

# **Gordon Institute of Business Science**

University of Pretoria

## **Value creation and co-creation in a consumer sphere within online retail**

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## ABSTRACT

Intense business competitiveness, accelerated by web technological advancement of recent years, poses challenges for online organisations to remain relevant in the market, while continuing to serve customers' needs and wants, as well as acquire new customers in a cost effective manner. Nowadays, online consumers possess a much greater bargaining power and are capable of exercising their consumer choice behaviour to a much larger degree than in the recent past. An increasing number of academic scholars and business practitioners maintain, that success of the future business will depend on how organisations manage to revise their existing business practices and bring the customers into the process of value co-creation.

The research set out to explore opportunities for value creation and co-creation between online firms and online consumers. In-depth interviews conducted with 22 participants provided further insights into the notion of value creation and value co-creation in online retail. Expansive literature review allowed to form solid academic grounds, upon which the investigation was built and evolved to its conclusion.

Coupled with theoretical premises, key research findings suggested that online firms can indeed co-create value with existing customers in the closed-to-firms' customer sphere, where only customer-to-customer interactions take place. Enhancement of customers' value perception plays key role in the process of value co-creation in the customer sphere. As a result, online firms may reduce cost on acquiring new customers and consequently excel in revenue growth and business prosperity.

## KEYWORDS

Online retailing

Service-Dominant (S-D) logic

Value co-creation

Value creation

Value perception

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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9 November 2015

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# 1 CHAPTER 1 – INTRODUCTION

## 1.1 Introduction

Online retailing has been growing tremendously around the globe, offering new business opportunities to the existing and well-established retailers, as well as new age online entrepreneurs (Briggs, 2015). The spike in online retailing, alongside the increasing Internet access, has been caused by the upcoming younger generation of consumers, whose rules of engagement with retailers differ to those of non-millennial consumers (Power, 2015). Online technologies empowered the consumers to easily pick and choose the services they want to use, and the products they wish to consume. In response to the shifting notion of the consumers' power, organisations are forced to find better ways to predict online consumers' next move in order to create new and better value (Edelman & Singer, 2015).

Due to the changing landscape of online retailing, organisations that do not understand how they can better the value offered to their customers are at risk of losing their market share and becoming insolvent, as rivals continue to thrive. The concept of value co-creation has been adopted by some of the largest global organisations as a solution to meeting the new age consumers' demand (Libert, Wind & Fenley, 2015). Despite an evident business need for adoption of value co-creation, as a new form of business conduct (Hughes, 2013), academic scholars maintain, that the concepts of value creation and value co-creation remain unclear and require further analytical investigation (Grönroos & Voima, 2013).

By bringing more clarity into the concepts of value creation and co-creation in the online retailing environment, the paper aims to assist business managers in assessing their own existing business practices and improvement thereof.

## 1.2 Background

The future success of business organisations lies beyond a mere function of internal efficiency improvements and economies of scale (Hughes, 2013). It is critical for the firms to understand what value they create for consumers and how it can be co-created (Hughes, 2013). Most organisations still believe that it is up to them to direct consumers' experiences in light of value creation (Ramaswamy & Gouillart, 2010). However, nowadays consumers shape their own experiences, and those firms that succeed in establishing a prosperous value co-creation environment instead exceed in revenue growth and overall enterprise value (Libert et al., 2015).

Various theoretical models emerged to shed more light on the process of value creation and co-creation and assist organisations with establishing sound business practices and growth opportunities. From the original DART model (Prahalad & Ramaswamy, 2004b) to the more recent Value Creation Spheres (Grönroos & Voima, 2013), each study attempted to explain the process of value creation and value co-creation in its own domain. However, despite a vast academic contribution to the body of knowledge, the understanding of value and how it is interpreted by stakeholders in the business environment remains unclear (Shamim & Ghazali, 2015).

The traditional view of value co-creation in the context of Goods-Dominant (G-D) logic (Michel, Vargo & Lusch, 2008; Vargo & Lusch, 2004a) has been confronted by the increasing bargaining power of consumers where Internet development plays an important role (Berry et al., 2010). The concept of Service-Dominant (S-D) logic has been proposed as an alternative view of understanding how value is created and what role consumers play in the process of value co-creation (Grönroos & Voima, 2013; Michel et al., 2008).

It is vital for organisations to understand the process of value co-creation in the customer sphere. The growing interconnectedness among consumers by means of social networks and Internet accessibility at large obliges organisations to identify how they can utilise the concepts of value co-creation to maintain their relevancy in the market (Hughes, 2013). Increasingly, consumers begin to make use of technologies to share their shopping / service usage experiences, and therefore shape each others' purchasing intent (Ramaswamy, 2014).

In a recent Gartner report, the authors predicted that “by 2017, 50% of consumer product investments will be redirected to customer experience innovations (Plummer et al., 2014, p. 2)”, hence the urgency to bring more conceptual clarity to the academic body of knowledge, as well as managerial business practice as far as the concepts of value creation and value co-creation are concerned. The firms which understand and embrace technological development in light of value co-creation would excel in their business practices and, as a result, outperform their rivals (Libert et al., 2014, 2015).

### **1.2.1 Value creation and co-creation in the online environment**

Value creation, as the main function of any organisation, has been undergoing tremendous changes, due to the increased Internet penetration not only across geographical regions, but also at our homes, places we work at, the places we go shopping (Hui, 2014). As a result, consumption patterns of a general consumer has been changing accordingly. The product / service consumption has become more unique in its experience. It is no longer sustainable for organisations to follow the business frameworks and models established in the 20<sup>th</sup> century, and new business ideas have to be introduced to be able to serve the market (Hui, 2014).

The Internet, with its online web technologies and tools, allows any bricks-and-mortar organisation to become more customer-centric by effectively utilising the concepts of value co-creation (Leavy, 2012; Ramaswamy, 2002). The argument was extended, where authors maintained that the adoption of the value co-creation would assist online business entities to reduce their operating costs and potentially grow their customer base (Floyd, Freling, Alhoqail, Cho, & Freling, 2014; Rafiq, Fulford & Lu, 2013). However, a more recent study argued that online consumers and offline consumers are not the same, hence should not be treated identically (Huberty, 2015, p. 38).

Recent studies continued to examine the notion of value co-creation in the online context, proposing that it would benefit firms only financially (Griffis, Rao, Goldsby, Voorhees & Iyengar, 2012; Rafiq et al., 2013). However, a more recent research paper proposed that the majority of studies still embrace a good-dominant logic approach whereby “value perceived by customers is explained by considering only the capabilities and resources that companies are able to contribute” (Paredes, Barrutia & Echebarria, 2014, p. 21). Nonetheless, customer value perception goes far beyond a mere value-in-exchange contribution, and a firm’s ability to understand both tangible value it creates for customer, as well as intangible value customers may create for themselves, will provide a competitive advantage over its rivals in the market space (Gallo, A., 2015).

Another recent study attempted to link the concept of (S-D) logic to the overall user experience and how value perception may potentially be affected by imagined experiences and the effects thereof not only on existing customers, but also on those who are not currently engaged with the firms directly, yet who are engaged with other consumers through social interactions (Helkkula, Kelleher & Pihlstrom, 2012). However, there are still gaps in the academic body of knowledge as to how such social consumer integrations and engagements may influence value co-creation as a whole (E. Jaakkola & Alexander, 2014).

### **1.3 Purpose of the research**

With an increasing number of online consumers and their influences over the state of e-commerce (Rafiq et al., 2013), as well as the growing interest in the subject of value creation and value co-creation (Grönroos & Voima, 2013; Shamim & Ghazali, 2015; Vargo & Lusch, 2008), the purpose of the research is to investigate how value creation is perceived among online retailing stakeholders, and what the process as well as underlining benefits behind its co-creation are. Despite various studies conducted in the field of value creation and value co-creation (Grönroos & Voima, 2013; Payne, Storbacka, & Frow, 2008; Vargo & Lusch, 2004b; Zwass, 2010), there is still evident ambiguity in interpretation and the fundamental understanding of value creation and value co-creation process in light of (S-D) logic, specifically within the online retail context.

Particularly speaking, this research paper will address the gaps found in the existing literature and, by means of an inductive research study, it will theoretically and empirically investigate a possibility of value co-creation in a customer sphere, which previously was described as a closed-to-firms sphere for value co-creation (Grönroos & Voima, 2013). The ability to co-create in the customer sphere may offer the firms an opportunity for new customer acquisition and revenue growth.

### **1.4 Research Objectives**

Online retailing relies intensely on its ability to provide services in a form of timely goods delivery, relevant product offering, and overall marketing efforts to attract new online consumers in the most efficient and cost efficient manner. The objective of this paper is to provide a theoretical as well as practical document identifying managerial implications to

assist the firms in meeting their own business objectives. Therefore, the study is broken down into two main research questions, one of which consists of two sub questions.

Before examining the subject of value co-creation, the first question will attempt to shed more light on the process of value creation in the online retailing context. Once this is established, the next two questions will examine how value is co-created between online firms and online customers, as well as opportunities in value co-creation in the closed-to-firms' customer sphere.

## **1.5 Conclusion**

Although the concepts of value co-creation are not new, they continue to grow and evolve in line with evolution of the modern business environment. Exponential technological advancement offers opportunities as well as threats in terms of value creation in the 21<sup>st</sup> century (Plummer et al., 2014). In their recent article, the authors, in collaboration with Deloitte, concluded that those companies that co-create with their customers offer shareholder value four times greater than those firms that do not co-create (Libert et al., 2014), hence the need to understand the concept in detail as the scholars still argue as to how this value is co-created (Grönroos & Voima, 2013; Paredes et al., 2014).



## **2 CHAPTER 2 - THEORY AND LITERATURE REVIEW**

### **2.1 Introduction**

This chapter draws on several theories and related studies concerning value creation and value co-creation within the online retail context. Value perception too is identified as a key concept. Literature review attempts to scrutinise various theories in order to build a solid research foundation, which manifests a conceptual framework at the end of the chapter. The theoretical concepts identified in this chapter ought to assist in understanding the research purpose and serve as a basis to develop research questions presented in Chapter 3. The different theories and concepts are discussed in the sections below.

### **2.2 Value creation and value co-creation**

Value as a business concept has been researched by academia for centuries. One of the original proponents of the concept was Adam Smith who examined “the rules that men naturally observe in exchanging them either for money or for one another” in light of “relative or exchangeable value of goods” (Smith, 1776, p. 49). Smith elaborated further by proposing two different meanings of value: value-in-use and value-in-exchange (Grönroos, 2011; Smith, 1776).

By investigating the notion of value in terms of value-in-use and value-in-exchange, the authors tried to ascertain the roles organisations and consumers play in value creation and value co-creation (Grönroos & Voima, 2013; Grönroos, 2011; Kowalkowski, 2011; Lusch, Vargo & Tanniru, 2010; Vargo & Lusch, 2004a; Vargo, Maglio, & Akaka, 2008). In terms of value creation, it was argued that value is no longer created only by an organisation, but

jointly with customers, hence the term co-creation (Vargo & Lusch, 2004a, 2008). Further, as Grönroos (2011) stated “co-creation of value can take place only if interactions between the firm and the customer occur. If there are no direct interactions, no value co-creation is possible” (p. 290). Supporting this argument, Pagani (2013) stated “as a result, a company’s strategic task becomes the on-going reconfiguration and integration of its competencies and customers” (p. 618).

However, despite much elaboration on value-in-use, “the customer’s creation of value-in-use has not been analysed in further detail” (Grönroos & Voima, 2013, p. 6). In fact, it was proposed that a customer is the actual value creator and “the customer creates and assesses value in a longitudinal and experiential process of usage” (Grönroos & Voima, 2013, p. 7).

Insistently, the authors attempted to explain the importance of customers: their influences and roles in value co-creation as a joint benefit for both customers and organisations (Shamim & Ghazali, 2014). Justly, many theoretical models emerged to stimulate the notion of customer-centricity in light of value co-creation such as social structures (Edvardsson, Tronvoll & Gruber, 2011), consumer acceptance and acknowledgment of value co-creation (Schumann, von Wangenheim & Groene, 2014), and value networks (Lusch et al., 2010).

In spite of a customer-centric view of value co-creation and its benefits (Heinonen et al., 2010), many studies argued that the goal of most organisations still is to create financial value first, which is often linked with internal business models and practices such as cost reduction, policies and procedures, economies of scale and reconfiguration of revenue models (Carayannis, Sindakis & Walter, 2014; Gupta, Lehmann & Stuart, 2004). On the contrary, other studies suggested that the firm’s goal in itself is a process of creation of value-in-use (Fitz-Patrick, Vary, Grönroos & Davey, 2015).

### 2.2.1 Service-dominant (S-D) logic

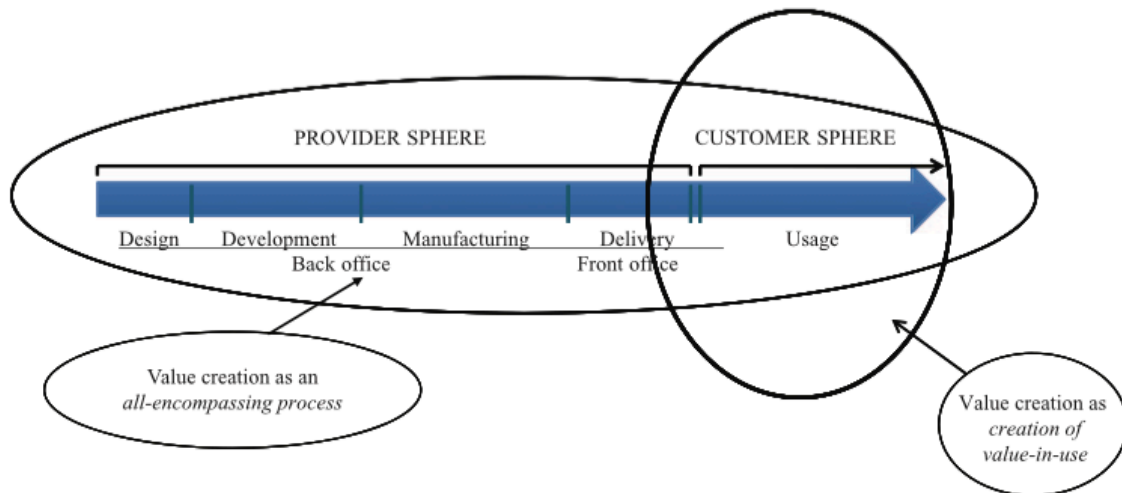
The predecessor of (S-D) logic was the goods-dominant (G-D) logic, which was the traditional input-process-output view on value creation, whereby value is added to a product during each stage of a manufacturing process. It was also described as value-in-exchange meaning of value (Vargo et al., 2008). Vargo et al. (2008) explained that once a product is created, it is distributed to the market place where it gets exchanged for money. Historically, there has been a disconnect between producers and consumers in terms of understanding of how value is perceived and its meaning to each (Vargo et al., 2008).

