Article

A Theory of Marketing's Contribution to Customers' Perceived Value

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Abstract

The way customers perceive value is fundamental to business survival and success and is central to marketing theory and practice. Perceived value as an overarching concept describes the contribution of marketing as a key driver in a firm's success. Though perceived value has gained the attention of academics and practitioners in recent years, the conceptual roots have diverged in different directions. This article synthesizes the concept of customers' perceive value and presents a theory of marketing's role in it. This study develops a new theoretical framework of how marketing drives perceived value of customers by reducing and eliminating marketplace imperfections that are always present in oligopolistic markets.

This study develops a new theoretical framework of how marketing drives perceived value of customers. We first consider the constituents of customer value—the types of costs and benefits that determine customer's utility from a purchase, and how marketing can influence these costs and benefits. We then draw upon economics and marketing theories to argue that irrespective of the conceptual lens one adopts, marketing's primary function is to contribute to perceived value for firms' customers, which in turn allows marketing to capture value.

This article presents four distinct propositions, which articulate how marketing creates value for customers by reducing different types of marketplace imperfections.

This article contributes to theory buildings in marketing literature. Laying out theoretical arguments to establish the existence of a marketing-value relationship is critical to validate the relevance and importance of marketing within the firm.

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The propositions presented in this article can be further used to investigate marketing challenges and questions.

From a managerial perspective, it is critical to understand the role of the marketing function in influencing customer value as well. Improved empirical understanding of marketing's role will enable CEOs to better leverage their firms' marketing to achieve strategic priorities. Furthermore, by identifying specific marketing activities that create value for customer in different circumstances, managers can more effectively build and leverage their marketing and allocate resources more judiciously.

This article synthesizes key developments in the area of customers' perceived value and presents four novel propositions on marketing's role in creating customer value.

Keywords

Value creation, value appropriation, marketing function, perceived value, marketing theory, marketing strategy

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Introduction

The concept of customers' perceived value has its underpinnings in the economic theory of the firm and the construct of consumer surplus (Boulding, 1945; Currie et al., 1971), and they have been of keen interest to marketing researchers and practitioners (Day, 1994; Parasuraman, 1997). Consumer's perceptions of value are a fundamental determinant of buying behaviour and product choice (Doyle, 1984, pp. 15–19; Jacoby & Olson, 1985; Kumar & Reinartz, 2016; Sawyer & Dickson, 1984; Woodruff, 1997). Given the centrality of the topic, it is no surprise that the notion of customer value has been dealt with repeatedly in marketing (Anderson, 1998; Anderson et al., 1993; Monroe, 1971; Ranjan & Read, 2016; Zeithaml, 1988). Yet, as theoretical work in the area of customers' perceived value has developed, the conceptual roots of the construct have grown more ambiguous. Investigations of customer value within the contexts of consumer-centricity, value co-creation, value capture and lifetime value etc have resulted in different versions of customer value, resulting in a fuzzy understanding of the topic (Cova et al., 2011; Grönroos, 2012; Leroy et al., 2013). Previous work in the area has been criticized for an underdeveloped conceptualization of customers' perceived value in terms of its constituents and limited understanding of the marketing's contribution to it (Kumar & Reinartz, 2016; Webster, 1992).

Further, a stream of marketing research that endorses a different conceptualization and measurement of customer value has emerged over the last few years. Several studies, drawing from the seminal paper by Mizik and Jacobson (2003), have equated marketing activities with efforts primarily aimed at capturing value from customers (Luo & Bhattacharya, 2009; Mizik & Jacobson, 2003; Peterson & Jeong, 2010; Sridhar et al., 2014). Although Mizik and Jacobson's (2003) paper examines the firm's relative emphases on the link between marketing versus R&D[1] spending, labelling advertising expenditure as value capture has resulted in marketing being equated with value capture. The same conceptualization has been used in many other studies, subsequently propagating this view (Han et al., 2017; Luo & Bhattacharya, 2009; Mizik & Jacobson, 2003; Sridhar et al., 2014). This mislabelling of constructs has strengthened the misconception of marketing as a value-capturing mechanism, and hence an ancillary driver of firm performance. Not surprisingly, such views have contributed to the fading voice of marketing within the C-suite (Webster et al., 2005) and resulted in myopic firm behaviour (Mizik & Jacobson, 2007).

This article addresses the lack of conceptual clarity about customers' perceived value and marketing's role in creating this value. Here, we present a theory of marketing's role in creating customers' perceived value. To achieve this goal, we first consider the constituents of customer value—the types of costs and benefits that determine the value that the customer derives from its purchase and how marketing can influence these costs and benefits. We then explain the role of marketing in customers' perceived value using economics and marketing lenses. We draw upon economics and marketing theories to argue that irrespective of the conceptual lens one adopts, marketing leads to the enhancement of customers' perceived value, which in turn benefits the firm in the long run. Building on the previous conceptual works by Zeithaml (1988) and Hunt and Morgan (1995), we present a conceptual framework and arguments for the role of marketing in driving customers' perceived value.

Unfortunately, marketing's contribution to customers' perceived value gets only partial credit from other academic fields. Neoclassical economics views perfect competition to be the ideal market structure and markets to be in perfect equilibrium where all firms are price takers (Hahn, 1984; Mankiw & Whinston, 1986). According to this paradigm, marketing is viewed as a value-reducing mechanism from the customers' perspective because it enhances firms' pricing power by creating 'artificial' differentiation, that is, one that offers no real benefit for consumers. However, many marketing scholars have contradicted this perspective. They argue that marketing, instead, is the primary driver of customer value, since marketing helps firms identify, create and deliver differentiated offerings that have both tangible (e.g., new product features) and intangible (e.g., prestige) benefits for consumers (Day, 1994; Srivastava et al., 1998; Webster, 1992). Differentiated offerings that are valued by customers, in turn, provide pricing power to the firm, allowing it to appropriate economic rents. Therefore, from a marketing perspective, the marketing function within a firm primarily creates value.

