term. However, with anything that concerns future design, analysis carries us only so far before the imagination replaces knowledge. In questions concerning the future the borderline between knowledge and imagination is very obscure. In

this case it is appropriate to extract every bit of knowledge from what is known so as to ensure that the trajectory that carries a designer into the future is sensible and analytically grounded.

It is not a secret that an important part of experience creation is imagination. Values, however, ground the imagination in the real world and guide it to the development of possible novel products and services. Brown (2006) shows how the producer of experience needs imagination and bravery to secure the demand for its offerings. Art is a source of knowledge, which widely contributes to the understanding of consumers (Elliott and Shankar, 2005). Novels, creative writing and poetry capture societal trends and “provide a better window onto human behaviour than articles based on the beliefs of consumers or, for that matter, the beliefs of those who study the beliefs of consumers” (Brown, 2005). Myths and storytelling are accepted ways of creating knowledge about future consumer behaviour (Shankar and Patterson, 2001).

Imagination is integral not only to novel writing, service and product development but also to the whole understanding of what the world around us is like. In the words of Albert Einstein:

“Imagination is more important than knowledge. For knowledge is limited to all we now know and understand, while imagination embraces the entire world, and all there ever will be to know and understand.”

Experience that meets only immediate and expressed customer needs lacks full differentiating potential. Two decades ago Levitt suggested that one of the levels of differentiation is giving the customer what he or she has not thought about (Levitt, 1980). At this level of differentiation conventional marketing research would need to survey customers about what they have not thought about. In the current competitive environment the competitive edge is often achieved by moving fast with a rough idea of what seems right, rather than with an exhaustive knowledge of the market (McGrath, 2013). The gaps of the unknown are filled in with the help of experimentation, intuition and imagination (Prahalad and Krishnan, 2008; Brown, 2005, 2006).

From a values perspective a differentiation strategy understands what causes the customer to prosper most in the long-term. The customer-centric orientation, from this viewpoint, would include imagining ways to realise customer values.

In the next section we turn to the managerial tools that model values for business decisions. The section reviews main concepts of values and propose the ViEx framework for making decisions about experience creation.

11. How values and value are modelled for business decisions

11.1 Customer value and values

Customer value, as compared with value in general, deals with customers' perspective on and perception of product, service and experience offered by an organisation. There are several generic perspectives on customer value; namely, value-in-exchange, value-in-use and value-in-context (Koskela-Huotari and Sirotkin, 2013). Essentially, the concept of customer value rests on the principle that people have desires which they seek to realise (Butz and Goodstein, 1996). The desires can represent individual or biological needs, requirements for social interaction and survival of society (Schwartz and Bilsky, 1987). Therefore, customers' valuation is closely linked to desires. Value of product attributes and service characteristics are assessed with respect to their perceived ability to help solve problems, achieve goals and attain consequences.

The challenge of establishing a connection between values and value lies in demonstrating its validity. Values and value, unlike facts, cannot easily be checked. Both concepts are known to be subjective, idiosyncratic, individual and abstract. The difference is that, while values are a prerogative of social science, the rationale of customer value – and marketing value in general – has largely been influenced by the previous work on value in economic theory. As a result, the concept of value appears to be grounded scientifically more than that of the values. The economic notion of utility is a valuation of a trade-off between sacrifices and benefits. It is a rational construct, whose principles can – however remotely – be demonstrated. Values, on the other hand, seem to derive from undemonstrable principles and require an act of faith to be accepted as valid. As a result, the interconnection of values and value is taken with a pinch of salt because of differing scientific grounds.

Social science research starts from the viewpoint that values as representations of desirable ideals or end-states (Rokeach, 1979a) can be presented as valid reasons (Williams, 1979) and criteria (Schwartz, 1992). In business research, however, human values are considered to be purely subjective in nature and are, therefore, easily disregarded from practical use. But customer value – influenced by economics – has attracted a great deal of attention in marketing research.

Generally speaking, customers see products, services or experience as good because they are evaluated as having positive effects (Lotz *et al.*, 2013; Ng and Smith, 2012; Haidt, 2003). We suggest that values and value are interconnected in a similar manner as one thinks of treasures and treasureable. The two concepts are self-reinforcing and circular.

The treasures metaphor seems to find its way into many dynamic frameworks that model customer behaviour by including value beliefs elements of motivation. Unfortunately, for the purpose of establishing a stronger association between value and values, some models limit values to those that relate to relational reasoning only. We review some of these models below.

11.2 Expectancy-value theory

Expectancy-value theory is an example of modelling customer needs for business realities. The theory originates from the application of utilitarian valuation theories (rational choice theory) to the satisfaction of needs. The expectancy value theory (Fishbein and Ajzen, 1975) establishes that individuals rely on expectations of the outcomes of each choice in order to assess the net benefits of different alternatives. It emphasises individuals' deliberate considerations when making decisions. Expectations are essential ingredients for choosing between different courses of action. Thus when customers face options, they make choices by weighing the expected benefits and costs of the different actions. According to the theory, customers select behaviours that offer the highest expected benefit and/or lowest expected cost.

Applied to customer behaviour, expectancy-value theory emphasises an individual's capacity to rationally evaluate possible outcomes and select an optimal one. Although the theory allows for the emergent customer behaviour and subjective outcomes, this view for managing customer relations its explanatory power is limited.

Complex behaviour extends beyond the sum of the individual actions. Likewise, a series of single choices may be a poor predictor of complex behaviour. One of the reasons for the weakness of the model is the rate at which the interdependencies among actions and decisions increases. With each additional factor, numerous types of behaviour emerge. This also raises the concern of whether a person can rationally cope with all the possible of outcomes and sacrifices.

Because of the complexity argument, other theories suggest that individuals use short-cuts (e.g. feelings, principles and habits) to simplify or even bypass the deliberation process. Holbrook and Hirschman (1982) proposed that an information processing approach to modelling customer behaviour needs to be supplemented with an experiential view of consumption. The authors emphasise the importance of emotions in understanding of consumers' actions and decisions.

For example, the attitude-behaviour theories (Section 11.3) question the expectations approach. Particularly, the spontaneous view of the attitude-behaviour research theorises that people may not have any articulated expectations prior to the

behavioural response. Rather, behaviours are guided by an immediate evaluation of circumstances.

11.3 Attitude-behaviour theories

Attitudes describe a person's relation to an object or a process; they are object-specific valuations (Fazio, 1986). It is only meaningful to speak about attitudes with regard to an object or a process.

Two general perspectives explain how attitudes influence behaviour. The first view suggests that attitudes form as a result of conscious deliberation. That is, a person considers possible behavioural implications and decides on his or her intentions to act. In a way, an individual reflects on a plan prior to action, for example, by weighing advantages and disadvantages of possible outcomes. The theory of reasoned action (Ajzen and Fishbein, 1980) and its modification – the theory of planned behaviour (Ajzen, 1991, 2001) – represent this viewpoint.

A different process, which describes how attitudes guide behaviour, is spontaneity. In attitude-behaviour research, spontaneity does not refer to an uncontrolled response whose causes are unobservable. Rather, spontaneous behaviour results from a person's immediate definition and interpretation of a situation. This second view is represented by Fazio's (1986) model of attitude-to-behaviour process.

11.4 The theory of reasoned action and the theory of planned behaviour

The theory of reasoned action (TRA) is an adaptation of the rational choice model (RCM). It attempts to account for the behavioural influences of attitudes. Thus, the RCM postulations are also true for the TRA.

According to the TRA theory, behaviour can be predicted with behavioural intentions shaped by attitudes and subjective norms. Attitudes are shaped by conscious deliberation of consequences and estimation of the relative value of actions. Subjective norms combine the beliefs about how others would view the individual's chosen course of actions and that individual's motivation to comply with their expectations (Ajzen and Fishbein, 1980). Figure 21 depicts a schematic diagram of the theory of reasoned action.

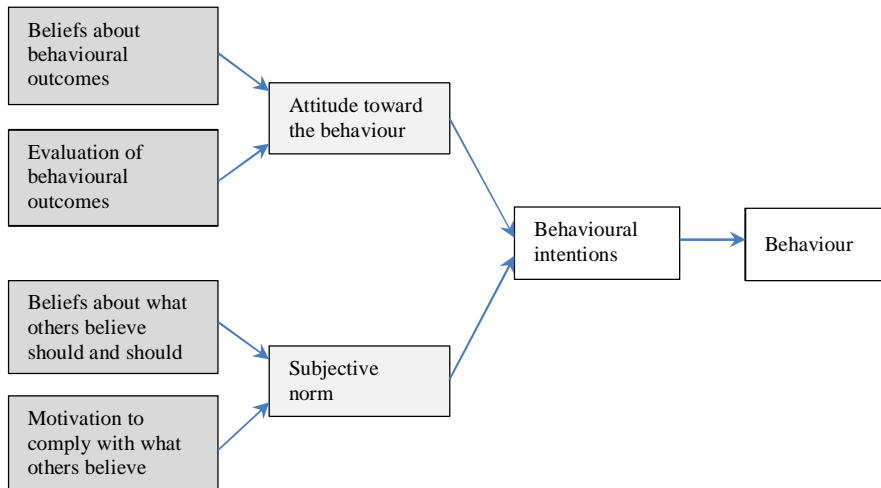


Figure 21. Schematic representation of the Theory of Reasoned Action.

Since the starting point of TRA is RCM, it presupposes rational individuals. People behave in accordance with their beliefs about the outcomes and the perceived values attributed to those outcomes. Outcomes and their values form an attitude, which is one of the two contributions to a person's intention to act.

According to the RCM, an external observer would recognise that, in a given context, the chosen behaviour was an objectively optimal way of attaining the desired outcomes. TRA incorporates this notion through the concept of a subjective norm – the second major contributor to behavioural intention. From the actor's standpoint, subjective norm is a belief about what others would or would not do in that situation and the motivation to allow this belief to influence individual's actions. Social norm acknowledges the social influence on personal behaviour.

Ajzen and Fishbein (1980) argued that personal norms are part of beliefs; therefore, the model does not have a separate element for personal values. The norm activation theory (Schwartz, 1970) also views personal norms as determinants of behaviour. However, the restriction of personal beliefs to the consideration of outcomes defines the formation of attitudes only in rational terms. From the human values perspective such a limitation disqualifies TRA as a model for the experience differentiation strategy.

11.5 Theory of planned behaviour

The theory of planned behaviour (TPB) builds on the theory of reasoned action (TRA) and accounts for the sense of control over the behavioural outcomes. Ajzen (1991) expended TRA in response to the observations that intentions predict behaviour in situations where people can maintain wilful control over their actions. Thus, the TPB theory is a specific modification of the TRA that accounts for

actions outside the volitional control. Perceived behavioural control is an additional modifier of behaviour and behavioural intentions (Figure 22). It is an indicator of the ease or difficulty of carrying out actions.

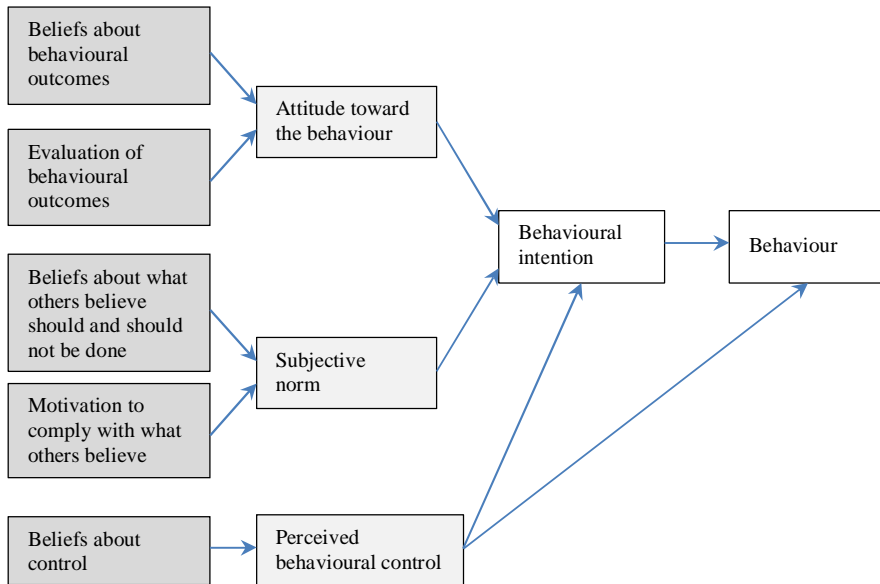


Figure 22. Schematic representation of the Theory of Planned Behaviour Action.

Ajzen and Madden (1986) show that perceived control influences both intentions and behaviour. The relations between the perceived control and intentions are determined by the strength of beliefs about an individual's ability to follow through with the intended behaviour. For example, a person who is confident that he or she can master a study of theoretical physics is more likely to engage in that activity than one who lacks confidence.

Ajzen argued that *perceived* behavioural control is likely to be an indicator of *actual* behavioural control when the *volitional* control over a person's actions is genuine. The linkage of perceived behavioural control and actual behaviour illustrates such a scenario.

Ajzen and Madden (1986) found little evidence for interactions between perceived control and other independent variables. Still, whether the current set of components is sufficient for behavioural predictions remains an open question (Ajzen, 2001). Thus it is acceptable that the TPB model is open to the inclusion of other factors that improve the conceptual and practical understanding of attitude-behaviour relations. For example, Harrison (1995) observed that moral obligations improve the theory's validity.

Perugini and Bagozzi (2001) continued to develop the theory of planned behaviour by including desires, recency and frequency of past behaviour as

determinants of behavioural intentions and behaviour (Figure 23). They also added two types of anticipated emotions – positive and negative – as independent variables affecting individual's desires. They found that the new constructs contribute significantly to the explanation of behaviour and behavioural intentions.

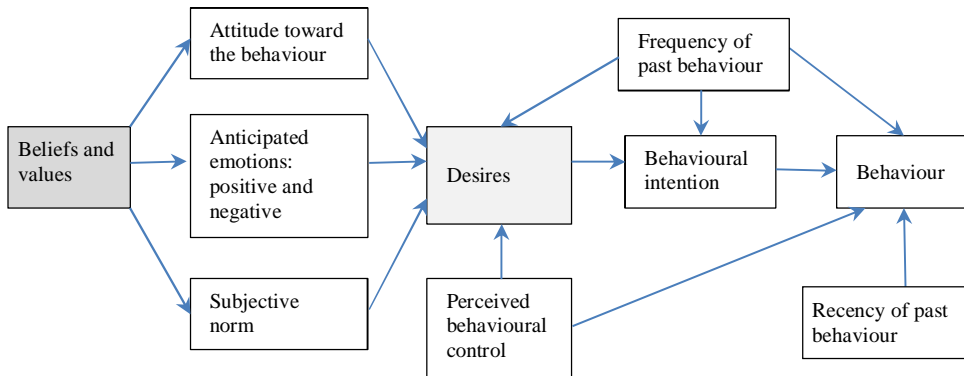


Figure 23. Schematic representation of Perugini and Bagozzi (2001) goal-directed behaviour model.

Henning, Hennig-Thurau and Feiereisen (2012) verified that inclusion of affect (emotions and moods) significantly improves the variance explanation of the attitude-behaviour model. Attitudes influence behaviour in part through conscious deliberations and also through feelings (Henning *et al.*, 2012; Perugini and Bagozzi, 2001). Attitudes arise in response to situational cues or are accessed from memory (Fazio, 1986).

11.6 Behavioural reasoning theory

Recently Westaby (2005) augmented the theory of planned behaviour by adding reasons for and against behaviour as a mediator of beliefs, values and behaviour. As a result Westaby suggested a behavioural reasoning theory (BRT), where reasons serve as indicators of intentions and behaviour. According to this theory, reasons interconnect beliefs, motives (attitudes, subjective norms and perceived control), intentions, and behaviour. Figure 24 presents a schematic diagram of the theory.

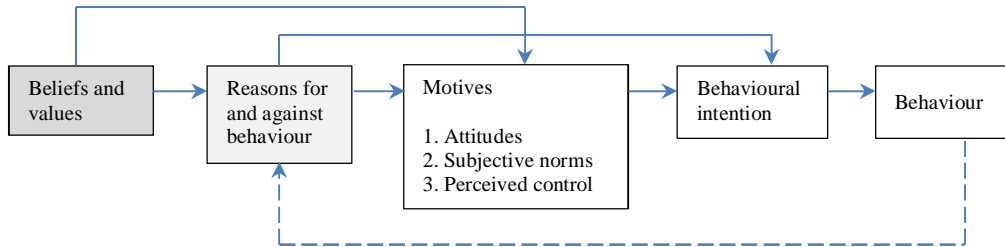


Figure 24. Schematic representation of Behavioural Reasoning Theory.

Westaby (2005) acknowledges the importance of context for beliefs, values and reasons. Context specificity is a distinguishing factor of values, beliefs and reasons from attitudes, subjective norms and perceived control. Westaby's view of attitudes and reasons is closely related to Rokeach's view of values. In BRT reasons function as justifications and defenders of people's actions. While reasons are context-specific, attitudes are assumed to have a global effect on behaviour. Thus, both reasons and attitudes influence behavioural intentions and behaviour, which is consistent with the observations of Rokeach, Schwartz and Kahle, who define values and attitudes differently.

11.7 A case for a different framework

The expectancy-value theory, the theory of reasoned action, planned behaviour and their variations view customer behaviour from an information-processing standpoint. This view focuses on the mechanisms of goal-oriented behaviour with several underlying postulates. One postulate is that people are aware of goals, benefits and sacrifices, and their awareness is motivational. Another is that people are able to optimise their behaviour in accordance with goals and motivations. Finally, intentions are the predictors of customer behaviour.

It makes sense to trace behaviour to a need, belief or a value only if personal intentions are strong enough to result in a deliberate action. Despite the acknowledgement of values, attitudes and beliefs, the models reduce the complexity of human behaviour to the search for satisfaction. Thus, individual preferences are key determinants of consumer behaviour.

Largely shaped by Maslov's theory of needs, attitudinal theories are insufficient to describe subjective experiences because rational choice and outcome orientation are specific manifestations of human values. These theories represent sceptical and rational perspective of human values and are interested in values to motivate customers to behave in a desirable way.

Cherrier (2006) and Cherrier and Murray (2002) question the view of consumers, who have the capacity to process the environmental influences and optimise their behaviour accordingly. The view of customers as information processors emphasises psychological mechanisms over social and cultural

aspects of behaviour. Critics, such as Woodruffe-Burton *et al.* (2002) and McCracken (1986) argue that behavioural research would benefit from understanding complex elements that form customer identity in a context of an immediate situation and broad socio-cultural environment.

The recognition of theoretical limitations encourages scholars to develop more comprehensive models, which would account not only for the mind but also for the “heart” (e.g. Henning *et al.*, 2012) of behaviour. The inclusion of intentions as a precursor of behaviour expands the model to account for the limitations of attitudinal influences on behaviour. However, the inclusion of other independent elements, such as reasoning, affect or desire, fails to address the fundamental issue of combining irrational and rational behaviour.

Customer behaviour is ill-structured and difficult to predict. Customers are “meaning-making beings whose identities rest in the symbolic systems of society and culture as reproduced in institutions like schools, the media and increasingly through marketing” (Ellis *et al.*, 2011, p. 181). The inclusion of affect as a proxy for irrational behaviour improves the understanding of customer behaviour (Henning *et al.*, 2012; Perugini and Bagozzi, 2001). Affect accounts for conflicting values and inconsistency in the satisfaction of desires. It resolves conflicts when it is impossible to attend to various desires simultaneously.

Theories of human values and customer value research acknowledge that individuals are guided by complex interplay of contradictory values and desires. As the understanding of customer value progresses, the models systematically account for moral, symbolic, affective and social constructs. They include personal values, habits, societal norms, cognitive and unconscious processes in the attainment of the desirable and selection of behavioural modes.

The need to be efficient with the cognitive process sometime locks customers into habitual conduct, which can run contrary to logic or intentions. Emotions can contradict the moral concerns, and social norms – individual preferences. Context may prevail over intentions and influence attitudes and motivation. Choices about and evaluation of experiences are hardly a direct outcome of rational deliberations.

For the differentiation by experience this means that the model needs to be both applicable and inclusive. Simple models are easier to apply, but their explanatory power may be limited. With the increased complexity, however, practical use becomes more difficult. The importance of this dilemma cannot be overemphasised because the experiences that companies will decide to offer to their customers will influence customers’ future choices and moderate their desires (Bagozzi *et al.*, 2002). The business view of customer value will lead to creating certain conditions that, in turn, will influence customer values and desires.

12. Towards the Values-in-Experience decision framework

In the preceding section we discussed two general approaches to understanding customer value. First, a set of approaches explains value from outside-in. This view emphasises customer goals, means of achieving them, product and service qualities that influence customers' value perception. The mechanisms of perception are secondary to the understanding of the effects of the external influences. So, this perspective is less interested in whether the value perception is conscious, controlled or not, but rather the main point is the clues that trigger customers' evaluation.

The other set of views takes an inside-in position. It recognises the importance of the processes that are internal to an individual. An individual is the unit of analysis, and his or her attitudes, beliefs, values and feelings frame the research of value perception. Although the effects of internal processes can be observed and interpreted, the mechanism of their formation often remains a 'black box'.

These broad sets of value research parallel the two types of theories of human values and valuation. First, a set of approaches explains values from psychological, sociological and biological perspective. In this view, values represent the effects of external environment, which influences customers' behaviour beyond their direct comprehension. It is inferred, therefore, that social influence, institutional regulations and policies are preconditions for value-conforming behaviour.

A different set of approaches conceives of values as being internal to the individual. They are irrational because they introduce the idea of truth without the need for demonstration. Some internal value motivations can be observed with the help of phenomenological analysis. Attitudes, moral feelings, habits and personal norms are part of the internal value studies. Although an irrational approach recognises external influences on value formation, its views are closely tied to understanding of an individual as a unit of a social structure.

Applied to business, the two customer value perspectives would prescribe different tactical moves for distinguishing organisational offerings in the marketplace. The 'outside-in' perspective calls for creating the right conditions for motivating the desired behaviour. Incentives, marketing initiatives and product functionality are part of the structure that prepares the environment for customer relationships. On the other hand, the 'inside-out' approach would emphasise the emotional experience, understanding of customer value priorities and providing information to motivate customer behaviour.

In Chapter 9 we used the analogy of treasuring and treasure to illustrate the concepts of value and values respectively. The analogy exhibits a self-reinforcing loop of the two concepts. The reviewed theories of values and valuation illustrate this self-reinforcement. It makes sense to speak about value only in reference to values, beliefs and reasons. Similarly, the discussion of values can hardly avoid how they are manifested in behaviour and choices. Our discussion of customer value relied heavily on sociological and psychological research. At the same time the analysis of human values is meaningless without the concept of valuation. Thus, theories of values and value tend to combine the two concepts.

The question of how values and value, rational and irrational combine in experience is secondary for the organisations that differentiate by experience. The more important issue is the understanding of the problem situation. For business, the model for differentiation by experience may not necessarily provide an answer to how a customer evaluates an experience or how values operate in experience; rather it should to give decision makers a common language and a common way to frame the problem situation so that they can reach a consensus about even a counterintuitive course of action.

Strategy is a succession of actions for establishing and maintaining competitive uniqueness over time. The strategy planning pre-empts and reacts to the future competitive environment and market conditions (Narver *et al.*, 2004). When planning future moves, management makes decisions about the future industry outlook and frames the organisational position for how it may act in the market. An ability to identify the important and agree on the course of action depends on the view of the shared understanding and language used to define the problem situation.