On the contrary, the service-dominant (S-D) logic has emerged, which focuses on the value-in-use meaning of value (Vargo & Lusch, 2008). According to the (S-D) logic, both producers and consumers play a role in the value co-creation, which ultimately benefits each party (Vargo et al., 2008). The (S-D) logic proposes that customers need to be tied into the entire value network of the firm and be treated on a similar level with suppliers and vendors (Lusch et al., 2010).

However, a more recent study argued the point how (S-D) logic insistently puts an organisation before the consumer in value co-creation (Grönroos & Voima, 2013). The study suggested the complete opposite: it is consumers who can tie an organisation into their value creation, should they decide to do so (Grönroos & Voima, 2013). The notion of value-in-use was investigated in more detail and suggested that organisations merely play the role of value facilitator, and the real value is created outside the firm's sphere (Grönroos & Voima, 2013). Grönroos and Voima (2013) stated that "value creation is not an all-encompassing process" (p. 4).

The illustration below graphically depicts the proposed concept:

**Figure 1. Value creation as the customer’s creation of value-in-use or as an all-encompassing process including provider and customer activities (Grönroos, 2011)**



In terms of value creation and (S-D) logic, many studies suggested that interaction with consumers is key and is required because it is the consumers who create value, the value upon product and / or service consumption (Grönroos & Voima, 2013; Kowalkowski, 2011; Vargo et al., 2008). “It is thus rooted in subjective performance criteria and measured by value-in-use, rather than in objective quality standards, capable of measurement in terms of value-in-exchange” (Kowalkowski, 2011, p. 4).

Despite the suggested benefits of co-creation following the (S-D) logic and “mutual value” creation (Ramaswamy, 2014, p. 3), Grönroos and Voima (2013) called it “a metaphorical co-creation term”, which “has been adopted in (S-D) logic literature” (p. 4). The authors further stated that “as long as a phenomenon is discussed in general, unspecified terms, metaphorical concepts work” (Grönroos & Voima, 2013, p. 4), arguing that “when the

discussion moves to an analytical level, metaphorical descriptions are difficult to apply”, and “analytical concepts have to be introduced” (Grönroos & Voima, 2013, p. 4).

## 2.2.2 Evolution of the existing models of value co-creation

One of the original models of value co-creation was developed by Prahalad and Ramaswamy (2004), where they proposed that value co-creation, as a process, should be seen in a form of building blocks, which, as a result, enriches customer interaction and facilitates further product / service development. The proposed model was called **DART**, an abbreviation for:

**Dialogue** – To be able to solve common problems, firms and consumers must be willing to share information in accordance with predetermined rules of engagement;

**Access** – Availability of information and tools for both parties in order to co-create more effectively;

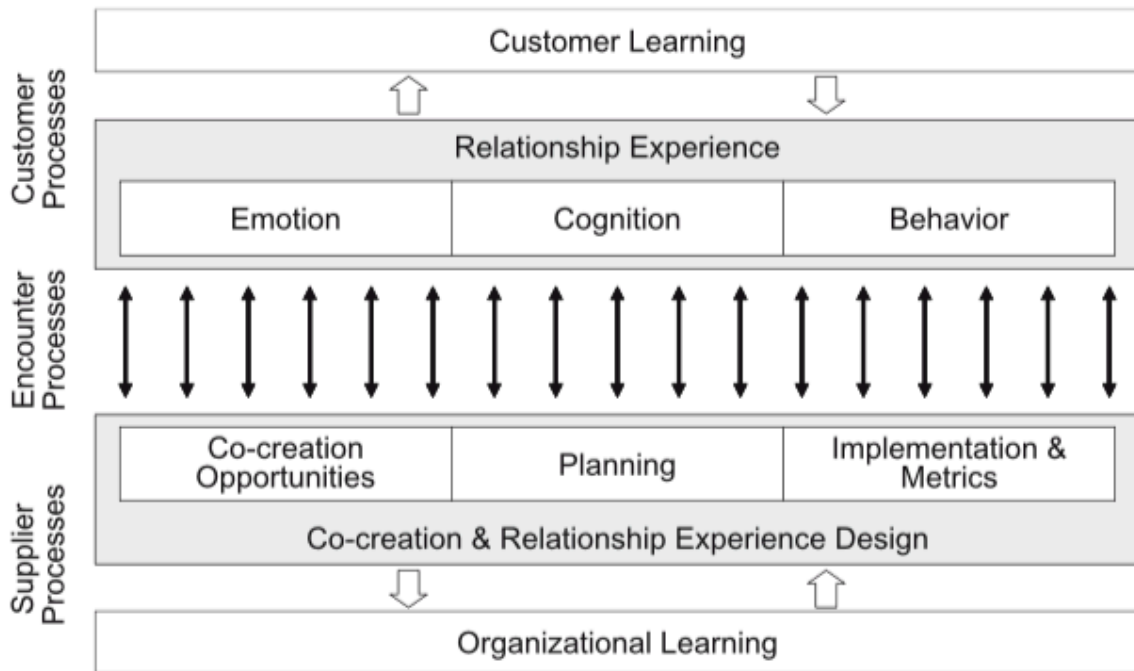
**Risk assessment** – Risk-averse consumers need to be fully aware of potential risk associated with co-creation processes;

**Transparency** – The traditional view of information asymmetry between firms and consumers can no longer suffice. With rapid growth in communication technologies, firms are encouraged to become more transparent with and towards consumers.

As the value co-creation continued to be studied and evolved into a much researched service-dominant (S-D) logic (Michel et al., 2008; Vargo, Lusch, & Morgan, 2006), another “conceptual framework for value co-creation” was developed (Payne et al., 2008, p. 3). The authors of the framework “conceptualised the key processes in managing value co-creation and examined their implications for product and service development, customer relationship

development, cross-functional alignment and knowledge management” (Payne et al., 2008, p. 11).

**Figure 2. A conceptual framework for value co-creation (Payne et al., 2008)**



Payne et al. (2008) identified the following main components of the framework:

**Customer value-creating processes** – in a business-to-consumer relationship, the processes, resources and practices, which customers use to manage their activities.

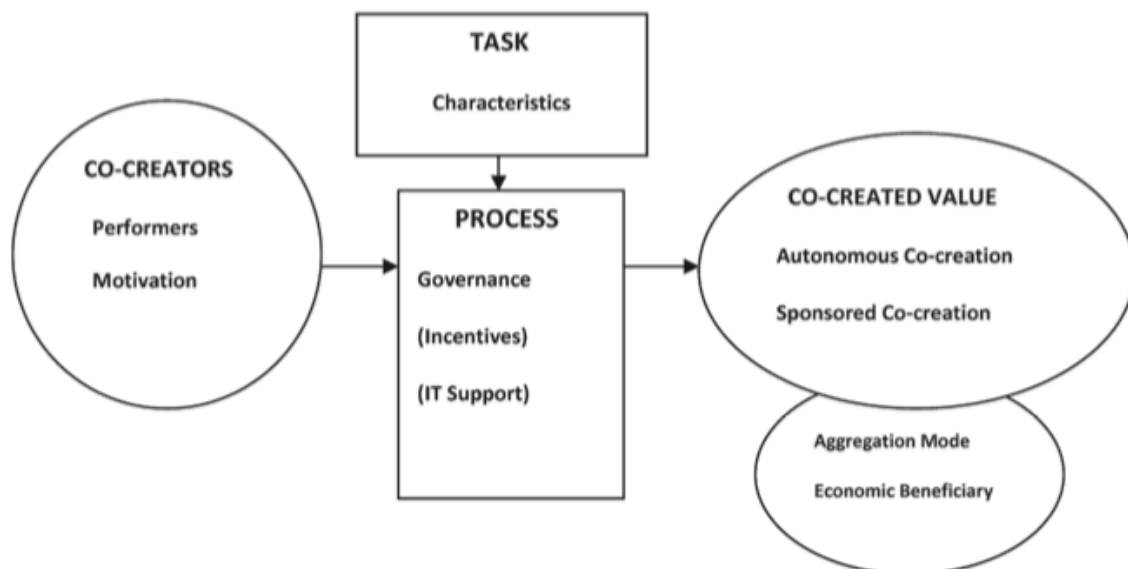
In a business-to-business relationship, the processes are ones, which the customer organisation uses to manage its business and its relationships with suppliers.

**Supplier value-creating processes** – the processes, resources and practices, which the supplier uses to manage its business and its relationships with customers and other relevant stakeholders.

**Encounter processes** – the processes and practices of interaction and exchange that take place within customer and supplier relationships and which need to be managed to develop successful co-creation opportunities (p. 85).

Another value co-creation framework was proposed by Zwass (2010), where the author argued that a “comprehensive taxonomic framework is needed that would contextualise research efforts in the area of co-creation” (p. 12).

**Figure 3. Taxonomic Framework of Value Co-Creation (Zwass, 2010)**



**Co-creators** – The first component of the framework consists of performers and motivators. When describing performers, the author argued that virtually any individual can contribute towards co-creation either through a proxy of his own experiences, communal trust or possessed skills (Zwass, 2010). When analysing motivators, the author suggested that an individual’s extrinsic and intrinsic motives to co-create ought to be taken into account (Zwass, 2010).

**Process** – The component implies general rules of engagement in a process of co-creation, which involves formal policies and procedures (Zwass, 2010).

**Task** – This component of the framework outlines physical requirements of what needs to be performed in order to co-create (Zwass, 2010).

**Co-created value** – The final component consists of the main types of value co-creation: firstly, *sponsored* co-creation where “organisations open themselves to the co-creation efforts of external individuals, including present or potential consumers” (Zwass, 2010, p. 20), and secondly, *autonomous* co-creation, where independent individuals take it upon themselves to co-create value without having to interact directly with an organisation (Zwass, 2010). Another study examined company-sponsored value co-creation in more detail, where the author asserted that consumers’ extrinsic motivators (derived value and benefits for themselves) play an essential role in value co-creation (Chen, Marsden & Zhang, 2012). Yet, Zwass (2012), referring to the economic benefits element of the framework, suggested that many people get satisfied intrinsically by extending their co-creation efforts (Zwass, 2012).

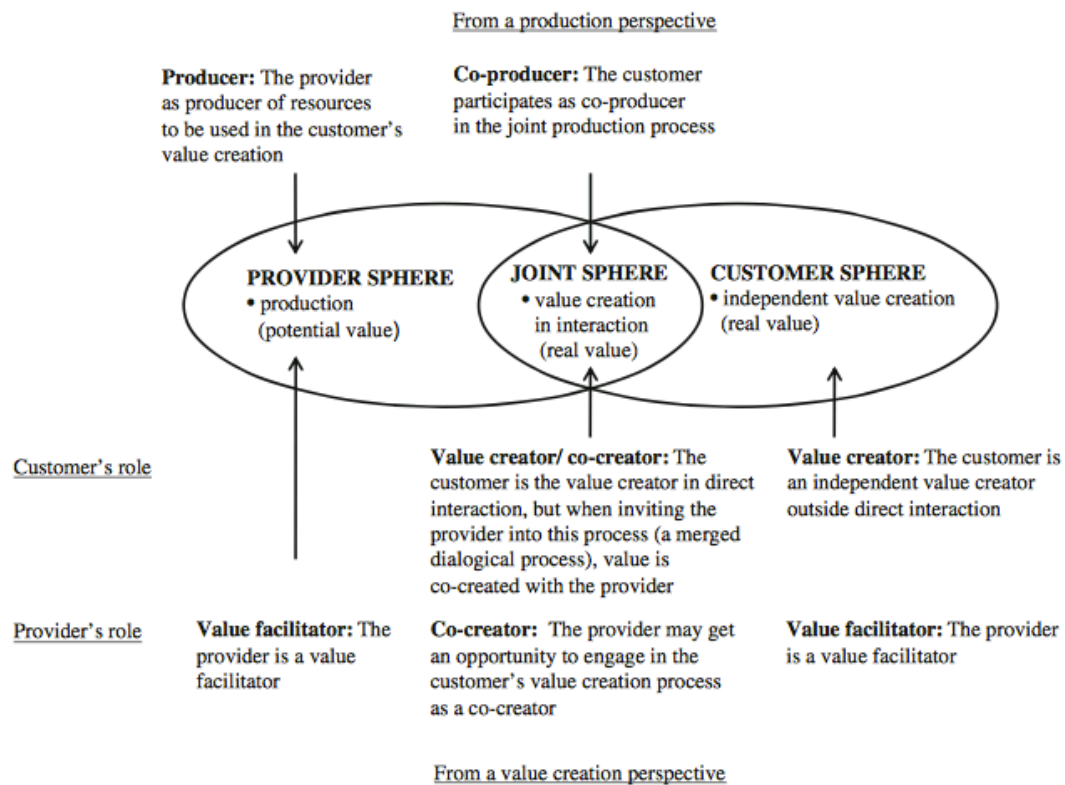
The author argued that the above mentioned framework is more appropriate for value co-creation in the online context, yet more research needs to be done to expand the knowledge (Zwass, 2010). It was further argued that it is up to the firm to provide direction in value co-creation for consumers, otherwise “without customers’ responsible behaviour, little value co-creation occurs in the service encounter” (Yi & Gong, 2013, p. 2).



### 2.2.2.1 Value creation spheres

More recent research argued that “value co-creation should be analysed on the basis of the roles of the customer and the firm and in recognition of the value spheres that encompass the provider and the customer” (Grönroos & Voima, 2013).

Figure 4. Value creation spheres (Grönroos & Voima, 2013)



Therefore, Grönroos and Voima (2013) proposed three spheres, where value is created by the customer and co-created jointly with an organisation.

**Provider sphere** – This is where an organisation takes on the role of a value facilitator. According to Grönroos (2011), in light of value-in-use, a firm can only facilitate value by organising its factors of production (including manufacturing, marketing, back- and front-end

offices), and merely offer an “output” to the customers, who will later use it in their own value-creation process (Grönroos & Voima, 2013, p. 9).