Even in the business world, the customers and the top management both question marketing's contribution to the value-creation process. Customers accuse marketers of 'greenwashing' or 'brandwashing' their brands while ignoring the irresponsible behaviour of the firms behind the scenes. Chief marketing officers CMOs of major corporations are worried that consumers do not trust marketing. A 2012 survey carried out by Adobe showed that 68% of people found marketing to be 'annoying and distracting'. The same survey listed marketing as being among the bottom four most valuable professions to humanity.[2] Similar scepticism about marketing's contribution in driving customer value is expressed by top management within firms. Recently, the marketing chief of BT[3] group called this an 'existential crisis around the future of marketing, which is currently both under-invested and under-prepared'. Therefore, not surprisingly, most CMOs do not last in their companies (Nath & Mahajan, 2011). Furthermore, a recent study found that out of the 9,800 board seats in Fortune 1,000 companies, less than half of 1% were held by active marketing leaders (Daum & Welch, 2013).

This conceptual investigation of the role of marketing is important for both marketing theory and practice. The conceptualization of marketing as a driver and creator of customer value contrasts with the classical economic and business-world view of marketing, where it is seen merely as a creator and exploiter of marketplace inefficiencies (Dickson, 1992; Hunt & Morgan, 1997). According to this perspective, marketing is a customer-value-reducing mechanism because it enhances firms' pricing power. The underlying assumption is that there is a tradeoff between customers' perceived value and firm economic rents. We argue in this article that we should not view these constructs as competing in a zero-sum game; the presence and enhancement of customer value is necessary for firms to appropriate value, and marketing is central to firms' value creation and capture efforts. Marketing identifies and resolves imperfections that re already present in the marketplace, and thereby enhances customer value. Laying out theoretical arguments to establish the existence of a marketing-value relationship is critical to validating the relevance and importance of marketing within the firm.

From a managerial perspective, it is critical to understand the role of the marketing function in influencing customer value as well. An improved empirical understanding of marketing's role will enable CEOs to better leverage their firms' marketing to achieve strategic priorities. Furthermore, by identifying specific marketing activities that create value for the customer in different circumstances, managers can more effectively build and leverage their marketing and allocate resources more judiciously. It is also important for top management to appreciate and understand the role of marketing in customer value. If top management perceives marketing's primary role as that of value appropriator—and not central to the value creation—then marketing will remain a peripheral activity within the firm. Unless strong conceptual arguments can be produced to demonstrate marketing's influence on customer value and reverse such dismissive perceptions, it will be difficult to avoid further loss of budgetary support for marketing activities that might further undermine top management's appreciation of marketing.

Theoretical Foundations of the Value Construct

The concept of customer value is central to both economics and marketing. In economics, scholars distinguish between two dimensions of value—form value and exchange value. Form value is the value derived by adding properties to matter (Menger, 1871, p. 190), whereas exchange value is the value derived by customers using the product (Marshall, 1890, p. 63). Traditionally, the marketing function within a firm was perceived to contribute to the exchange value of the product by providing time, place and possession utility. As marketing textbooks have previously noted, 'the job of manufacturing is to create form value, while marketing's job is to provide exchange value' (McCarthy & Perreault, 1981, p. 5). From this perspective, the role of production or manufacturing is central to creating value while marketing's contribution is secondary or marginal. However, marketing scholars have argued against such classification of value that undermines marketing's contribution to customer value. Alderson (1957, p. 68, 198) argues that such a classification of value is arbitrary and there is only a single type of utility—the value that a product contributes to the potency of an assortment.

In marketing, works by scholars such as Monroe (1990), Gale and Wood (1994), Woodruff (1997) and Zeithaml (1988) have attempted to define the construct of perceived customer value. Though the proposed definitions vary a little and reveal a diversity of meanings, still a broad consensus among the scholars emerges. First, customers' perceived value is intrinsically linked to customers' buying decision process, which differentiates it from other kinds of value. Second, customers' perceived value is customers' overall assessment of the utility of a product based on their perceptions of what they 'get' in return for what they have 'given up'. The 'get' component is defined as the overall benefits customers derive from a product. The 'given up' component is defined as the overall sacrifices customers incur for the product. Customer value represents a tradeoff between the salient 'give' and 'get' components. Third, customer value is a highly personal and idiosyncratic construct. It is something perceived by customers rather than objectively determined by a seller.

To explain the role of marketing in creating value for customers, we first look at the impact of marketing on customers' perceived value using the 'give' versus 'get' framework. We argue that different functions within marketing increase customer benefits and lower customer costs. We then look at perceived value from an economics lens and argue that even with the adoption of economic terminology, the marketing influence on customers' perceived value can still be demonstrated. Following that, we do away with some of the assumptions in neo-classical economics to discuss how marketing resolves marketplace imperfections and contributes, in most cases, to customer value for customers. We develop four prepositions of how marketing impacts customer value. Finally, we finish with the implications of this study on the marketing discipline. Figure 1 below shows the impact of marketing activities on customers' perceived value.