The purpose of this section is to construct a model for developing customer experiences from the values perspective. First, the section seeks to identify the dimensions of such a model by discussing the ability-motivation-opportunity (AMO) framework and bringing in the internal and external perspective. As a result, we establish values, desire, opportunity, ability, no regrets and actor-as-spectator as the key elements for modelling customer experience. We then proceed to suggest the values-in-experience (ViEx) framework. The chapter completes the third part of the thesis.

12.1 Ability-motivation-opportunity

The ability-motivation-opportunity (AMO, Figure 25) framework originates from the combined work of psychologists, who have viewed the internal abilities of an individual as key influences on behavioural outcomes, and social psychologists, who have emphasised the role of external motivators. Thus, the AMO framework combines the outside-in and inside-out perspectives. In other words, it is inclusive of both spectator and actor positions discussed in Chapter 10. The important structural characteristic of the AMO model is its attempt to integrate internal and contextual factors into a single model.

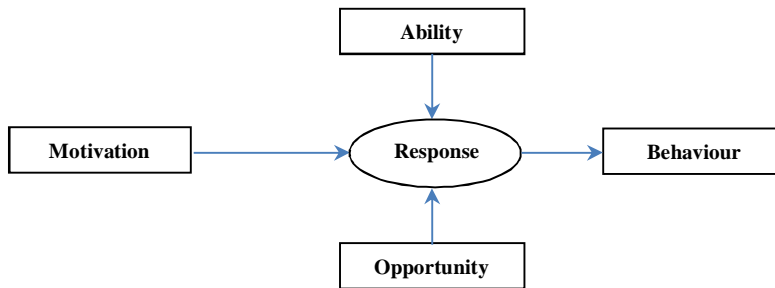


Figure 25. Ability-Motivation-Opportunity framework.

Maclnnis and Jaworski (1989) were the first to apply the AMO framework to business issues. The authors studied how people processed advertisements. By analysing psychological and social aspects of their response, Maclnnis and Jaworski (1989) integrated additional factors and built a comprehensive model of information processing. Figure 26 schematically represents their work. Later Maclnnis *et al.* (1991) used the AMO model to study the effectiveness of customer communications. As a result, they suggested strategies for designing brand communications.

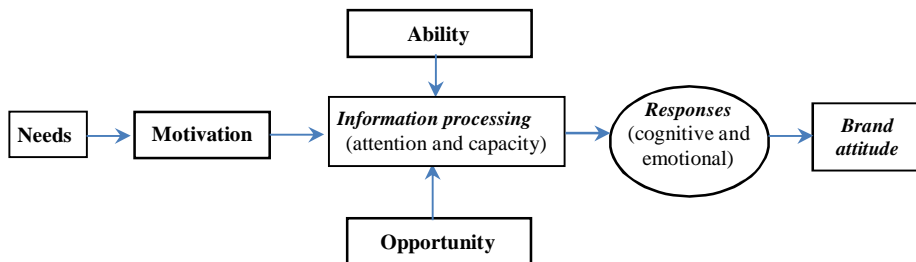


Figure 26. Schematic diagram of the advertisement processing model. Based on Maclnnis and Jaworski (1989).

For Maclnnis and Jaworski (1989) needs initiate motivation. Motivation, in turn, determines the direction of attention and the intensity of information processing. Ability and opportunity moderate the processing. Prior knowledge, expertise and skills define a person's ability to process the information. Opportunity is defined as the influence of circumstances during the exposure to an advertisement. The outcomes of the modified AMO framework are responses to advertising (cognitive and emotional), which lead to the formation of attitude toward a brand.

One of the benefits of AMO is seen in the detailed analysis of customer behaviour. The use of moderating factors allows concentrating on building an explanation of the variety and inconsistencies in individuals' information processing, responses,

attitudes and behaviour. As a result, the authors build a mid-range theory of customers' responses to advertisement and generate a testable hypothesis.

Hughes (2007) reviews various applications of AMO. For example, Ramaswami *et al.* (1998) used it to analyse the on-line sales of financial services. Strader and Hendrickson (1999) studied customers' motivation to participate in electronic markets, and Applebaum *et al.* (2000) applied it to human resource management. In addition, AMO framework was validated in knowledge sharing (Siemsen *et al.*, 2008), direct product experience (Mooy and Robben, 2002).

The concept of AMO can be recognised in other models where the analysis of behaviour incorporates internal and external influences. Sandhu (2008), for example, reviews theoretical models for the perception and experience of web-based e-services from a user perspective. The author developed a conceptual framework of the factors that influence the acceptance and continued use of web-based e-services. The model incorporates the context of both on-line and off-line environment.

Sandhu (2008) identifies three elements that influence the experience of web-based e-services – support, motivation and control (Figure 27). Motivation is defined as a person's readiness and willingness to engage in a task. Support refers to creating an environment where the interactions between service providers and users run smoothly. Arguably, this last element of experience is a rendering of the AMO's opportunity component for a web-based e-services context. Finally, control for Sandhu (2008) has a broad meaning and includes some aspects of ability and opportunity. In this element of the model a service provider creates a context, in which e-service consumers feel empowered to explore and interact with a service.

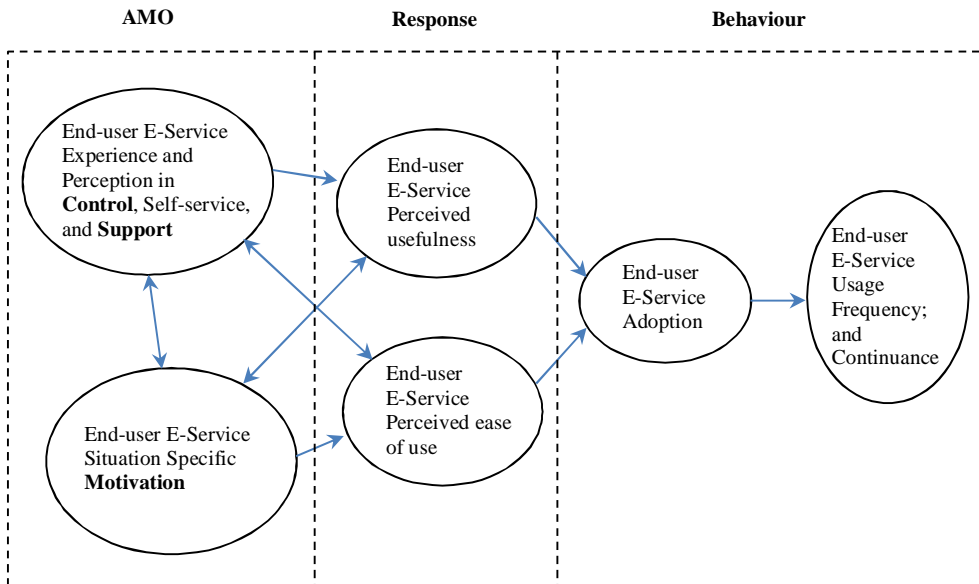


Figure 27. Conceptual framework for web-based e-services adoption model (Sandhu, 2008. Emphases added).

The examples above acknowledge that the consistency between an individual's desires, attitudes, needs and actions are dependent on personal abilities and external opportunities. Ability refers to personal wilfulness, proficiency and volition to act in accordance with one's desires. It also includes the degree of control an individual has over his or her choices and behaviour.

Opportunity denotes the direction and intensity of external conditions. The direction signifies that conditions may support or oppose individual's intentions. Multiple external conditions make up a system of influences with varying degrees of strength.

The AMO framework provides a structure for exploring relationships between an individual and his or her external reality. It attempts to improve the predictive power of behavioural models by combining individual internal factors, situational conditions and motivational aspects.

Strader and Hendrickson (1999) show that the AMO components can help improve the understanding of consumer behaviour in electronic markets. The result of their analysis exemplifies how the performance of e-markets can be analysed beyond the utilitarian and transactional analysis.

12.2 Desire

MacInnis and Jaworski (1989) define motivation as “desire to process the information”. They base their definition on that of Bayton (1958), who describes motivation as “desires that initiate”. Values, as defined by Milton Rokeach (1979), connect a person with the external reality by serving as conduits of what is desirable. In their first function, values are manifested in desires, which bring values to life (Williams, 1979). The aspirational character of values motivates an individual to create conditions, under which the values would be brought to reality.

According to theoretical predictions, values affect motivation mainly in two ways. First, values determine and support motives by establishing the desired gratifications. Second, values define “the sources of gratification” (Williams, 1979, p. 24). Desire is part of the experience in a sense that it captures the source of gratification.

Desire is the force of motivation and a major determinant of consumption experience (Belk *et al.*, 2003). The examples of scientific interests that investigate desires include the research into feelings, fantasies, hedonic and fun experiences (Holbrook and Hirschman, 1982). The research shows that many of consumers’ preferences are informed by desire (Belk *et al.*, 2003). Flint and Woodruff (2001) investigate the influences on changing desires and suggest that it is possible to predict customers’ changing desires for value. Researchers of desire question the assumption that individuals are able to determine the optimal means to achieve a goal, maximize value or make a choice through pure reasoning.

12.3 Opportunity

The opportunity concept of the AMO model is related to Schwartz’s norm-activation model in the way that it shapes customer response and sets boundary conditions for the realisation of desires. The importance of situational factors and external conditions are researched fairly well. For example, Guagnano *et al.*, (1995) validated Schwartz’ norm-activation theory in recycling behaviour. Guagnano and the colleagues show that the conditions influence behaviour independently of attitudes. Situational forces play an important role in value-based behaviour (Maio *et al.*, 2001). Normative influences can overwhelm personal values (Bardi and Schwartz, 2003). The strength of social ties between an individual and the group seems to affect the individual’s conformity to group values (Feather, 1979).

Evidence from empirical studies supports the idea that “under appropriate conditions values are important determinants of social behaviour” (Williams, 1979, p. 28). But values as *generalized* criteria of desirability do not predict “behaviour precisely and regularly in all its delicate responsiveness to specific situations” (Ibid.). This is because behaviour may have determinants other than values.

Rokeach (1979a) and Maio *et al.* (2001) show that reasoning through values supports value-conforming behaviour. Values become more established as they are challenged and opposed (Rokeach, 1968). A conflict of interest among social

groups contributes to an elaboration of values and to an understanding of their general application. As values become more and more generalised, they will be more and more accepted as axiomatic and stable. However, that does not mean that the particular application to various situations will remain unchanged.

Prior values and beliefs partly determine how an individual defines the situation and his or her motivations in it. Deriving a meaning of values in constantly changing circumstances requires basic prior internalisation of those values. Thus, generalised value commitments are a prerequisite for the concrete value interpretation and adaptation for action (Maio *et al.*, 2001; Rokeach, 1979a). Values have a capacity to trigger psychological energy for actions because of a particular interpretation and application to a situation.

Individuals seek to create conditions, under which their desires can be realised. Prior commitments to values are continuously mapped on to the outside reality in immediate situations. The desire to realise values should be met with the conditions under which the value-conforming behaviour can be possible and beneficial. However, even a clear conceptualisation of and strong commitment to particular values cannot produce certain behavioural outcome. Schwartz (1970) suggests that values or norms need to be “activated” so as to influence the conduct. The activation takes place when normative constructs are linked to other behavioural aspects. For example, public disapproval, personal sacrifice or lack of compensational rewards is likely to decrease the value-conforming behaviour. On the other hand, institutionalisation of norms and establishing a connection to personal or collective rewards or punishment will increase the likelihood of value-conforming behaviour.

Context is a critical part of the experience creation. Differentiation by experience demands setting a “stage” (Pine and Gilmore, 1998). That is, companies need to direct their attention to the creation of opportunities for experiences. Management has a more direct influence over what opportunities for experience it can provide than over the experience that customer will have. It could be argued that differentiation by experience is precisely in the creation of the opportunities for experience.

12.4 Ability

The ‘ability’ mainly refers to knowledge, skills and habits. Customers need to know how to have the best experience with products and service. They also need relevant information and practical understanding. As customers acquire skills and knowledge, the company should work to communicate and if necessary educate them on how to have experiences. Practice, symbols, observation are different ways of communicating knowledge.

Skills are the personal application of knowledge. Skill is a personalised ability to use the available resources – time, energy, money – to carry out a desired action. An achievement of pre-determined results is a characteristic of a skilled worker. Ability to work with other people or lead a team is a social or ‘soft’ skill.

Communication, problem-solving and trust can be skills that are necessary for experience.

Habits can enhance or impede experiences. Habits are both hard to break and difficult to establish. They are independent determinants of behaviour and moderators of intentions. The reason habits have such a strong effect on behaviour and, consequently experience, is because they tend to occur subconsciously and regularly. A habitual behaviour can be unpremeditated and go unnoticed. A habit may ignore external stimuli for change and thus can interfere with the experience that a company would like a customer to have.

The 'ability' element of the model suggests that a company needs to educate customers to have the best experiences. It needs to transfer knowledge, skills and habits to customers in a way that they can learn. The transfer can be guided or self-directed. A choice between the two depends on the values of customers. Some require assistance and need guidance in order to fully appreciate an experience. Others welcome a challenge and prefer learning on their own. They enjoy reviewing the resources on their own and educating themselves. The understanding of customer values will help a company to select a suitable approach or a combination of them.

12.5 No regrets

As we have already mentioned, values define "the sources of gratification" (Williams, 1979, p. 24). Values serve to explain or justify past experiences. Values help gauge whether internal desirables are met by outside reality (Schwartz, 1992). As a result, they connect a person with reality and filter how the experienced reality is valued. For a positive experience, the feedback needs to be reassuring, positive and devoid of regrets. Regret (e.g. Carmon and Ariely, 2000; Gilovich and Medvec, 1995) and frustration (e.g. Guchait and Namasivayam, 2012) affect the perception of experience.

The consequences of a product usage seem to have greater impact than product attributes on value perception (Gardial *et al.*, 1994). Similarly, in online service consumption expectations play a lesser role in service valuations than the perceived outcomes (Park *et al.*, 2012). Furthermore, customers tend to focus on the consequences to assess their experiences, to justify their prior decisions, and evaluate forthcoming ones (Park *et al.*, 2012). This means that customers' desires include goal achievement and regret avoidance.

Customers may experience a sense of discomfort when they are dissatisfied after the purchase experience. "This sense of discomfort causes consumers not only to have negative attitudes toward a vendor (i.e., consumer dissatisfaction), but also to reduce their intention to repurchase from that vendor" (Park *et al.*, 2012, p. 415). In such a case individuals tend to move in the direction of minimizing value discrepancies. This implies that businesses providing experience for their customers need to minimize possible value conflicts between desirable and experienced.

Pine and Gilmore's (1998) third key experience-creation principles is the elimination of "negative cues" (p. 104). If this is not done by an organization,

customers will attempt to resolve the conflicts themselves. Conflicts between the desirable and experienced need be explained or justified. And values play a role in that. They help in reconciling possible incongruences. It is possible that the easiest way for customers to protect themselves from future conflicts is to reduce the level of interaction with the company.

Customers who experience value discrepancies with the experience of a company's product or service will tend to look for an environment that minimises value discrepancies. This means that customers may decide to move away from the company's experience offer. Ideally, a company needs to create an environment in which customers would desire to continue their relationships with the company despite the discrepancies. "... Even when dissatisfaction or wariness arises, artful control of consumer experience can overcome it" (Meyer and Schwager, 2007, p. 120).

12.6 Values-in-experience decision framework

The ViEx decision framework (Figure 28) combines the elements of the experience creation discussed above. It begins with the customer values and continues with the understanding of the ways to support them in experience. As we have argued, customer values consummate desires. Ability, opportunity and minimisation of regrets are the elements that mix and re-enforce in experience. The centre of the model represents the spectator and actor perspectives that guide the creation and influence the perception of experience. When creating an experience offering, a company needs to oscillate between the two perspectives because customers do that during the experience. The actions on the inside of the framework represent the likely activities of an actor and the outside – those of the spectator. These activities are not exclusive and do not take place in isolation. They provide a framework for thinking through the activities within experience.

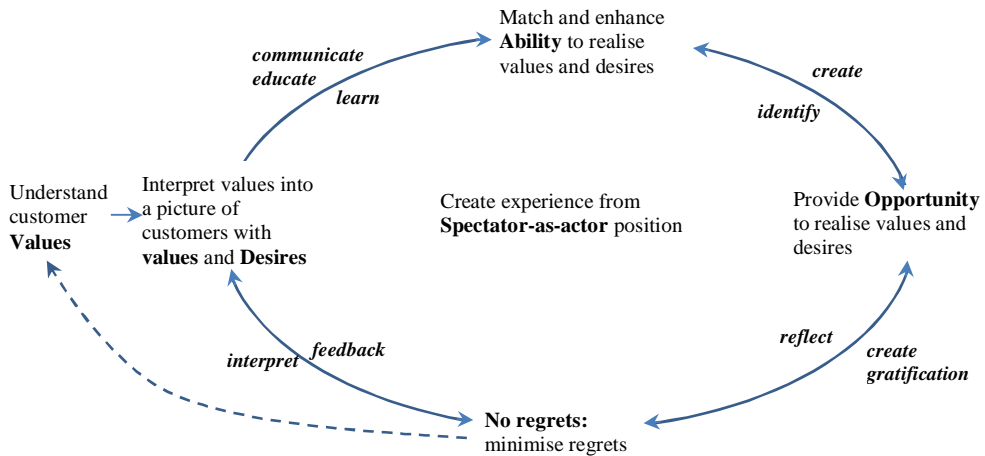


Figure 28. Framework of values in experience differentiation.

The spectator-as-actor position (discussed in Chapter 10) assumes that customer actions and valuations are not always purely rational but include an irrational dimension. It is important that a company takes this into consideration and avoids explaining it away. This may be a challenging requirement because it requires learning to make sense of irrational value feelings. It might be more commonplace to look for rational justification where it may provide an unsatisfactory explanation of customer behaviour. Rather than bringing in the rational interpretation where it may not exist, we suggest taking the irrational dimension at face value.

The framework also attempts to make a common framework for thinking about both values and value. It points out different aspects that may influence the perception of value. Customer desire to realise his or her values leads to value perception in each area of values realisation. Thus, the feelings about experience may vary throughout the experience continuity. For example, a customer may be pleased with the opportunity provided by service attributes or product performance, but may be frustrated with the lack of ability to use it, thus leading to unsatisfactory consequences or goal achievement.

The concept of designing an experience specifies not only desired consequences, opportunities that correspond to abilities; it minimises negative feelings and emotions. Minimisation of regrets demands answering the question of what customers *will* value. Customers may be a poor source of knowledge for what they will value in the future, especially with respect to product functionality and service attributes (Ulwick, 2002; Woodruff and Gardial, 1996). The framework aims at creating a common perspective on customer value perception by providing key strategic building blocks that stretch beyond the physical attributes of a product or service.

The circular shape of the model reflects the self-reinforcing loop of ‘treasuring’ and ‘treasures’, i.e. value and values discussed earlier in Chapter 9. It suggests that not only desired realisation of values guides the creation of experiences, but

also the experiences shape the value beliefs. This implies that experiences that are encouraged by the companies may strengthen or counteract the values of customers. Thus, we acknowledge that companies influence values by creating experiences that carry certain meanings, apply to certain desires and beliefs, and encourage attainment of certain goals and consequences.

13. Values-in-experience method

This chapter marks the fourth and final part of the thesis. The previous parts laid out a framework for the developing experience differentiation strategy. First, we demonstrated that the creation of customer experience as an offering is a different process than that of service and product creation. We showed how rational and irrational, internal and external factors need to be combined in a decision process. We argued, therefore, that differentiation strategy requires a new decision-making model.

The fourth part is mainly concerned with the practical application of the theoretically developed models. It shows how a company can capture and integrate knowledge about customer values so as to steer its processes for creating customer experience offerings.

Specifically, we start with showing the correspondence and continuity of objectives between ViEx concept, framework and method. Chapter 13 continues to present the values-in-experience (ViEx) method. Then the ViEx method and its steps are described. The chapter continues with examples of how the results of the ViEx method were utilised in the case company. We conclude with the analysis of interviews that provide a visibility of how the method was used with regard to the elements of the ViEx decision framework.

Chapter 14 focuses on the results of the case study. It also discusses the limitation and future research directions. The discussion of managerial implications completes the thesis in Chapter 15.

13.1 Values-in-experience method

In Chapter 8, when we conceptualised differentiation by experience in the ViEx differentiation concept, we summarised its main ideas in three claims:

1. The process of creating a differentiating experience has customer values – as understood in a specific context – at the core.
2. The role of values in experience creation process is to shape the strategic decision-making about the kinds of experience a company should engage its customers with.
3. The focus on customer experience is the shaping and binding element of the development process.

The ViEx framework formulates these ideas for a decision-making process. It gives a common view for discussing and guiding the experience creation process in a dynamic model. The objective of the ViEx method, therefore, is to (1) investigate and support customer values, rather than inquire about needs or assume default values; and integrate values into (2) strategic decision-making and (3) organisational processes.

The concept, framework and method correspond with each other not on an element-to-element basis, but rather they ensure the continuity of objectives. The goal is to make the differentiation by experience implementable and practical beginning with the concept and moving toward the method. Table 5 illustrates the correspondence between the concept, framework and method.

13. Values-in-experience method

Table 5. Main objectives and correspondence between ViEx concept, framework and method.

	ViEx Concept	ViEx framework	ViEx method
			<p>Four steps of the ViEx method: (1) Survey of values in context, (2) Identification of value dimensions and patterns, (3) Composition of narratives, (4) Integration of customer values and narratives into organizational processes.</p>
Goals	<p>Provide the common view of experience differentiation contrasting it to product and service differentiation</p> <p>List the elements of the experience differentiation</p>	<p>Provide a common language for the creation of experience offering</p> <p>Dynamically represent the experience differentiation process</p>	<p>Implement values in the decision-making and experience creation processed.</p> <p>Create common material think through the elements of the dynamic ViEx framework</p>
Main claims	<p>The process of creating a differentiating experience has customer values – as understood in a specific context – at the core.</p> <p>The role of values in experience creation process is to shape the strategic decision-making about the kinds of experience a company should engage its customers with.</p> <p>The focus on customer experience is the shaping and binding element of the development process.</p>	<p>The understanding for customer values is crucial for the creation of differentiating experiences.</p> <p>Long-term differentiating strategies aim to support customer values through the experiences.</p> <p>An experience offering creates opportunities for customers to experience their values.</p> <p>The understanding of desires, opportunities, abilities and regrets requires a spectator-as-actor viewpoint.</p>	<p>Investigate and support customer values, rather than inquire about needs or assume default values.</p> <p>Integrate values into (2) strategic decision-making and (3) organisational processes.</p>
	<p>Correspondence between ViEx concept and ViEx framework</p>		<p>Correspondence between ViEx framework and ViEx method</p>
Correspondence	<p>Values directly introduced into the framework</p> <p>Product, service and augmentation viewed as attributes of experience.</p> <p>Product, service and augmentation are part of creating the opportunity</p> <p>Ability of customer to have an experience and minimise regrets is influenced by the tangible and intangible characteristics of product and service</p>		<p>Values are integrated into the decision-making and development processes.</p> <p>The dimensions of values group values that gravitate toward each other and provide a basis for thinking through the system of values, rather than individual values.</p> <p>Narrative descriptions of dimensions portray customer qualities and provide a basis for thinking through abilities, opportunities, regrets and the related activities for experience creation.</p> <p>Narrative descriptions illustrate customers to provide an 'actors' perspective on experience.</p>

The ViEx method combines the objectives of ViEx framework in a series of five stages. The method takes the perspective of the universal value theory and adapts Schwartz's (1992) value survey to investigate customer values. We integrate values into the experience creation processes by analysing survey data, creating value dimensions and produce additional experience narratives. As a result, a business can gauge its experience creation by measuring its effectiveness in supporting customer values and reviewing business processes with regard to the usage of customer values in daily activities.