**Joint sphere** – The joint sphere refers to the situation where the actual interactions between organisations and customers take place. As stated previously, value co-creation can only occur when there is a direct interaction (Grönroos, 2011). Grönroos and Voima (2013) also claimed that the joint sphere does not offer an automatic mechanism for value co-creation. The authors further stated that it is a mere platform, where positive or negative interactions occur and which may lead to value co-creation as well as co-distraction, if not managed properly (Grönroos & Voima, 2013). The authors concluded by proposing that “by understanding the customer’s practices and how the customer combines resources, processes and outcomes in interactions, the service provider shifts from a mere facilitator to a co-creator of value” (Grönroos & Voima, 2013, p. 9).

**Customer sphere** – Unlike the majority of studies, which suggested that value creation is predominantly a function of an organisation’s processes (Ballantyne, 2006; Michel et al., 2008; Vargo et al., 2008; Zwass, 2010), Grönroos (2013) argued that, in terms of value creation, the customer sphere has not been examined in the previous literature (Grönroos & Voima, 2013). The author reasoned that value creation existed in the customer sphere as “sole or independent value creation”, emphasising that during this phase, “value creation by the customer is independent of the provider ” (Grönroos & Voima, 2013, p. 10). The author also argued that this is where the real value is created by the customer while the product / service is used, and an organisation does not have control over the process as this process sits outside of its influence (Grönroos & Voima, 2013).

## **2.3 Value perception**

A comprehensive research study was conducted into the notion of consumer's value perception, concluding "a major difficulty in researching value is the variety of meanings of value held by consumers" (Zeithaml, 1988, p. 17). Even though value perception was found to be a wide-ranging concept, the study highlighted four main attributes with which most of consumers associate the word value: "1) value is a low price, 2) value is whatever I want in the product, 3) value is the quality I get for the price I pay, 4) value is what I get for what I give" (Zeithaml, 1988, p. 14). Therefore, the study concluded that perception of value is formed by consumers on a premise of "what is received and what is given" (Zeithaml, 1988, p. 14).

The concept was studied further where authors mentioned that in order to enhance consumers' value perception, either the perceived benefits need to be increased, or perceived costs need to be decreased (Eggert, Ulaga & Schultz, 2006). However, in a more recent study, the authors concluded that "price reduction also may not be the best option to improve value-for-money perception" (Turel, Serenko & Bontis, 2010, p. 59).

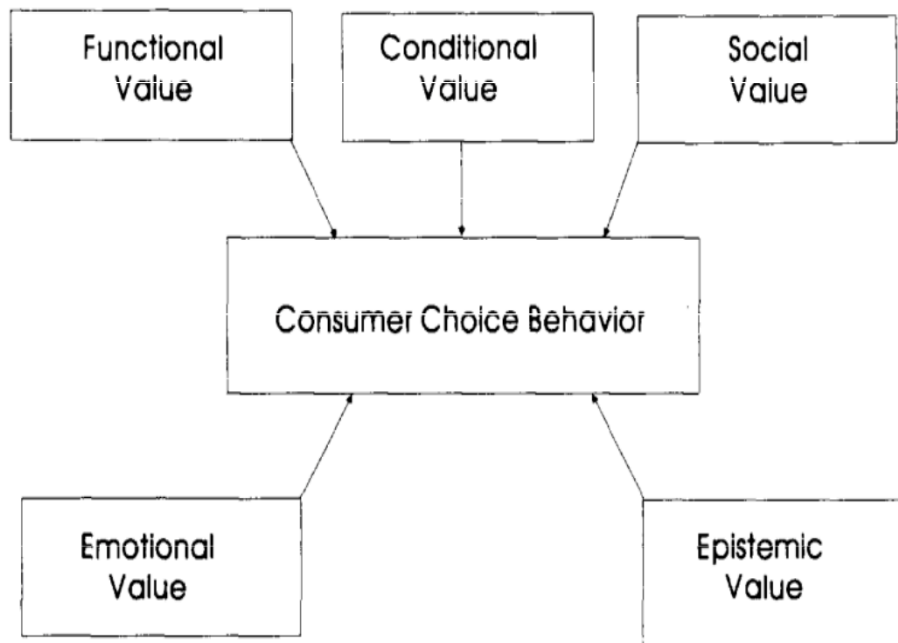
Costs and benefits were examined by scholars, who argued that the terms costs and benefits encompass more than a monetary value perception by including "considerations of the time, effort and search involved in the overall cost or sacrifice made by the customer in the consumption experience" (Sanchez-Fernandez & Iniesta-Bonillo, 2007, p. 429).

### **2.3.1 Consumer choice behaviour**

A profound contribution to the study of value perception was made by Sheth, Newman and Gross (1991) who, by conceptualising various academic disciplines, developed the theory

of consumption values. The theory consists of five facets of value, which attempt to address how consumers go about making certain consumption choices and the influences thereof.

**Figure 5. The five values influencing consumer choice (Sheth et al., 1991)**



- Functional value originates from a product's and/or service's capability to produce functional, utilitarian or physical performance. Additionally, apart from a primary function of a product or a service, attributes such as reliability, durability and price may influence consumers' behaviour as well.
- Social value influences consumer choice behaviour through a perceived utility associated with a negative or positive perception of a particular demographic, cultural or social group. That is, the choice of a product or a service may depend on what value society places on it and therefore affect consumption by an individual consumer.

- Emotional value associates with emotional responses to consumers' consumption of utilitarian and hedonic products or services.
- Epistemic value is based on a product's and/or service's ability to stimulate curiosity, provide novelty or satisfy a desire for knowledge. It is closely associated with new experiences and consumer value perceptions thereof.
- Conditional value is associated with a situational condition in which a product and /or service is consumed and which may enhance its social or functional value. That is, the context may affect consumer choice behaviour in a positive or negative way.

The authors asserted that although, in a perfect world, a consumer would ideally try to maximise all the values at once; in practice, a consumer is satisfied even if one value is obtained, therefore identifying their independence from one another (Sheth et al., 1991).

Since the concept's first appearances in the service marketing literature (Vargo & Lusch, 2004a), a more recent study attempted to explain customer value and its association with experience and interaction with a product or service, and highlighted the fact that the field of study has become of prime interest among marketing scholars (Turel et al., 2010). Even though the authors agreed with previous studies suggesting association of "functional needs and non-functional wants", with "social, emotional and epistemic values (Turel et al., 2010, p. 54), they stated that the original theory of consumption values is rather simplistic and does not provide for "behavioural outcome variables that go beyond mere purchase decisions" (Turel et al., 2010, p. 55). However, it was argued that the concept of perceived value in service marketing has become an illusive concept and needs a further investigation (Boksberger & Melsen, 2011).

## 2.4 Online retailing

World Wide Web as the e-commerce enabler of the 21<sup>st</sup> century has been studied extensively by many researchers (Childers, Carr, Peck & Carson, 2001; Griffis et al., 2012; Panda & Swar, 2013; Park, Shin & Ju, 2014; Pavlou & Gefen, 2004), with each contributing toward the notion of understanding e-commerce as a whole. Some studies have been focusing on examining consumer behaviour and consumers' evolving role in the development of e-commerce at large (Grewal, Roggeveen, Compeau & Levy, 2012; Rose, Clark, Samouel, & Hair, 2012).

Newton (1998) defined e-commerce as “using electronic information technology to conduct business between trading partners, using or not using electronic data interchange (EDI), using or not using the Internet” (as cited in Eastin, 2002, p. 2). Over the years, e-commerce has evolved into four main streams, such as online retailing, banking, investment and e-payments for online services, products and subscriptions (Bolton & Saxena-Iyer, 2009; Eastin, 2002; Lambrecht et al., 2014; Panda & Swar, 2013).

A growing number of internet-connected consumers has been mostly the reason for rapid growth of e-commerce and its online retailing industry in particular (Rafiq et al., 2013). Similar to traditional bricks-and-mortar stores, online stores are visited by consumers who may potentially commit to a purchasing transaction, should a selling item be perceived of value by online shoppers. Therefore, it is argued that the overall environment, which online retailers create for their customers, is as vital as that of offline stores and which typically revolves around interactions and value communication to the shoppers (Park et al., 2014).

With the advancement of “web-enabled” means and overall “ a consumer-centric culture of the Internet” (Venkatram Ramaswamy, 2002, p. 3), authors proposed that any type of organisation could potentially apply the concept of value co-creation as a physical interactive process between organisations and consumers (Leavy, 2012). Conversely, a more recent

study has argued that “individual online identities vary widely from their offline selves” (Huberty, 2015, p. 38), and more empirical studies need to be conducted on the subject of value co-creation in the e-commerce environment (Paredes et al., 2014).

#### **2.4.1 Firm-consumer engagement in online retailing**

Unlike a traditional bricks-and-mortar store, where typically the target market is seen to be the immediate location of an establishment with its own ways of engagement with customers, the Internet has changed the rules by which consumers and retailers interact with each other (Berry et al., 2010). The Internet has given consumers more power over online retailers in terms of online stores they wish to choose, goods they are willing to buy, and overall freedom of choice in light of alternatives being available on the World Wide Web (Riquelme & Román, 2014). As a result, online retailers began to realise the importance of being more interactive with consumers. They are more motivated to establish an online environment that facilitates open communication between online retailers and potential online shoppers ( Park et al., 2014).

Bolton and Saxena-lyer (2009) defined interactive services as “services that have some form of customer–firm interaction in an environment characterised by any level of technology” (p. 92). The authors also stated that such interactions mutually affect both customers and firms, therefore it is in the interest of both parties to have beneficial interactions (Bolton & Saxena-lyer, 2009).

Although, it remains challenging for the bricks-and-mortar stores to create such interactions (Grewal et al., 2012), an online environment appears to be more conducive for online retailers to establish such beneficial firm-customer interactions (Berry et al., 2010; Bolton & Saxena-lyer, 2009). “E-commerce is enabling new forms of firm-customer interactions, in

which customer participation is more intense and relevant” (p. 131). However, as far as engagement is concerned, by assigning the role of value creator to the firm and putting consumers on a second front, the study contradicted the previous study on value creation and co-creation where the authors highlighted consumers’ dominant role (Grönroos & Voima, 2013).

A mutual value is created when both consumers and firms are better off after interactions (Berry et al., 2010; Bolton & Saxena-Iyer, 2009). This had been suggested already by Vargo (2008) who advocated that value is co-created through interactions whereby “the goal of exchange is to use the applied knowledge of others (service) as resources to better one’s circumstances” (p. 6).

Grewal et al. (2012) attempted to explain the shifting notion of value communication and value creation, for both consumers and retailers, suggesting that it is no longer effective to simply offer products, but value indeed has to be recognised by the consumer. A more recent study proposed that the advancement of Internet-enabled technologies provides excellent opportunities for customers and firms to jointly co-create value by bringing together their own resources, hence the growing interest in the topic among researchers (Paredes et al., 2014). Yet, the authors claimed that there are still gaps in the literature on how the value is co-created in the online context (Paredes et al., 2014).

#### **2.4.2 Value perception in online retailing**

One of the pertinent differences between online retailing and offline retailing is the e-retailers’ ability to tailor customer experience by using a set of tools and techniques, some of which are loyalty enhancement and building of trust (Rafiq et al., 2013), product recommender systems (Baier & Stüber, 2010; Sarwar, Karypis, Konstan, & Riedl, 2000;



Schafer, Konstan, & Riedi, 1999), and customer-driven product reviews (Chen et al., 2012; Floyd et al., 2014; Zwass, 2010). It was argued that one of the main reasons for online retailers to keep innovating is the very nature of the industry with its customer acquisition processes: its costs and financial benefits (Rafiq et al., 2013; Reichheld & Scheffer, 2000). Reichheld and Scheffer (2000) suggested that “an increasing customer retention rate of 5% increases profits by 25% to 95%” (p. 106).

Rafiq (2013) argued that it is more *valuable* for retailers to ensure that the already acquired customers keep returning to the online store for further purchases, compared to “short-term, discrete transactions” received from once-off buyers (p. 495). Previous research studies support this view and stated that it is very costly for online retailers to acquire new customers, and efforts should be made to keep interacting with acquired customers and continue to engage with them to stimulate continuous online purchases (Reichheld & Scheffer, 2000). Authors recognised that in order to be able to conduct successful retention efforts, organisations need to enhance value creation for customers (Mohamad, Building & Ismail, 2012; O’Cass & Ngo, 2011).

In an attempt to reduce costs on new customer acquisition, many online retailers have begun to leverage their existing customer base by offering various incentives to those customers who refer a new potential customer to the store (Griffis et al., 2012). It was found that by offering online discounts, coupons or other complimentary items for referrals, online retailers managed to acquire new customers at relevantly low cost (Griffis et al., 2012). Another study proposed that engaging customers in rating online retailers’ services, website functionally, product offerings and viability served as a strong medium for attracting new customers (Thirumalai & Sinha, 2011).

### **2.4.3 Customer-to-customer interaction in online retailing**

Park et al. (2014) developed the concept further, arguing that value perception is increased when retailers facilitate the process of customer-to-customer (C2C) interaction. Arguably, such C2C interactions should be seen in the same category as the interactions customers experience with one another when they go to a traditional offline store. “Customers develop their sense of relationship with a retailer through identification with others” (Rose et al., 2012, p. 316).

By extending their efforts to engage with customers, as well as facilitate C2C interactions (Griffis et al., 2012; Park et al., 2014; Rose et al., 2012), it was proposed that online retailers, as well as customers, exhibit typical characteristics of a value co-creation process whereby both parties extend their services to gain a perception of their own values from such interactions (Grönroos, 2011; Michel et al., 2008; Shamim & Ghazali, 2014).

Another study took the notion of C2C interaction further by suggesting that organisations’ ability to co-create in the customer’s sphere is limited, yet if customers create their value-in-use successfully, they may engage with other potential customers and spread the knowledge of the product / service (Grönroos & Voima, 2013).

### **2.4.4 Value creation and value co-creation in the online retailing context**

Some of the initial theories on co-creation proposed that “companies must embrace the notion of consumers becoming partners in the co-creation of experiences” (Ramaswamy, 2002, p. 12), emphasising the fact that a company-centric approach to value creation could no longer vouch for long-term organisational sustainability (Venkatram Ramaswamy, 2002). This was further supported by Berry et al. (2010) and Zwass (2010), who argued that the changing landscape of the modern value chain presents new opportunities, where

“consumers can contribute to virtually every stage of the value chain” (Zwass, 2010, p. 25). However, authors remain silent on providing an answer to how value can be co-created in the online environment (Leavy, 2012; Paredes et al., 2014), and, analytically speaking, who the value creator is in the first place (Grönroos & Voima, 2013).