Customers' Perceived Value from Marketing Perspective

The concept of customer value is based on the principle of utility maximization and is summarized as the customer's overall assessment of the utility of a product based on the perceptions of what they 'get' in return for what they must 'give' up (Kumar & Reinartz, 2016; Woodruff, 1997; Zeithaml, 1988). The 'get' aspect concerns the overall benefits that customers derive (or expect to derive) from a product, while the 'give' aspect pertains to the overall costs customers incur (or expect to incur) to enjoy the product's expected benefits. From this perspective, customers' perceived value can be defined as: 'customers' net valuation of the

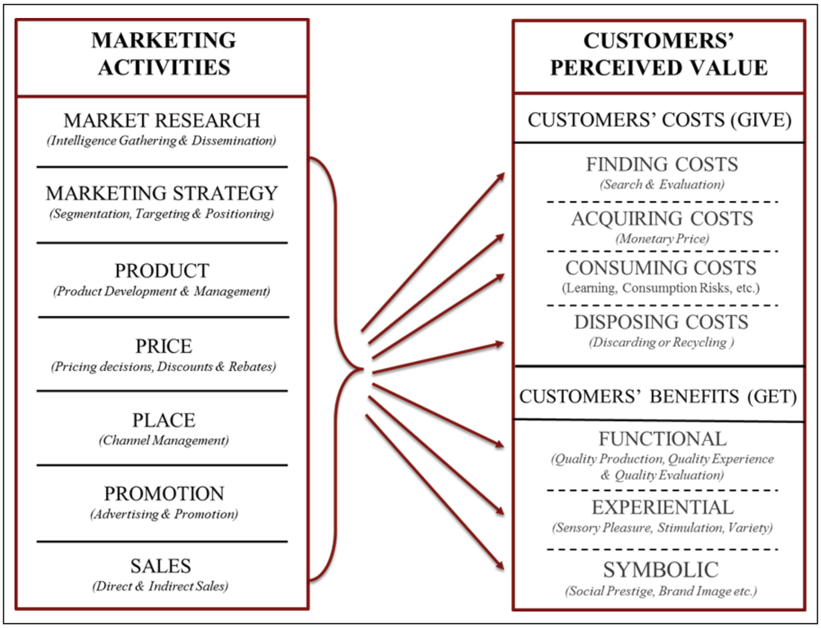

Figure 1. Impact of Marketing Activities on Customers' Perceived Value.

Source: The authors.

perceived benefits accrued from an offering that is based on the costs they are willing to give up for the needs they are seeking to satisfy'. Since the assessment of value—in terms of expected and post-consumption benefits and costs—occurs in the mind of the customer, it is highly personal and idiosyncratic, varying from customer to customer.

The 'give' aspect of perceived value comprises all the costs incurred by customers to obtain the benefits of product consumption. Customers sacrifice money and other resources such as time, energy and effort to find, buy and use products. These costs, therefore, include those related to finding, acquiring, consuming, maintaining and, if necessary, disposing of the product (Kim & Mauborgne, 2005). Finding-related costs include search and product evaluation costs. Acquisition-related costs concern the time and effort, as well as the monetary price customers pay, to purchase and take possession of the product. Consumption-related costs include product set-up and learning costs and consumption risks (such as product failure, negative effects of consumption, etc.). Finally, customers may also face disposal-related costs, which include the time, effort and financial costs of disposing or recycling a product. However, different customers have different assessments regarding the significance of each type of cost. For example, some customers will perceive the monetary sacrifice as the pivotal cost. In that case, anything that reduces this monetary sacrifice will increase the perceived value of the product for them. However, less price-conscious customers may derive more value from reduced finding-related costs such as store proximity, or minimization of consumption costs such as the required effort to set up or 'build' a product themselves.

The 'get' dimension of perceived value includes the benefits customers derive from a product, which may be functional, experiential and/or symbolic (Keller, 1993). Functional benefits are the intrinsic advantages customers derive from a product and are primarily based on its objective and perceived quality (Golder et al., 2012; Mitra & Golder, 2006). Objective quality is the aggregate performance of all product attributes, while perceived quality is a customer's subjective evaluation of the product's overall superiority compared to other products in the customer's evoked set (Parasurman et al., 1985; Zeithaml, 1988). Experiential benefits capture a customer's personal experience using a product corresponding to product-related attributes, such as sensory pleasure, stimulation and variety. For example, colour is an important product attribute on which customers have varying preferences. Finally, symbolic benefits concern the extrinsic advantages of using the product. These benefits are generally linked to attributes that are not product-related, such as self-expression and social approval.

To understand the role of a firm's marketing in influencing customers' perceived value, we have to understand how a specific marketing activity impacts each of these costs and benefits. A previous work on marketing functions by Vorhies and Morgan (2005) has identified distinct groups of marketing activities, namely, market intelligence, marketing strategy, product development, pricing, channel management, marketing communications and selling. Further, we consider the different elements of customers' costs and benefits, and how are they are impacted by these marketing activities identified earlier.