The advantage of the ViEx method is the integration of values as a system into organizational processes. For the most part, the existing approaches integrate single values (e.g. autonomy, privacy) into product or service functionality (Friedman and Kahn, 2008; Friedman *et al.*, 2002). Such methods face problems when thinking of conflicting values (Flanagan *et al.*, 2008). The fact that people can comfortably hold and be guided by opposing values produces a challenge in supporting such combinations with an experience offering. The difficulty of focusing on individual values is further complicated by a lack of a procedure for making decisions and prioritizing conflicting values. The ViEx method, however, resolves this problem by spanning independent values with the help of statistical analysis and creating the structures of interrelated values. The objective of evaluating and combining values is to build a platform that supports different organisational activities in the process of providing single or multiple customer experiences.

The second distinctive characteristic of the method is its application to various business aspects and activities and not only to technology. The approach aims at delivering empowering experiences. This is made possible through organisational processes that incorporate values that customers desire to have supported and realised in an experience. As a result, the ViEx methodology orients a business to support customer values, rather than asking customers about their unsatisfied needs.

A data-driven approach allows ViEx to establish an understanding of customer values without the need for extensive philosophical, psychological and sociological expertise (e.g. Flanagan *et al.*, 2008; Friedman *et al.*, 2002; Nissenbaum, 1998). The ViEx method also requires some level of knowledge about values, but that knowledge is rather common. The description of values found in Schwartz (1992) and Rokeach (1979a) can be sufficient for developing descriptions of value-dimension. The identification of dimensions and their descriptions follows a well-established process of principle component analysis and their descriptions (Section 13.5: Step 2).

By contrast, computer ethics attains the understanding of a single value at a conceptualization stage (e.g. Flanagan *et al.*, 2008; Friedman *et al.*, 2002). Normally at this initial stage a value is described on a theoretical level in order to establish its relevance to a product or service functionality. This requires extensive and deep philosophical, psychological and sociological expertise as well as product- or service-related knowledge (Friedman *et al.*, 2002).

The ViEx method simplifies the values conceptualization stage without diminishing its importance. It concentrates on minimizing assumptions about

customer value preferences and the assessment of values in an experience. The data-driven approach allows dealing with the presumptions. The experience evaluation identifies values that are incorporated in designed experiences. It is a considerable advantage over other approaches requiring extensive interdisciplinary knowledge. With ViEx one manages to avoid spending resources on building philosophical, psychological and sociological conceptualizations before proceeding to experience development. In fact, the process of values conceptualization can be handled entirely by marketing managers and product specialists.

Finally, the values intelligence of ViEx supports the construction of experience concepts that extends beyond current customer needs. The method attempts to reach into the future through imagination and creativity so as to develop business differentiation strategies. This is made possible because values consolidate employees and lead the design activities. It allows managers and designers to make decisions regarding values before the service is designed by simulating customer feedback at the beginning of experience design.

Next, we describe and analyse a case of ViEx methodology application in business.

13.2 ViEx method: Background

The ViEx method is based on the universal values theory, which has previously been applied in various fields of consumer studies, such as adoption of new technology (Isomursu *et al.*, 2011), construction management (Mills *et al.*, 2009), consumer products (Doran, 2009). For other applications of values in consumer behaviour, see Kropp *et al.* (2005). Often customer values research draws implications for business policies based on correlations between values and consumer behaviour. The observed correlations help make inferences about attitudes, perceptions and preferences. The significance of such findings for practical decision making should be researched further. However, when the respondents are surveyed about their values in general, they are disengaged from the context. Whereas experiences are situation specific, studies of values in those experiences do not necessarily take that into account. Thus, the analysis of values without the respondents' understanding of the context is incomplete because – although the content of values (motivational orientations) is universal (Rokeach, 1979a, 1979b; Schwartz, 1994) – the structure of values changes depending on the context (Boudon, 2001; Rokeach, 1979c; Williams, 1979).

The ViEx method includes the context as one of the determinants of values structure. We suggest that the inclusion of context into values surveys strengthens experience-specific inferences. It is expected that research into values in a context produces value systems that can be utilized in experience design. Such systems would be different from values structures detached from context. In addition to values, ViEx makes use of demographics data and the information about how respondents experience existing services as well as their future preferences. Such an approach provides rich information for managers and designers.

The ViEx method consists of four stages: (1) Survey of values in context, (2) Identification of value dimensions and patterns, (3) Composition of narratives, (4) Integration of customer values and narratives into organizational processes.

The main goal of the first step is to gather data about customer values. Values are surveyed with the adapted Schwartz value survey (1998). We review the adaptation of the survey in the following section before describing the ViEx steps in detail. The second step is the analysis for the survey data. It identifies the value structure of the respondents and then explores the similarities among the structures. At the third stage, the value structures are interpreted to create narratives that describe the customer values in every-day language. The third stage eases the integration of customer values into organisational process. The final stage is the planning of activities for utilising narratives in the business decisions.

The following section explains the development of the value survey for the ViEx method. Although the survey is an important part of the method, the development of it is not a part of the first step. The survey does not have to be re-developed every time for the ViEx method to be useful.

13.3 ViEx method: Adaptation of value survey

Schwartz builds on universal values theory (Rokeach, 1973, 1979) and empirically categorized values in interrelated orders in a multidimensional space (Schwartz, 1992). Schwartz (1994, 1992; Schwartz and Boehnke, 2004) develops a set of values proposed by Rokeach (1979a). The universality of values stems from common biological requirements for survival, social demands for interaction and support of group welfare. He maintains that values represent a universal language that people in all countries and cultures understand in the same way. His findings provide theoretical and empirical grounds for the central aim of ViEx: to integrate systems of values into experience design.

Schwartz conducted extensive empirical research that evidences that values form a structure of 11 basic motivational goals. His survey of 56 values was validated by tens of thousands of people across several dozens of countries, ranging from developed to undeveloped economies. We adapted the Schwartz values survey for ViEx purposes and specific business needs, building on the notion that shared universal values are prioritized differently depending on a context and individual's unique experiences.

Rokeach and Schwartz instruct respondents to rank and/or rate values abstractly with regard to their general evaluations and behaviour. That is, the survey asks for value priorities "as a guiding principle in my life". Although this method allows them to make inferences about people's value priorities and behavioural attitudes in general, it does not mean that the findings would be the same if the respondents were asked to order values with regard to a specific context or situation, for example, asking people to rate their values in order of priority when thinking about on-line security issues. Evaluation of value priorities in context implies that value systems are stable with regard to a particular issue. If the responses are highly

structured for assessing general and abstract principles, then in the same way we could expect consistent value systems in a particular environment. Both in general and in particular, individuals have intuitive and cognitive reasons for prioritising values along the higher-lower order of importance. Therefore, it is possible to reconstruct people's feelings of values priorities by application of general principles to specific situations.

The value theory allows for modifications specific to the study area (Schwartz and Boehnke, 2004). Searing (1979) had to adjust the explanations of the values in the Rokeach value survey so as to make them appropriate for British Members of Parliament, whose understanding of values was more complex. Seligman and Katz (1996) researched multiple value systems by modifying Rokeach's survey for abortion and environmental issues. Flanagan, Howe and Nissenbaum (2008) emphasized the need for understanding values that are relevant in the design context.

Values used in ViEx do not have to be limited to values used in the Schwartz survey. The list of values in ViEx represents an experiment for building a platform for designing experiences. It is important not only to define a context for values but also to include relevant values. The main modifications of the ViEx survey as compared to the Schwartz values survey are discussed below.

Spiritual life and detachment values of the spirituality value category were excluded because it is likely that they do not represent universal values and are represented by other values (Rokeach, 1979c). The other two values (meaning in life and inner harmony) from that category were included in the survey. Honouring parents and elders (showing respect) was modified to respect of others (honouring others). The value obedient (dutiful, meeting obligations) was replaced with professional (meeting obligations). A varied life (filled with challenge, novelty, and change) was replaced with innovation (novelty, challenge and change).

Self-development and knowledge seeking can be a guiding principle for desired experiences, including online interaction and shopping. Therefore, learning (seeking knowledge) was added to the survey. The value of privacy (intrusion free) was added to the survey because of its relevance to a broad range of design issues (Friedman and Kahn, 2008). The final version contained 55 personal values. The respondents rated values on an eight-point scale of: lowest importance (1), unlabelled (2, 3, 4, 5, 6), highest importance (7), and not applicable. Likert type scales allow for more flexibility as opposed to ranking measurement because the Likert approach permits one to identify values that may be equally important in the context and does not force respondents to rank them (Rokeach, 1979c). For experience design purposes, it is necessary to know which values are equally important for customers' experience.

Since values are cognitive representations of desirable, we did not expect that many respondents would indicate that a particular value was opposed to their values. This is supported by the argument that all values are positive (Seligman and Katz, 1996). Thus, the scale did not include "opposed to my values" (-1) category. The practical objective of the survey demanded understanding of whether people perceive a given value as applicable to their experience. Therefore,

“opposed to my values” was replaced with “not applicable”, and as a consequence this provided two additional advantages. At the early stages of conceptualizing an experience, the designer can either ignore values that are perceived as irrelevant or they may use those values to innovate. We assumed that the “not applicable” category would indicate that respondents might lack a reference framework for how such values could be attended to in an experience, thus giving designers an opportunity to generate innovative solutions.

13.4 ViEx Step 1: Value survey in online interaction context

The context of the value survey was an online interaction experience. In the introduction, respondents were instructed in the following manner: “We all make judgments about the experiences we have. We would like you to think about your experiences with online interaction (with PCs, laptops, and mobiles, etc.) and, in particular, when it is for your personal use. Please rate how important the following factors are for judging this experience”. The survey was conducted online. The list of values was divided into three sections, and every page began with the same instructions.

Respondents completed the tasks in the following order: first, respondents provided general information about themselves. Then only those respondents who indicated that they or their family possess a broadband internet connection could continue with the rest of the survey. Before proceeding to the next section, the subjects were asked four additional questions on preferred means for accessing the internet and frequently visited web-sites. Second, respondents completed a modified Schwartz value survey. The survey consisted of 56 values from the Schwartz value survey. Lists of values were broken down into three sub-sections. Each new sub-section began with the same instructions. The third section probed for additional information about the online interaction context of the study. It consisted of 25 attitudinal and behavioural statements about online sharing, information protection and security issues. The respondents used a seven-point Likert scale (1 – Totally disagree to 7 – Totally agree) to express their opinion. An example statement in this section asserted, “Free downloads are risky” or “I would like have personalised information about apps/software/services from my Internet provider”. On average it took 47 minutes to complete the survey.

The survey was conducted in Finland, Sweden, Italy, France, Germany and Brazil in May 2011. A software service provider ordered the study of values and selected the countries based on current and potential target markets interests. The sample size was five hundred respondents in each country, except Finland, where 505 people completed the survey. Thus, the overall sample size was 3,005 responses. The data was gathered by Digium Enterprise data collection service. SPSS Statistics version 19 was used to perform most of statistical analysis, except for K-means clustering analysis, which was done in MatLab R2012a.

Before the analysis, the respondents were dropped if they had used the same response for all questions in either the second (values) or the third (context)

section. Although the Likert scale does not force respondents to rank the values and allows for equally important ratings, it was assumed that the respondents who did not meet the above criteria failed to make sufficient effort in completing the survey. As a result, 7.69 percent of the respondents were excluded from the subsequent analysis (5.29% from value survey and 5.26% from service-related questions). The proportion of dismissed responses ranged from 4.95 to 10 percent on a country by country basis. The remaining sample contained 2,774 respondents.

13.4.1 Sample description

The respondents represented three different regions of the world – Scandinavia, Central Europe and South America. France, Germany and Italy represented Central Europe; two countries were Scandinavian: Finland and Sweden; and Brazil represented a South American market. After data preparation, the total number of responses included in the analysis was 2,774. Table 6 shows the actual sample size (n), actual margin of error (E) and compares them to the required representative sample (n_R) for the margin of error of 5 percent and a confidence level of 95 percent, given the approximate country population (N).

Table 6. Number of respondents included in the analysis.

Region / Country	Actual sample size (n)	Actual margin of error (E)	Approximate population (N)	Required sample size (n_R)
Central Europe				
France	459	4.57%	67 000 000	385
Germany	464	4.55%	82 000 000	385
Italy	460	4.57%	61 000 000	385
Scandinavia				
Finland	480	4.47%	5 500 000	385
Sweden	461	4.56%	9 600 000	385
South America				
Brazil	450	4.62%	198 000 000	385
Total	2774			

The choice of countries, number of respondents and the sample parameters were company's decision and were assessed as being sufficient for business purposes. The management sought to use the results for improving their strategic decision-making processes and, thus, its decisions guided the research parameters. The survey of customer values was a means for understanding customers' value beliefs in a chosen context. The survey was a starting point for the main result of the research; namely, the VIEx decision framework.

In general, the actual sample size for each country can be considered to be representative, assuming the random sample and normal distribution of responses. The conduct of the survey was outsourced to a professional service; therefore, random sampling is a plausible assumption. Given the sample sizes, the normal distribution is a good estimation for the actual way the responses are distributed. The representativeness of the sample sizes across gender and age groups were not analysed. Furthermore, the degree to which the findings may apply to countries outside the research area remains to be demonstrated. However useful, the analyses of representativeness were outside the case-study objectives. The survey was employed as a means of gathering data about customer values for the purpose of learning to integrate values into strategic decision process.

Gender distribution slightly varied on a country by country level. The highest number of female respondents (57%) was in Germany and the largest number of male respondents was in Brazil (55%). Across all the countries together males and females had an even representation (Table 7). Thus the data represented both genders fairly equally.

Table 7. Gender distribution by county.

Region/Country	Male (%)	Female (%)
<i>Central Europe</i>		
France	48%	52%
Germany	43%	57%
Italy	53%	47%
<i>Scandinavia</i>		
Finland	49%	51%
Sweden	54%	46%
<i>South America</i>		
Brazil	55%	45%
Total	50%	50%

In the survey the respondents could select one of the six age groups (18–24, 25–34, 35–44, 45–54, 55–64 and 65+). Although the total representation of each group was satisfactory and ranged between 9.2 and 20.7 percent, the groups' sizes varied considerably on a country level. To adjust for the relative proportions of the categories, the age classification was combined into three sets, namely, 18–34, 35–54 and 55+. As Table 8 shows the new sets were well presented. Overall, 33 percent of the respondents belonged to the 18–34 age category; 40 percent of the sample was between 35 and 54 years of age; and 27 percent of the respondents were 55 or older. On a country level, the lowest representation was in a 55 and older age category in Brazil. This is because half of the respondents were in the 35–54 group, which together with the youngest respondents, comprised 85

percent of Brazilian sample, leaving only 15 percent in the oldest class. With one exception of 18 percent in the Finnish youngest group, all the other age categories had more than 20 percent of respondents on a country level. This was a good representation for the subsequent analysis.

Table 8. Age distribution by country.

Region/Country	18–34	35–54	55+	Total
Central Europe				
France	35%	39%	26%	100%
Germany	38%	36%	26%	100%
Italy	38%	40%	21%	100%
Scandinavia				
Finland	18%	39%	42%	100%
Sweden	37%	33%	30%	100%
South America				
Brazil	35%	50%	15%	100%
Total	33%	40%	27%	100%

13.4.2 Values overview

Generally speaking, Finland and Brazil represent the two extreme sides of value rankings with Italy, Sweden, France and Germany positioned in between them. It is likely that the difference in ranking magnitude is due to cultural differences. This is supported by ANOVA analysis, which indicates that the differences in means are significant on a country by country level. Although this finding may have other implications, they are beyond the scope of the current work. This research focuses on value priorities relative to each other rather than on absolute value rankings and their samples differences. The resulting total structure of values is the main focus of this analysis. The goal of the research is to apply customer value studies in the creation of experience offering.

Value structures in Italy, France and Germany are very similar throughout genders, age groups, marital status and etc. In general, this means that these three countries represent one common European market. Unless F-Secure has a particularly large market segment in or plans to put special emphasis on one of these countries, it should approach all of them as one market.

Sweden's value priorities resemble European values more than they do those of Finland. This questions whether Sweden represents a separate Scandinavian market. Value preferences of the Finnish respondents show a considerably greater level of discretion among values. That is, Finns show higher preferences for some values over others by using extreme rankings. On the other hand, in Brazil value rankings tend not to vary as much. This implies that Brazilian

respondents represent a different kind of market compared to European or Scandinavian ones. Furthermore, a product or service designed for Brazil may be perceived as possessing excessive functionality in Finland.

Inclusion of Finland in European value structure does not shift the European value graph much; nevertheless in some charts the Finnish market is plotted separately for contrast (Figures 29 and 30). The structural similarities of value priorities are warranted by the context. Online interaction with technology is a unifying ground for people from different countries, age groups, gender, and etc. Even respondents who have different off-line interests (i.e. shopping, networking, art/photography, etc.) judge their online experience through very similar value systems. Acceptance of this finding affects the current investment strategy in customisation of products or services. While marketing messages for different segments may still be important, products or services may not need to be customised radically for those segments. It is likely that perceived experience which customers gain during consumption is the differentiating factor.

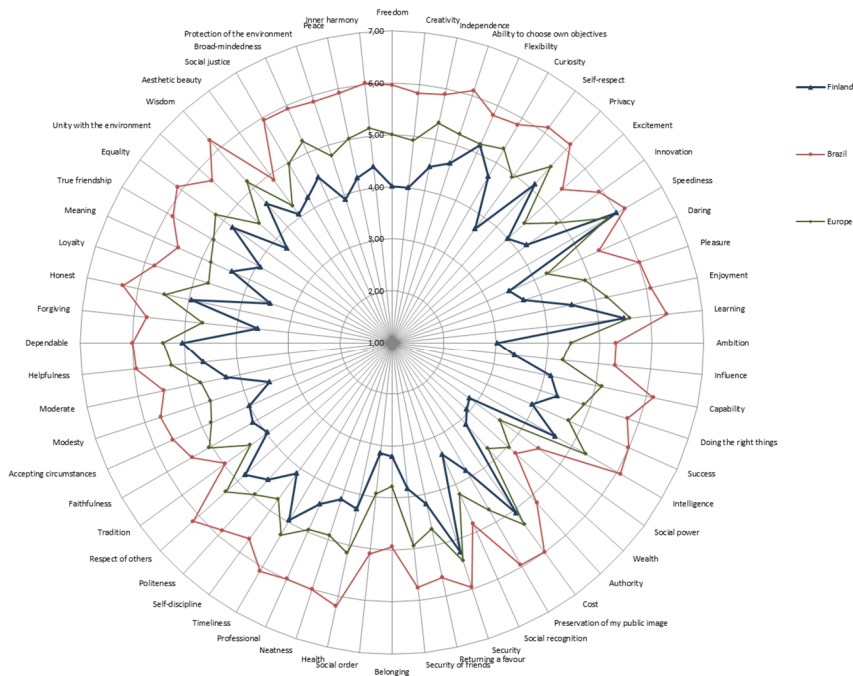


Figure 29. Value priorities by country without Finland and Brazil.

13. Values-in-experience method

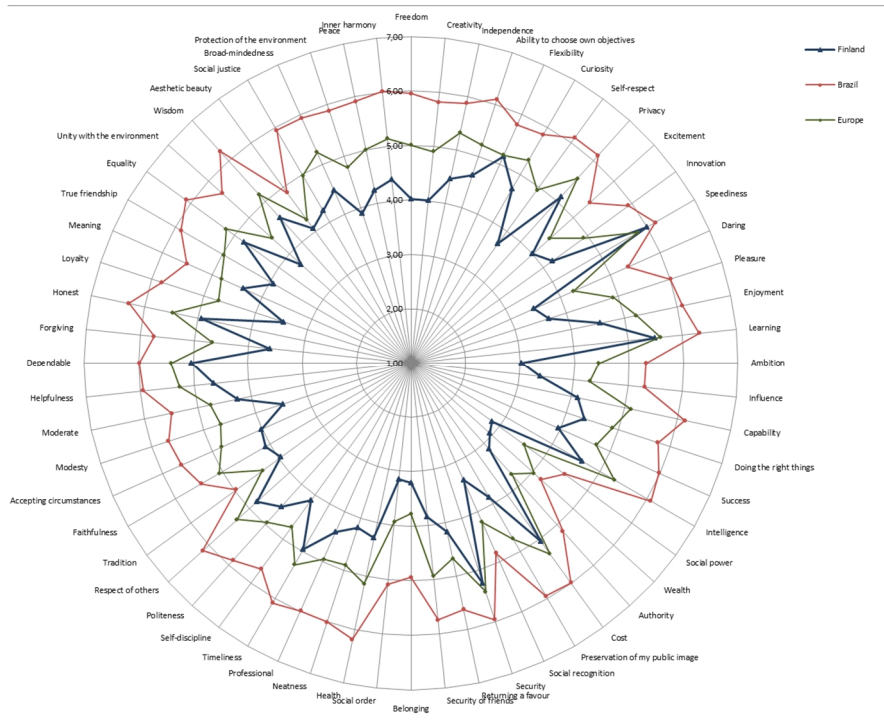


Figure 30. Value priorities of Europe, contrasted with Finland and Brazil.

Appendix A. provides additional analysis of the values survey.

13.5 ViEx Step 2: Identification of dimensions with component analysis

The use of the systems of values can be more effective in customer understanding than an analysis of individual values (Kahle, 1996). The principle component analysis was used to detect the structure of values. As a result, six components were extracted. The analysis was performed in SPSS using a principal component method with the varimax rotation technique.

For the online interaction context the six extracted components accounted for 64.8 per cent of the total variance (KMO – 0.985, Bartlett's Test of Sphericity –.000). We concluded that the relationships among variables were strong and therefore we proceeded with factor analysis. Cronbach's alpha for generated components ranged from 0.792 to 0.945. Appendix B shows the resulting table of principle component analysis.

Loadings less than 0.3 were suppressed and were not visible in the rotated component matrixes. Even with this setting some values loaded on several

components. This is due to the fact that values strongly correlate among each other. Correlation of variables was expected for several reasons. First, rating technique encourages positive correlations. Second, values are interrelated concepts and do not operate in isolation in the lives of individuals. Third, it is unlikely that responses would exhibit high variance because at the outset values represent what is desirable.

Each of the six components represented a dimension of the respondent's value structure. Thus, it was called a "value dimension". Collectively value dimensions characterize a respondent. The relative order of importance for each dimension is likely to be unique from person to person; thus a customer could be profiled by his or her structure of beliefs across all value dimensions.

The analysis of individual values, which made up each component, helped the researchers name each value dimension in a way that would be meaningful for both management and designers. The first component (value dimension) included 25 individual values. It was called a *teamworker* value dimension. It appears that this value dimension is a basic social value element common in different countries. It emphasises the social aspect of an individual. Thus, it could be also seen as a social dimension. With the help of the explanation of values by Schwartz (1992, 1994), Schwartz and Boehnke (2004) and Rokeach (1979a) the value dimension was narrated in the following manner.