In their recent study, Paredes et al. (2014) concluded that although much attention has been drawn to studying e-commerce in light of value creation, the majority of studies embrace a good-dominant logic approach, whereby “value perceived by customers is explained by considering only the capabilities and resources that companies are able to contribute” (p. 21). The previous studies supported the above-mentioned conclusion, highlighting the good-dominant centrality in the online retailing context, when examining current online retailers’ practices in driving value (Griffis et al., 2012; Rafiq et al., 2013; Thirumalai & Sinha, 2011).

Paredes et al. (2014) proposed that “it is necessary to move the literature forward by adopting a service-logics approach and jointly considering customer resources and firm resources as value drivers” (p. 21). They proposed that online retailers should start considering customers on an equal level in a value creation process by having a better understanding of customers’ growing capabilities in co-creation (Paredes et al., 2014; Zwass, 2010).

Again, these studies put organisations forward when discussing value creation, and in spite of the prevailing (S-D) logic in their research, the authors evidently attached the word *value* to the firm’s side of the co-creation process, giving them the dominance in this regard. However, other authors argued that value also emerges from “mental and emotional experiences” (Heinonen et al., 2010, p. 2), and suggested that “the context – whether social, physical, temporal, and/or spatial – determines the experience of value-in-use” (Grönroos & Voima, 2013, p. 6).

Based on the argument that context and experiences play an instrumental role in value creation (Grönroos & Voima, 2013; Heinonen et al., 2010), these authors proposed that the value creation process is not linear in nature, and may begin even before the actual product is delivered or the service is consumed (Grönroos & Voima, 2013; Payne et al., 2008). When proposing this view, Grönroos and Voima (2013) explained that a customer typically begins to envision how a certain item can be used once purchased (value-in-use concept), and thereafter goes ahead and purchases the item. The author's example suggested that value creation begins on the customer side of the process and the retailer plays a role of a value facilitator, which contradicts Payne et al. (2008) who stated "the value proposition exists in order to facilitate the co-creation of experiences" (p. 4). Grönroos and Voima (2013) stated that in terms of actual value co-creation, the previous studies did not produce clear definitions of the roles organisations and customers play in the process. Other authors repeatedly stated that interaction has to take place (Leavy, 2012; Vargo et al., 2008; Zwass, 2010).

## **2.5 Conclusion**

To conclude, the literature review has revealed a certain trend in the changing notion of the fundamental understanding of value, its creation and co-creation, and more specifically, in the online retail context. The proponents of value co-creation argued that it is no longer sustainable to simply produce goods and services without taking customer into account (Grönroos, 2011; Pagani, 2013; Vargo & Lusch, 2008).

The (S-D) logic suggests that more benefits are assumed by both organisations and customers when the latter play a role of value co-creators (Grönroos, 2011; Vargo & Lusch, 2008). However, despite the fact that (S-D) logic has increased its dominance in the value creation and value co-creation literature, its metaphorical descriptions make it difficult to

draw managerial conclusions on what it actually is to create value for customers and be able to co-create value with customers outside firms' direct influence (Grönroos & Voima, 2013). The studies lack elaboration on the customers' creation of value-in-use, hence more analysis is required (Grönroos & Voima, 2013).

With the advancement of online technologies and an increasing number of online users worldwide, more online retailers have started to pay attention to their customer engagement activates in order to realise more value for the business (Berry et al., 2010; Grewal et al., 2012; Paredes et al., 2014). Other studies suggested that it is more valuable for an online business to retain existing customers compared to acquiring new shoppers (Floyd et al., 2014; Rafiq et al., 2013), and that the online environment plays an important part in value co-creation as whole (Chen et al., 2012; Leavy, 2012; Venkatram Ramaswamy, 2002). However, a more recent study identified gaps in existing literature on value co-creation in the context of (S-D) logic (Paredes et al., 2014), and more particularly within the online environment (Zwass, 2010). Grönroos (2013) advocated that it is up to customers to decide if they allow organisations to take part in their value creation, and not other way around (Grönroos & Voima, 2013).

The value creation spheres, introduced by Grönroos (2013), attempt to assign roles in value creation between organisations and customers, suggesting that such process is not linear and that the co-creation takes place only when the two interact (Grönroos & Voima, 2013). However, no empirical study warrants the firms' benefits, should it gain access to the closed customer sphere, and most importantly, how the firm would go about it in the first place (Grönroos & Voima, 2013). Further, studies conducted on customer-to-customer (C2C) interactions suggested that the closed-to-firms customer sphere may potentially present the firms with opportunities to co-create value as this is where customers exchange their

experiences; yet, there is still a gap in linking the concepts with (S-D) logic (Paredes et al., 2014).

The literature review has demonstrated an increasing interest in the field of value co-creation, more superficially in the context of online environment. However, a lack of empirical evidence and practical assessments of how value is created and when value can be co-created on the Internet, following the much-researched (S-D) logic, the field of the study is yet to be researched further.

## **2.6 Conceptual framework**

“A conceptual framework draws essentially on theory, research and experiences, and as such it is the structure, heuristic device or model that guides your research” (Bloomberg & Volpe, 2012, p. 87). The authors elaborated further by stating that a conceptual framework should not be confused with a theoretical framework. “Concepts defined as interrelated ideas”, whereas “a theory is a relationship among related concepts, assumptions and generalisations” (Bloomberg & Volpe, 2012, p. 87). Furthermore, it is critical to have concepts drawn up in a research paper as they assist in classifying, communicating and explaining empirical ideas upon which a research paper is built (Welman, Kruger & Mitchell, 2005). A well-structured conceptual framework serves as a blueprint for the entire research, which encompasses two purposes: “theoretical clarification of what researchers intend to investigate”, and the base for “development of the study and analysis of the findings” (Bloomberg & Volpe, 2012, p. 89).

To summarize the theories and concepts covered in the literature review, the following table was developed.

## CONCEPTUAL FRAMEWORK

**Table 1. Conceptual framework**

Section	Topic	Purpose and key concepts
2.1	Value creation and value co-creation	<ul style="list-style-type: none"> <li>To discern roles of customers and organisations in value creation and value co-creation</li> <li>Key concept: <b><i>value-in-use</i></b></li> </ul>
2.1.1	(S-D) logic	<ul style="list-style-type: none"> <li>To understand (S-D) logic and the dominant role of customers in value creation</li> <li>To understand interactions between customers and organisations in light of mutual benefits</li> <li>Key concept: <b><i>interaction</i></b></li> </ul>
2.1.3	Evolution of the existing models of value co-creation	<p>To illustrate evolution of value creation and value co-creation models in recent academic literature</p> <ul style="list-style-type: none"> <li>DART model</li> <li>Conceptual framework</li> <li>Taxonomic framework of value co-creation</li> <li>Value creation spheres</li> </ul>
2.2	Value perception	<ul style="list-style-type: none"> <li>To highlight fundamental principles of trade-off in the context of value perception</li> <li>Key concepts: <b><i>value perception, consumption experience</i></b></li> </ul>
2.2.1	Consumer choice behaviour	<ul style="list-style-type: none"> <li>To gain a deeper insight into the notion of value creation and value co-creation</li> <li>To assert the prevailing (G-D) logic in e-commerce studies</li> <li>To investigate origins of value and their prerequisites</li> <li>Key concepts: <b><i>value maximisation, behavioural outcomes</i></b></li> </ul>
2.3	Online retailing	<ul style="list-style-type: none"> <li>To overview evolution of e-commerce and its customer-centricity in light of value co-creation</li> <li>Key concepts: <b><i>value communication, interaction</i></b></li> </ul>

Section	Topic	Purpose and key concepts
2.3.1	Firm-consumer engagement in online retailing	<ul style="list-style-type: none"> <li>• To understand mutually beneficial interactions among customers and organisations</li> <li>• To understand importance of interactive services in light of value creation and value co-creation</li> <li>• Key concepts: <b>online engagement</b></li> </ul>
2.3.2	Value perception in online retailing	<ul style="list-style-type: none"> <li>• To highlight differences between online retailing and offline retailing</li> <li>• Key concepts: <b>value perceived online</b></li> </ul>
2.3.3	Customer-to-customer interaction in online retailing	<ul style="list-style-type: none"> <li>• To understand value creation in light of C2C interactions</li> <li>• To investigate media for value creation and C2C interactions</li> <li>• Key concepts: <b>user experience, value-in-use, C2C</b></li> </ul>
2.1.4	Value co-creation roles in the online retailing context	<ul style="list-style-type: none"> <li>• To gain a deeper insight into the notion of value creation and value co-creation</li> <li>• To assert the prevailing (S-D) logic in e-commerce studies</li> <li>• To investigate origins of value and its prerequisites</li> <li>• Key concepts: <b>context and experience in S-D logic, value proposition and value facilitation</b></li> </ul>



### 3 CHAPTER 3 - RESEARCH QUESTIONS

The literature review has highlighted some of the prominent concepts in the study of value creation and value co-creation. Academic scholars attempted to apply the notion of (S-D) logic in adding more academic knowledge into the subject of value co-creation, and more particularly in the online retail context. In order to gain more insights into the body of knowledge, the following research questions were crafted carefully and served as yardsticks whilst this research paper continued to evolve.

#### 3.1 Research question 1

- *What is the customers' as well as the online retailers' perception of value in the online retailing environment?*

In order to understand how value can be co-created in the online environment, it is critical to understand how value and its creation is perceived in the first place.

#### 3.2 Research question 2a

- *How can value be co-created in the online retailing environment?*

Once research question 1 has been answered, empirical evidence coupled with the theoretical premises outlined in the literature review will attempt to gain more insight into the notion of value co-creation in online retail.

### 3.3 Research question 2b

- *How can online retailers co-create value in the customer sphere?*

Various authors suggested that for value co-creation to take place, both firms and consumers have to be involved in the process. A more recent study took the value co-creation notion further, proposing that value co-creation also occurs in the closed-to-firms consumer sphere. However, the concepts remained metaphorical and needed to be explored further (Grönroos & Voima, 2013).

## 4 CHAPTER 4 - RESEARCH METHODOLOGY

Research methodology used in this thesis was of a qualitative nature and set out to gain better insights into value creation and value co-creation within the online retailing context: its origins and roles, which both consumers and retailers take part in in this regard. Unlike a quantitative research method, where conclusions are typically derived from statistical analysis, qualitative research is more flexible in its approach and findings and relies on non-statistical methods of information gathering, such as semi- and unstructured interviews (Saunders & Lewis, 2012).

### 4.1 Research Design

Qualitative research is typically conducted when the topic in question has not been explored in depth as yet and, by identifying gaps in the existing studies, offers the researcher an opportunity to acquire better understanding thereof (Marshall & Rossman, 1999). Saunders and Lewis (2012) explained that an exploratory study attempts to obtain new understandings of a particular topic that has not been researched fully. Exploratory studies are particularly useful when there is a new phenomenon in a field of research that necessitates further exploration. Although the notion of value creation and co-creation has been studied extensively over the years, more recent studies still identify gaps in the subject and highlighted opportunities for further investigations (Grönroos & Voima, 2013; Paredes et al., 2014).

Methods that were followed when conducting the exploratory study are:

- Reviewing academic literature and identifying gaps in the recent studies
- Conducting interviews with experts in the field of study

- Analysing collected data and drawing on certain research conclusions based on the data collected.

The literature review examined the broad concept of value creation and value co-creation and focused on the value creation and co-creation in the online environment, and online retailing in particular. However, the literature review concluded that more research needs to provide a more insightfully look into the topic of value, its origins and creators. Therefore, an exploratory study was deemed to be more suitable for the purpose of this research.

## **4.2 Population and sampling**

This research is concerned with getting deeper insights into the value creation and value co-creation following the (S-D) logic and the value-in-use concept (Grönroos & Voima, 2013; Vargo et al., 2008). To achieve this objective, it was imperative to draw population samples from both sides of the value co-creation process (Vargo et al., 2008): online retailers and online consumers.

### **4.2.1 Online retailers**

A combination of small and medium online retailers constituted the population. South Africa's National Small Business Amendment Act (26 of 2003) was used as a guide to differentiate the sizes of organisations. For the purpose of this research, eleven online retailing companies were selected. A personal network was used to select the first company to pilot the interview questions. The pilot interviews served as a pre-test mechanism to assess the relevance of the interview guide (see Appendix A and Appendix B) to address the research questions (van Teijlingen & Hundley, 1998).

No specific preference was given to the type of products selected online retailers offer to the market, as it did not have an effect on the purpose of the research and its investigation into value creation and co-creation. Maximum variation sampling was used as it is of advantage when a study aims to understand how and why the objects (research participants) view and understand a particular phenomenon in question, and “to identify important common patterns that cut across variations” (Palinkas et al., 2013, p. 3).

To secure the validity of the data, the following criteria were applied when selecting interview participants. They had to be:

- An executive of a company with at least 3 years’ work experience in the current online retailing industry; or
- A marketing or operation head with at least 3 years’ work experience in the current online retailing industry

The table below indicates the type of companies and study participants that were approached for this study. A short description on each company is to provide a basic information on the companies’ type of operation.

**Table 2. Summary of online retailers interviewed**

Allocated descriptor	Country	Region of head office	Position of a research participant	Description of a company
<b>Shop01</b>	South Africa	Johannesburg	General manager	An online company that has only an Online store / operation and which specialises in offering daily deals of different product types.
<b>Shop02</b>	South Africa	Cape Town	Head of marketing	An online company that has only an Online store / presence and which offers a vast array of general product types

<b>Shop03</b>	South Africa	Johannesburg	Co-founder and CEO	An online company that has only Online store / presence and which offers a vast array of general product types.
<b>Shop04</b>	South Africa	Cape Town	Co-founder and CEO	An online company that has only Online store / operation and which specialises in selling fashionable clothing / product types.
<b>Shop05</b>	South Africa	Cape Town	Managing director	An online company that has only Online store / presence and which specialises in fashionable clothing / product types
<b>Shop06</b>	South Africa	Cape Town	Director	An online company that has only Online store / presence and which specialises in offering daily deals of different product types.
<b>Shop07</b>	South Africa	Johannesburg	Digital executive	A company that has both Online stores and Offline stores and which offers a vast array of general product types
<b>Shop08</b>	South Africa	KwaZulu-Natal	CEO	An online company that has only Online store / presence and which specialises in selling a variety of electronic items and gadgets.
<b>Shop09</b>	South Africa	Cape Town	Co-founder and CEO	An online company that has only Online store / presence and which specialises in selling unique electronic items and gadgets.
<b>Shop10</b>	South Africa	Cape Town	Managing director	A company that has both Online store and Offline stores and which offers clothing items as well as general product types
<b>Shop11</b>	South Africa	Johannesburg	Head of digital	A company that has both Online store and Offline stores and which offers a vast variety of different product types.