Let us look at the marketing's impact on customers' costs. First the customer's search costs, an important part of customer's total buying costs, influence consumer purchase decisions (Beatty & Smith, 1987; Moore & Lehmann, 1980). Marketing decreases customer search costs in a number of ways. For example, efficient channel management can lower the search effort for consumers by ensuring the availability and visibility of the product at appropriate outlets. Second, an essential part of customers' costs is the acquisition costs, that is, the monetary price they pay for acquiring a product. These costs are directly impacted by the firm's pricing activities. Thus, marketing with a superior ability to rightly price the products can better determine customers' price sensitivity, understand reference prices and respond to rival price moves in ways that allow it to set and effectively communicate appropriate product prices (Diehl et al., 2003; Erdem et al., 2002; Kalra & Goodstein, 1998)

Third, consumption costs—product learning costs and the associated consumption risks—are impacted by marketing. Firm product development and management function, for instance, reduces learning costs by enabling easy-to-use product packaging and design (Liu et al., 2017; Sanchez & Mahoney, 1996). Advertising reduces information asymmetry in the marketplace by informing consumers about the product benefits and lowering consumption risks (Mishra et al., 1998; Nelson, 1974). Lastly, product disposal costs have become an important consideration for any customer considering the environmental impact of a product, and superior product design can also decrease disposal costs, making recycling or reuse easier. Therefore, taken together, a firm's marketing function helps reduce different types of costs associated with a consumer's buying decision process.

Similarly, marketing also influences customer benefits, including functional, experiential and symbolic benefits in a number of ways. First, superior functional quality is a core benefit that customers derive from a product. The product development function of marketing converts resource inputs into product attributes that deliver the desired product quality to consumers (Golder et al., 2012). Advertising and sales promotion highlight certain product features, making the functional benefits salient in consumers' minds. The second type of benefit—experiential benefits—depend on customers' attribute preferences and, therefore, varies across customers (Keller, 1993; Zeithaml, 1988). Market intelligence and research functions allow firms to better understand customers' explicit and implicit preferences, which in turn can be used to develop and offer meaningful choices to customers, enhancing experiential customer benefits. For example, when customers exhibit variety-seeking behaviour, offering multiple varieties of a product within that product category can enhance customers' experiential benefits. Finally, symbolic benefits can be enhanced via appropriate marketing strategies and promotion activities. Marketing strategy determines to whom a product is to be targeted and how it is to be positioned. Targeting and positioning determine a product's extrinsic attributes such as image and social approval, thereby impacting the symbolic benefits consumers may derive from the product. Marketing communications can then highlight certain extrinsic product features, making the benefits of these more salient in consumers' minds. Similarly, pricing has a signalling effect on the brand image and prestige, and it is used to enhance the symbolic benefits of a product (Alpert et al., 1993; Erdem et al., 2008). The arguments presented earlier illustrate that marketing impacts the benefits customers derive from a product.

The earlier section only lists an illustrative set of arguments to highlight marketing and perceived value association. Marketing can of course drive the benefits and lower the costs of customer acquisition in many other ways. It is, therefore, clear from the earlier arguments that firms' marketing activities influence customers' perception of the costs and benefits of consuming a product. Based on the preceding discussion, we propose that a firm's marketing is positively associated with customer perceived value.

Customers' Perceived Value from Economics Perspective

We now look at the customers' perceived value through an economics lens. From a microeconomics perspective, customers' value is similar to the construct of consumers' surplus. Per economists, consumers' evaluation of the benefits of a product determines their willingness to pay or the reservation price for that product (Varian, 2014). The reservation price is the highest price that a consumer will be willing to pay for the product. The demand curve for a product is a representation of the reservation price and the number of people who are willing to pay that price or more. In any non-monopoly market setting, the price paid by consumers will be less than the reservation price, which results in consumer surplus (Whitehead, 2014).

Similarly, the supply curve for a product measures the amount (units) that is supplied at each price. The area above the supply curve measures the supplier surplus (at an aggregate level for suppliers' or firms' surplus). The cost incurred in producing and delivering a product will determine the minimum amount at which a firm would be willing to sell the product, that is, the minimum price at which the firm will make some profit (Varian, 2014). Otherwise, the firm has no incentive to produce the product. The difference between the minimum a firm would be willing to sell a certain number of units for and the amount it actually sells the units for is the net supplier surplus.

Economists have long examined the relationship between consumer surplus and supplier surplus (Currie et al., 1971; Kaldor, 1957; Kitch, 1980). Economic surplus is the sum of consumer surplus and supplier surplus. It forms the basis of the Ricardian theory of economic rent and is a key concept in welfare economics (Boulding, 1945). A key challenge in maximizing societal welfare is to jointly increase the economic surplus. An important premise for maximizing economic surplus is to recognize heterogeneity in customer preferences, that is, consumers differ in their assessment of benefits and costs associated with consuming an offering. Recognition of heterogeneity in customer preferences and response to the heterogeneity is a fundamental principle of marketing. It allows firms to segment the market based on different customer preferences (Guadagni & Little, 1983; Kalwani et al., 1990). The economic surplus can increase only when there are differences among consumers regarding their preferences and, therefore, willingness to pay for the same product, and likewise, there are differences among firms in cost of production, distribution or willingness to sell. In other words, the demand and supply are not perfectly elastic. Therefore, social welfare can be maximized if the joint consumer and supplier surplus are maximized.

An important precondition for maximizing social welfare is the recognition of heterogeneity in customer preferences. Heterogeneity in customer preferences is, not surprisingly, a core tenet of marketing discipline and forms the basis of many marketing theories such as customer lifetime value (Reinartz & Kumar, 2003), customer equity (Rust et al., 2004), market orientation (Kohli & Jaworski, 1990) and customer orientation (Deshpande et al., 1993). It has been shown that if a firm can practice price discrimination such that it can price its product differently for different customer segments based on their willingness to pay and have the capacity to increase output, then the social surplus will increase (see Varian, 1985, for the proof). Price discrimination increases output, and an increase in output is associated with an increase in welfare. Thus, if production capacity is not limited and price discrimination is allowed, then both customer value and firm value can increase simultaneously. The key argument is that a competitive market determines how much is produced based on how much people are willing to pay to purchase the product as compared to how much a firm must be paid to supply the product. However, at any amount of output less than the equilibrium amount, there is someone who is willing to supply an extra unit of the product at a price less than the price someone is willing to pay for an extra unit of the product. If the product was exchanged between this buyer and seller at any price between the demand price and the supply price, they would both be made better off. In other words, both value created and value captured can be increased simultaneously.