Teamworkers work best with others. They enjoy belonging to a group but not necessarily leading it. Their values represent a desire for solidarity and shared experiences. They enjoy exploring and being creative with others. Teamworkers are supportive of the group and can easily work in a heterogeneous group (i.e. with different people than themselves). Their sense of competence is attained through the commitment to norms and promotion of group's welfare. They value honesty and trust. They are likely to enjoy volunteer work.

For the company such descriptions can help professionals to visualize the customer and focus on those services and their possible attributes that would best fit customer values. In marketing communications, such descriptions can be used to customize the marketing message and target certain customer experiences. Narration can foster analysis of customer values structures that should become central in design and marketing processes.

Table 9 shows six components and their individual values. Appendix C lists the rest, all six value dimensions and their narrations.

Table 9. Value dimensions and their individual values.

Value dimensions						
<i>Teamworker</i>		<i>Careerist</i>	<i>Protector</i>	<i>Seeker</i>	<i>Clique</i>	<i>Green</i>
Intelligence	Security of friends	Ambition	Meaning	Learning	Pleasure	Unity with the environment
Capability	Privacy (intrusion free)	Influence	Self-discipline	Curiosity	Excitement	Protection of the environment
Honest	Ability to choose one's own objectives	Success	Politeness	Creativity	Freedom (freedom of expression)	
Dependable	Independence	Social power	Security	Innovation	Belonging (others caring about you)	
Helpfulness	Faithfulness	Authority	Returning a favour	Wisdom	Social order	
True friendship	Moderate	Social recognition	Self-respect			
Forgiving	Accepting circumstances	Preservation of my public image	Tradition			
Loyalty	Modesty	Wealth	Peace			
Respect of others	Equality (equal opportunities)	Daring				
Professional	Inner harmony	Aesthetic beauty				
Enjoyment	Social justice					
Health (no physical or mental impact)	Broad-mindedness					
Neatness						

Figure 31 illustrates the combination of value dimensions in describing an individual. Individuals combine all the value dimensions but they prioritise each dimension uniquely. Thus, each person has a different value system, by which he or she can be identified. This section describes how similarities in value systems were identified. The process is called identification of patterns.

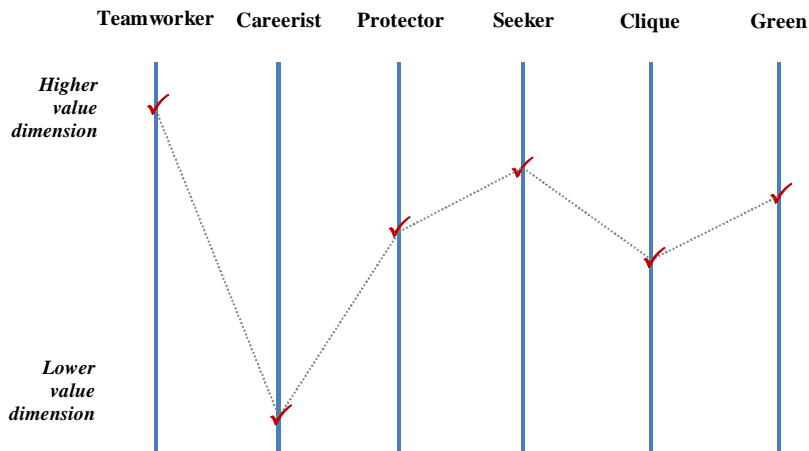


Figure 31. Illustration of the structure of value dimensions.

It is likely that each dimension will have a different level of preference for various individuals. The unique combinations of value preferences can characterise customers and their desired experiences. The higher score of a seeker dimension, for example, would indicate that a person has strong values of learning, curiosity and creativity. This means, that he or she used these values as criteria for evaluation of experiences. Thus, a memorable experience would mean that these and similar values are upheld throughout the interaction with a product or service.

If a person has a high preference of a certain value dimension, then he or she can be considered as a representative of corresponding values. Statistically this can be measured by assuming that, if a person scores in the upper 33rd percentile of the scale, then he or she has a strong preference for a value dimension and, therefore, represents it. Appendix D explains the procedure for identifying representatives of value dimensions in detail. The procedure is helpful for understanding how well each value dimension is represented in each country.

Table 10 shows the percentage of people representing each value dimension by country.

Table 10. Representativeness of value dimensions by country.

	Teamworker	Careerist	Protector	Seeker	Cliquy	Green
Italy	46.1 [*]	20.7	34.5	50.4	25.8	45.7
Sweden	44.0	14.6	40.4	53.5	24.3	35.2
France	44.0	22.9	30.7	48.1	29.5	38.8
Germany	51.7	13.2	44.5	44.9	27.4	31.8
Finland	45.3	16.7	42.0	55.6	26.0	34.3
Brazil	49.6	14.0	42.3	46.0	28.1	43.8

^{*} The percentages by country do not add up to a hundred because one person may have strong preferences for more than one value dimension.

This information can be used to identify markets and customer types for thinking through desired experiences. Creation of experience can appeal to one or several dimensions. A company can diversify creation of experience offerings by emphasising different aspects, which attract customers with various value systems. Figure 32 illustrates this principle.

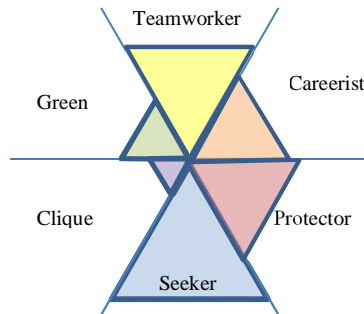


Figure 32. Diversified dimensions of experiences.

A company may, for example, choose to focus on the *teamworker* and *seeker* dimensions while deemphasising the *clique* and *green* categories. Such an approach can, on the one hand, simplify the practicalities of the decision-making process, when choosing a general direction for creating experiences. On the other hand, as the company gathers feedback, it can reduce the complexity of tracing which customers with what dimension preferences like or dislike the experience. Thus, instead of always operating with six dimensions, it will concentrate on just few at a time, creating various profiles of differentiation.

The third step of the ViEx method focuses on the variety of experiences that a company can provide. Although imagination is perhaps the main driver of experience creation, it is useful to know what the prevailing preferences in the market are. In other words, the ViEx method looks into most frequent patterns of value structures and summarizes them in the narrative descriptions of customers. Patterns accent the value dimensions that are more and less important to customers. They can help organisations make decisions about how to distribute resources when designing experiences. It is just as important to know the values that customers use to evaluate desirable experience as the values used to avoid undesirable ones. In short, patterns can guide decisions about which experiences to focus on.

13.5.1 Identification of Patterns with cluster analysis

After understanding how value dimensions characterise a customer (Figure 31 and 32), the next step investigates which customers have a similar value structure. Customers may use different reference scale for rating the values but would show the same relative distances between values. In this case, the relative value

preferences would also be the same. In the third step of ViEx analysis, we are interested in similar relative distances among preferences for value dimension. Similar patterns would form one cluster of customers with comparable value preferences.

Before proceeding with patterns, the data for value dimensions was normalised to account for differences in reference scales.

Clustering analysis was performed so as to identify groups of respondents that hold similar value dimension preferences. The patterns of these preferences were determined with the k-means clustering method. K-means is one of the most widely adopted clustering analysis techniques, aimed at partitioning an n-sized set of d-dimensional sampled observations from a given population into k groups under certain criteria. Such partitioning may yield disjoint clusters, or may allow for a certain overlapping between nearby clusters (coining what is referred to as fuzzy clustering). The non-fuzzy k-means approach in this study computes the clusters and assigns the observations to them by minimizing the sum, over all clusters, of the within-cluster sums of point-to-cluster-centroid distances. In this context, "centroid" stands for the arithmetic mean of all points within the corresponding cluster, whereas the "distance" function between d-dimensional observations can be arbitrarily defined, provided that it fulfils the required properties of symmetry and triangle inequality.

To be specific, in this work the sum of absolute differences (also known as L1 or city-block distance) was used, consequently the centroid of a given cluster results in the component-wise median of its assigned points. In what relates to the computation of the clusters itself, the conventional Lloyd's algorithm (Lloyd, 1982) has been implemented, based on an initial set of k centroids uniformly drawn from the range of values that every component of the observations can take. The algorithm iteratively partitions the observations according to the Voronoi diagram generated by the centroids from the previous iteration, which are then recomputed as the centroids of the observations in the new partition. The procedure is deemed to converge once the assignments from observations to clusters do not change along iterations. Since the performance of this algorithm depends strongly on the random initialization of the centroids, 10 runs of this algorithm have been executed for every considered (survey, k) combination, from which the solution with best (lowest) within-cluster sum of point-to-centroid distances is declared as the final solution.

By using the above procedure, five ($k = 5$) clusters were identified in the online interaction context survey. Figure 33 illustrates clusters for online interaction sample. The horizontal axis includes six value dimensions, identified in the previous stage. The vertical axis is the relative importance of the scale of dimension. A cluster combines individuals with similar patterns of priorities. The central line on each of the five clusters averages the dimension preferences of a group.

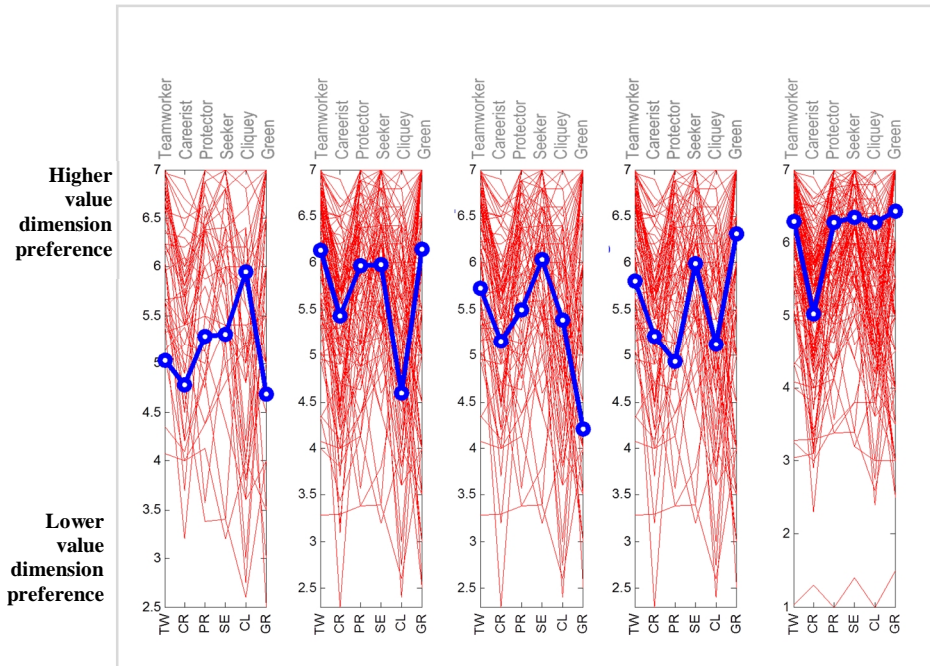


Figure 33. Clusters of online interaction sample.

This information provides a picture of the value structure of the on-line interaction market. A company can target different combinations of values in order to develop and promote its services. A company can choose to customise products and services so as to prepare for unique experiences of each customer type. It is also possible to customise marketing messages, highlighting elements that address ‘green’ qualities of the service or ethical production process.

Using this information, we proceed to describe each cluster by the nature of shared characteristics derived from a cluster’s central line shape combined with knowledge about values and dimensions. Before providing narrative descriptions of patterns, we briefly discuss the similarities among the patterns across the six countries.

13.5.2 Similar patterns across the countries

Notwithstanding the uniqueness of each pattern, their analysis revealed similarities across the six countries. Altogether the researchers identified nine unique types of patterns. Identification of similarities was done for convenience and time reasons. The company desired to have a manageable amount of narrative descriptions. It is overwhelming to disseminate 30 different descriptions (five for each of the six countries) throughout the organisational processes and maintain their usefulness and relevance over time. For example, a *Seeker* type, was identified in Italy and

Sweden. France and Finland had a slight variation of the same pattern. Table 11 shows *Seeker* patterns in the four countries.

Patterns were combined together if value dimensions, rated *high*, *medium* and *low* were similar. Particularly, first, the highest and lowest dimensions were identified and then the graph was partitioned into three equal sections, which were labelled as *high*, *medium* and *low*. The sections are specific to each pattern. We are interested in relative and not absolute partitioning because they represent customers value systems in which various magnitude of values ratings may represent similar value priorities.

Table 11. Seeker pattern in Italy, Sweden, France and Finland.

Country	Italy	Sweden	France	Finland
Pattern ID	It 1: Seeker	Sw 1: Seeker	Fr 1: Seeker	Fn 1: Seeker
Sample Size	99	73	75	122
High	Seeker Team worker	Seeker	Seeker	Seeker
Medium	Cliquey Protector Careerist	Team worker, Cliquey	Team worker	Protector Team worker
Low	Green	Protector Careerist Green	Cliquey Careerist Green, Protector	Cliquey Careerist, Green

13. Values-in-experience method

The four green lines on each chart represent the partition the chart in *high*, *medium* and *low* categories described above. The categories are graph-specific because we are interested in relative rather than absolute value ratings. To illustrate, relative patterns show that, for two different individuals, *Seeker* qualities are prioritised above the rest irrespective of the absolute rating assigned.

In Italy, for instance, the *Seeker* cluster was represented by 99 respondents. The highest value dimensions were *Seeker* and *Teamworker*; medium – *Cliquey*, *Protector* and *Careerist*; and low – *Green*.

The full account of pattern similarities type by type is given in Appendix E. Table 12 summarises the types, including the percentage and number of respondents, across the countries.

Table 12. Percentage, number of respondents across the countries by pattern type.

	Italy	Sweden	France	Germany	Finland	Brazil	Total
1: Seeker (2 variations)	22% N = 99	17% N = 73	17% N = 75		25% N = 112		13 %
2: Teamworker, not Cliquey (3 variations)	24% N = 110	25% N = 109	25% N = 112	24% N = 109	18% N = 82	23% N = 103	23 %
3: Green, Teamworker, not Careerist (3 variations)	24% N = 109	27% N = 118	20% N = 89	16% N = 71	22% N = 99		18 %
4: Teamworker, Seeker, not Green (2 variations)		21% N = 91	26% N = 117	28% N = 129		18% N = 81	16 %
5: Cliquey (2 variations)	11% N = 51	10% N = 45	12% N = 53	11% N = 49	18% N = 82	10% N = 45	12 %
6: Teamworker, Green, Seeker, Protector, Cliquey, not Careerist				22% N = 99		30% N = 134	9 %
7: Green, not Cliquey/Careerist	19% N = 85						3 %
8: Protector, not Cliquey/Careerist/Green					18% N = 81		3 %
9: Green, not Protector						19% N = 83	3 %

For example, the *seeker* type is represented by 99 respondents, which makes up 22 percent of the respondents in Italy. The *seeker* type has two variations, which are indicated by the shading of the cells. Thus, Italy and Sweden are paired up in one variation whereas France and Finland are in another. This means that value systems of 'seekers' in Italy and Sweden have more similarities between themselves than with those in France and Finland. The same is true of France and Finland when compared with Italy and Sweden.

Appendix F gives an example of a narrative of one of the nine types of patterns. Appendix G contains demographic information about each type. The demographic information was part of the development of narratives. It enhances the narratives by providing some 'hard' information about them, such as age, gender, education, interests and expectations of on-line services. In addition, demographic information bridges the traditional way of scoping the market with the development of experiences. Marketing personnel, for example, is used to working with the demographic characteristics of market segments. The inclusion of such information in experience creation lowers the threshold of transitioning from the traditional view of customers to the understanding of offering unique customer experiences.

13.6 ViEx step 3: Composition of narratives

The entire purpose of the ViEx method is to understand the patterns of beliefs which guide customers in their experiences and to integrate that knowledge into business processes. Some prior attempts to disseminate values and beliefs in organisation have stopped at the strategy planning level. Other efforts addressed only isolated values in technology. ViEx aims to reconstruct the meanings that customers make of experiences to the managers and software developers. The objective is to create a direction within the company that corresponds to customer values and gives a unique vector to the differentiation strategy.

In the fifth step ViEx provides narrative descriptions of customer values. It is a text that succinctly presents a worldview. Management research discovered that texts, which people use in the process of their activities, exert an important influence on their worldview and, thus, their behaviour. "... [Texts] that exist in a particular field and that produce the social categories and norms ... shape the understanding and behaviour of actors" (Phillips *et al.*, 2004, p. 638). Narratives set conditions on actions and practices. People thus need to manage not only activities and resources, but also manage and negotiate meanings to develop effective coordination within organisations. ViEx is a method for creating world views that shape the behaviour.

Until this step the information provided in ViEx method was mostly based on statistical techniques. In the previous steps the application of customer values to business processes required creative interpretation but the analysis followed a rigorous and repeatable process. The composition of narratives, however, for the most part relies on creativity and imagination. The combination of both 'soft' and 'hard' tools makes ViEx unique. The method benefits from quantifiable measurements to research the unique structures of values. This is followed by an interpretive analysis for structures and their usages within the organisation.

Narratives describe a customer archetype. This is a text from which the values and beliefs are derived in order to develop strategy and implications for design. In F-Secure the researchers used Schwartz's and Rokeach's works on values as a basis for narrative descriptions. Schwartz's and Rokeach's explanation and

definitions of values served as input information for describing value structures developed at the previous step.

At this stage demographic data and data from other questions related to the context of the survey were analysed in relation to each cluster. This generated additional information about archetypes. For example, archetypes could begin to have age, education, income, and marital status. They also have preferences for typical electronic devices, internet applications and activities. Other context-specific questions contributed to an understanding of interests related to an experience. For example, we evaluated people's perceptions of online data storage and expectations about information on consumer products environmental impact. This information was used to enrich narrative descriptions.

This approach to the development of archetypes combines values analysis and marketing research. It captures important data about the customers. As a result, narratives gain a capacity to help all stakeholder share the understanding of target audience. This is a crucial element of designing customer experiences.

The following is an example of a narrative.

Juliana enjoys sharing experiences, belonging to a group and promoting common welfare. She aims for stability of relationships, solidarity and sound interactions with other people. She is curious, open to change and likes to explore new knowledge areas. Trust and honesty are among her strong preferences.

Juliana is a nickname for the customer she represents. It is only one version of narration that a potential customer can be described with. The narration can be updated and modified to meet the ideas for experience creation. The values and value dimensions can be revisited on a regular basis to find a more pointed depiction of customers. The use of values makes the development of the narratives a malleable and emergent process. The work that had been done prior to the narratives builds the platform and does not need to be re-visited to the same extent for the narratives to be re-invented. The re-invention of narratives is a critical part of experience creation. As new knowledge on values becomes available and as the company advances its competences and capabilities, the narratives are reconstructed to meet the new world view. They still remain relevant for experience development.

13.7 ViEx step 4: Customer values in business processes

The integration of the ViEx method in the business process took place in various instances. The management presented the results and disseminated information throughout the company in the form of documents and one-page leaflets. They used the material in the early stages of product and service development. The following four instances illustrate the use of ViEx and its results in the organisational process.

The examples below are described only briefly. Their purpose is to show that the ViEx method was adopted into business processes in general and decision making in particular. Each illustration can be supplied with a great deal of detail. For the purposes of this research, however, we present them here in rather general terms, using them to provide evidence of the ViEx acceptance.

First we discuss the marketing workshop, where the first ViEx results were presented to the customer relations, marketing and brand management personnel, who worked both inside and outside Finland. Second, we turn to the on-line content management project and the understanding of customers. The third example illustrates the application of customer values to tablet security services. Finally, a brief example of family security shows how ViEx principles can be applied to other projects. This illustration was brought up in one of the conversations with the chief product manager. It evidences the generalizability of the ViEx method. Although the results of the particular ViEx research were not used there, the application of the same principles help the project member gain insight into desired customer experiences.

13.7.1 Global marketing workshop: malleable pictures of customers

At first, the results of the ViEx method were introduced into the marketing function of the case company. The 'Global marketing' workshop was held in Helsinki on February 16, 2012. The results of the ViEx research were presented to marketing, communication and brand managers from major offices around the world. The workshop included a discussion of how values can be integrated into the marketing messages and brand development. The goal of the workshop for the purposes of the research was to ascertain whether the customer values are useful constructs in the marketing and sales function. It seemed that managers intuitively understood how the ViEx constructs could apply to their tasks.

For example, the earlier narrative was presented with both value and demographic information, as shown in the Figure 34, below.

She is a person of shared experiences. She enjoys heterogeneous groups. Interacting with people of different background enriches her world view and feeds her desire for learning. Her diverse experience upholds her appreciation of commitment, tradition and promotion of the welfare of close friends as well as protection of welfare of all people and nature.

Teamworker

Intelligence (logical, rational)
Capability (competence)
Honest (sincere)
Dependable (reliable)
Helpfulness (benefiting others)
True friendship (supportive friends)

Seeker

Learning (seeking knowledge)
Curiosity (exploring)
Creativity (imagination)

Protector

Meaning (sense of purpose)
Self-discipline (self-restraint)
Politeness (good manners)
Security (protection)

Green

Unity with the environment
Protection of the environment

Figure 34. Illustration of values for application in marketing.

Then four steps were used to highlight the specific values of the customer to ideate the messaging and marketing campaigns that would support the values of that person. For example, in one of the steps only the values related to shared experiences were highlighted, as shown in Figure 35.

She is a person of shared experiences. She enjoys heterogeneous groups. Interacting with people of different background enriches her worldview and feeds her desire for learning. Her diverse experience upholds her appreciation of commitment, tradition and promotion of the welfare of close friends as well as protection of welfare of all people and nature.

Teamworker

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Helpfulness (benefiting others)
True friendship (supportive friends)

Seeker

Learning (seeking knowledge)
Curiosity (exploring)
Creativity (imagination)

Protector

Meaning (sense of purpose)
Self-discipline (self-restraint)
Politeness (good manners)
Security (protection)

Green

Unity with the environment
Protection of the environment

Figure 35. Illustration of value for application in marketing (Step 1).

The participants were invited to develop ideas on how these particular qualities could be reflected in marketing messages. Three more particular value characteristics were used to generate understanding of how ViEx could be used in marketing (Appendix H). The choice of specific values for discussion was made on the basis of relevance to the software company. The rest of the value discussions centred around learning, traditional values and protection.

The workshop aimed at showing how values, like Lego blocks, could be pieced together to make pointed marketing campaigns. With the knowledge of customer values, the strategy for creating experiences can be a malleable process. That is, the company can redefine the market to actively exploit short-lived opportunities.

Four different combinations of values (Appendix H) were used to facilitate the discussion of how the knowledge of customer values could affect participants' work. For confidentiality reasons, the ideas kindled during the discussion were gathered only orally. The purpose of the discussion was to ascertain whether customer values, dimensions and narratives are useful constructs for marketing and sales.

The participants discussed the opportunity for using narratives in creating briefs for marketing campaigns. One person noted that customer values could be used for preparing for negotiations with the operators. The person responsible for brand management wrote down a list of ideas for himself and shared some of his thoughts in a personal conversation. The participants mostly focused on discussing how the values could be used in their work, rather than actually creating specific messages or thinking through specific campaigns. This observation may indicate a need for more workshops that would focus on creating specific marketing activities.