#### 4.2.2 Online consumers

To investigate the roles of customers in value creation and co-creation, a personal network was used to identify the first online consumer who purchased goods at online retailers at

least once in the past three months. This was one of the qualifying criteria for an interviewee to be regarded appropriate. Non-probability technique was used to select the sample.

Although it was argued that “in theory, all research can (and should when possible) use a probabilistic sampling methodology” (cited in Guest, 2006, p. 61), “this is virtually impossible to do so in the field” (cited in Guest, 2006, p. 61). Therefore, a non-probability technique is often used in qualitative research design and is deemed to be a more practical way of sampling in order to be able to draw a smaller sample size and gain the needed rich data on the topic in question (Saunders & Lewis, 2012).

Once the first participant was selected for the pilot interview (van Teijlingen & Hundley, 1998), a snowball sampling technique was used to identify the remaining participants, achieving a total sample size of eleven online consumers. As sometimes, it is difficult to find appropriate participants for a certain study in the given context, the snowball sampling technique was used to sample the needed population. The technique allows new participants to be identified by the already drawn sample members (Saunders & Lewis, 2012). Characteristics of the consumer sample are provided in the table below.

**Table 3. Summary of online consumers interviewed**

Allocated descriptors	Country of origin	Region	Gender	Age	Interview language
<b>Cons01</b>	South Africa	Johannesburg	Male	32	English
<b>Cons02</b>	South Africa	Johannesburg	Female	36	English
<b>Cons03</b>	South Africa	Johannesburg	Male	34	English
<b>Cons04</b>	South Africa	Johannesburg	Female	30	English
<b>Cons05</b>	South Africa	Johannesburg	Female	27	English
<b>Cons06</b>	South Africa	Durban	Female	30	English
<b>Cons07</b>	South Africa	Johannesburg	Female	28	English
<b>Cons08</b>	South Africa	Johannesburg	Female	38	English

<b>Cons09</b>	South Africa	Johannesburg	Female	25	English
<b>Cons10</b>	South Africa	Johannesburg	Male	26	English
<b>Cons11</b>	South Africa	Johannesburg	Female	23	English

### 4.3 Unit of analysis

Due to the nature of this research paper, the unit of analysis was a line of a transcript, which was attached to emerged sub-categories in a firm of coded data. Saunders and Lewis (2012) found that “units of a line of a transcript, a sentence and an individual response can all work well” (p. 194).

### 4.4 Data collection

In order to collect appropriate data, in-depth interviews were conducted with individual managers and / or executives of online retailers as well online consumers in South Africa. Boyce and Palena (2006) defined in-depth interviews as “a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, programme or situation” (p. 3). In-depth interviews may be of semi-structured and unstructured nature.

Saunders & Lewis (2012) described semi-structured interviews as a form of data collection where a researcher performs interviews with research participants by using predetermined questions in non-sequential format; that is, an interviewer may decide to leave some questions out or add more, should that be deemed necessary. To secure greater participation and reliability of data, typically, semi-structured interviews are conducted face-to-face or through telephone conversions. Unlike semi-structured interviews, unstructured interviews will not follow a certain predetermined pattern or a prepared list of questions.



Based on the literature review, a list of open-ended questions was developed for both groups of research participants: managers and/or executives of online retailers and online consumers (see Appendix A and Appendix B). The interview questions addressed key elements of the research topic. Acknowledging the complexity of the study, simplicity and the ease of understanding of the interview questions were kept in mind during the process of questionnaires development. It was believed that participants' answers would offer further insights into the topic and assist with answering the research questions.

#### **4.5 Data analysis**

In order to support research design, the research approach needed to be investigated and crafted carefully. In general, there are two opposing types of reasoning. The first type of reasoning is the deductive reasoning, where individual instances are derived from general observations and investigations (Zikmund, Carr, Griffi & Fuller-Jacobsen, 2010). It was asserted that due to the very nature of deductive reasoning, this type of reasoning is more suited for a qualitative study on a large group of participants (Welman et al., 2005).

The second type of reasoning, called inductive reasoning, is the opposite to deductive reasoning. Inductive reasoning is based on a premise that the research progresses from individual instances to the general (Welman et al., 2005). The inductive research type is more suited for a qualitative study on a small group of participants, in order to develop a broader understanding of a phenomenon in question (Welman et al., 2005). Therefore, it is believed that the prevailing reasoning behind data analysis of this research paper will be of the inductive nature.

To analyse the data, a computer-aided qualitative data analysis tool ATLAS.ti was used. As per Saunders and Lewis (2012), qualitative data analysis typically begins with a process of

transcribing audio-recorded interviews into a text data. The qualitative data analysis tool then further assists with coding. During the coding process, the transcripts had to be revisited multiple times to identify common themes and to be able to segment certain similarities and deviations into main groups, and thus address the research purpose.

#### **4.6 Research limitations**

Due to its scope, the following limitations may hinder the findings:

- Participants of the research interviews may not be familiar with the research concepts in question;
- Non-probability with its snowball sampling may reduce the validity of the research findings (Saunders & Lewis, 2012);
- Interpretation bias may occur due to the subjectivity of exploratory research as a whole (Saunders & Lewis, 2012);
- The obtained results may be not applicable in industries outside online retailing.

## 5 CHAPTER 5 - RESULTS

### 5.1 Introduction

In order to address the research questions set out in Chapter 3, and gain deeper insights into the research topic, both online retailers and online consumers were interviewed, using a semi-structured questionnaire and interview format. Interpretations of the results of this study were reviewed and verified by a holder of PhD, who is also currently advancing towards obtaining a second Doctorate Degree. Each interview took approximately 25-30 minutes. Following the snowball probability sampling (Saunders & Lewis, 2012), most of the online shoppers were interviewed face-to-face in the Johannesburg area of South Africa. A qualifying criterion in terms of appropriateness of an online consumer for the research purpose was that a consumer had shop online at least once in the past three months.

An interview guide (see Appendix A and Appendix B) was used initially while piloting the first interview with an online consumer. A similar approach was used when piloting the first interview with an online retailer. After the initial pilots, it became evident that the interview guide had to be refined, whereby long open-ended questions were broken down into smaller parts of open-ended questions, providing richer and more meaningful data as far as the research topic is concerned. Furthermore, during some interviews, additional questions were asked to gain more clarity of participants' responses.

It was stated that should a pilot study be included in the main research body, contamination may occur (van Teijlingen & Hundley, 1998). However, the authors argued that "contamination is less of a concern in qualitative research, where researchers often use some or all of their pilot data as part of the main study" (van Teijlingen & Hundley, 1998, p.

3), highlighting that separation of pilot studies and the main research body is not necessary. Therefore, because no changes to the main research body were suggested by the pilot interviews, and as a limited number of research participants took part in the study, both pilot interviews were left in the main research body and included in the data analysis.

During the pilot stage, the initial analytic memoranda assisted in refining the interview guide to improve the ultimate interviews. Throughout the entire interview and data collection process, analytic memoranda were jotted down to “document and reflect on” the researcher’s “coding process and code choices; how the process inquiry is taking shape; and the emergent patterns, categories and subcategories, themes and concepts” (Saldaña, 2010, p. 32). Meaningful titles were assigned to analytic memos and later transcribed and captured in AtlasTi for further use while developing the study.

The majority of online consumers were interviewed using a face-to-face approach. However, due to the wide geographical spread of online retailers and a limited financial budget assigned to the research project, the majority of online retailers were interviewed by means of telephone conversations. Such telephone interviews did not take as long as the face-to-face interaction and the average interviewing time taken was approximately 15-20 minutes each.

While interviewing online retailers over the phone, the process of the conversation recording for further transcription and analysis remained the same: a voice recording computer application was used in combination with a loud speaker functionality of a cell phone. Once interviewed, the recording was transcribed into a Microsoft Word document for further research analysis. On average, each transcription contained eight pages with a standard 1,5 line and paragraph spacing. It took approximately two hours to conduct the First Cycle (Saldaña, 2010) of coding each interview transcript.

### 5.1.1 Coding methods and data structuring

The analysis of the collected interview data followed the principle of First and Second Cycles (Saldaña, 2010). It is very rare in qualitative research during the data coding process that coding is perfect at the first attempt. Often, the initial codes developed during the First Cycle of data analysis are “subsumed by other codes, relabelled or dropped all together” (Saldaña, 2010, p. 10).

Due to the inductive nature of the research study, In Vivo and Initial coding were used primarily to analyse the transcribed data and split it into coded parts. In Vivo, process and initial coding are the processes that form part of the elemental methods of the First Cycle (Saldaña, 2010).

Once the data was coded, the first codebook was drafted (see Appendix C). To secure data consistency and reliability, by following the principle of the First Cycle, the interview transcripts underwent a number of further coding iterations, using constant comparison and memo writing. As a result, some codes were dropped due to conceptual irrelevancy and some conceptually similar codes were merged into one code. The final codebook was developed after the number of coding iterations were deemed to be sufficient (see Appendix D) and the initial set of sub-categories was developed to group conceptually similar codes together. The table below presents the emerged sub-categories in alphabetical order.

**Table 4. Emerged Sub-categories after the First Cycle**

Behaviour	Engagement	Motivation	Reputation
Business	Experience	Offering	Satisfaction
Communication	Factors	Offline environment	Service facilitation
Community recommendation	Fulfilment	Online environment	Suppliers
Competition	Historical data	Preference	Technical aspect
Cost	Influence	Price	Trend
Demand	Justification	Priority	Value creation
Differentiation	Loyalty	Product	Value perception
			Value proposition

Thereafter, the Second Cycle was applied to refine the codes and sub-categories that emerged from the First Cycle. Broadly speaking, the aim of the Second Cycle is to “develop a sense of categorical, thematic and/or theoretical organisation from your array of First Cycle codes” (Saldaña, 2010). The outcome of the Second Cycle was a table of broader categories developed after reorganising and reconfiguring final codes and sub-categories. The table below presents the emerged categories and sub-categories in alphabetical order.

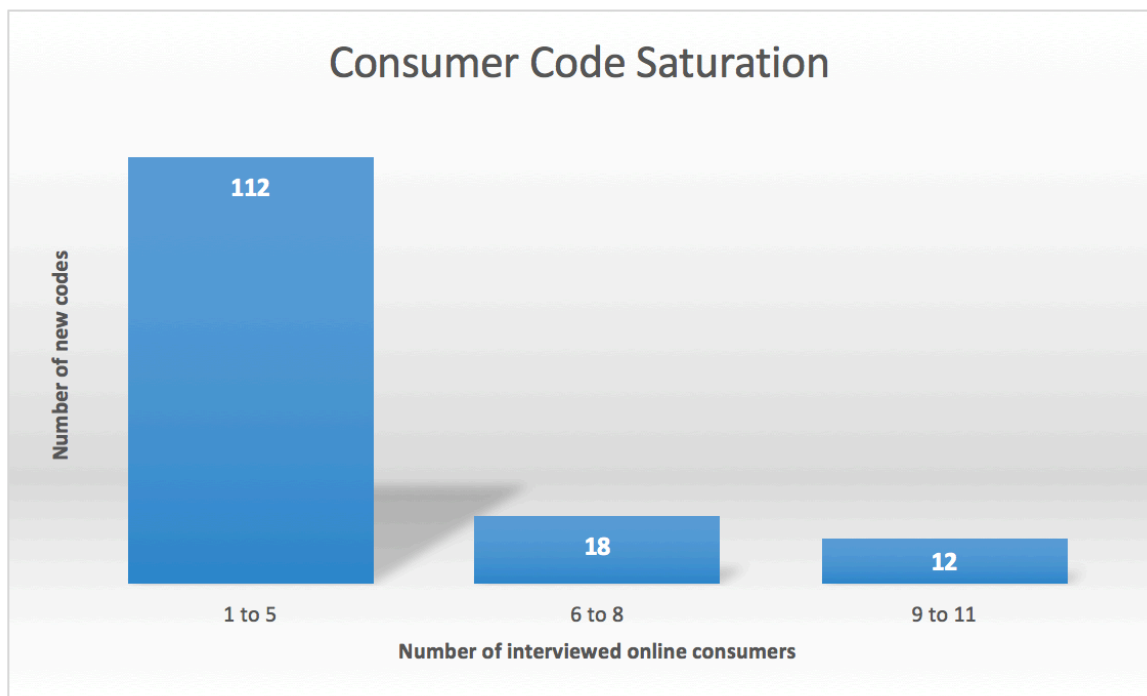
**Table 5. Emerged Categories after the Second Cycle**

Perception	Proposition
Experience	Service
Behaviour	Community
Engagement	

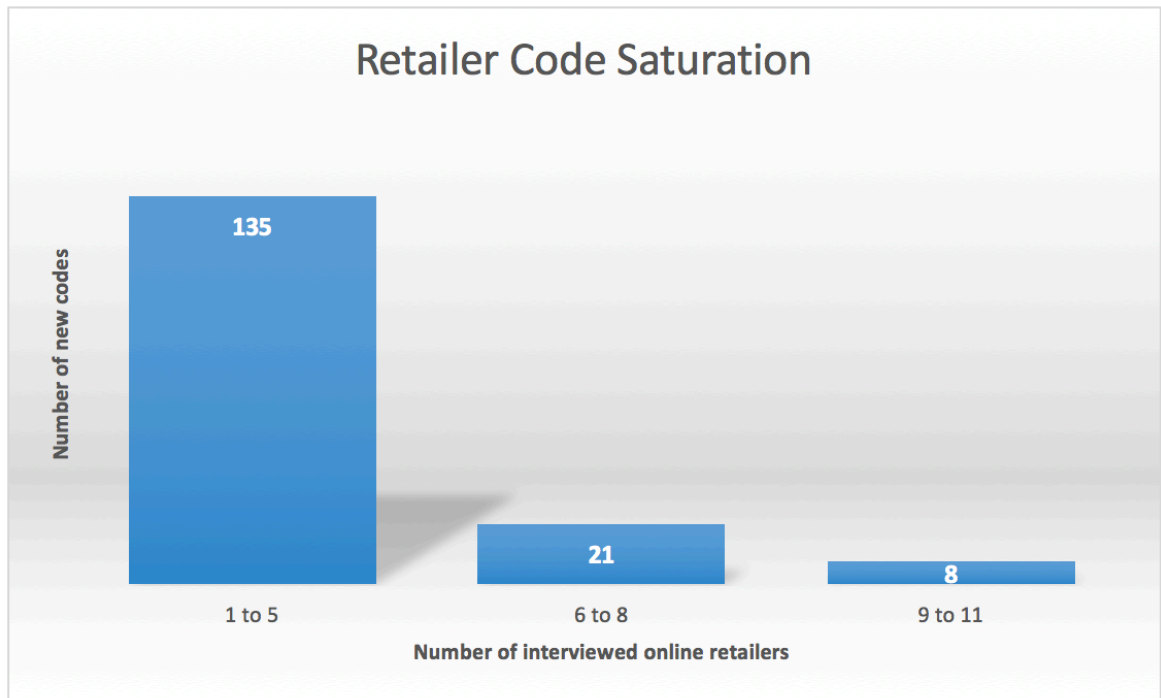
### 5.1.2 Data saturation

Data saturation is a point in the data collection process when “new information produces little or no change to the codebook” (Guest, 2006, p. 65). Coding saturation is a consequence of data saturation. That is, following the research methodology outlined in Chapter 4, both online retailers and online consumers transcripts were split into two and the emerging codes were scrutinised for the purpose of identifying “a reliable sense of thematic exhaustion and variability” within the two data sets (Guest, 2006, p. 65). Consequently, the following graphs were developed to display coding saturation points, which were deemed to be sufficient for the purpose of the study.