Therefore, when we analyse the role of marketing discipline from an economics lens, using economics concepts and constructs, we find that marketing's role in perceived customer value is pivotal. To summarize, variation in the response rate of buyers and sellers creates opportunities that can be leveraged by marketing to impact customer value and also help firms capture value as economic rents. Adopting this perspective also helps to look at value creation for customers and value capture for firms as complementary constructs. Growth in customer value does not necessarily translate to a reduction in value captured by firms. Marketing can positively influence customer value while simultaneously increasing firms' ability to capture value in a manner that better benefits both parties.

A Theory of Marketing's Contribution to Customers' Perceived Value

In this section, we synthesize the previous two sections—the give/get the framework and consumers' surplus lens—to develop a theory of customers' perceived value from a marketing perspective. The costs and benefits for consumers are two sides of the same underlying marketplace imperfection that limits consumers' participation in the marketplace. For example, price—which is a monetary cost consumers' pay to acquire a product—also serves as a signal of product quality, a benefit that consumers derive from using a product. Therefore, to the extent that marketing can smoothen marketplace imperfections, consumers' surplus will increase, leading to an increase in perceived value for them.

Most of the definitions of marketing clearly acknowledge the centrality of value in the marketing concept. For example, Philip Kotler defines marketing as 'the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value'.[4] Similarly, the American Marketing Association (AMA) defines marketing as 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large'.[5] In this essay, we adopt the latest definition of marketing as a discipline from AMA in arguing for marketing's role in driving customers' perceived value. Distinguishing marketing as a discipline from marketing as a function is important, as the latter can and does vary greatly from one firm to another. Therefore, using marketing as a discipline provides a consistent lens to study the impact of marketing on this important construct.

A typical oligopolistic market, in which a small number of firms have a large majority of market share, is dynamically competitive (Kirzner, 1985; Schumpeter, 1934; 1942). Customers' preferences and demands are heterogeneous, due to personal assessment of benefits and costs, and are always evolving. As a result, firms' offerings are always changing in nature and quantity, some faster than others. Furthermore, the changing heterogeneity in offerings leads to changing heterogeneity in demand because consumers respond at different rates to these offerings. This state of flux creates new market segments with different attractiveness.

According to Dickson (1992), in oligopolistic markets, marketing planning is the procedural irrationality to decide what to produce, how to deliver the product and how to inform customers about the product. Variation in the response rate of buyers and sellers creates opportunities that can be leveraged through marketing. Marketing resolves imperfections present in the marketplace.

However, other marketing scholars are critical of marketing being defined as an exploiter of market imperfections (see Hunt & Morgan, 1995). If marketing literature refers to marketing as a ‘rent seeker’ or ‘value appropriator’, the implication is that the activity is undesirable from a social welfare perspective. We, therefore, argue in this essay that markets are inherently imperfect, due to differences in customers’ preferences and firms’ ability to respond to these different and changing preferences. These imperfections prevent all of the potential customers from participating in the marketplace exchanges. Marketing, as a discipline required to interact with outside actors and the environment, helps firms sense these imperfections and develop responses to deal with them by creating differentiated offerings that create value for consumers. In other words, marketing ‘identifies’ these imperfections and ‘resolves’, rather than exploits, these imperfections. This in turn allows firms to capture value. Seen through this lens, marketing increases the economic surplus, that is, consumer and supplier surplus.

Identifying Marketplace Imperfections

An ecological approach to business competition between firms is based on the assumption that each firm in the market must occupy a position that is unique with respect to other firms in some respects. Its offering or the customers it serves must set it apart to some degree from other firms in the same market (Clark & Evans, 1954). This relentless search for competitive advantage keeps the competition dynamic. Even the market leader is always vulnerable to attack from followers and, therefore, needs to reinvent its competitive advantage to defend itself from attack. Therefore, there is an incentive for firms to invest in scanning the environment to identify the next source of competitive advantage.

The concept of competitive advantage has consequences for analysing how a firm should allocate its resources and attention to achieve a unique position. Classical economics offers an ingenious framework for the solution of allocative problems (Alderson, 1957). It assumes the situation of perfect competition, where a large number of firms and consumers exchange identical products. In such a theoretical scenario, the quantities sold by one firm represent an insignificant portion of the total quantities being exchanged, and therefore no single firm can influence the price of the product. Since the product is homogeneous, consumers are indifferent to the source of supply. Therefore, it is assumed that resources are perfectly mobile. Finally, in a perfectly competitive market, each consumer is aware of all the available alternatives. In this ideal scenario, resources will be allocated such that the lowest cost per unit of output is achieved. Since firms are assumed to have no pricing power, the firm with the lowest cost per unit of output will be able to capture maximum value.

The scenario described earlier, however, has limited relevance in understanding the resource allocation in oligopolistic competitive markets of today. Wroe Alderson (1957, p. 103) notes that such terms as pure competition have little relevance except for tracing from the atomistic model to what is essentially an ecological view of the competition among firms. The market of every competitor is to some extent unique, due to the differentiated product each firm offers (Chamberlin, 1950). The basis of differentiation may be due to tangible differences in product features or intangible perceptions about the product in customers' minds. However, as long as they are of importance to consumers and lead to a preference for one product over another, the market for each seller will remain unique. In such a scenario firms' ability to judiciously deploy resources is contingent on their ability to identify the imperfections in the marketplace, where the resolution of which would lead to perceived customer value.