The workshop ended with the planning of the next steps for the ViEx development. The requests concerned mainly:

1. Desire to be presented with the values analysis and narratives for all the rest of the countries in the survey (i.e. Sweden, Italy, Finland, Germany, France);
2. Need to hold a focused workshop for applying values in marketing;
3. Appeal to survey values in other countries of interest or investigating the probability of findings being applicable to those countries.

The results of the workshop were discussed and analysed by three researchers, a project manager and a group of representatives from the case company at a meeting following the workshop. The main decision of the analysis was to continue the implementation of the method.

In the interviews conducted more than a year later after the marketing workshop, the managers confirmed that the results of ViEx continued to be used for marketing briefs, campaigns and customer journey projects (Patrício *et al.*, 2011; Zomerdijk and Voss, 2010). For example, usability and user experience specialist summarised, "see this very much helping in our product understanding and also marketing of the products".

13.7.2 On-line content management: new understanding of customers

The ViEx method was used to analyse the lead-users' value systems in the development of an on-line content management services. The preselected lead-users were invited to the on-line environment, where over a period of several days they contributed to the design of the services. A total of 104 participants were asked to fill out the value survey as part of their contribution. The survey's data – together with general information – composed a lead-user profile and identified the participant's value system. Thus, the researchers could characterise the lead-users by the values that they represented (Appendix I). This information helped connect the participants with future customers through the understanding of their value priorities. It is likely that the future customers evaluate the new service in a similar way to their lead-user representatives.

This part of service development focused on the design of the on-line content management services. The goal was to provide a different experience than the ones that were already available on the market. One of the aspects of the new service creation was tracing the participants' inputs back to their value systems. This allowed the company to evaluate the potential customers' value priorities and understand how those can be supported with the new experience.

13.7.3 Security services for tablets: Customer study

As the management continued to focus on the consumer market, it recognised the need for security services that are inclusive of all family values. Every family member has his or her individual desires that may coincide or contradict with the goals of other members. In the pursuit of the engaging experiences for the whole family, the company had to know the customers' attitudes, thoughts and ideas about the new services. For this purpose, the company conducted two focus groups on June 5 and 6, 2013. The two focus groups involved seven and nine people respectively.

Prior to the meeting at the focus group, the participants were asked to fill out the concise version of the value survey¹. The responses were analysed to gather information about participants' value preferences (Appendix J). The requirements expressed during the focus group were traced back to the value priorities. The knowledge of value priorities gave an understanding of the reasons behind the expressed desires. Seeing the underlying reasons provided a grid for decision making. That is, managers could recognise how important this or that statement was to a person.

¹ The survey included 24 value statements that the participants were invited to rate over a nine-point Likert scale. The survey included value statements from the six value dimensions identified in the principle component analysis at step two of the ViEx method. The values that had relatively low loadings in a component were not included in the abridged version.

For example, people with a weak preference for protection showed a lower awareness of the cyber-threats for their mobile devices than those with a higher value for protection. These people had to be educated by their colleagues about the importance of the new services. The participants with a high emphasis on team working showed greater interests in ensuring secure but unimpeded sharing functionality. The focus group organisers could relate to the desires and comments of participants at a values level. Thus, they recognised that different views of the service were grounded on solid reason.

Prioritisation of customer desires sourced from a focus group can be a challenge because some requirements may come from the previous experience of a different service. The participants may express their knowledge of the field as desire for the new service. This may lead a company to develop a copycat product. The avoidance of imitation is a growing need of new product and service development. Unique insights that stem from value convictions can be a much-needed inspiration for new experiences (Brown, 2006).

The tracing of the requirements to the value priorities educates the company in interpreting values for experience creation. The reverse process of moving from values to service specifications relies on creativity. Creativity allows making projections from value dimensions and narratives to potential customers. In this situation the decision-making criteria can be difficult to identify because dimensions and narratives are not predictive models. In focus groups, values are used to understand customers' desires and their reasoning. This technique is helpful in refining the creative process for how to interpret customer values for the experience creation.

13.7.4 Family security project

The chief product manager gave another example of how the value descriptions add to the work with people. He represented a team that worked on the family security project in a different area. In the interview the chief product manager described their discovery of differences between parents' and children's perceptions of security, particularly, in sharing information with others. He explained how focus groups complemented the customer value descriptions. In this project the narratives were viewed as a tool that "paints the picture of the consumer landscape out there". Although a value narrative is far from being a final customer description, "it works kind of like a lighthouse", says the chief product manager. This was the intended purpose of the values in experience framework, namely to assist in management decision making.

As the company enlarges the repository of linkages between narratives and real people, the process of interpretation of values for new experiences becomes rather practical and robust. This process, however, will and should be creative by nature, because creativity is an essential element of innovation.

13.8 Interviews: the use of customer values in business

Over a year after the first results of the value survey were introduced at the marketing workshop, four people from management were interviewed about the results of the ViEx method. The interview focused on the current and past use of ViEx, its effects and possible improvements. Listed according to the interview time, the interviewees were the Product and product marketing manager of consumer security (Interviewee 1), Usability and user experience specialist (Interviewee 2), Director of external R&D collaborations (Interviewee 3) and Chief product manager (Interviewee 4).

The main reason for the interviews was to gain visibility of how the ViEx method affected the organisational activities. The motivation for the interviews was to receive more information about how the customer values were introduced and applied to the organisational process. Since the researchers' involvement in the implementation of customer values on the managerial level and software development was limited to workshops and focus groups, this influenced the number of direct observations of the acceptance and use of values and narratives. The interviews helped combat the limitation and gather information about the internal processes.

The lack of researchers' direct involvement in the ViEx implementation within the organisation affected the adoption process. All interviewees recognised the importance and potential of the ViEx method, but expressed the desire to see more results for the ViEx usage.

The people selected for the interviews had to meet three criteria. First, they had to be familiar with the ViEx project. They had to participate in the development and implementation of the ViEx or use its results in their work. Second, the interviewees had to deal regularly with customer-related information. Finally, they had to play a role in directing the development of new offerings.

The interviewees provided information about how the customer values were adapted, interpreted and used by the personnel who were and were not directly involved in the process of the research. No interviews were conducted with the software engineers or marketing personnel, who might have used the ViEx results for specific product or service development tasks. The inferences for improvement and further development of the ViEx model were made on the basis of interviews with managers.

The semi-structured interviews were carried out in the form of conversations and designed around the four main topics:

1. The use of customer values in management, strategy and marketing.
2. Customer values in identifying opportunities, abilities and minimising regrets for new customer experiences.
3. Influence of customer values on business transformation to the B2C and to the Cloud.
4. Desired improvements for the use of values in organisational processes.

The topics reflected the goals of the research:

1. To create a differentiation concept for differentiation with experience;
2. To validate the decision-making framework for integrating values in experience;
3. To assist the organisational transformation toward a Cloud-based business model.
- 4.

The fourth topic provided an opportunity to discuss future work and way of improvements. We address the four areas in this section.

13.8.1 Values in management, strategy and marketing

13.8.1.1 Decision-making process

The understanding of reasons why certain experiences may or may not be desired can inform the business strategy. The R&D director pointed out that customer values allow the company to provide services and products in “a more focused way”, thereby improving their competitive position. The chances that the customers would appreciate the company’s offerings improve as they become more pointed in providing the experience that customers value.

So the possibility of them [customers] appreciating our services is higher than if we just make a service which is cool and anybody can use it. But we can go into much more detail of why we are doing a certain service, who we are doing [it for] and, for what reason we believe that this is the right kind of service for that group of people. I believe that this is very much of an instrument that can help to create better and more focused value for the customers.

The director of external R&D collaborations explains that the provision of services that are ‘just right’ for the customer works as a self-enforcing loop, where knowing customer values leads to better services and provides better understanding of what they value. He affirms that through such understanding the company “engages with the customers”. He also indicates that the process of deciding why certain services are designed in a particular way takes on a different character. What he means is that customer values ground business decisions in strong reasoning.

The Chief product manager elaborates on the strategic role of the values in the following way:

Whenever we are faced with a decision, should we go this way or should we go that way, should we promote this element in the product or in the user flow or should we promote that element, it’s good to have a baseline that has

been developed kind of halfway independently from the actual product and design work... And it's good to be able to have a frame of reference that has been developed in a professional way, because we can refer to it, when we have question[s]...

The decision-making process benefits from an additional frame of reference that helps explain why one or the other decision is made. The tool for making decisions is especially important in an engineering company, like the one studied in this research. The chief product manager notes that narratives and one page descriptions “have a remarkable power”. In the process of making a decision narratives serve as a basis for an argument. “Instead of saying that I feel it should be this way”, one can point to value narratives and show that “this was studied and it was defined to be this way. I based my decision on this... I've seen that work, and that's brilliant.”

13.8.1.2 Customer understanding

The understanding of customers is another result that was noted on several occasions by all the interviewees. For example, when speaking about the importance of understanding customers for strategy development, the director of external R&D collaborations observed:

We understand what kind of people they are, what kind of things they value, what kind of things they expect from the products and services they are using.

He emphasised the importance of customer experience for the differentiation strategy, pointing out the customer values' role in knowing the details for why a certain services are provided “I just believe that this is very much of an instrument that can help create better and more focused value for the customers.” He also saw the values role in creating differentiating experiences, when the company provides not only cool and easy to use offerings but ones that engage the customers.

A usability and user experience specialist referred to the results of the method being useful in the B2B relationships. The narratives helped demonstrate that the company understands their customers' businesses because they know their end consumers. “It has been used successfully in operator negotiations. The narrative descriptions are a very powerful tool for explaining that we know what we are doing and we are doing something that has the end user interest.”

13.8.2 Creating new customer experience

13.8.2.1 Identification of opportunities

It was repeatedly pointed out that the narratives helped the company “become a bit more consumer-focused and consumer thinking” (chief product manager, 2013). In other words, as the company seeks to identify opportunities, it does so with the customer's interests at heart. This is a valuable achievement on the way to

the consumers' market, considering that historically the company was in a buyers' market. And the values research is recognised as playing an important role in this process. In particular, customer values research assists in identifying new opportunities for customer experiences. As the product marketing manager of consumer security explained, values are the starting position for demonstrating that

in fact, there is a need, there is a group of values that is out there. And you can ask, 'do we play a role in satisfying those values or those needs'. And if the answer is no, it means, we are leaving that space for everybody else to take. So, it becomes a conscious choice for this company not to be in that business. And it is a business because the numbers are showing it exists... They show that there is an opportunity.

The director of external R&D collaborations sees "at least some evidence" of the employees trying to "find more opportunities" that lie beyond their every-day activities because they "have been exposed to this [values] kind of thinking". He goes on to explain that "the new kind of thinking" is being implemented in the next programme where company is looking for opportunities to rethink its business and customer models.

13.8.2.2 Recognition of abilities

The understanding of customers' abilities is just as important as recognising new opportunities. In ICT industry some customers are active seekers of information. These kinds of people may not require an extensive introduction to the new service because they are intuitive and educate themselves. Such a customer has energy and the desire to learn by themselves and, thus, appreciates a challenge. In this case a customer may not "care if the services are difficult to use because he loves it. That's part of his thing, he loves to solve things", notes the product marketing manager of consumer security. But other customers may make decisions about technology for reasons such as cost efficiency, technology-averseness or tradition.

Values and narrative descriptions draw attention to the important aspects of customer desires. Meeting those desires requires a variety of approaches. The chief product manager indicated that the selection of various approaches is far from random. The provision experiences is not a "random shot" with a hope for success. Rather, it is based on the knowledge of what people appreciate in a service, when the service is designed especially for them, "so that they can feel more secure and safe in their environment".

13.8.2.3 Minimising regrets and fostering gratification

In the four step of the ViEx method we explained how the results were and are being used in the company. The implementations are ways of testing experiences prior to releasing them on the market. The chief product manager gave an

example of how the use of narrative helped them discover the differences in security and sharing perception between parents and children. In brief, children are more interested in the sharing qualities of the service, while parents put more emphasis on security. This insight for the development of the family product helped the company to anticipate customer desires.

The methodology establishes a platform for testing the ideas. It provides a process for analysing and interpreting customer values in a way that can be traced back to numbers. Thus decision-making can have an idea of whether something is attractive to be pursued.

This kind of study ... is just like the platform of whether to be secure about [developing] something. If the numbers are not promising enough one can still make a test to try whether the [analysis] is true or not.

13.8.3 Influence of values on business transformation

The influence of the values research on the business can be categorized into three areas: customer orientation, strategic changes and cloud transformation. The impact of values research on customer orientation appears to be the most prominent of the three. It is followed by the influence of the research on the strategic process. Finally, the interviews acknowledged the influence of the work on the cloud transformation process. For the most part they commented on cloud transformation in relation to improved customer understanding. These effects are mostly indirect and difficult to attribute to one particular influence.

13.8.3.1 Customer orientation

The company's B2B business brings stable financial results but it lacks growth. The management recognises the need for a reconfiguration of business to find the next growth opportunity. The management sees that opportunity in the consumer market. Thus, the chief product manager points out that the values methodology "has helped us to paint the picture of the real world out there."

The transformation from the "legacy way of working" requires the vision of how to reach the consumers market. So, "...from that angle, understanding and spreading awareness of consumers is even more important." The chief product manager acknowledges the usefulness of the narratives in helping to achieve that.

13.8.3.2 Strategic changes

The marketing manager of consumer security seeks ways to improve the strategy process. The current B2B business delivers consistent financial results but it lacks growth. Thus the company is looking for a growth path. "Right now we are satisfying great needs, but can we identify others where we don't have a role, and what is it that we need to do in order to get there and become somebody? How can

we own this new area?" The company engages in a new programme that targets the rethinking of the business, while utilising the results of the current research.

The director of external R&D collaborations explains that the company makes progress when the leadership has a vision and people engage in it at all levels of the organisation. The challenge is to take different interest groups in one direction because, even if one "knew that a strategy was the right one, but people didn't care or didn't believe in it, then the things just don't move forward."

The product and product marketing manager of consumer security use four steps to describe how people accept new practices: listening, awareness, understanding, advocating. At the first stage people take time to listen to new practice but they do not try it themselves. In the awareness stage employees may refer to the new ways of doing things but will not be consistent in implementing them. When people understand the idea, they become followers and supporters of somebody else who is the forerunner. It is only at the final stage that people become advocates of the idea and "start selling your story forward". Here they generate their own ideas by combining them with their resources. This is when "people start doing things for you".

For the product marketing manager ViEx has not reached the final stage because it is not viral within the company. He sees a need in properly seizing the market in order for the stakeholders to see the financial opportunity of using values in their daily work. The lack of financial analysis of customer groups is a limitation and impedes its adoption rate. Financial measurements can increase management's buy-in. As a result, ViEx would substantiate the new ideas for allocation of budget and human resources. This would make the development of the new ideas quicker.

13.8.3.3 Cloud transformation

It appears that in the business transformation values research pointed the company in the right direction. Customer values helped the company to understand their market and how to effectively communicate with it. The effect of the ViEx method on the cloud transformation, however, is indirect. The research emphasised the importance of the understanding of customers and their values in on-line interaction context. Cloud is a vehicle for enhancing their experiences. Therefore, the company prioritises the creation of experience with the use of the Cloud technology. The Cloud is an enabler of the business model and a channel for delivering the services.

The interviewees acknowledged the influence of the study on the customer orientation. One of the insights was well summarised by the usability and user experience specialist. He said that "the cloud itself is not so meaningful... they are using lots of cloud services without understanding so much what is actually the Cloud part of their lives." This understanding helps the company to focus on the customers while continuing the move toward a better use of the Cloud in the experience creation.

To summarise, the following main results of customer values research were acknowledged by the management:

- The launching of new projects and product lines;
- Better understanding of customers and target customers specifically;
- Building awareness of cultural differences and distinguishing service in Europe and Latin America;
- Producing material to help employees “extract needs” from the narratives for the purposes of their work;
- Constructing customer journey and scenarios of product use;
- Demonstrating the understanding of B2B partners’ end customers in negotiations with operators;
- Marketing products and sharpening the communication strategy;
- Analysis of focus group participants and their comments.

It appears that, when customer values are explained and made less confusing, they encourage managers and developers to make decisions while relating to customers’ reasoning. The integration of values in the experience creation process encourages and guides the imagination, which is so much needed for the understanding of the customers and their possible future desires. The value dimensions and narratives are flexible descriptions of the customers and their desires approximate to the reality. They recognise that customers’ values are not cast in stone. People combine opposing values; their value priorities adapt to the situations and vary during their life time. The value dimensions and narrative descriptions attempt to capture that reality

13.8.4 Drawbacks, challenges and Improvements

The expressed improvements generally address two areas. The first is the improvement of the business decision-making processes. Second is the use of values and narratives in software development. The first area is reviewed in the current section. The second is the subject of future research and is analysed in the ‘Limitations and future research’ chapter.

The director of external R&D collaborations expresses confidence in the potential application of the ViEx method. He sees even wider use than at present, “starting from messaging, marketing, but all the way down to people developing the services”. He would like to see the orientation on values implemented for those who build the services. The idea is to direct their efforts after the decision is made on what “audiences” the company wants to focus on.

The usability and user experience specialist confirms the need to increase the utilisation of ViEx and narratives internally in the company. He suggests providing training to explain the possibilities of narratives. It takes repetitive training events

and time for people to appropriate the usage of values and narratives in their work. "We have ... explained something, but these are not immediately moved to people's minds, we need more training and advertising to get it to happen." In other words, may be one of the tools for guiding the internalisation of customer values by employees.

The chief product manager addresses the same issue from a different angle. He observes that there is a lack of unified process for using values and narratives.

There is no one uniform process our product managers are using. And there's no unified process our developers are using. So it varies. It depends quite a lot on the product manager.

It appears that a uniform process of use would help the company utilise the ViEx for the decision-making process.

Another improvement concerns the ease of decision making. The decision makers would like to seize the opportunities described by value dimensions and narratives. Disposable income or other financial figures behind the possible opportunities would enhance the decision-making process. The product marketing manager of consumer security particularly emphasises the importance of numbers for values. He is quoted below.

"When [the numbers are] missing nobody is going to listen, in the business part of the company. They will listen to your story ... but if it does not tell you why I should pursue that consumer, in terms of money, then they do not react. It's very simple. The story that this study has told, has not been translated into business language... I think, business language has not been used in communicating about this study, and that it is important to understand your audience, and to talk in the language that they understand best."

The marketing manager refers to the communications with the business people for funding decisions. Originally aimed at the decision for differentiation with experiences, the method focused on the decisions about the experiences. The inclusion of methods for seizing the experience opportunities would enhance the process of which experiences to pursue. The marketing manager explains that business people may understand the story but need a value number to buy into the story.

The inclusion of business statistics would help communication in a business environment. For now the method could be connected through demographic information in the survey with other studies. For example, the survey data on age, education and gender of the respondents can be linked to the studies conducted by other agencies. The linkage between the values survey and other studies can help produce an estimate of the disposable income, for example, of a customer who represent certain value dimensions. The downside of such a solution is that it requires additional resources. Thus, inclusion of business statistics in the ViEx method could benefit the method.

The need for light-weight communication about the results of the ViEx method was also indicated by the chief product manager. His idea was more about how rather than what results are communicated. The one page descriptions that were

developed together with the value-narratives were very helpful in disseminating the information. Nevertheless, he would like to further simplify the communication process even more, because the challenge of ensuring the effectiveness of communications remains. It is important that the information is not only easy to absorb but also that it reaches the right kind of audience. The audience should understand the narratives, “where they are coming from and what the potential opportunity would be”.

The chief product manager also recognises the need for customising how the information is presented to different audiences. While to some a statistical analysis adds credibility to the value dimension and narrative, to others it is an “overkill”. The technical audience is generally interested in the raw data, tools and methods. They appreciate the in-depth introduction and explanation of value analysis. At the same time for “more marketing-minded people, we probably could quite easily skip the in-between steps.”

It is likely that “the in-between steps” should be adapted to different audiences rather than skipped. The explanation of the background of the research adds credibility to the results. It also pre-empts the rejection of narratives on the assumption that they are a product of someone’s imagination. Thus, the improvement should deal with the customisation of communications for various listeners.

Finally, the usability and user experience specialist noted that value dimensions and narratives “are not so naturally used during the projects, everyday usage”. There may be several reasons for that. First the specialist remarked, “you need to remind people that we have this information” and invite them to use it. His concern was that, if people do not understand how to use the narratives and value dimensions, they would avoid asking for or using the information. He realised that this was still “the beginning of the road”, and much work still remained.

Another reason could be that the use of narratives may be difficult to accept if a person is only introduced to the narratives. They may appear to be a ‘fantasy’ if the ‘hard’ statistical research remains invisible. Thus, acceptance may be facilitated through the training on how to use values in everyday work and providing a concise summary of the background research.

14. Results and discussion

After using the results of the ViEx method, the product marketing manager remarked, “to me that is super important, because that’s how you can start showing people the facts that there is a need, there is a group of values that is out there. And you can ask them, do we play a role in satisfying those values or those needs?” In other words, this way of describing customers speaks to business people. They can trust the findings and rely on the statistical analysis.

ViEx builds trust in the data and results that make the whole company unite around experience development. Customer service is not a prerogative of only the marketing department. Other departments also contribute and need to take ownership of developing experiences in order to create a unique experience offering. ViEx helps align product and service development with marketing innovation. For example, it interprets marketing realities for software development tasks by making them understandable and possible to build upon. Thus, it helps to remove the boundary between different business units.

Principal component analysis provides an opportunity to generate value systems and prioritise values within those systems. It aggregates the abundant data and makes it more manageable without losing valuable pieces of information. Woodruff (1997) noted that “even for relatively uncomplicated products, a sample of customers may express preferences for hundreds of attributes and consequence value dimensions” (p. 144). Customer values can be expressed in various forms, but an organization can process only so much of the information effectively. The identification of value dimensions is a step that introduces a manageable number of experience characteristics, which can be meaningfully introduced in experience creation strategies.

Although narratives are the result of a creative process, they are not merely imagination or a gut-feeling. Narratives convey the message of values and experiences. This message is easily shared by people who may or may not have a similar world view. But even in the case of a different background or world view, people can empathise with a different perspective when it is summarised in the form of a narrative. The chief product manager gave an example of how, in a different project, the narratives, describing families with children, illustrated the important role of children’s friends in sharing an experience. The “team members who don’t have children of their own could then realise a bit better how important this [experience] is.”

Behind the simplicity of this example lies an important strategic implication; namely, the mental models of customers determine what are the important aspects of experience and, consequently, what actions are deemed central for differentiation strategy. It is difficult to judge how customers actually perceive the experience, but it seems that the organization's capability to learn about customer values approximates how customers experience their offerings.

By focusing on values, the company identifies opportunities and makes a conscious decision about whether or not to pursue them. The product marketing manager of consumer security said that the result of value analysis poses the question of whether the identified opportunities are interesting to the company. "And if the answer is no, it means, we are leaving that space for everybody else to take. So, it's a conscious choice for this company not to be in that business. And it is a business, because the numbers are showing that it exists... The value groupings are important. They show that there is an opportunity."

One of the goals for developing the ViEx methodology was to facilitate a decision-making process for differentiating by experience. It appears that on the business level the methodology describes the customers and their world in a way that demands a response on the management's side. Thus, it facilitates investigation of new experiences rather than a slavish application of existing assumptions about the customers. Values, dimensions and narratives can be combined in various ways in order to explore latent or assumed practices. It is also possible to investigate values controversies and create experiences by bringing together opposing preferences in order to identify possibilities for creating new experiences or modifying existing ones.