**Figure 6. Consumers - coding saturation**



**Figure 7. Retailers - coding saturation**



## 5.2 Categories and themes

### 5.2.1 Research question 1

#### 5.2.1.1 *Value perception*

While conducting interviews with online consumers and online retailers, similar value perceptions emerged among consumers. In the online retail context, the majority of online consumers mentioned that website usability, as well as visual value perceptions had more profound effect on overall value perception. However, as presented below, online retailers had a very different view in this regard.



### 5.2.1.1.1 Usability and product offering

Website usability appeared to have a significant effect on consumers' value perception. Many online consumers highlighted a rather negative aspect of the current state of online retailers' websites. Online consumer Cons02 suggested: *"I would suggest to a retailer to make sure that everything is categorised and not 1000 products per category"*. Online consumer Cons04 explained: *"I find most of the sites quite difficult to navigate. They do have it classified according to categories, but your shopping is not quite a linear process ..."*. Online consumer Cons06 elaborated: *"... make the user journey simpler and basically make it quite clear, I think people would buy more if they could find things easier"*. Online consumer Cons10 suggested: *"...making it easier to find things because [online retailer] could categorise things a little bit better"*.

On the other hand, it appeared that online retailers have a different view on product selection and product offering. Online retailer Shop03 explained:

*"We do not try and push the fact that it is secure and credit card processing, that is already a given. We try and promote products more than anything else, or discount vouchers. ... because of the product selection we have, we feel that they value the number of products that we are able to offer them"*.

Online retailer Shop10 pointed out: *"You do not ask customers for feedback, give them a lot of selections and ask them to pay ..."*. Online retailer Shop04 expressed: *"That is also why having a lot of product choice is important. The more products you have, the more likely they are to find something and the more likely they are to buy"*. Online retailer Shop07 said: *"The biggest motivation for coming to our store is the research, you see ... that based on the volumes ..."*.

Highlighting their business model around the product offering, one online retailer Shop09 added:

*“We are constantly searching for new and innovative products to add onto your website. If we discover an item that we like, we usually look around at other local online stores to see if any other shops are already selling the product. We like to stock products that are not already easily available at other shops, so if a product is already available at other places, then we will most likely decide to not stock it”.*

#### **5.2.1.1.2 Visual perception**

A number of online consumers expressed their value perception in visual terms. Online consumer Cons02 said: *“I can actually picture myself with that item in my kitchen, stirring a stew. A spatula, or whatever it is”*. Online consumer Cons03 said: *“So the visual element to a site in my shopping experience plays a big role. So the more visually appealing, the better the chances are that I would shop there”*.

When speaking about buying clothes online, online consumer Cons04 explained: *“So you already visualise how you are going to look in it, where you are going to wear it, and that type of thing”*. Online consumer Cons11 said: *“... and maybe they will have a dress that I like and I will save the pictures to have someone make them for me. And you get new style ideas on how to dress”*. However, online consumer Cons05 stressed a potential problem with product visualisation by saying: *“You see the picture online of the product and the description; and then it comes and it is actually like not the same thing”*.

On the contrary, online retailer Shop04 expressed their concern with rich visual imagery and how such visuals may be perceived by the customers:

*“Value again. So we have a price perception problem currently in that I think because the website looks aspirational and is very sleek and the user experience is great - people assume that the product is expensive ... ”.*

In terms of value adding by means of product reviews, online retailer Shop01 stressed:

*“The thing is, people do not read. That is a legitimate thing - especially for online. They do not read, so you cannot give long descriptions of products and things. People see a price and an image and they want to buy it or not. So, when we market things, we have to market the price and the product and that is it. Hopefully, that is how you draw them in; because we tried it before with a bit more description or a bit more information. Then when we changed it to no information, it worked better”.*

Curiously enough, not many online consumers mentioned online reviews in a context of overall value perception. One online consumer, Cons01, however, mentioned:

*“Going back to the non-necessity items, like a book or a device or a piece of technology that I have never used, yes, I would heavily rely on feedback, either from an online review or someone in my circle of friends or family”.*

### **5.2.1.2 Experience**

During the process of conducting the interviews, the notion of experience in purchasing goods online kept reappearing in different contexts. Some discussions emerged around comparison of online and offline shopping environments, as well as the overall convenience of purchasing online, and ease of use.

Online consumer Cons04 elaborated

*“I would compare it to categories. If it is a clothing store and they don’t have a physical store, I would almost expect the same experience as what I had in a physical store, so trying items on. I know the technology is not there, but even if you upload a photo of you and you can place the clothes on or whatever it might be. It is then the same experience”.*

Online consumer Cons09 highlighted:

*“Another thing is that it is very convenient – it is easy for me. For example, it has been ages since I have been to [major clothing chain store] - the reason being, I can see something on the website, but if I try and go to the store, I cannot find it”.*

Online consumer Cons08 explained: *“The value for me also is just time - time and ease. I do not have to go and park and then shop and then take off my clothes and try something and then stand in a long queue”.*

However, the other online consumer Cons03 explained their concerns with online environment by saying:

*“The problem is you almost feel like you have got no control. You are clicking buttons and you are hoping for the best. Whereas when you go into a store you can say, I was at the [major retailer] in [physical address], I bought this, this is what went wrong, this is my slip, I was at till no. 5. Online it is almost ... it is a virtual environment”.*

Online retailer Shop1 expressed their difficulty by saying:

*“Yes, I mean you have got to make sure that the products you are selling, like the quality is good and all that kind of thing. So if I am selling a cup - I need to know that if I bought that, would I use it? Do I think it is good; is it chipped; is it smaller than you think - there are a lot of things. You have to try and put yourself in the customer’s*

*shoes. But it is very difficult to do that all the time, but yes, you have to understand what they want; how they want it; what kind of products they want; how do they use the product. All of those things you should take into account of course, but it is quite difficult to do that”.*

Online consumer Cons02 linked a potentially negative user experience to an online retail website functionality and product search:

*“It is difficult. Like that specific example, someone will have [unique product], but you will not be able to find it if you do not stumble across it because how do you type that into a search engine? The flip side is you can build twenty drop down boxes, but then it is too complicated and it is not a nice end-user experience. So they must try and optimise the search element attached to these sites”.*

Online consumer Cons02 highlighted:

*“So that is how they can create value ... and obviously on these sites, you create profile and username and password. The algorithms build up every time you shop and every experience is more enhanced because they have more and more history”.*

Another functional aspect of a user experience was highlighted by online consumer Cons05 who mentioned: *“... you do not want to have to click around a million places to try check something into your trolley”.* Online consumer Cons07 linked their purchasing decision to the notion of user experience by stating: *“Purchasing decision for me talks to ... if the website is user friendly, like I said before, storing my details for ease later on”.*

### 5.2.1.3 Behaviour and fulfilment

Within the online retailing context, as far as value origination is concerned, behavioural patterns emerged throughout the data analysis. Both online retailers and online consumers expressed clear ideas on origins of their interaction with each other and what drives behaviours thereof. Among similar consumer behaviour patterns such as searching for special deals and bargains, there were a few who shopped out of a sense of boredom or bought on impulse.

Online consumer Cons01 said: *“It is generally price driven. So I see something [offline retailer] and then I think, can I maybe get this cheaper online and that is the cycle for me”*.

Another online consumer Cons05 explained: *“Well on the websites, the main thing for me are the daily deals - those daily specials that you can get”*. A different behaviour drive was expressed by online consumer Cons07: *“I am bored, let me look online and see what I can buy”*.

Similarly, online consumer Cons04 stated:

*“So let me say I have a few hours to kill and I kind of just go through the site to see what it is that they have and I have not really thought about what it is that I want to buy. I will browse through the latest collections or something like that and something will catch my eye and I will absolutely buy it”*.

On the other hand, online retailers explained their willingness to try and understand consumer behaviour in order to achieve their own objectives. Online retailer Shop02 mentioned

*“We try to do a lot of direct marketing. So a lot of marketing where we look at shopping behaviour and do they want categories that the person shops in, or what he wants to shop in or he indicates what category he is interested in”*.

Expanding on the marketing aspect, online retailer Shop05 stated: “Basically for us, our user behaviour is very important - so we look very deeply at our marketing reports”. Online retailer Shop10, that also has a physical store in the bricks-and-mortar environment, explained:

*“I think they see value, especially convenience in browsing products ... so if they might want to know what products are in the physical store, they might want to know the opening hours of a physical store, they might come through organically, they might want to see a specific product that they have searched for or they might want to see a product that has been pushed to them through some sort of marketing”.*

When discussing online consumer behaviour, online retailer Shop3 highlighted the importance and the use of modern technologies to predict it:

*“... let us call it artificial intelligence and neural-metric systems, which actually work out what people - based on their browser behaviour - what they are shopping for and promoting those particular products through e-mail marketing ... in general, you have to use a customer’s browsing behaviour... . The days when you could just send out generic products are over - people want to receive material in their inbox that is relevant to them”.*

During the interview process, many online consumers mentioned their personal needs and wants that drive them towards online purchasing. However, no clear consensus emerged among responses as far as the main driver.

Some online consumers suggested that their willingness to purchase goods online originates from a need for a specific a product. Online consumer Cons11 mentioned: “*I would only shop when I need something and then I would buy it at whatever price I can ... what it then costs*”. Online consumer Cons02 reaffirmed: “*I am not going to now buy a jacket because it is on sale. If I need a jacket I am going to buy a jacket*”. Similarly, online consumer

Cons05 stated: *“...if I need something, obviously then I will go and search for it specifically online...”*

However, some participants mentioned the complete opposite. Online consumer Cons07 said: *“Most of my online purchases are, like I said, it is not a need, it is a want. I am not going online to buy my food. I am going online to buy a pair of shoes that I like or to buy a jacket that I do not necessarily need, but it looks nice”*, highlighting necessity of certain product types and their preference in the eyes of the consumer to enable impulse purchasing. Online consumer Cons08 also contradicted the need as a driver and supported impulse purchasing by saying:

*“When I go online, I am just going out of interest or to see what is around - I never go online... 9 times out of 10, I do not go online saying, I need a watch now or whatever it might be. But then once I am online then I am swayed to buy something”*.

The interpretation of overall needs and wants of consumers as a fulfilment mechanism is very broad and is of complex nature. The complexity was highlighted by online retailer Shop01

*“You want to make more sales. So how do you make more sales? You give the people what they want. But what do the people want - that is the question; because we have such a diverse range of consumers. Our customer base is not an obvious demographic or an obvious ... I mean we have people that do not even know how to use a computer; to people that work in [major local bank]”*.

Some online retailers appeared to be indifferent to understanding the product value they create for online consumers. Online retailer Shop02 said:



*“There’s no real need for us to do that. I think that is one thing, that question is more to a supplier, someone who actually comes up with the product, develops the product, and they need to sell a product within their range. For us, we know there is already a need for that product, we are purely a portal or a platform where people can get access to those products at great prices”.*

#### **5.2.1.3.1 Motivation**

Most of the consumers, irrespective of their personal ideas of whether it is a need or a want that drives their behaviour, used those broad terms in combination with other personal fulfilment elements. One online consumer Cons11 highlighted: “... *because you want to be happy, you buy it*”. Apart from the state of happiness, other consumers mentioned intrinsic motives such as self-reward, good feeling, excitement, anticipation, and desire.

Online consumer Cons07 indicated:

*“I reward myself with this kind of stuff, I work hard, I want to be able to spend my money on things that make me feel good and buying a nice jacket, buying a nice this makes me feel good, it makes me feel like I am doing something with my money other than paying my bills, I am doing something that makes me feel good”.*

Online consumer Cons09 expressed:

*“I am just so excited the package will be delivered to me. So I do not think about what I buy, as long as I am going to buy some things and it is delivered to me, then I am excited”.*

Online consumer Cons05 shared: *“If you cannot get it soon, then you kind of lose that excitement of buying something online”*. When comparing the online buying experience with offline retailing, online consumer Cons08 stated:

*“... it is an anticipation of seeing that parcel the next day. That feeling when you get that parcel and you have to open it and see if it fits and is the right size or if it matches – it is that. I do not get that high when I go into shops”*.

Online consumer Cons01 explained:

*“Yes, I suppose [products] are bought for different needs. Nappies comes out of a need; whereas the DVDs, they were not a need, there was a lot of value in them, but it was not a need, it was almost like a luxury; but it filled a desire as opposed to filling a need”*.

Similarly, the aspect of fulfilment and intrinsic motives was touched on by online retailer Shop04, who elaborated:

*“I guess the lines are always blurred – I wanted them and I needed them. I guess on [the retailer] ... so when you have got the difference between high fashion and then core lines. So you know that guys need underwear and need socks and they need a plain white shirt because you are going to have one and you are going to need one rain jacket. They might want a pair of bright trousers or girls might want a very fashionable dress”*.