Marketing has a unique role within a firm—it is the interface between the firm and the outside marketplace environment. Marketing interacts with multiple stakeholders of a firm such as suppliers, partners, competitors, regulators and, most importantly, customers. Therefore, marketing can enable deliberate and purposeful customer-centric learning. Customer-centric refers to the responsibility of marketing to generating intelligence about customers and their preferences, competitors, business environment and regulatory changes. The generation of market-based intelligence enables marketers to identify factors or reasons that can limit or even prohibit the participation of potential customers from participating in marketplace exchanges. These factors are (a) mismatch between available offerings and customer ideal-purchase-points; (b) search costs for customers given multiple products competing for their attention; (c) product quality uncertainty and associated consumption risk for consumers; and (d) cognitive and time costs for consumers' routine repeat purchases (Alderson, 1957; Beckman, 1957; Dickson, 1992; Hoyer, 1984; Hunt, 1976; Hunt & Morgan, 1995). Marketing identifies these imperfections that are inherent in dynamically competitive oligopolistic markets and creates value for customers by 'resolving' or providing solutions for these imperfections. Firms that are better at dealing with these imperfections are in turn rewarded by superior financial performance as their customers buy more, buy often and are less price-sensitive. Therefore, marketing is the key source of a firm's competitive advantage.

Resolving Marketplace Imperfections

To look at the impact of marketing on marketplace imperfections, we first categorize the imperfections present in oligopolistic competitive markets and analyse the role of marketing in dealing with each of them. As mentioned in the previous section, we categorize these imperfections into four distinct groups: (a) Mismatch between available offerings and customer ideal-purchase-points, (b) search costs for customers given multiple products competing for their attention, (c) product quality uncertainty and associated consumption risk for consumers, and (d) cognitive and time costs for consumers' routine repeat purchases. Figure 2 shows how marketing revolves marketplace imperfections.

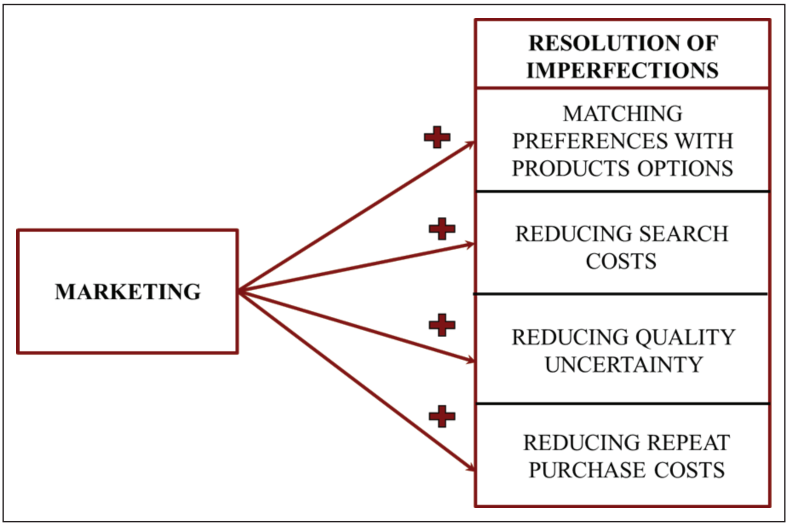

Figure 2. Impact of Marketing in Resolving Marketplace Imperfections.

Source: The authors.

Mismatch Between Available Offerings and Customer Ideal Purchase Points

Consumers' tastes and preferences within a generic product class greatly vary with respect to desired product features and are also always changing. To address these demands, competing firms experiment with product design, service or price. The motivation for firms is to earn profits or increase market share or both. Therefore, market segmentation has emerged as an essential element of marketing in oligopolistic competitive markets. As marketing has moved from product-oriented to market- or customer-oriented, the firms' focus has shifted from reducing production costs to satisfaction of customers' needs and preferences. Increased flexibility in manufacturing and consumer affluence has led to the diversification of consumer demand. In 1956, Smith defined: 'Market segmentation involves viewing a heterogeneous market as several smaller homogeneous markets, in response to differing preferences, attributable to the desires of customers for more precise satisfaction of their varying wants' (Smith, 1956). Therefore, effective segmentation by marketing will increase customer value by allowing firms to better address the differences in customer wants.

As a result, customers in competitive markets will typically have many product options. Thus, the challenge for these customers will be finding products closest to the ones they consider ideal, and, for consumers, obtaining information about different products is costly in terms of both time and money. Marketing communication and advertisement play the role of informing consumers about the available product options. Therefore, marketing enables the matching of customers' preferences with product offerings. Through better matching of customer ideal points with the options available in the markets, marketing contributes to