The chief product manager puts it the following way:

We need to revise our understanding of who the target customers, consumers, users, people actually are. In that picture, we need also to be looking more actively outside the broadband operator scene. So I think what we have now since the exercise two years ago, it's a good baseline. So we can use that as one source to a revised understanding of our target customers.

Differentiation strategy is based on discovering new ways to view customers and their desires, but competitive advantage comes from an ability to lead customers to experiences they do not know about but would want to have once they knew about them. It is possible that research into the values, the desire to realise them, and actual experiences can give the company insight into the anticipation element of differentiation strategies. While anticipation is a future research topic, the current narratives reflect the dynamic conditions of the ICT market. Even without additional research, the value dimensions and value narratives can be revised in order to highlight other aspects of customer values.

The default principle of customer behaviour analysis is to view individuals as depersonalized typical segments that compose the "market". Managers and developers deal with the general character of customers who behave in understandable ways and produce understandable outcomes. The actions of ideal typologies of customers – rather than of actual concrete ones – have clear motivation.

This approach is helpful in standardizing experiences that need to lead to the same results from one individual to the next. The provision of experience offerings, however, requires a dynamic image of the customer, such as could be maintained with the understanding of values in experience.

While ViEx supports the aggregation of customers into groups with common motivations, value analysis exposes the limitations of this principle, showing that customer experience cannot (or cannot always) be reduced to situations where many people behave in the same way with clear, understandable goals. The methodology opens up the possibility of investigating individual idiosyncrasies and unique experiences.

It seems that in the company the understanding of customers on the basis of their values provides a platform for experimentation. On the one hand, the values are stable over time. Their change is evolutionary. On the other hand, the demand for change, experimentation and innovation is inherent to the ICT industry. The change and consistency are hardly contradictory in this case. On the other hand, stability seems to provide the platform necessary for taking the risks of experimentation.

14.1 Theoretical contribution

The research has explored the creation of an experience differentiation strategy from the perspective of customer values in the context of the software industry. By constructing the values-in-experience differentiation concept, the study has concentrated on developing a new method for integrating customers' axiological values into a decision-making process. In so doing, the research offers four theoretical contributions.

First, this research demonstrates that human values can be part of the strategy process. Until now businesses have primarily focused on the benefits that an offering delivers to customers. They have discussed customer values perception and the concept of experience in terms of a trade-off between outcomes and sacrifices. Such an approach was largely influenced by the development of marketing as a discipline of applied economics. However, practically the utilitarian perspective and its modifications fail to account for the complexity of human values and valuation. The ViEx concept remedies this caveat by suggesting a model for integrating customer values into the experience creation strategy.

The ViEx differentiation concept suggests that companies differentiate by understanding values and desired experience prior to product and service design. This research reveals that axiological values can become a part of the decision-making process. In fact, the research suggests that values create both stable and flexible grounds for differentiation, which is important for the differentiation strategy in contemporary market conditions (McGrath, 2013). It is stable because the results of the research can be reused for other experience initiatives. It is flexible because the value dimensions and narratives can be re-thought for new strategic directions.

The second theoretical contribution is the description of experience creation from a process perspective. This work presents an empirically grounded ViEx framework for strategic decision making that covers the following aspects: customer values, desired experiences, expected abilities, opportunities to have an experience, minimisation of regrets and an observer-spectator perspective. Several researchers (Holbrook and Hirschman, 1982; Fazio, 1986; Ajzen, 1991; Henning *et al.*, 2012; Perugini and Bagozzi, 2001; Westaby, 2005) have concentrated on parts of the values in business decisions, but until this study, a dynamic framework for experience differentiation from a customer values perspective had remained undeveloped.

The third contribution to the experience creation literature is content-related. The ViEx framework offers theoretical and practical reconciliation of the customer and company perspectives on experience. Many practitioners and researchers have noted that customers may lack the capacity to accurately formulate their future desires or predict experiences that they will value (McGrath, 2013; Ulwick, 2002; Woodruff and Gardial, 1996). Their choices can be irrational (e.g. Andrade and Ariely, 2009; Ariely *et al.*, 2006; Tversky and Kahneman, 1974). As a result, they cannot optimise their behaviour accordingly (Cherrier, 2006; Cherrier and Murray, 2002). Woodruffe-Burton *et al.* (2002) and McCracken (1986) call for the need to understand the complex elements of customer experience both in the context of an immediate situation and of the broad socio-cultural environment. The observer-spectator perspective of ViEx accounts for the complex understanding of values and desires from the viewpoints of both companies and customers. However, due to the focus on the company perspective and the analysis of managerial benefits, customer feedback was not collected as a part of the research. This limitation needs to be addressed in future studies.

Finally, the research contributes to the strategy literature by offering a framework for thinking through experiences where irrationality provides a better explanation than rational reasoning. Prior research mainly focused on explainable and rational behaviour. The observer-spectator position of a decision maker, using the ViEx framework accommodates the contradictory interplay of rational and irrational reasoning.

14.2 Practical enhancements to the ViEx framework

The next steps for the improvement of the ViEx model should focus on making the framework more precise and simplifying its implementation.

The precision can be advanced by including a phenomenological method for data collection. The phenomenological approach may improve the quality of the information gathered about values, particularly in acquiring the customers' perspective. Customers' interpretations of values and their justifications of ratings are likely to enhance the understanding of the values in context. The respondents' comments, combined with the descriptions of values found in the literature, may lead to a more precise analysis of dimensions and composition of narratives. The

goal of such improvement is the development of a differentiation strategy that is more incisive in the creation of desired experiences.

The effectiveness of the ViEx model in practice depends on whether it is perceived as a robust concept. It is critical that the model is accepted across organisational levels because of the ViEx central idea – values guide experience creation, which in turn directs product and service development. Its simplicity of use can greatly aid its acceptance. One way to simplify ViEx implementation is to prioritize the dimensions for experience development. For example, out of the six dimensions that define a strategy (Figure 32) the company may choose to focus on four. This way, a two-by-two matrix can be created to evaluate all the offerings and activities of the company. As a result, organisational management will be able to quickly assess the company's positioning by plotting its initiatives on the matrix. Despite the criticism of the two-by-two matrices, they remain a practical tool for managerial decision-making.

The company gathered feedback from the customers on final products after the products were released, and the customers had their first experiences. The feedback, however, targeted technical functionality and did not focus on values. As discussed above, the ViEx model may be too complex for robust benchmarking of customer gratifications or regrets against their values. In this case, a simplification of the framework may benefit the companies' processes.

On the other hand, there may be instances when the experiences are created for the customers on the basis of understanding customer values, desired experiences, opportunities and abilities. In this case, the ViEx framework provides the spectator-as-actor perspective for the decision-maker to act on his or her knowledge and expertise. Such practice would modify the ViEx framework to include the "no-regret" element in the inner processes of the company. That is, the company would take the spectator-as-actor position to make a judgement about experiences that will generate gratitude and avoid regrets.

Originally, we thought that the "no-regret" element was part of gathering the feedback from the customers about their experiences. It seems that this needs not be the case. Rather, a company can combine the knowledge of values with the information collected during the earlier phases so as to create gratifying experiences. Thus, the ViEx model would take on a different form. See Figure 36.

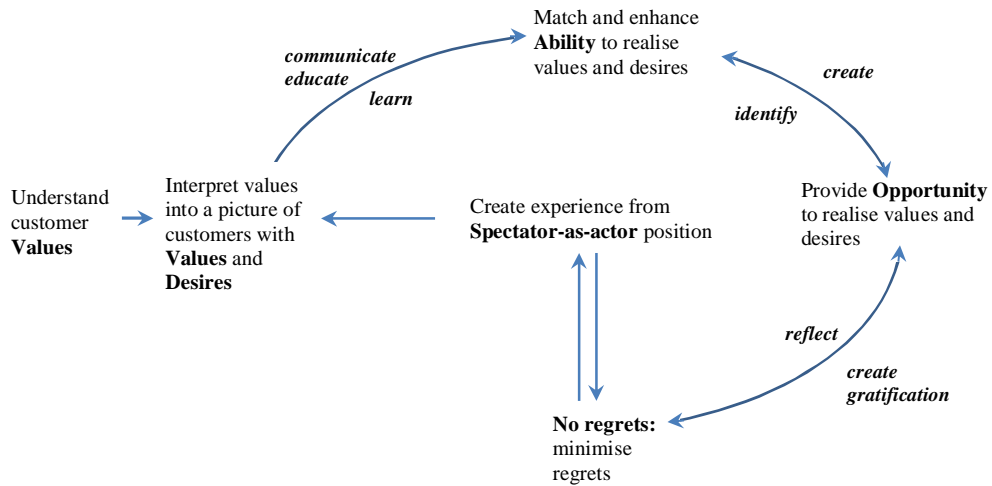


Figure 36. Modified ViEx framework.

The new version of the ViEx framework reflects a position discussed in section 10.3. That is, a differentiating experience is created when a company contributes to the offering something that the customer could not have foreseen or expressed. In this rendering of the framework, spectator-as-actor is more of an element of the decision process, rather than a mere mind-set or perspective.

The modified ViEx framework shows that the ViEx process may help managers evaluate customers' future experiences from the standpoint of an observer and make judgements about experience by relying on knowledge of values.

Theoretically, values, value dimensions and narratives were intended to guide the creation of experiences. During the workshops, focus groups and interviews, the narratives were used to explain values dimensions and values structures. They helped build a connection between values and market. They showed that people use all their values for experience valuation. In contrast to the common practice of market segmentation, narratives portrayed customers with complex value structures and contradicting value preferences.

Although narratives helped to integrate values into the business processes and were useful in initiating the decision-making process, they seemed to be quite abstract for making decisions about experience itself. Once the general direction was selected, the process of experience creation emphasised particular value dimensions or values, rather than a narrative. It appears that narratives may be useful for introducing values into the decision-making process because they get the audience to buy into the concept of values-in-experience creation and acknowledge the role of values in human experience. They seemed to recede into the background and were replaced by values and value dimensions in the flow of the decision process. This finding points to an area that needs improvement.

Despite the value structures being quite different, narrative descriptions may be perceived as resembling one another because they are based on similar constructs. This creates difficulty for differentiating among some descriptions. As a result, the participants rely on the structure of values to distinguish among the desired experiences. Furthermore, the narratives may be difficult to accept if a person is introduced to the narratives or value dimensions only. They may be rejected as a 'fruit of the imagination' because the background value research remains invisible. Possibly, the introduction of 'hard' statistical data would make the narratives appear to be more convincing. Thus, we can conclude that the process for the creation of narratives needs further attention for practical purposes.

14.3 Validity and reliability of the research

The goal of the research was to identify methods for building differentiation strategy in response to the changing conditions of the software industry. We focused on the strategy of creating experiences based on customers' axiological value principles. The research contributes to the theoretical understanding of differentiation by developing the ViEx conceptual model and the ViEx decision-making framework. The ViEx conceptual model re-thinks the key elements of differentiation historically developed for marketing goods and services. It also prioritises the elements for an experience-focused differentiation. The ViEx framework is an interpretation of the model for a dynamic decision-making process regarding experience creation.

The empirical study focused on the integration of values into managerial decision processes. The ViEx framework was developed theoretically based on the previously empirically attested behavioural frameworks. The main goal of the empirical study in this research was to validate the integration of human values into a decision framework. Thus the validity of the research can be demonstrated if the empirical findings and analysis indeed reflect the phenomenon studied (Yin, 2009).

After surveying and analysing customer values and constructing value narratives, the empirical research focused on the integration of customer values into the case company's decision processes. In the paragraphs that follow the validity and reliability of each part of the empirical research is evaluated.

The function of the values survey was to collect data about customers' value priorities in the context of on-line interaction. The survey and its preparation for analysis was conducted with due diligence. The attested Schwartz values survey (Schwartz, 1992) and its modifications (e.g. Mills *et al.*, 2009) were used as the basis for the on-line interaction value survey.

The conduct of the survey was outsourced to a professional organisation. This complicated the analysis of the total and active response rates. Since only people with a broadband connection were part of the survey, the data on unreachable or ineligible people who did not meet the survey requirements was unavailable to the researcher. Therefore, the active response rate and actual sample size were not analysed. The researchers operated with the knowledge that the initial inquiry included 3,005 respondents in six counties. The final sample consisted of 2,774 respondents.

The respondents who did not make a sufficient effort to distinguish among their value priorities were excluded from further analysis.

Each country's sample size was representative of the country's population. Assuming random sampling and normal distribution of the response for a confidence level of 95 percent, the error margin ranged from 4.47 percent to 4.62 percent (Table 6). Statistical generalizability of findings across gender and age groups requires additional analysis. Furthermore, the degree to which value dimensions or narratives may statistically apply to the countries outside this research remains to be demonstrated.

According to Yin (2009), theoretical orientation and previous research can underpin and increase the content and internal validity of the study. The values survey – as a measurement tool – was built on the previous findings about the universality and stability of human values (e.g. Schwartz, 1994, 1992; Schwartz and Bilsky, 1987; Rokeach, 1979a). That is, people across different cultures exhibit remarkable similarities in values priorities in general. Rokeach (1979a) and Schwartz (1994) argued that the number of human values is limited and can therefore be examined in a survey. Furthermore, the research on human values was previously extended to construction management (Mills *et al.*, 2009), the adaption of new technology (Isomursu *et al.*, 2011), consumer products (Doran, 2009) and other areas Kropp *et al.* (2005). Previous research, however, mainly focused on reporting respondents' value priorities and value structure in a given context. We placed values in the on-line context in order to use them in managerial decisions – something that is lacking in other studies.

Once analysed, however, some values and dimensions showed a lower score than one would expect. There may be several reasons for this. On the one hand, it is possible that respondents could not relate a given value to the on-line interaction experience. Thus, they put a low mark on the value. On the other hand, the dimension names describe a group of values identified with the principle component analysis. They are artificial constructs created by the researchers. A different dimension label might better communicate the meaning of the dimension.

The internal validity of analysis can be ensured through reliance on the theoretical propositions (Yin, 2009). Our analysis was guided by the previous analysis of values and the propositions made by Schwartz (1992), Kahle (1996), Rokeach and others. We followed the strategy of first constructing a cluster of values and then describing them. Quantitative analysis was used together with the qualitative descriptions of values presented in the literature. Furthermore, interim summaries (Saunders *et al.*, 2009) were used to evaluate the direction of analysis. Different presentations, papers and workshops (Appendix K) provided valuable feedback and confirmed the interpretation of and inferences on values in on-line interaction experience to be correct.

The main goal of the ViEx empirical study was to probe for ways to practically integrate values into a decision-making process. Subsequently, the ViEx method of analysing values and developing narratives showed that it is possible to use customer values for decisions about experience creation. However, because

validation of dimension constructs against existing data is difficult, other (e.g. phenomenological) methods could be used (e.g. Cooper and Schindler, 2008).

Yin (2009) points out that "... a major strength of case study is the opportunity to use many different sources of evidence". Data triangulation – employing multiple sources of evidence to measure the same phenomenon – can address the potential problems of internal validity (Yin, 2009). The implementation of the ViEx method and its effects was analysed in a marketing workshop, two focus groups and follow-up interviews.

The marketing workshop provided the feedback on how the values can be used to enhance the organisation's marketing function. The results of the workshop were discussed and analysed by three researchers, a project manager and a group of representatives from the case company. This led to the subsequent decision to continue implementation of the method.

The use of values in focus groups led to the observations of how values allow the company to scope opportunities, assessing abilities and stimulate gratitude in customer experience. The analyses of the focus groups were conducted by the researchers together with two company representatives. The report was written in Finnish and made available for the management's review. At the meetings following the focus groups, the participants discussed how the values method could be implemented throughout the organisational processes.

The interviews conducted at the end of the research dealt with the results of the ViEx implementation. The interviews gathered management's feedback with regard to initial expectation and effects of ViEx. From the interviews we learnt that the understanding of customer values assists in scoping opportunities, abilities and the avoidance of regrets. However, a more thorough validation of the elements of the ViEx framework is warranted.

The development of customer experience from the observer position required analysis of that process from the management's viewpoint. The chosen interviewees have been involved in the development and implementation of the ViEx concept and, thus, have provided rich and multifaceted data. This group included managers, experts and people responsible for business development. These were the people who regularly dealt with customer-related information.

The interview analysis was performed iteratively with the use of the ViEx framework. A number of citations were employed to demonstrate the process and support the conclusions. The construct validity can also be increased by allowing the informants to review the transcripts and comment on the analysis. Thus, the interviewees were given an opportunity to provide feedback on the interview analysis in particular and the research process in general. Each interviewee received both the interview transcript and the thesis draft. Two interviewees responded that they read through the transcripts and did not have any comments. One of the interviewees provided some feedback on how the ViEx results are being developed further. This confirmed that the research has practical business value. Unfortunately, none of the interviewees commented on the content of the monograph.

In addition to making the manuscript and interview transcripts available for the review, intermediate presentations and paper reports disclosed the results at

various workshops and meetings. A number of presentations at the researchers' conferences, Cloud software programme reviews, and conference papers opened the research to the scrutiny of other researchers in the field. Appendix K lists some of the main presentations, reports and papers. The resulting discussions were extremely beneficial in shaping the analysis and inspecting the implications.

To summarise, the current study shows that values can be part of the initial stages of experience creation. Scoping of opportunities, abilities and regrets requires a research that closely follows the implementation of values into organisational levels beyond the managerial one.

Despite the obvious disadvantages of a single case study – such as lack of replication of the results in other cases and vulnerability to the researchers' bias (Hamel, 1993) – there are important benefits in this method. Flyvbjerg (2006) discussed the generalizability of the single-case study, showing that such research advances human knowledge. "The most advanced form of understanding is achieved when researchers place themselves within the context being studied" (Flyvbjerg, 2006, p. 236). A single-case study is an avenue for the development of expert knowledge, which shows how a case exemplifies or negates a general principle. Flyvbjerg (2006) asserts that "one can often generalise on the basis of a single case, and the case study may be central to scientific development via generalisation as supplement or alternative to other methods" (p. 228).

We believe that the results and implications of the current research are valid for many other cases because the case company is a likely representative of other software companies facing the need to respond to the changing technological and market conditions. The company software development processes are likely to make a paradigmatic case. That is, they "highlight more general characteristics" (Flyvbjerg, 2006, p. 232) of other software companies. We expect that more companies are facing the challenges of Cloud technology, the need to differentiate their offerings and the customers' desire for meaningful experiences. We also anticipate that some companies, like the case example, will aim at expanding their range of offerings into the areas of immersion and active participation demonstrated in Figure 6. Therefore, it is plausible to expect that the decision makers in other companies face similar strategic choices. That being the case, the ViEx model and implementation of customer values may provide a fresh assessment of the business situation and assist in developing experiences for their customers.

The research uses a single case to attest the decision framework. While case studies allow collecting rich and in-depth data, more cases of ViEx implementation would demonstrate whether the results are generalizable to a wider range of companies that focus on customer experience as their main strategy. That said, the research results could be generalised analytically (Yin, 2010) for two reasons. First, the case study rests on theoretical constructs of human values and valuation which have been generalised across various social contexts and institutions. The current research applies the previous findings to the on-line interaction context, and not only observes the actual events but also makes conceptual claims. The conceptual claims are made on the basis of analogy. This leads to the second reason for analytical generalisation; namely, in the business situation analogous to

the case company the results of the research may apply. Therefore, despite the single-case study, broader implications of the findings are expected to some extent.

14.4 Limitations

This research represents an initial step in moving away from goods- and needs-based experience creation to an approach that recognizes the complexity of experience and the respectful complicated process of human valuation that is entailed by the creation of experience offerings. However, further research is necessary in order to establish the applicability and generalizability of the values approach to varying business situations.

The research relies on self-reported data in a survey and interviews. Both sources of data have to be taken at face value and thus, their independent verification is limited. In particular, the values survey limits each value question to a brief description and, therefore, is vulnerable to specific interpretations in different cultures. Furthermore, values as concepts of desirable end-states tend to be rated highly by the respondents. This increases the correlation among the surveyed values and affects what values gravitate to each other in the principle component analysis. An important benefit of the survey is that it eliminates the need for a laborious conceptualization stage, which requires philosophical and sociological knowledge of values. The ViEx method puts the process of value integration in the hands of marketing managers and software specialists.

The interviews provided visibility of how the elements of the decision framework were operationalized within the case company. The researchers lacked full access to the organisational processes after the completion of the ViEx method. A detailed analysis and observations of marketing activities and decision-making processes would give better transparency of the values use within the company.

The interviews were conducted two years after the first results of ViEx were introduced in the case company. This approach supported the validity of the research because it recorded its lasting effects. On the other hand, interviews as a source of data have potential limitations. Interviews rely on the memory of the interviewees, who may remember the most dramatic events but may not recall all events that occurred at some point in the past. Also, the importance of reported outcomes was not verified by other sources. It was assumed that, if the events were reported two years after the first marketing workshop on the results, then they had a significant impact on the company.

Although values and narrative descriptions are quite flexible, they paint a simplified picture of customers. Customers' experience is broad and people realise their values in various ways. This limitation, however, is mitigated by the fact the narratives can have varying interpretations for making decisions about the creation of experiences.

14.5 Future research

Differentiation strategy is based on discovering new ways of viewing customers and their desires, but competitive advantage also comes from an ability to lead customers to experiences they do not know about, but would want to have once they know about them. In this research we alluded to the leading of customers and educating them about new opportunities. The case company seems to successfully use value dimension and narratives in creating new offerings and re-thinking their strategy. Further investigation of how this can be operationalized as a business practice is part of future research. In particular, the research needs to investigate how values can support the anticipation element of differentiation strategies. The research would need to establish a link between the values, the desire to realise them and actual experiences. The need for further operationalizing the use of values in business processes was confirmed by the chief product manager:

There is no one uniform process our product managers are using. And there's no unified process our developers are using. So it varies. It depends quite a lot on the product manager. What kind of [a person the product manager is]? Is he or she a more consumer and marketing oriented person or is the person more a technical person?

The future integration of the ViEx method needs to focus more on designing for a combination of value-dimensions. Customers comfortably combine conflicting values as they experience services and products. Managers and developers need to have a common vision of how the values can guide their design process. In the integration of values one needs to answer the questions, "What is a common theme that needs to be communicated throughout the company and how does it need to be customised for the various organisational functional areas and interest groups?"

A related challenge for future research understands how existing value dimensions apply across national borders. As a company expands operations into different countries, it will need to know with what probability the existing value analysis will be true in other nations. Such understanding will help companies to move into new geographic areas prior to or without conducting a values survey. In addition to geographic expansion, the following research should be broader method-wise. That is, the research should include people who do not have a broadband connection (a current survey criteria) as well as children.

Future research should consider alternative methods for capturing value scores. For example, the phenomenological approach provides a flexible methodology for studying subjective experiences and values (Yeung, 2004). Descriptive approaches of phenomenological methods aim at extracting shared meanings of personal experiences (Fulmer and Frijters, 2009). Yeung (2004) used the phenomenological method in studying individual experiences and meanings of voluntary work, and organised the results in an eight-dimension model which can be used for profiling volunteers. Similarly, values research may explore phenomenological methods to improve the validity and practical application of the ViEx method.