Contrary, the data analysis strongly indicated the presence of other motives. Online consumers are also motivated to go online shopping because of special offers they can get and how that will save them both time and money. Online consumer Cons08 expressed: *“So I got it on sale or I got a R100 voucher - vouchers work very well in my life. Regardless of*

*the actual value, but it is a perceived value that I am getting a discount". Online consumer Cons05 explained: "Because I like to visit daily sites and see what daily specials they have. As I say, there are often very good prices on online shopping that you have to take advantage of".*

When describing their motivational drive for special deals, online consumer Cons06 explicitly showed her understanding of why online retailers offer such deals, by saying:

*"[online retailer] is also very clever in what they do to try and get you into online shopping; for example, you have bought a voucher for someone, like on a wedding registry or whatever, they then send you an e-mail which is very personalised to say "I see you bought something for so and so, here is R100 to spend on yourself", which is very clever to pull people in".*

The understanding of value creation for consumers resounded in online retailer Shop01's discussion:

*"... you can see what they buy; you can see the type of people they are. So you can look and see, okay, I have a customer that spent R10 000 with me over the last year - that is crazy. I need to be spending time with that person. What are the things they are buying? Okay, they are only buying kids' things. Okay, let us start pushing something directly to them or offer them a voucher."*

Online retailer Shop05 simply stated: *"Because for us, we always have to make sure that we are offering good discounts and give that customer that value".* Online retailer Shop06 confirmed: *"I think at the end of the day, it is the discounts. The products at reduced prices that they would not be able to get anywhere else, hopefully. But that is the main thing - discounts".* Linking the understanding of consumer behaviour (or the lack of it) to special offerings, online retailer Shop03 concluded: *"... what we do if we do not know what their*

*browser behaviour is - what we do is we do vouchers, which can be used across the entire site and which are much easier to manage”.*

Yet, on the other hand, some online retailers leverage their relationship with suppliers and, by understanding suppliers’ basic business models, they create value for both online consumers and supplier. Online retailer Shop05 affirmed:

*“And what we find is that with in-store sales, it really detracts from a brand power; because the brands are putting their stock on sale and saying look, we charged you R800 originally, but now we are willing to let it go for R400. So the whole point with our online platform, we do give the brand that opportunity to sell the product in a sort of protected environment - in the sense that to the consumer, it is very promotional, it is a very limited time. It is a different mind-set then just like - oh, it is an in-store sale, the product was not moving”.*

## **5.2.2 Research question 2a**

### **5.2.2.1 Value proposition**

When discussing value propositions and the retailers’ understanding of how the products’ offer would ultimately benefit consumers, it appeared that little consideration is given to this matter. Online retailer Shop4 said: *“... the product, when you have got it at home, you could have bought it online or you could have bought it in the store. Once you have the jacket on you or the jeans on you, there is little difference”.*

Online retailer Shop11 explained:

*“... we came to assume that we know how they use it, because of the nature of the product, it is a physical product that they will use in a certain way. I do not think we*

*perceive any real value in understanding how they would use it, whereas if it was a service there would be a lot more value in that”.*

Online retailer Shop01 expressed:

*“The thing is online, it is not customer focused; you are not face-to-face with people every single day. So you cannot explain; you know, you have to leave it up to your website and your site needs to be user-friendly; it needs to have all the answers, because we do not ... people do not have time”.*

Online retailer Shop05 also mentioned:

*“ ... our value proposition is directed more towards the suppliers. Because ultimately, we are a market place and what we offer is an extra channel for the retailer to sell their products ... the reason the customer buys it, is not necessarily because it is tailored to what they want or whatever. The biggest driver is the price for the customer”.*

### **5.2.2.2 Services**

In the online environment, service delivery is perhaps one of the pivotal functions to run a successful online retailing operation. Throughout the interviews, the importance of timely delivery, return policy, as well as customer support as a service function was mentioned by many online consumers. Yet, in certain aspects, online retailers' views differed from this perspective.

### 5.2.2.2.1 Delivery services

What stood out most is that the majority of local online retailers do not run their own logistics and rely on third-party logistic companies as well as the local post office services. Online retailer Shop07 mentioned: *“...the biggest benefit for people who shop online is convenience, from a personal convenience perspective that is the biggest benefit that they are going to get ...”*. However, online consumer Cons07 said:

*“When you order online, it needs to be easy, I can walk into the shop if I want to and buy something today. I am ordering online because I want something where I do not have to go to the mission of going to a shop. So if the mission is me having to phone the post office saying – where are my goods, then you have lost me. Then it is not convenient for me”*.

Online consumer Cons10 stressed:

*“I have bought a jacket actually a year ago in a pop up online store and it took about ... well our postal service was maybe ... maybe that was the deciding factor there, but it took about two months, month and a half maybe. So it took a while to actually get to me. That made me question ever buying from them again. Again the post office could have been the deciding factor ...”*.

Another limitation of third-party delivery services and their delivery times was highlighted by online consumer Cons03 who explained: *“The problem is the fixed delivery address, there is not always somebody there, and I do not want to look like a muppet at the office receiving four bags of groceries ... that is a problem”*. Online consumer Cons04 mentioned: *“I used to purchase online from [online retailer] and as a result of how poorly they managed the delivery, I have actually stopped because it is inconvenient as opposed to convenience thereof”*.

Online consumer Cons05 placed the speed of delivery on the same level of importance as price by stating:

*“Obviously I would have to say price and speed of delivery. To me, the whole impulsive side of shopping is that you can get it soon. If you cannot get it soon, then you kind of lose that excitement of buying something online”.*

Online retailer Shop01 acknowledged the role that a third-party delivery company plays in overall service delivery by stating:

*“Well, the service needs to be everything. So the whole consumer experience, from the minute that they are on your website, all the way to them getting the goods. Delivery because the parcel got lost; the courier did not phone the customer and left, then they are only going to deliver it the next day, but the customer needed it today, but we did not know about it because the courier did the delivery. There are lots of things that influence the process and a person gets really ... if they do not ... they just want to go on, pick their stuff, pay and have it at the door - it is all they want’.*

Online retailer Shop04 explained: *“It is like a base level kind of requirement even to play the game – you need to have quick delivery and all that stuff”.* However, online retailer Shop10 stated:

*“...fast and free delivery ... that is secondary consideration, it is something that is just basic, something that is just played. That is not something that is strong enough to compete on. It is something that is just expected from consumers. So the things that we would push are products that they would want and a specific product we are trying to match them to, so we are trying to segment our customer base to see what they have purchased .. and what we think they would like to purchase again. You add huge value if you get the segmentation of the products right ...”.*

On the other hand, online retailer Shop11 expressed his concerns by stating:

*“So, for example, if we are seeing customer complaints from a certain ... product not being received on time, we push for that to change. We want to act as quickly as possible, but there might be reasons why we cannot. For example, say delivery times, we know that the customers want faster delivery times, but our ability to go and act on that and give them that is strained. ... so we are listening immediately, but there are constraints on how quickly we can act.”*

#### **5.2.2.2.2 Products return process**

Online retailers’ return policies were highlighted by few online consumers as a deciding factor whether or not to purchase a certain item. Online consumer Con01 explained:

*“When I am not sure about a purchase, when it is more spontaneous, the returns policy would be more a reason I would or would not buy - as I am not familiar with the product, I would make sure I could return it and then I would most likely follow my spontaneity and purchase it”.*

Online consumer Cons04 expressed: *“I only purchase from two online retailers and it is really around their returns policy”*. Online consumer Cons06 mentioned: *“I first look to see the returns policy mainly, if I buy something I do not like I want to know if I can take it back”*.

Online consumer Cons05 said: *“I haven’t tried to return something to a shop, for stuff that I have brought online, but I would imagine that is a concern”*.

Interestingly enough, when discussing with online retailers why they think online consumers shop at their particular online store, no online retailer mentioned their goods return process: its continece, reliability, and so forth.



## 5.2.3 Research question 2b

### 5.2.3.1 Engagement

In the context of online retailing, engagement that the online retailers as well as online consumers practice appeared to be limited predominately to online e-mail communication. Online retailer Shop04 said: *“... our main channel remains e-mail... and e-mail is pushed. It is almost like a forced... you are minding your own business and you get an e-mail so you you are almost forced to engage”*. Online retailer Shop01 highlighted some challenges by saying:

*“That’s quite difficult, because with online, you are not face-to-face with consumers. So it is difficult to hear what they want. We get through 100 -mails a day from customers”*.

The online retailer Shop01 further stated: *“But it is difficult; ... sometimes people are hard to engage with through online. They have to pretty much talk to you; you cannot just talk to them”*.

Even though it appeared that in the online retailing context engagement is typically initiated by consumers, there was a strong willingness on the online retailers’ part to use the opportunity and add value. Online retail Shop06 said:

*“We have a few long-term customers that have been with us since the beginning. If they suggest we do something, then we investigate immediately. It is not a product selection thing specifically, it is for everything; if a customer says we should try something with sms notification when a product is shipped, or anything really, then we will jump right on top of that.”*

Online retailer Shop10 explained:

*"The customers' feedback that I am more interested in is all around processes, when something does not work and the system does not work and if there is a customer that is unhappy, those are the ones we are interested in listening to. But it is more around process issues, instead of trying to use customer feedback to determine purchasing patterns ... individual customer feedback, no, unless there is a way to quantify it. So things like polls, and ... I don't know if those are ... if they add any real value in determining whether somebody is going to buy."*

It is important to note that in light of explicit consumer / retailer engagement, not many online consumers expressed clear views on the matter. However, one online consumer placed a certain level of expectation on online retailers to drive engagement initiatives. Online consumer Cons02 mentioned: *"...any other website that I would possibly buy from, would have to be a reminder from them. It would have to be engagement on their side."* Another online consumer Con09 explained:

*"I think about buying something online due to the fact that, since I have been buying online, I subscribe to newsletters and then social media as well. So when you get newsletters, they always send you the new stuff, what is in, what is out; so sometimes when you get a newsletter I just want to see what is new. And when you go, it says see online - you end up seeing something that is interesting for you and you end up buying, even if you were not planning to buy"*.

Thus, conversations around engagement became clearer when consumers started to speak about online retailers' e-mail marketing communications and the effects they have as far as consumer / retailer engagement is concerned. An emphasis on online marketing communication was placed by online consumer Cons05:

*“I think this ...goes back to the daily deals - where you get an e-mail from the online retailer and again, if I see something in the mail, that interests me, I will go onto the site and check what is happening; what they have there. So it definitely does influence me, because it generally leads to me actually logging on”.*

Online consumer, too, elaborated on the subject by saying:

*“So how do I decide what to purchase online - whatever they are advertising to me drives me to their site, I am not buying because I need to buy something, I am buying because I want to buy something”.*

Online consumer Cons08 expressed:

*“Otherwise, unless I have seen something in terms of marketing - marketing is a big one. E-mail is the biggest; I do not respond to SMSs, I respond to e-mail and I think the reason I respond to e-mail is because it is visual and you know what you are getting for the price”.*

In terms of retailers’ communication, online consumer Cons11 explained:

*“Besides sales, the catalogues they send have nice models, and you see yourself. The thing is they sell a lifestyle and you see yourself as that person. And you think that looks good on that person, it will probably look good on me, too. Then I want it and think let me buy it”.*

### **5.2.3.2 Community**

With respect to community and community recommendations, the research findings highlighted the necessity of fostering a positive community value perception and experience, whether it is a service or a product that an online retailer offers. Further, it appeared that

some online consumers do not discuss their online shopping experience too often; and when they do, it mostly would be caused by a negative online shopping experience. Online consumer Cons06 said: *“If it is terrible, I will maybe mention it, otherwise not really”*. Online consumer Cons03 simply stated: *“Basically never”*. The consumer Cons03 further elaborated: *“I will only speak about the bad experiences and not really about the instances where it went as it should have”*. Online consumer Cons04 suggested: *“So I find that let us say a year ago, the talk around friends and family would be a lot more than what it is now. I think really what drove that is the new entrants into the market”*.

However, positive word-of-mouth still takes a prevailing place among consumers when speaking about their online shopping experiences. Online consumer Cons03 stated: *“So positively I would only speak about it if it was a very, very nice experience”*. Online consumer Cons02 elaborated more on their online shopping recommendation by saying:

*“Every day, every single day I do. So it will come up in conversation, you can be shopping with a friend in [shopping mall] and I will say ‘I don’t know why you bother buying...’ - I hate shops - when you could just buy it online’. And I will even name which shops you can”*.

Online consumer Cons05 highlighted delivery time as an important factor to talk about to their friends:

*“Quite often - probably every time I buy. It is always great when something that is delivered in a shorter time than you expect. So that is obviously when you speak positively; if something is delivered according to the time set or in a shorter time period. Also you would speak positively about getting a good deal”*.

Similarly, online consumer Cons07 explained:

*“Whenever I buy something, you buy something here at the office and everyone wants to see what it is, you talk about it, you talk about how quickly it was delivered to the office, every time I buy something I send a picture to my friends and say look what I bought”.*

Online consumer Cons09 stated:

*“Every day; not actually every day, but all the time. I mean you just want people to experience what you experience, so if I bought something online and it was so much easier for me to get it - I want to share the experience”.*

Nonetheless, whether it is a positive or a negative online shopping experience, online consumers appeared to refer back to that before committing to their own online purchasing.

Online consumer Cons01 explained:

*“Going back to the non-necessity items, like a book or a device or a piece of technology that I have never used, yes, I would heavily rely on feedback, either from an online review or someone in my circle of friends or family – absolutely”.*

Online consumer Cons06 stated:

*“...if I were to look at a new site or a new store, sorry, I would probably go and check [online platform to launch customer complaints], before I made a purchase on that site. Just to make sure nobody has ... paid money and not received goods or had too bad of an experience with that particular store; because naturally, you don't want to have the same experience”.*

Online consumer Cons07 confirmed:

*“If someone had told me that they had a negative experience on a store that I had never shopped on before I probably would not use it, because I am very funny when*

*it comes to my credit card details and what I do with my banking and personal information, yes, so I do not like to give that out freely unless I know it is a trusted place, so I am definitely swayed by peoples experiences”.*

A rather interesting story was shared by online consumer Con09 who once purchased a product online and at the time, while using the product and getting the initial value perception, the Cons09 wrote a positive review on her social media page. Yet, as it turned out it be, the product did not really work.