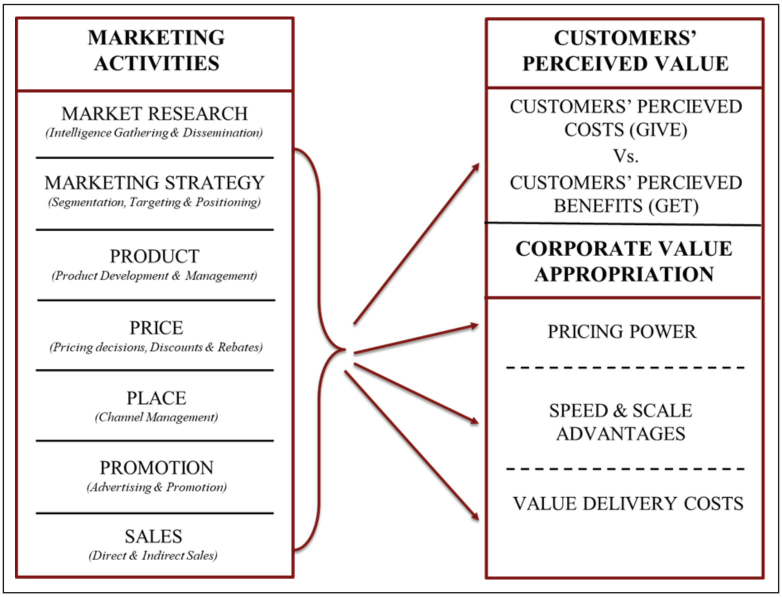

Figure 3. Impact of Marketing on Customers' Perceived Value and Corporate Value Appropriation.

Source: The authors.

customer value. Furthermore, firms with strong marketing capabilities are alert to customer preferences and design products that are close to customer ideal points. This brings additional customers into the market that were previously not participating in the market due to the unavailability of a suitable product.

Therefore, we propose:

P1: Marketing better matches customer preferences with firms' offerings, thereby increasing customers' perceived value.

Search Costs for Customers Given Multiple Products Competing for Their Attention

Finding-related costs include search and product evaluation costs. Search costs are an important determinant of overall customer costs and thereby influence consumer purchase decisions (Beatty & Smith, 1987; Moore & Lehmann, 1980). Marketing decreases customer search costs by informing customers about the availability and features of the product. Product advertising is a source of information for customers (Nelson, 1974). Though firms can make exaggerated claims about their product, if the advertised product differs from the actual product, the consumer will know the difference before on prior to purchase of the product (i.e., the search qualities of the product) (Nelson, 1974). This reduces the incentive for marketing to make exaggerated claims about the product. However, there can be certain aspects of the quality of a product, which cannot be successfully judged by consumers before the purchase, such as the 'taste' of a can of tuna. Under these circumstances, there might be incentive for the advertiser to exaggerate some characteristics. But even in this situation, there are costs to the advertiser for misleading advertising, for example, the loss of credibility for future advertisements. Furthermore, efficient channel management by marketing lowers the search effort for consumers by ensuring the availability and visibility of the product at appropriate outlets.

Therefore, we propose the following:

> P2: Marketing reduces customer's search costs thereby increasing customers' perceived value.

Product Quality Uncertainty and Associated Consumption Risk

The core functional benefit that customers derive from a product is primarily based on customers' product quality assessment (Mitra & Golder, 2006). Objective quality is the aggregate performance of all product attributes, while perceived quality is a customer's subjective evaluation of the product's overall superiority compared to other products in the customer's evoked set (Parasuraman et al., 1985; Zeithaml, 1988). Though customers may have a quality perception about a product, it is often difficult for consumers to fully ascertain the objective quality of a product before consumption. This uncertainty may persist even after consumption because product usage might provide only noisy information. For example, a consumer will be confident about the quality of a home security system only after using the product for a long time. Therefore, any purchase decision or consumption made by a customer has an associated consumption risk.

Marketing through its brand building capabilities reduces product quality uncertainty and customers' perception of risk. Since strong brands are built over a period of time through consistent delivery of the expected product, customers' risk perception when purchasing a branded product are reduced. In fact, brands are often extended beyond their original categories to reduce customers' uncertainty about the quality (Aaker, 1991). Signalling theory in information economics suggests that brand extensions inherit the quality reputation of the parent brand (Erdem, 1998), and thereby reduce consumer perceived risk and increase consumer utility (Montgomery & Wernerfelt, 1992). Therefore, marketing resolves (or at least reduces) the product quality uncertainty imperfection within the marketplace, thereby positively driving customer value.

> P3(a): Marketing reduces customer's product quality uncertainty thereby increasing customers' perceived value.

> P3(b): Marketing reduces customer's consumption risk thereby increasing customers' perceived value.

Cognitive and Time Costs for Consumers' Routine Repeat Purchases

Customer's repeat purchase behaviour can be a result of situational constraints, variety seeking or lack of brand preferences. Fresh appraisal of all the product offerings in the marketplace presents cognitive overload for customer. Therefore, customer patronage for a brand or a product is a result of customer's relative attitude towards the brand that help them reduce the cognitive load or repurchase costs. Dick and Basu (1994) view an attitude as serving an object appraisal function during repeat purchase behaviour. They identify two dimensions of attitude—strength, and differentiation—as drivers of a customer's relative attitude towards a product. Relative attitude is the key determinant of repeat patronage rather than the attitude toward a brand determined in isolation. Classifying relative attitude with repeat patronage (high vs. low) would indicate whether the observed loyalty is genuine or spurious. In other words, whether the engagement with the brand is creating value for the customer or not.