Another future goal is to understand how values support the customer journey (Patricio *et al.*, 2011; Zomerdijk and Voss, 2010). This need was expressed by the director of external R&D collaborations. The case company adopted the customer journey tools for thinking through user experience. The customer journey is a way to describe the journey of a user by mapping the touch points that a person comes into contact with while interacting with a service. Understanding how the ViEx method can support the customer journey thinking may ease the integration of the method into the process of other companies that also use customer journey concepts in the design of their services.

Finally, future research needs to understand how organisational culture influences the creation of experiences. When the desired values are not intentionally set forth in the development, designers will work with assumptions. In this case, it is likely that an organisation will offer experiences that will reflect a combination of the creators' individual values, values of other people who have significant influence over system development and value categories of organizational, cultural and societal context. Thus, the implicit and explicit assumptions about values will influence customer experiences and the business vector, because the results will implicate organisational values.

Additional details and methods of operationalizing the framework and its core components are needed. The components of the ViEx decision framework, (Figure 28, Section 12.7) need to be examined in terms of how they are connected and integrated into experience creation.

Also, the ideas that differentiation by experience (1) investigates and supports customer values; and integrates values into (2) strategic decision-making and (3) organisational processes (sections 8.2.3 – 8.3.1 and 13.1) will require new measurement instruments that need testing and refining before cross-sector generalizations are possible. The gauging of the effectiveness in providing experiences for customers will need to capture how well an experience supports customer values, guides strategic decision-making and facilitates business processes with regard to the usage of customer values in daily activities.

When an organisation focuses on experiences, it provides an opportunity for both employees and customers to engage. Customers cease to be the sole recipients and consumers of an experience offering. Both employees and customers are part of it. Likewise, the company shares the production and ownership of experiences with customers, and they form an entity in which the experience creation takes place. In this setting, organisational and customer values mingle together. Research into how organisational values affect customer experiences can bring clarity to systematic creation of experiences that appeal to customer values and differentiate the company's offerings.

15. Conclusions and recommendations

Customer experience as the main focus of business strategy has been gaining increasing attention in the ICT industry. However, there has not been a commensurate level of scholarly research on this topic. In the thesis we provided a portrayal of the customer experience differentiation concept, which illustrates the necessary shift from product and service differentiation to experience differentiation. We proposed a decision-making framework for thinking through the creation of experience offerings. In both models we argued that experience differentiation is best pursued through the understanding of values. Subsequently, we used a case company to introduce values into the management processes, which dealt with experience creation. This was achieved with the Values-in-experience (ViEx) method.

ViEx included the study of customer values in context, as well as the identification of values structure, which resulted in the description of six value dimensions. The commonalities between value structures were also described in narrative formats. Both value dimensions and value narratives were introduced into the experience creation processes. We explored the results of ViEx use, its advantages and disadvantages, highlighting the desired improvements. We also outlined the need for further research, pointing out the strategic issues from the perspective of experience differentiation strategy.

We argued that experience differentiation is not neutral with regard to values. It carries a propensity to support or discourage the realisation of particular human values. As customers re-live the experiences they desire they absorb the values, life-styles and practices implicated in them. A differentiation strategy on the basis of experience from the very beginning considers what values will be integrated into the offered experiences. By doing that, it breaks away from the traditional approach of thinking about experiences at the end of development process.

We proposed a ViEx decision-making framework for incorporating values into experience creation strategy. The framework helps attend to customer desires, while thinking through experiences that customers may not have thought about, but are likely to appreciate. The framework prioritizes experience creation while considering abilities, developing opportunities and minimising customer regrets.

The domain of differentiation strategy with experience and, particularly, the use of human values in the decision-making process offer a rich agenda for future research. Research-based exploration of these themes will add significantly to the knowledge about customer experience and offer practical insights for developing and implementing effective experience differentiation strategies.

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Appendix A: Values priorities analysed by the off-line interests

On average people with various off-line interests have similar value priorities for judging online experience. The respondents were categorised according to their preferred off-line activities and their value systems plotted on the same chart. The result showed surprisingly similar value systems. While the differences of individual values in different sample may be statistically significant, the value structures that are created by value priorities in relationship to each other within a given sample are very similar.

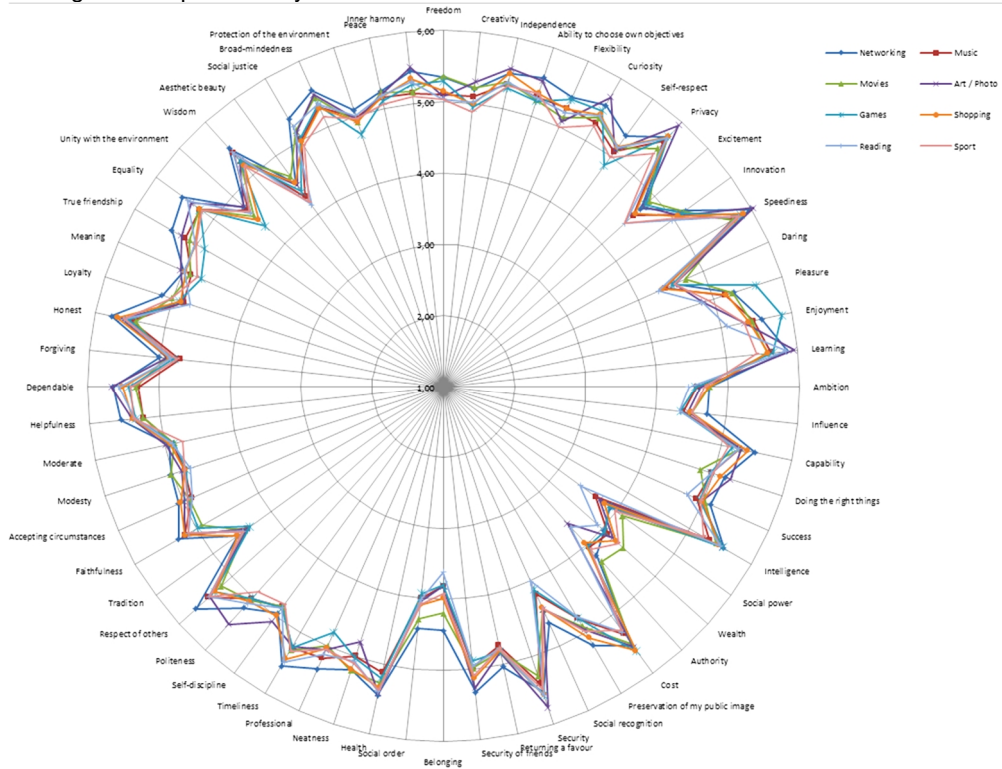


Figure A1. Values and value types by preferred off-line experience.

Preferred experience can serve as an indicator of a person's interests, character, priorities and beliefs. The fact that different kinds of people evaluate their online experience with a similar set of value priorities suggests that it is not only feasible but also recommended that the case company creates a unifying Service Enabler Platform for its customers. Also it could be inferred that investment in customisation may not need to be very extensive.

Customers differentiate products and services based on both objective value priorities and subjective experience that evolve during the product usage or service consumption. A company, however, may appeal to values such as self-direction, power of mind and product performance in order to steer customers in the direction of a desired experience. By doing this a company will develop a crucial ability to design for experience.

In the marital status categories, value systems of the widowed differ quite much from other groups' systems. It is likely that unique personal experiences affect value priorities of the widowed. However the number of responses in this group is not representative enough to make any conclusive inferences.

Appendix B: Principal component analysis. Extracting value dimensions

Table B1. Rotated component matrix.

Schwartz classification of values	Values	Component					
		1	2	3	4	5	6
Achievement	Intelligence	.617			.499		
Achievement	Capability	.533	.313		.507		
Benevolence	Honest	.752					
Benevolence	Dependable	.746					
Benevolence	Helpfulness	.714					
Benevolence	True friendship	.620	.307				
Benevolence	Forgiving	.616	.312				
Benevolence	Loyalty	.550	.407				.315
Conformity	Respect of others	.721					
Conformity	Professional	.571	.376		.376		
Hedonism	Enjoyment	.495			.347	.486	
Security	Health (no physical or mental impact)	.646					
Security	Neatness	.638	.407				
Security	Security of friends	.521		.489			
Self-direction	Privacy (intrusion free)	.706					
Self-direction	Ability to choose own objectives	.598			.419		
Self-direction	Independence	.546			.426		
Tradition	Faithfulness	.644	.332				
Tradition	Moderate	.569	.328	.361			
Tradition	Accepting circumstances	.566	.348		.348		
Tradition	Modesty	.539	.348				.386
Universalism	Equality (equal opportunities)	.714					
Universalism	Inner harmony	.707					
Universalism	Social justice	.627					.408
Universalism	Broad-mindedness	.613			.350		
Achievement	Ambition	.375	.576				
Achievement	Influence	.311	.562		.303		.317
Achievement	Success	.479	.535		.354		
Power	Social power		.784				

Appendix B: Principal component analysis. Extracting value dimensions

Schwartz classification of values	Values	Component					
		1	2	3	4	5	6
Power	Authority		.732				
Power	Social recognition		.598	.312			
Power	Preservation of my public image	.515	.567				
Power	Wealth		.545	.331			
Stimulation	Daring	.304	.499		.368		.309
Universalism	Aesthetic beauty	.314	.455				
Benevolence	Meaning	.353		.638	.337		
Conformity	Self-discipline	.411	.306	.620			
Conformity	Politeness	.395		.585		.327	
Security	Security	.457		.571			
Security	Returning a favour			.432			.344
Self-direction	Self-respect	.408		.473			
Tradition	Tradition	.311	.382	.603			
Universalism	Peace	.478		.543			.319
Hedonism	Learning	.514			.539		
Self-direction	Curiosity	.342			.629		
Self-direction	Creativity			.370	.494	.336	
Stimulation	Innovation				.631		
Universalism	Wisdom	.461		.303	.551		
Hedonism	Pleasure					.749	
Stimulation	Excitement			.316		.646	
Self-direction	Freedom (freedom of expression)					.642	
Security	Belonging (others caring about you)		.414			.604	
Security	Social order		.404	.342		.528	
Universalism	Unity with the environment	.368					.605
Universalism	Protection of the environment	.541					.561

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 28 iterations

Table B2. KMO and Bartlett's test.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.985
Bartlett's Test of Sphericity	Approx. Chi-Square	78316.052
	df	1485
	Sig.	.000
	Approx. Chi-Square	78316.052

Appendix C: Value dimensions and their narrations

Value dimension	Narration
Teamworker	The team workers work best with others. They enjoy belonging to a group but not necessarily leading it. Their values represent a desire for solidarity and shared experiences. They enjoy exploring and being creative with others. The Team workers are supportive of the group and can easily work in a heterogeneous group (i.e. with different people than themselves). Their sense of competence is attained through the commitment to norms and promotion of group's welfare. They value honesty and trust. They are likely to enjoy volunteer work.
Careerist	The careerists aim at obtaining control over people and resources. They value social power, authority, social recognition and ambition. They also think highly of preserving their public image and differentiate people based on their social status. The careerists are achievers on their way up at the career and status ladder. They wear all the right brands, and are energetic, daring and successful. They establish their self-concept through influence, wealth and success.
Protector	The protectors know their roots; they respect themselves but not at the expense of other people. They are committed to traditions and social norms, and understand the importance of polite manners and generally accepted customs. They are motivated by a desire for smooth relationships and want to maintain a sense of solidarity and stability of social interactions. The protectors are loyal, and can be conservative, attempting to preserve the existing order and maintain the harmony and stability of their life and surroundings. They value meaning, self-discipline and tradition as well as politeness, security and peace.
Seeker	The seekers search for comprehension and wisdom. They enjoy novel viewpoints and their desire to self-direction is reflected by being creative and exploring new areas. They also value maturity, understanding and appreciation of others as well as innovation and curiosity. The seekers balance between motivation for mastery and openness to change. Learning may act as a motivational goal for them.
Clique	The cliques value their autonomy and independence and rate their freedom high. However, they want to belong to a group of similar kind of people and, unlike the Team workers, thus have a need to choose their group carefully. The interaction in it needs to be enjoyable and should allow for independent thought and action. The cliques have a desire for stimulating and hedonic experiences while seeing the importance of safety and stability. They are concerned about both personal and group security. They appreciate pleasure and excitement. Stimulation and challenge may act as a motivational goal for them
Green	The greens are eco-friendly and seek unity with the environment. They have broad environmental awareness and they want to protect the nature. The greens realise that a failure to protect the environment may threaten the usual order of life and eventually may lead to the destruction of the nature.

Appendix D: Identification of representatives of value dimensions

The example used data from Brazil to explain the process for identification of representatives for the value dimensions.

1. The 33,3 and 66,6 percentile values were used to partition the total dimensions data into three groups. So, 33,3 percent of all respondents were below the first percentile value, 33,3 percent were between 33,3 and 66,6 and the final group was above the 66,6 percentile value.
2. We used the numerical value of 33,3 and 66,6 percentile values to analyse each dimension individually. The cut points that corresponded to 33,3 and 66,6 percentiles were 5,45 and 6,24 respectively.
3. We determined the percentage of respondents who had a score of 6.24 or above. Such people were considered to represent the given dimension.

Figure 37 shows the process of identification graphically.

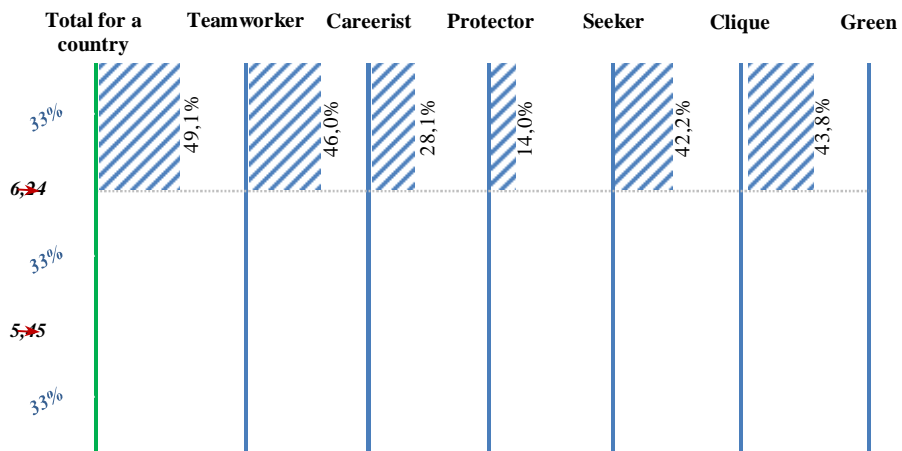


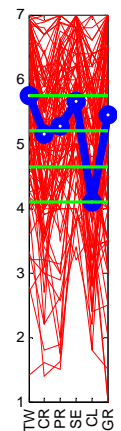
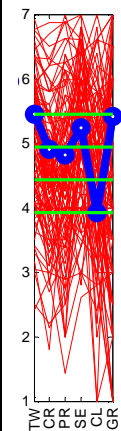
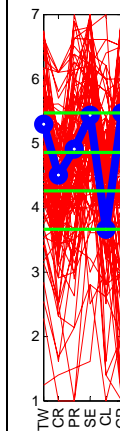
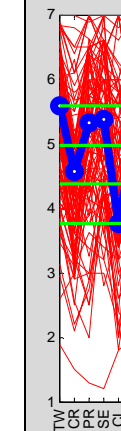
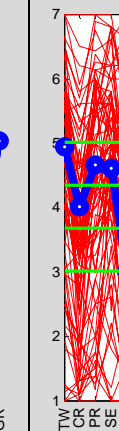
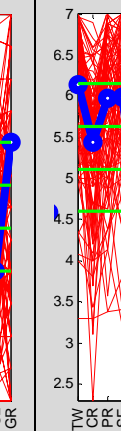
Figure D1. Identification of representatives for value dimensions.

Appendix E: Pattern types similarities

Type: Seeker

	Country			
	<i>Italy</i>	<i>Sweden</i>	<i>France</i>	<i>Finland</i>
Pattern ID	It 1	Sw 1	Fr 1	Fn 1
Sample Size (n)	99	73	75	122
High	Seeker Teamworker	Seeker	Seeker	Seeker
Medium	Cliquy Protector Careerist	Teamworker, Cliquy	Teamworker	Protector Teamworker
Low	Green	Protector Careerist Green	Cliquy Careerist Green, Protector	Cliquy Careerist, Green

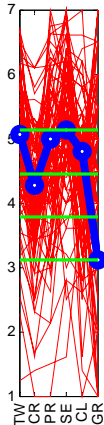
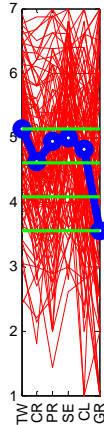
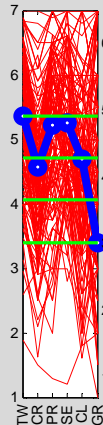
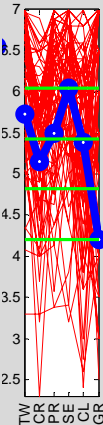
Type: Teamworker, Green, not Cliques

	Country					
	<i>Italy</i>	<i>France</i>	<i>Sweden</i>	<i>Germany</i>	<i>Finland</i>	<i>Brazil</i>
Pattern ID	It 3	Fr 2	Sw 2	Gr 3	Fn 3	Br 2
Sample Size (n)	110	112	109	109	82	103
High	Teamworker Seeker Green Protector	Teamworker Green Seeker	Green, Seeker Teamworker Protector	Teamworker Seeker Protector Green	Green Teamworker Protector Seeker	Teamworker Green Seeker Protector
Medium	Careerist	Careerist, Protector	Careerist	Careerist	Careerist	Careerist
Low	Cliquey	Cliquey	Cliquey	Cliquey	Cliquey	Cliquey
						

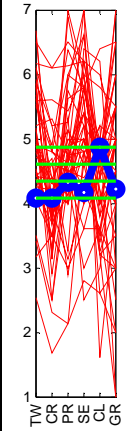
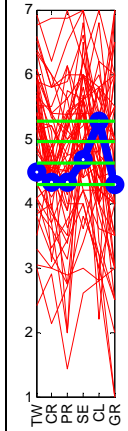
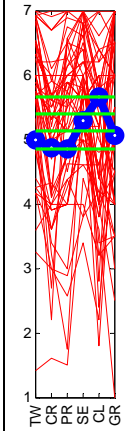
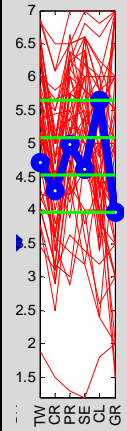
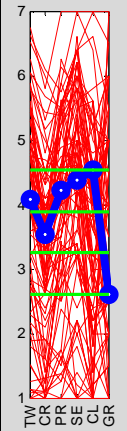
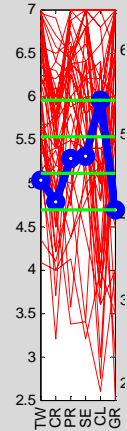
Type: Teamworker, Green, not Careerist

	Country				
	<i>Italy</i>	<i>Sweden</i>	<i>France</i>	<i>Germany</i>	<i>Finland</i>
Pattern ID	It 5	Sw 5	Fr 5	Gr 2	Fn 5
Sample Size (n)	109	118	89	71	99
High	Teamworker, Green, Seeker Protector	Teamworker, Seeker, Green Protector	Green Teamworker	Green	Green Seeker Teamworker
Medium	Cliquy	Cliquy	Seeker, Protector Cliquy	Teamworker Seeker Protector	Protector Cliquy
Low	Careerist	Careerist	Careerist	Cliquy Careerist	Careerist

Type: Teamworker, Seeker, not Green

	Country			
	<i>Sweden</i>	<i>France</i>	<i>Germany</i>	<i>Brazil</i>
<i>Pattern ID</i>	Sw 3	Fr 3	Gr 4	Br 3
<i>Sample Size (n)</i>	91	117	129	81
<i>High</i>	Seeker Teamworker, Protector Cliques	Teamworker Seeker, Protector Cliques Careerist	Teamworker Seeker Protector	Seeker Teamworker Protector
<i>Medium</i>	Careerist		Cliques Careerist	Cliques Careerist
<i>Low</i>	Green	Green	Green	Green
				

Type: Cliquey

	Country					
	<i>Sweden</i>	<i>France</i>	<i>Italy</i>	<i>Germany</i>	<i>Finland</i>	<i>Brazil</i>
Pattern ID	Sw 4	Fr 4	It 4	Gr 1	Fn 4	Br 1
Sample Size (n)	45	53	51	49	53	45
High	Cliquey	Cliquey	Cliquey	Cliquey	Cliquey Seeker Protector Teamworker	Cliquey
Medium		Seeker	Seeker	Protector Teamworker Seeker	Careerist	Seeker Protector
Low	Protector Green, Seeker Teamworker, Careerist	Teamworker Careerist, Protector, Green	Green, Teamworker Careerist, Protector	Careerist Green	Green	Teamworker, Careerist, Green
						

Type: not Careerist, Teamworker, Green, Seeker, Protector, Cliques

	Country	
	<i>Germany</i>	<i>Brazil</i>
Pattern ID	Gr 5	Br 5
Sample Size (n)	99	134
High	Team worker Green, Seeker, Protector Cliques	Green, Seeker, Team worker Protector Cliques
Medium		
Low	Careerist	Careerist

Three different remaining types

	Country		
	<i>Italy</i>	<i>France</i>	<i>Brazil</i>
Pattern ID	It 2 (N = 85)	Fn 2 (N = 81)	Br 4 (N = 83)
Sample Size (n)			
High	Green	Protector Team worker	Green Seeker
Medium	Seeker Team worker	Seeker	Team worker
Low	Protector Cliquey, Careerist	Green Careerist, Cliquey	Careerist, Cliquey, Protector

Appendix F: Narratives of types

The customer is open to changes. He has a strong desire to explore and understand reality. He enjoys variety of experiences because those give him a chance to learn something new. Although he may make an impression of a thrill-seeker, his motivation is to satisfy his desire to feel that he is in control of his own life and destiny. Learning to overcome challenges is more important than making a career. He has good social skills but can be quite strong in his opinions. He values relationships with his friends, especially with those who share his worldview.

