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STRATEGIES OF VALUE PROPOSITION ON THE INTERNET

TYMOTEUSZ DOLIGALSKI, PH.D.

Department of Marketing
Collegium of Business Administration
Warsaw School of Economics, Poland

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Key words: Value proposition, values for customer, Internet, E-commerce, online environment, value offerings, value co-creation, mass customization, freemium.

Abstract: The paper presents strategies of value proposition on the Internet. Author has distinguished and described strategies of efficiency, free values, complete customer solutions, unique values and value co-creation. These strategies are different from traditional strategies of value proposition, which refer values for customers to the level of price.

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Concept of value proposition

The concept of value proposition is often used in marketing literature (Anderson et al., 2006; Clarke III, 2001). Value proposition is understood in this paper as a composition of values delivered to customers by a company in order to satisfy their needs. Values are delivered to customers through products or services, other instruments of marketing or in other ways (e.g. by corporate credibility). They can be differently categorized. Probably the simplest categorization of values includes functional and symbolic values.

In the traditional economy a very common rule of value proposition formulation is combining the price level with the values for customer. According to this rule, companies offering inferior values charge customers lower prices than companies offering superior values. Hence, there can be several strategies of value proposition distinguished (e.g. inferior value - low prices, superior value - high prices).

The application possibilities of this rule on the Internet are constrained. The rule explains well the strategies of companies taking part in a monetary value exchange, such as online stores. Among them there are companies selling a product with inferior customer service and charging low price and other companies that enrich the same product in great customer service and expect higher prices for it.

Referring values to price level may not always be used on the Internet for several reasons. In the online environment many companies offer superior customer values for free. To these companies belong newspapers publishing content or companies offering communications services on the Internet, such as e-mail or instant messaging providers. Moreover, according to Kim on the Internet the strategy of offering superior values and charging high prices is rarely adopted (2004). In traditional economy this strategy is most often used when marketing high quality, well-branded products to affluent customers.

Author distinguished five following strategies of value proposition on the Internet: strategy of efficiency, free values, complete customer solutions, unique values and value co-creation. It is worth mentioning, that these strategies have been formulated according to different criteria and may be merged.

Strategy of efficiency

Efficiency strategy consists in offering values to customers, which are to lower their transactional, interaction and other costs and in this way allow savings of time and money.

The examples of companies adopting this strategy are online auctions. Due to supply aggregation they offer wide range of products, which leads to lowering customer transactional costs within offer search and analyses. Moreover, these companies decrease also customer costs by reduction of information asymmetry. This phenomenon occurs when one of the transaction parties has greater knowledge than the other party and is able to take advantage of it. Usually, this is the seller who has greater knowledge, which is the best seen on the second-hand market. Online auctions reduce the information asymmetry using the seller's evaluation performed by buyers. It is worth mentioning that online auctions also deliver knowledge on buyers, which allows reducing the risk and the transactional costs of sellers. Research of Garciano and Kaplan showed that transactional costs of buying or selling a used car with the use of Internet is twice as low as without it (Zott, Amid, 2001).

Many Internet companies apply the efficiency strategy while offering values related to communications. These solutions such as e-mail services, instant communicators, social networking websites also reduce the transactional costs of a customer.

Strategy of free values

Free value strategy is based on offering values to customers, for which they are not charged. This strategy has been popular since the early years of commercial use of Internet. As a consequence many companies, among which newspapers, charge customers outside Internet, while offering these values for free online, which in turn leads to problems with generating income.

Strategy of free values can be a part of a broader business strategy assuming the revenue generation. This can be performed twofold: revenues can be generated by another group of customers or the company can charge customers for premium values.

The first concept assumes that the company is acting on a multisided market and needs at least two distinct groups of customers to generate revenue (Evans, 2003). Internet portals have two distinct groups of customers. The first one are final users who take advantage of values offered by the portal for free such as news, e-mail or search engine. The other group of customers are advertisers, who provide the portal with revenues, for which they can display advertisement. In this case the free value strategy is used in order to build customer base, on which company will offer paid services for the other group of customers (advertisers).

The other method of offering free values is based on acquisition of customers, who take advantage of free values and are also offered premium values, for which they have to pay. This strategy is often called freemium, which is the composite of free and premium. This strategy may seem to be very attractive, however its biggest challenge is the necessity of offering so precious values, for which customers - who already receive free values - will be willing to pay.