From a firm's perspective, developing, maintaining and enhancing customer engagement and loyalty is an important aspect of marketing activities. Marketing's brand management capabilities help build brand equity in customers' minds, which in turn helps develop customers' attitudinal loyalty towards brands (Keller, 1993). Customers' loyalty towards a brand or a product is the relationship between the relative attitude toward a brand and patronage behaviour (Dick & Basu, 1994). Customer loyalty results in a positive internal disposition that leads to repeat purchase behaviour. Loyalty benefits consumers by reducing their cognitive efforts during product purchase by satisfying customers' physiological and safety needs about product performance (Fennell, 1978; Rossiter & Percy, 1987). However, customer engagement and loyalty can also increase switching costs for consumers. Porter (1980, p. 10) defined switching costs as the 'one-time costs facing the buyer switching from one supplier's product to another'. Loyalty leads to high-sunk costs for consumers that can increase the likelihood of repeat patronage (Dick, 1991). Furthermore, several studies found that as repeat purchases increase, search for information about alternative brands decreases (Dick & Basu, 1994). This may negatively impact customer welfare by compelling them to settle for suboptimal choices. Despite this negative effect, based on the overall arguments we propose that the following:

> P4: Marketing increases customer engagement that reduces transaction costs in repeated buying situations and thereby increasing customers' perceived value.

To summarize, based on the arguments presented to develop the four propositions about the impact of marketing's role in driving customer value, we argue that marketing positively impacts customers perceived value. Marketing achieves this by removing the existing imperfections in the marketplace that are intrinsic to any consumer market transaction and limiting customers' participation in the exchange of goods and services. As a result, marketing also becomes an important mechanism for firms to capture value from the marketplace, which is critical for firm survival and success. Due to the centrality of marketing in this value creation and capture cycle, it acts as the main tool for the larger good of both the public and businesses.

Discussion

This essay presents a conceptual framework and arguments of how marketing positively contributes to customers' perceived value. Previous work in this area has used multiple theoretical perspectives and empirical generalizations of customer value creation, resulting in an understanding that is equivocal at best. Here, we first elaborate on a give and get framework of perceived customer value. We list the different costs that customers incur to buy a product and the different benefits they seek using a product. We then present arguments on how different functions of marketing influence these costs and benefits. We then look at the role of marketing in creating value for customers from both economics and marketing lenses. We argue both from economics and marketing perspectives that marketing plays an important role in customer welfare. Oligopolistic marketing is constantly in a flux that creates market imperfections. In such a scenario, marketing, contrary to the perception of being exploitative, plays the critical role of resolving these imperfections by reducing customers' search cost and reducing uncertainty through better matching and customer engagement. These resolutions increase the value for customers that in turn allow firms to capture value from the marketplace by either expanding firms' customer base due to positive word of mouth, increasing repeat purchase, increasing product usage among existing customers or allowing firms to charge higher prices due to decreased price sensitivity of consumers.

This article contributes to the field of marketing theory, by providing a new theory of marketing's contribution to customers' perceived value. Marketing scholars have lamented the lack of indigenous, home-grown theoretical lenses to analyse marketing problems and challenges, and they have repeatedly called for concerted efforts aimed at intellectual renewal that can reverse the decline (Kohli, 2011; Rust, 2006; Yadav, 2010). Indigenous marketing theories are central to understanding marketing issues, defining marketing constructs and the relation between them, and contributing to 'base disciplines' such as psychology and economics. This article advances marketing thought by first explaining marketing's contribution in impacting perceived value in economics-terms. Then, by relaxing some of the assumptions in economic theory that do not hold in real marketplaces faced by firms, we further explain how marketing creates value not only for firms' existing customers but also by expanding the marketplace to bring in new customers who were previously not participating in the markets.

The conceptualization presented in this article is particularly important, given that over the past decade, some academic work in marketing has inadvertently portrayed marketing primarily as a mechanism for value capture. If marketing is not able to change this perception among its stakeholders, this may demote marketing into a function with limited and ambiguous responsibilities. The result can be the loss of budgetary support for marketing activities, and it will become increasingly difficult to demonstrate marketing's influence on customer value. Ultimately, as the relevance of marketing erodes and key marketing activities are delegated to other functions within the organization, it will result in declining firm performance. Therefore, it is no longer sufficient for marketing to focus on success in the product marketplace, but it should both theoretically and empirically demonstrate its role in the value-creation process. However, the most important implication of the mislabelling of marketing is the influence on how the most important stakeholder of marketing—customers—perceive marketing. If consumers were to perceive marketing primarily as a value appropriator, and not as a trusted source, it will reduce the effectiveness of marketing programmes and campaigns. Figure 3 highlights the comprehensive role of marketing in influencing both customers' perceived value and corporate value appropriation.

Although the scenario described earlier may appear extreme, it is concurrent with the focus in empirical research linking the power of marketing departments in upper echelons of management on firm performance (Feng et al., 2015; Whitler et al., 2018). Empirical research in marketing has also demonstrated the negative impact of underinvesting in marketing or marketing myopia on firms marketplace and financial performance (Bendig et al., 2018; Kashmiri & Mahajan, 2010; Mizik, 2010; Mizik and Jacobson, 2007; Saboo et al., 2016). Researchers lament that gauging marketing performance via its influence on short-term financial metrics is short-sighted, and it excludes marketing's role in customers' perceived value and undermines marketing's part in driving long-term business performance. For these reasons, it is critical to recognize that marketing actions build long-term assets that create value for consumers and contribute to shareholders' wealth creation. If marketing expenditures are regarded as investments in creating customer value rather than variable costs, it will promote a long-term perspective of the marketing function.

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Notes

1. In fact, Mizik and Jacobson (2003) demonstrate a positive link between advertising expenditure and stock return.
2. See https://www.campaignlive.com/article/crisis-meaningfulness-marketing/1414636
3. See http://www.campaignlive.co.uk/article/marketing-crisis-warns-bt-brand-chief/1426688
4. See http://www.philkotler.com/quotes/
5. See https://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx

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