Appendix G: Demographic information on types

Type	1	2	3	4	5	6	7	8	9
Countries	Italy, Sweden France, Finland	Italy, Sweden, France Germany, Finland, Brazil	Italy, Sweden France, Germany, Finland	Sweden, France Germany, Brazil	Italy, Sweden , France Germany, Finland, Brazil	Germany, Brazil	Italy	Finland	Brazil
Description	Seeker	Teamworker, Green, not Cliquey	Teamworker, Seeker, Green, not Careerist	Teamworker, Seeker, not Green	Cliquey	Not Careerist	Green, not Careerist or Cliquey	Protector	GR, not protector
Representativeness	13 %, N = 359	23 %, N = 625	18 %, N = 486	16 %, N = 418	12 %, N = 325	9 %, N = 233	3 %, N = 85	3 %, N = 81	3 %, N = 83
Gender: Males Females	55 %, 45 %	54 %, 46 %	46 %, 54 %	52 %, 48 %	52 %, 48 %	45 %, 55 %	45 %, 55 %	48 %, 52 %	45 %, 55 %
Age: 18–24 25–34 35–44 45–54 55–64 65+	17 % 21 % 16 % 19 % 16 % 12 %	10 % 16 % 21 % 22 % 20 % 12 %	11 % 14 % 21 % 20 % 22 % 13 %	22 % 26 % 20 % 16 % 13 % 5 %	18 % 29 % 22 % 15 % 11 % 5 %	13 % 15 % 30 % 17 % 21 % 5 %	20 % 22 % 18 % 18 % 15 % 7 %	2,5 % 6 % 16 % 26 % 26 % 24 %	18 % 15 % 23 % 30 % 13 % 0 %

Education:									
Educated to 16	7 %	10 %	12 %	4 %	7 %	6 %	6 %	6 %	4 %
Educated to 19	10 %	17 %	25 %	17 %	21 %	11 %	11 %	27 %	11 %
Further edu.	29 %	28 %	24 %	22 %	27 %	29 %	29 %	25 %	18 %
University	39 %	41 %	34 %	52 %	42 %	46 %	46 %	34 %	61 %
Other	4 %	4 %	6 %	5 %	3 %	8 %	8 %	8 %	6 %
Profession:									
Manager	9 %	15 %	9 %	13 %	10 %	14 %	12 %	5 %	27 %
Expert	15 %	12 %	8 %	9 %	16 %	5 %	27 %	12 %	7 %
Clerical	17 %	16 %	18 %	18 %	15 %	14 %	19 %	9 %	11 %
Entrepreneur	4 %	7 %	4 %	4 %	4 %	6 %	1,2%	5 %	8 %
Employee	12 %	18 %	18 %	23 %	25 %	21 %	6 %	21 %	17 %
Unemployed	6 %	5 %	8 %	7 %	5 %	9 %	11 %	5 %	9 %
Student	14 %	7 %	9 %	15 %	11 %	9 %	14 %	4 %	8 %
Pensioner	18 %	18 %	23 %	9 %	11 %	13 %	8%	38 %	7 %
Stay at home parent	5 %	3 %	3 %	2 %	3 %	9 %	2,4 %	1,2 %	6 %
Devices for Internet access:									
Desktop	75 %	76 %	73 %	76 %	70 %	76 %	85 %	62 %	76 %
Laptop	67 %	66 %	68 %	76 %	72 %	62 %	57 %	74 %	59 %
Mobile phone	44 %	38 %	37 %	42 %	41 %	24 %	38 %	28 %	24 %
Tablet	5,6 %	5,8 %	5,3 %	6,9 %	6,8 %	4,7 %	3,5 %	0 %	3,6 %
Entertainment device	18 %	17 %	17 %	22 %	21 %	9 %	18 %	2,5 %	5 %
Public PC	3,3 %	4 %	6,4 %	7,4 %	7,1 %	4,7 %	8,2 %	3,7 %	7,2 %

Most important experience:									
Networking	30 %	24 %	29 %	29 %	31 %	31 %	34 %	32 %	49 %
Music	9 %	9 %	10 %	8%	11 %	4 %	18 %	9 %	1,2 %
Movies	6 %	7 %	5 %	8 %	7 %	11 %	4 %	11 %	4 %
Art / Photo	3,3 %	2,4 %	2,5 %	2,2 %	1,5 %	3,4 %	4,7 %	2,5 %	0 %
Games	8 %	5 %	6 %	8 %	6 %	7 %	5 %	2,5 %	4 %
Shopping	10 %	11 %	10 %	14 %	16 %	7 %	13 %	1,2 %	7 %
Reading	15 %	16 %	17 %	16 %	12 %	25 %	7 %	17 %	15 %
Sport	7 %	11 %	7 %	7 %	7 %	7 %	4 %	10 %	2,4 %
Other	12 %	15 %	15 %	9 %	9 %	10 %	5 %	22 %	13 %

Appendix H: Steps for marketing workshop: Integration example

Step 1

She is a person of shared experiences. She enjoys heterogeneous groups. Interacting with people of different background enriches her worldview and feeds her desire for learning. Her diverse experience upholds her appreciation of commitment, tradition and promotion of the welfare of close friends as well as protection of welfare of all people and nature.

Teamworker

Intelligence (logical, rational)
Capability (competence)
Honest (sincere)
Dependable (reliable)
Helpfulness (benefiting others)
True friendship (supportive friends)

Protector

Meaning (sense of purpose)
Self-discipline (self-restraint)
Politeness (good manners)
Security (protection)

Seeker

Learning (seeking knowledge)
Curiosity (exploring)
Creativity (imagination)

Green

Unity with the environment
Protection of the environment

Step 2

She is a person of shared experiences. She enjoys heterogeneous groups. Interacting with people of different background enriches her worldview and feeds her desire for learning. Her diverse experience upholds her appreciation of commitment, tradition and promotion of the welfare of close friends as well as protection of welfare of all people and nature.

Teamworker

Intelligence (logical, rational)
Capability (competence)
Honest (sincere)
Dependable (reliable)
Helpfulness (benefiting others)
True friendship (supportive friends)

Protector

Meaning (sense of purpose)
Self-discipline (self-restraint)
Politeness (good manners)
Security (protection)

Seeker

Learning (seeking knowledge)
Curiosity (exploring)
Creativity (imagination)

Green

Unity with the environment
Protection of the environment

Step 3

She is a person of shared experiences. She enjoys heterogeneous groups. Interacting with people of different background enriches her worldview and feeds her desire for learning. Her diverse experience upholds her appreciation of **commitment tradition** and promotion of the welfare of close friends as well as protection of welfare of all people and nature.

Teamworker

Intelligence (logical, rational)
Capability (competence)
Honest (sincere)
Dependable (reliable)
Helpfulness (benefiting others)
True friendship (supportive friends)

Seeker

Learning (seeking knowledge)
Curiosity (exploring)
Creativity (imagination)

Protector

Meaning (sense of purpose)
Self-discipline (self-restraint)
Politeness (good manners)
Security (protection)

Green

Unity with the environment
Protection of the environment

Step 4

She is a person of shared experiences. She enjoys heterogeneous groups. Interacting with people of different background enriches her worldview and feeds her desire for learning. Her diverse experience upholds her appreciation of **commitment, tradition and promotion of the welfare of close friends** as well as **protection of welfare of all people and nature**.

Teamworker

Intelligence (logical, rational)
Capability (competence)
Honest (sincere)
Dependable (reliable)
Helpfulness (benefiting others)
True friendship (supportive friends)

Seeker

Learning (seeking knowledge)
Curiosity (exploring)
Creativity (imagination)

Protector

Meaning (sense of purpose)
Self-discipline (self-restraint)
Politeness (good manners)
Security (protection)

Green

Unity with the environment
Protection of the environment

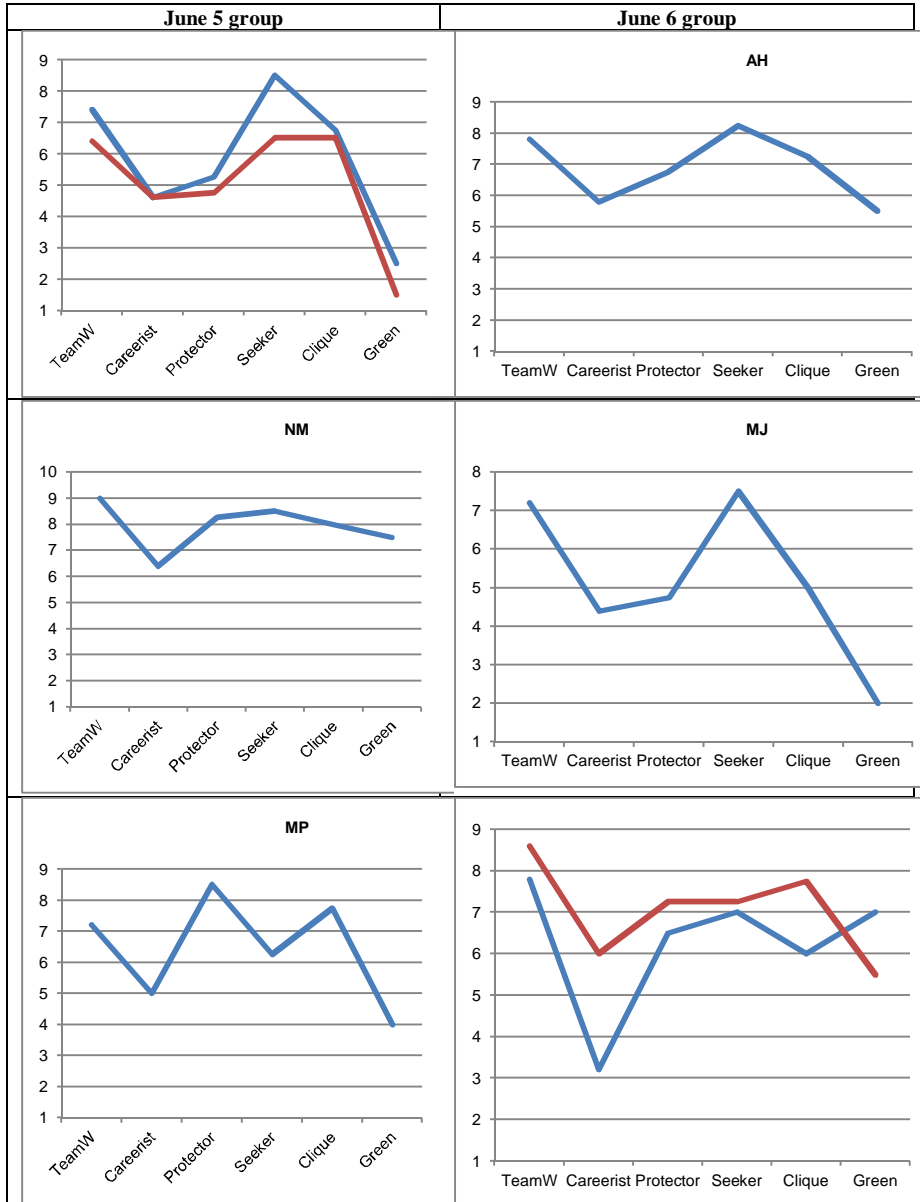
Appendix I: Lead-user profiling: Integration example

Values					
Percentage of participants assigned to cluster	17%	22%	9%	31%	20%
Participants ID assigned to cluster	38 33 60 71 102 44 83 17 70 8 37 52 72 92 10 28 58	67 78 43 93 24 73 68 103 39 74 48 15 46 84 85 89 29 27 54 26 3 64	105 36 96 11 34 76 47 25 87	23 57 14 21 79 31 53 4 106 63 86 88 101 94 50 97 100 59 91 98 13 80 90 42 19 16 9 5 99 81 20	12 77 61 55 62 104 22 75 51 18 6 41 82 56 45 40 30 49 35

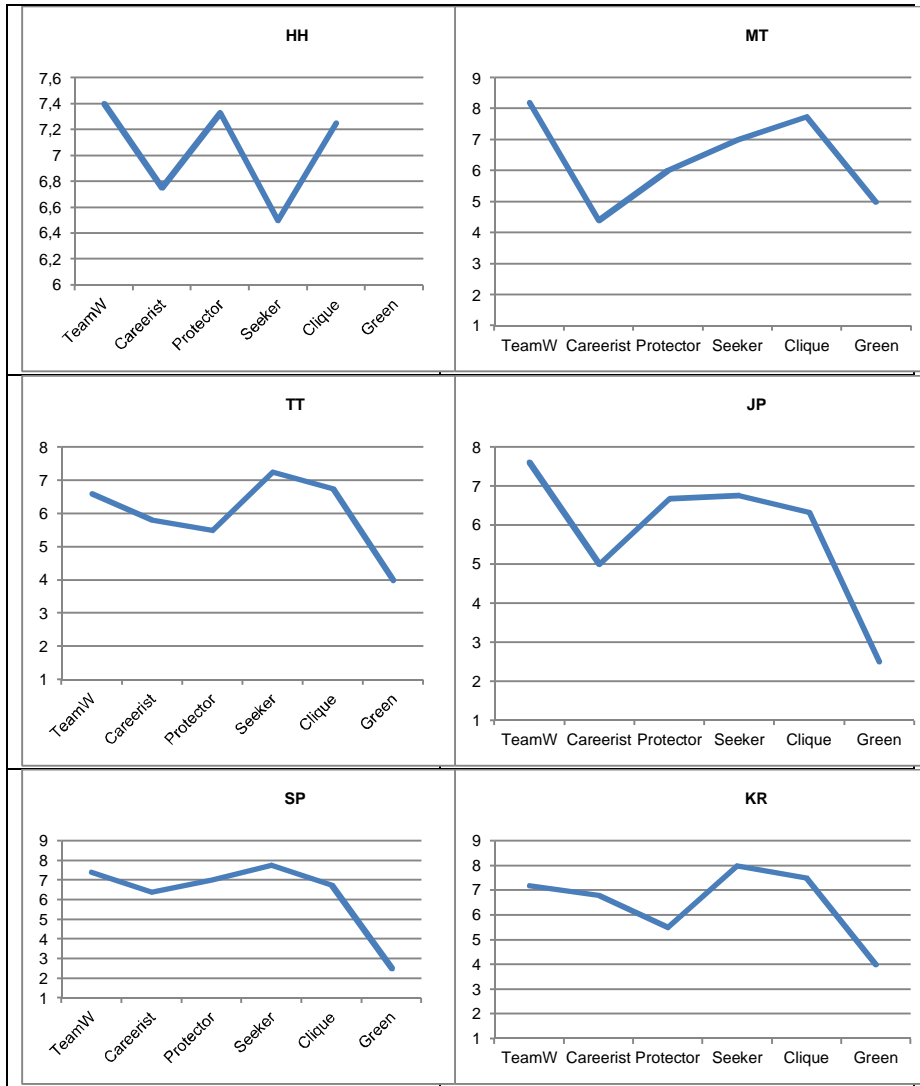
Centroids for total number clusters=5 :

1: 5.2471	4.8112	4.9512	5.3294	5.2118	3.3529
2: 4.8541	3.9755	4.3245	5.9227	4.8705	3.2955
3: 4.8733	3.6933	5.1822	5.1333	3.4111	3.3333
4: 5.7677	3.9548	5.2719	5.8710	5.2774	5.7097
5: 5.4790	3.9520	5.5885	5.5275	5.8200	3.6500

Appendix J: Focus group participants' value dimension priorities



Appendix J: Focus group participants' value dimension priorities



Appendix K: Reports, presentation and papers for construct validity

Publication in peer-reviewed conference proceedings

Sirotkin, A., Koskela-Huotari, K., Karppinen, K., Del Ser, J., and McCabe, B., 2012: Differentiation in the cloud: methodology for integrating customer values in experience design, *Proceedings 38th Euromicro SEAA 5–8 September 2012 Cesme, Izmir, Turkey IEEE computer society* Eds. V. Cortellessa, H. Muccini and O. Demirors. Pp. 453–459. Doi: 10.1109/SEAA.2012.59.

Isomursu, M., Sirotkin, A., Voltti, P., and Halonen, M., 2012: User Experience Design Goes Agile in Lean Transformation – A Case Study, *Proceedings Agile 2012*, Dallas, USA. P. 10, doi: 10.1109/Agile.2012.10

Sirotkin, A. and McCabe, B., 2011: The New Experience for Business: Why User Experience Is the Differentiation Strategy in the Cloud Context. A. Marcus (Ed.): *Design, User Experience, and Usability*, Pt I, HCII 2011, LNCS 6769. Pp. 491–499, doi: 10.1007/978-3-642-21675-6_57.

Publications in none peer-reviewed conference proceedings

Sirotkin, A., 2013: 2Gap between B2B Buyers and UX Service Providers, Book chapter, Tua Uomo, Kaarina Karppinen, Pasi Pussinen (Eds.) “Value-driven business in the Cloud”, VTT Research Highlights 9, VTT Technical Research Centre of Finland: Espoo. Pp. 36–37. URL: www.vtt.fi/inf/pdf/researchhighlights/2013/R9.pdf.

Sirotkin, A., 2013: “Customer Values – The Missing Link to Designing THE User Experience”, Book chapter, Tua Uomo, Kaarina Karppinen, Pasi Pussinen (Eds.) “Value-driven business in the Cloud”, VTT Research Highlights 9, VTT Technical Research Centre of Finland: Espoo. Pp. 30–31. URL: www.vtt.fi/inf/pdf/researchhighlights/2013/R9.pdf.

Koskela-Huotari, K. and Sirotkin, A., 2013: “Understanding the many facets of value”, Book chapter, Tua Uomo, Kaarina Karppinen, Pasi Pussinen (Eds.) “Value-driven business in the Cloud”, VTT Research Highlights 9, VTT Technical Research Centre of Finland: Espoo, pp. 20–23. URL: www.vtt.fi/inf/pdf/researchhighlights/2013/R9.pdf.

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Sirotkin, A., 2013: Customers want you to support their values. In: Landmarks for the User Experience in the Cloud, Kaisa Väänänen-Vainio-Mattila & Sari Viiminko (Eds.), PreMedia Helsinki Ltd.: Helsinki, Finland. Pp. 94–98. Available at: <https://www.cloudsoftwareprogram.org/results/deliverables-and-other-reports/i/29051/1941/landmarks-for-the-user-experience-in-the-cloud>.

Sirotkin, A., 2013: Experience is a viable differentiation strategy. In: Landmarks for the User Experience in the Cloud, Kaisa Väänänen-Vainio-Mattila & Sari Viiminko (Eds.), PreMedia Helsinki Ltd.: Helsinki, Finland. Pp. 87–94, Available at: <https://www.cloudsoftwareprogram.org/results/deliverables-and-other-reports/i/29051/1941/landmarks-for-the-user-experience-in-the-cloud>.

Sirotkin, A. and Väänänen-Vainio-Mattila K., 2013: Expanded UX capabilities create opportunities for customer experience business. In: *Landmarks for the User Experience in the Cloud*, Kaisa Väänänen-Vainio-Mattila & Sari Viiminko (Eds.), PreMedia Helsinki Ltd.: Helsinki, Finland. Pp. 102–112. Available at: <https://www.cloudsoftwareprogram.org/results/deliverables-and-other-reports/i/29051/1941/landmarks-for-the-user-experience-in-the-cloud>.

Sirotkin, A. and McCabe, B., 2010: The new experience for business: Why user experience is the differentiation strategy. VTT White paper, September 2010.

Oral presentations and poster

Sirotkin, A., Cloud software programme 2d quarter review 2013. “How to build an experience? Methodology for infusing Values in Experience (ViEx)”, Oulu, 4–5 June, 2013. Poster.

Sirotkin, A., Cloud software programme 2d quarter review 2013. “Customer values for business strategy: integrating Values in Experience (ViEx) methodology”, Oulu, 4–5 June, 2013. Leaflet.

Sirotkin, A., Cloud software programme 3rd quarter review 2012. "Building an experience that customers will value", Tampere, September 17–18, 2012. Key-note presentation.

Sirotkin, A., Koskela-Huotari, K., and Karppinen, K., Cloud software programme 3rd quarter review 2012. "Values in Experience (ViEx) methodology" Oulu, June 11–12, 2012. Poster

Sirotkin, A., "Values in Experience design" VTT Board meeting, Oulu, 15 May 2012.

Koskela-Huotari, K., Karppinen, K and Sirotkin, A., Cloud software programme 3d quarter review meeting "Analysis of Customer Values (F-Secure case)", Tampere, 3–4 October 2011, Leaflet presentation.

EIT ICT Labs Cloud Computing Summer School held by Aalto University, EIT ICT Labs Helsinki Node in Otaniemi, Espoo, Finland June 6–10, 2011. Poster "Could influences on business strategy and customer value".

McCabe, B. and Sirotkin, A., Cloud software programme 3d quarter review meeting, "How to be in the business of experience?", Oulu, September 27–28, 2010. Key-note presentation.

Sirotkin, A., Cloud software programme 2nd quarter review meeting, "The methodology for user experience business analysis" Vuokatti, 21–22 June 2010. Poster presentation.

Seminars and workshops

38th Euromicro Conference on Software Engineering and Advanced Applications held in Cesme, Izmir, Turkey September 5–8, 2012.

Presentation "How to build an experience that your customers will value? ViEx (Values in Experience) methodology" Cloud research programme User Experience workshop, Tieto, Helsinki, 14 May, 2012.

Presentation "PhD status and road map" Cloud research programme meeting, VTT, Oulu, 7 May, 2012.

Presentaton "How experience can be a differentiation strategy of Cloud services" OT Centre meeting, Oulu, 28 February, 2012.

Presenation "Human Values and Co-Creation: New insight for Marketing", F-Secure internal global marketing event, Helsinki, 16 February, 2012.

HCI International 2011. The 14th International Conference on Human-Computer Interaction held in Orlando, Florida, USA July 9–14, 2011.

Presentation of user experience as the differentiation strategy at Cloud software programme 3rd quarter review meeting, 27–28 September, 2010. Oral presentation.

Presentation of UX analysis methodology at Tampere University of Technology UX summer school, Tampere, June 2010. Oral presentation.

Title	How to build an experience differentiation strategy for software business Customer values perspective
Author(s)	Andrey Sirotkin
Abstract	<p>This thesis takes a human values perspective on the concept of differentiation. The aim is to understand how the concept applies to experience creation in a software company, and how decisions about experiences can be made. The monograph suggests a values-in-experience differentiation concept, develops a decision-making framework and a method for introducing values into the strategic decision process. A software case-company is used to implement the tool and attest the values perspective for experience creation.</p> <p>The goal of a business strategy is to establish a unique position for the company's offerings in the minds of customers, while maintaining financial results. Historically, uniqueness was achieved by focusing on product and service features. The experience view, however, departs from the historical assumptions about the nature and sources of differentiation. This thesis examines both the assumptions and changes of differentiation by experience.</p> <p>The apparent complexity of experiences requires research approaches of a matching complexity that suits the understanding of the challenges that managers face over the course of the experience creation. The thesis suggests that values provide both a stable platform and a flexible environment to guide the strategy process. The research contrasts the human values perspective with the traditional concept of needs and rational view. It proposes that the stability and the universal nature of values seem to provide grounds for combating the risks in experimentation, formulation and re-configuration of a unique position of company's offerings.</p>
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How to build an experience differentiation strategy for software business

Customer values perspective

The new Cloud business models disrupt the logic of differentiation strategy in the software industry. In a company, where an offering is largely shaped by employees' creativity, experience is a focal point of the software development. Can an experience be created as an offering? What are the grounds for an experience-based differentiation? And how a software company that recognises the importance of providing experience as an offering can do it practically? Experience is ephemeral, subjective and volatile. It exists only in present and later may be recalled in memories. A conceptual model and a framework for building an experience differentiation strategy has been lacking until the current research.

This research takes a customer values perspective for building an experience differentiation strategy. Customer values – concepts of desirable end-states and realisation of ideals – tie together companies' and customers' view of experience. In other words, values combine an observer's and actor's standpoint. As a result they make up grounds for creating differentiation strategies by experience.

The thesis puts forth the values-in-experience (ViEx) differentiation concept, which is a conceptual understanding of experience differentiation strategy. The main result of the research is the value-in-experience (ViEx) decision-making framework. The framework – attested with the help of a four-step testing instrument – guides a decision-maker through the process of developing an experience offering.

The research results can be applied for the development of experience strategies. The presented work is relevant to any decision-maker who is looking for ways to integrate customer experience in business and development processes. The discussion of rational and irrational view of customer experience will benefit the reader, who is looking for an inspiration to create new customers experiences. Finally, a researcher studying experience, customer values and strategy development for software companies can be informed by the findings and the outlined directions of future research.