Strategy of complete customer solutions

Strategy of complete customer solutions relies on offering a broad scope of values from certain categories[1]. Internet technologies enable presenting a high number of products in online stores, which results from low technological constraints. As a consequence online stores often shape their offer according to the long tail rule, which assumes offering both best-sellers, as well as niche products. Moreover, many companies offer values based on the economies of scope. This concept consists in offering products from different categories. A travel agency taking advantage of economies of scope would also offer insurance, car rentals etc.

An often quoted example of complete customer solution is Amazon.com. The company offers wide range of products (long tail) including niche products, and at the same time offers products from other categories such as household electronics (economies of scope). The strategy of complete customer solutions describes well also the strategy of Google. The company delivers different sets of values (products) allowing search, exchange and management of information in the online environment.

Strategy of unique values

The next of formulated is the strategy of unique values. A company follows this strategy, if it offers scarce values on the market. This situation is very attractive, as it allows charging high prices and thus taking advantage of high margin. The greatest disadvantage of this strategy are difficulties in creating scarce values and then sustaining the scarcity in long term. The adoption of unique values strategy may result from innovations, privileged access to resources or operating in a niche.

Innovations in value offerings may lead to situation in which a company offers unique values to customer. Examples of companies following this strategy are Skype and Google with its search engine. A company may offer unique values which result from a privileged access to resources. This strategy is adopted by media companies, such as newspapers, TV or radio stations, that offer online content unavailable on other websites. Uniqueness of values offered may also result from operating in a niche, in which consumer needs are different and should be satisfied with different composition of values. Acting in a niche is often combined with a low competition pressure and a higher level of margin. A example for this strategy may be an online store offering shoes in large sizes.

The strategy of unique values is attractive as it allows to burden customer with higher financial and non-financial costs. It means that a company may charge higher prices or impose higher transactional costs on them (such as slowly operating website). In an opposite case, when a company offers common values, which are also offered by a numerous number of competitors, reduction of monetary and non-monetary customer costs may be a method of increasing values for a customer. This is easily to notice in the sector of online stores offering household equipment, books, music or websites allowing hotel reservation or airline ticket purchase. In these industries, companies often compete on the Internet with low prices, which may lead to deterioration of their margin.

Strategy of value co-creation

The strategy of value co-creation assumes that customers actively participate in shaping the value proposition, which will be delivered to themselves or to other customers. According to Prahalad and Ramaswany, this is the value co-creation with customers that is the essence of competition in modern economy (2004). The scope of the strategy is broad. It includes the situation, in which a customer co-creates composition of values with a company for himself. The customers may also create values orientated not at themselves, but at other customers. In both cases, the process of value co-creation must be developed on the basis of mutual commitment (Dobiegala-Korona, 2009).

In the first case, customer's activity can be described as mass customization. According to Kleeman and Voss mass customization refers to "isolated activity of individual customers (..), not to the collective activity of many individuals" (2008). Within the mass customization the value exchange can be described as one-to-one and the participation of other customers is not required. The examples of implementation of mass customization are numerous. Consumers may build their own computer, change the equipment of a car or design clothes.

Value co-creation orientated at other customers assumes that a customer actively participates in activities aimed at creating values for other customers. The scope of these activities is also broad. They include creating and publishing content on the Internet, interaction and communication with other customers in social networking websites or software development in the Open Source movement. Usually a

[1] According to Kaplan and Norton: "With this value proposition, customers feel that the company understands their business or personal issues and they trust the company to develop customized solutions tailored to them" (Kaplan and Norton, 2004, p.329).

numerous number of customers (users) create values for other more numerous group of customers - recipients. The value exchange can be described as all-to-all, as opposed to the former one-to-one.

Conclusion

Competing on the Internet requires an adoption to the new environment. The way in which companies shape their values propositions is also a subject of change. Author proposed in this paper five strategies of customer value proposition. The proposed strategies are an alternative to the traditional approach combining values for customer with price level.

Porter's competitive strategies comply with the traditional approach to value proposition. According to his conclusion a company should act either as a price leader and offer low value for low prices, or as a differentiator and offer differentiated values for higher prices. New approach to value proposition on the Internet requires then new ways of achieving competitive advantage. A research combining the proposed strategies with new approach to competitive advantage may be a continuation of this paper.

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