*“I remember, there is a product called [product name] or whatever, ... because I wrote a review on their website - so many people inboxed me, because they were so scared to buy the product online. They wanted to know if the product really worked for me. I was so excited about the product, so I wrote a good review about them. So everyone really thought it worked for me, because of how I said the product really worked. But thinking about it, the product did not really... I did not see any change. I spent about R2 000, but did not see any change ...people believed the review ...”.*

As far as online retailers are concerned, it appeared that they, too, rely on word-of-mouth as a form of marketing communication. Online retailer Shop02 said: *“Yes, ...that is free marketing at the end of the day for us, it is something that is a lot stronger, word-of-mouth, that is a lot stronger than any message”.* Online retailer Shop07 mentioned: *“That is an obvious one, absolutely; it is the most powerful form of marketing”.* Online retailer Shop07 further stated: *“Obviously, we want them to spread the word with every good experience ...”.* Online retailer Shop04 reaffirmed: *“I think overall, it is important. We need to focus on making sure they speak positively ...”.* Online retailer Shop5 said: *“...community recommendation is usually important in South Africa because I think it comes from a credit point of view”.* Online retailer Shop06 mentioned: *“I think your customers are your best ambassadors”.*

## 6 CHAPTER 6 - DISCUSSION OF RESULTS

### 6.1 Introduction

Value creation and value co-creation has been studied intensively by academics, with each study attempting to understand what value creation is, how it can be co-created, and where it can be co-created as far as firm-to-customer and customer-to-customer interactions are concerned. Authors attempted to link the concept of service marketing and its (S-D) logic to various academic disciplines, including the studies of value perceptions (Boksberger & Melsen, 2011; Vargo & Lusch, 2004a).

The more an individual consumer values a product or a service, the more he or she is motivated to act upon that and gain the value. Despite many studies having been conducted to understand the notion of value, the concept remains to be of a highly complex nature and often misinterpreted by scholars (Sanchez-Fernandez & Iniesta-Bonillo, 2007).

Organisations cannot change what customers value. However, organisations can potentially enhance perceptions of value among consumers and, therefore, co-create value with consumers in the consumer sphere (Grönroos & Voima, 2013). Despite a more recent study that attempted to interpret value and its creation and co-creation from different perspectives (Shamim & Ghazali, 2015), the study at hand attempts to shed more light on how value can be co-created outside an online retailer's sphere. That is, how value can be co-created in the consumer sphere through enhancement of value perception by existing customers.

### 6.2 Research question 1

Before attempting to understand how value can be co-created in a consumer sphere (Grönroos & Voima, 2013), it is imperative to recognise how value is perceived to be created

in the eyes of both online consumers and online retailers in the first place. Therefore, drawing upon the theoretical premises of various recent studies in the field, research question 1 attempts to assess how both online consumers and online retailers see and understand value creation. For the sake of clarification of meanings, it is worthwhile to note that the term *value co-creation* should not be confused with the term *value co-production*, where consumers' physical involvement is required to produce products / services as opposed to the creation of value and consequently co-creation of value-in-use (Grönroos & Voima, 2013; Hilton, College & Hughes, 2013). Some of the fundamental academic concepts emerged during the interviewing process and are conveyed in the data analysis outlined in Chapter 5. Each concept is discussed further in this chapter.

### **6.2.1 Value perception**

The empirical findings demonstrated a link between online consumers' value perception and the way online retailers present that value by means of their product offering through their websites as an interface or a platform where both exercise their interaction. Many online consumers mentioned that online retailers could improve their websites by reducing the overwhelming amount of products and product categories presented on retailers' websites, which often lead to a worsened user experience on the consumer side. This finding partially supports a previous study, which concluded that a large product variety may hinder customers' immediate purchasing intent as they continue to browse through large amounts of offered items online (Park, Kim, Funches, & Foxx, 2012). Yet, no empirical findings in this study suggested that South African online retailers take this aspect of value perception into account. In fact, quite few online retailers believe that this is how they offer more value to customers – by means of a large product variety as well as discounts and special deals. While discounts and special deal do motivate consumers, an excessive product range and



the resulting difficulty to manoeuvre retailers' websites demotivate. The findings support a recent study, where the authors maintained that should online customers not be familiar with certain items offered, their level of assortment satisfaction decreases, resulting in lower sale volumes (Beneke, Cumming, & Jolly, 2013). The investigation also examined the most pertinent topics as far as value perception is concerned: usability and product offering, and visual value perception in the online retailing environment.

### **6.2.1.1 Usability and product offering**

A study conducted by O'Cass & Ngo (2011), attempted to extend the knowledge of value creation by examining how value is perceived and created at the point of proposition by the firm. The study highlighted the importance of the firms' (managers') ability to "receive and interpret market information that guides their perceptions of what value to build strategically into their offering" (O'Cass & Ngo, 2011, p. 666).

In terms of value perception and a consequent manifestation of value creation, online retailers' special offers and discounts surpass other perceived values, although this study did find usability and product offering to be of importance to consumers when deciding whether or not to commit to an online purchasing transaction. This supports a previous study conducted on consumer behaviour where the authors examined five value-influencing consumer choices: functional value, conditional value, social value, emotional value, and epistemic value (Sheth et al., 1991). The authors further suggested that even if only one value is perceived, a consumer could still go ahead and make the choice to consume a product or a service (Sheth et al., 1991).

However, the research findings also suggested that online retailers do not have much regard for consumer feedback when it comes to the very large variety of product offerings. Yet, an attempt to understand this aspect better may result in enhancement of value perception and value creation as a result thereof. This is supported by a previous academic study, where

findings of value perception was seen as three interlinked models: “customer value in exchange” (assessment of value as a give-and-take process), “customer value build-up” (assessing the benefits of value where total benefits supersede total costs), and “customer value dynamics’ (assessing how customers perceive a firm’s total offering) (Khalifa, 2004, p. 655). With the customer value dynamics model, the author suggested that based on a perceived value, customers may have “a deep state of satisfaction that is emotionally charged as a result of the customer interaction with the service provider”, which result in “value magnifiers and value diminishers” (Khalifa, 2004, p. 659). It was further argued that firms should continuously evaluate customers’ intent in terms of “customers’ desired value offering” to be able to create value during a product or a service offering (O’Cass & Sok, 2013, p. 1083).

#### **6.2.1.2 Visual perception**

In terms of value perception, the research findings highlighted that visual perception plays a key role in overall value creation for consumers. Many online consumers do in fact visualise a product and how it will be used even before it is purchased. This finding supports a recent research where the authors explained two types of interactions, direct and indirect; and it is the indirect interaction that facilitates independent value creation in the consumer sphere (Grönroos & Voima, 2013).

In this study, it was shown that by simply looking at an image of a clothing item, consumers begin to visualise themselves wearing it. It may be argued that in terms of (S-D) logic (Vargo & Lusch, 2008), that online retailers facilitate value in this manner and therefore form part of value co-creation. However, since the actual visual perception takes place after a retail website’s imagery is created and uploaded and / or distributed via e-mail communication, it supports the more recent study suggesting that the visual perception and the value-in-use

envisioning happens only at a later stage and occurs in the consumer sphere, independently from the retailer, hence the applicable term is value creation and not co-creation (Grönroos & Voima, 2013).

This finding also supports the fact that perceptual value that emerges from experience does not follow a linear process nor is it *experienced* at a given point in time. In fact, based on their past or imaginary future experience, consumers may begin to perceive value in a certain given context independently from online retailers (Helkkula et al., 2012).

### **6.2.2 Experience**

Customer experience plays a vital role in value creation, particularly in the online retail environment. It was previously proposed that irrespective of how low an online retailer's price is - assuming that it was key to success - should customers experience a negative online service, no repeat purchases would occur (Zeithaml, Parasuraman & Malhotra, 2002). Therefore, "companies with Web presences must first understand how customers perceive and evaluate online customer service" (Zeithaml et al., 2002, p. 362). Supporting the premise, it was further argued that firms must gain a better understanding and facilitation of quality value creation in experiential value terms (Prahalad & Ramaswamy, 2004a). Another study suggested "before value is determined or assessed by the customer or by any other beneficiary, it must be perceived or experienced; otherwise, there is nothing to assess" (Grönroos & Voima, 2013, p. 15).

The empirical findings in this paper suggest that many online consumers associate their online shopping experience with functional value (Sheth et al., 1991), where they expect to receive certain utilitarian or physical performance of similar nature to the offline shopping environment while interacting with services provided by online retailers. When highlighting

this, online consumers expressed mostly positive rather than negative perceptions thereof. Some of the positive themes in the online retailing environment emerged as *time saver*, *ease of use and convenience*; however, *lack of control* over data emerged on the negative side. This supports a recent study, suggesting that although consumers' feelings of being in control play a role in shaping their shopping experiences, the "ease-of-use has the greater impact", highlighting its superior importance in online consumer experiences within the online retailing environment (Rose et al., 2012, p. 315).

In the context of (S-D) logic, a recent study suggested "value judgments and evaluations of the perceived benefits and sacrifices of using a particular service are based on perceptions of some type of customer trade-off" (Helkkula et al., 2012, p. 62). Another study linked the above concept to the customer sphere, defining it as "the experiential sphere, outside direct interactions, where value-in-use (real value) emerges (is created) through the user's accumulation of experiences with resources and processes (and their outcomes) in social, physical, mental, temporal and/or spatial contexts" (Grönroos & Voima, 2013, p. 11).

These research findings also highlighted a linkage between positive functional user experience and the purchasing intent as far as consumer choice behaviour is concerned (Sheth et al., 1991), supporting the fact that positive experience, as a behavioural outcome, derives from a positive value perception (Helkkula et al., 2012).

### **6.2.3 Behaviour and fulfilment**

Although the research findings highlighted some of the fundamental behavioural drivers of such consumers' desire to fulfil their *needs* and *wants*, it was also found that *wants* are more stimulated by online retailers through various online mechanism such as e-mail marketing, special offers and vivid product imagery. On the other hand, online consumers' *needs*

emerge outside online retailers' influence, hence the importance of online retailers' ability to *facilitate* value to online consumers compared to the elaborated concepts of value creation and co-creation (Grönroos & Voima, 2013). Nonetheless, both concepts of *needs* and *wants* are equally important, as it appeared that they serve different functions in the formation of consumers' value perception. In terms of *wants*, online consumers' value perception emerges after online retailers' communication of that value, unlike the formation of a perceived value of a needed product, which takes place before online consumers come to an online shop, hence consumers' online product search in the first place.

Why is it important to distinguish between the two in terms of value creation and value perception? The research data analysis suggested that fundamentally, online retailers' process of value creation differs when it comes to serving customers' *wants* or serving customers' *needs*. When an online retailer serves a customer's *wants*, the objective should aim at meeting customers' product anticipation, since the process of value perception and the consumer purchasing behaviour is initiated by the online retailer's interaction by means of a *dialogue* (Prahalad & Ramaswamy, 2004), and is perceived by online consumers as a trade-off process of weighing up costs versus benefits (Helkkula et al., 2012; Sheth et al., 1991; Vargo & Lusch, 2004b). In this scenario, research findings suggest that the product quality perceived by online consumers upon delivery would play a dominant role, with the service delivery aspect playing a secondary role.

However, when online retailers serve customers' *needs*, the formation of perceived value of a product has already taken place. The research findings suggest that as far as online consumers are concerned, the perception of value is formed more on a basis of customers' expectations around overall service delivery (Grönroos, 2011).

This finding partially supports a recent study, suggesting the importance of the firms' understanding of how consumers use the products and fulfil their *needs* and *wants* by

advocating that “firms need to learn about their customers’ wants and needs outside of normal exchange processes to uncover the value customers seek, and the roles they expect themselves and the firm to play” (Jaakkola, Helkkula, & Aarikka-Stenroos, 2015, p. 12).

Although this study’s findings certainly underpinned a diverse range of consumer *needs* and *wants* associated with products and services, it also appeared that many online retailers do not concern themselves with understanding consumers’ personal fulfilment mechanisms. The findings suggest that online retailers view themselves simply as providing a platform where consumers go to buy products, shifting the duty over to their product suppliers.

### **6.2.3.1 Motivation**

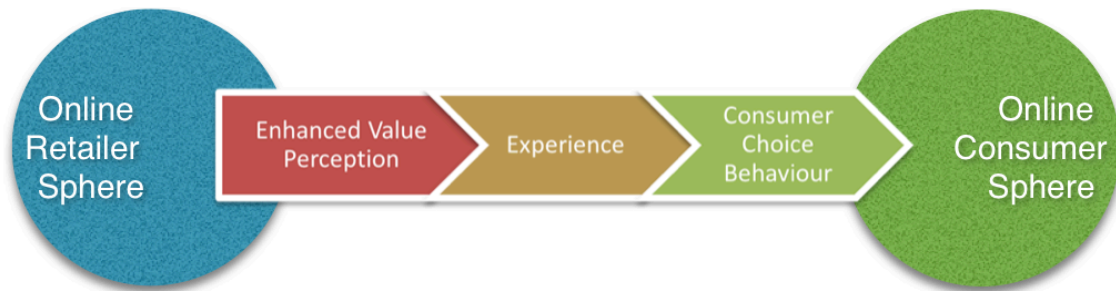
Supporting a previous study, the research findings identified certain extrinsic and intrinsic motives that drive online consumer behaviour (Childers et al., 2001; Zwass, 2010). Intrinsic motivational drivers dominated in online consumers’ expressions rather than those of an extrinsic nature. Consumers highlighted that shopping online makes them feel good; it stimulates excitement around the whole experience such as product delivery anticipation; they feel that they reward themselves for hard work – overall a state of happiness.

A study conducted on motivations stated that enjoyment of online shopping is associated with hedonic motivations (Childers et al., 2001), which in turn, as previously suggested, form a part of the consumer choice behaviour through consumers’ perceptions of value (Sheth et al., 1991; Turel et al., 2010).

## 6.2.4 Conclusion

Relationships between categories and themes emerged through the discussion of research question 1 are conceptualised graphically as follows:

**Figure 8. Value creation process: enhancement of value perception**



The figure above depicts the online retailers' process of value creation through enhancement of online consumers' perception of value.

## 6.3 Research question 2a

Research question 2a attempts to provide more empirical clarity in the process of value co-creation in the context of online retailing. Theoretical premises outlined in Chapter 2 highlighted the ambiguity in the notion of value co-creation. The earlier definitions of value co-creation as an all-encompassing process (Grönroos & Voima, 2013) make it very hard to distinguish between where value co-creation takes place and how it happens in the first place (Shamim & Ghazali, 2015). The ambiguity is more profound, particularly in the online retail context, where most of the times an online retailer and a product producer are not the

same entity, hence no clear-cut manner to define how an online shop can bring in an online consumer into the process of value co-creation or vice versa.

As discussed in research question 1, it appears that online retailers may create value through a better understanding of online consumers' value perceptions and facilitation thereof. However, following (S-D) logic, where does the firms' value proposition fit in and how does the process of value co-creation take place (Grönroos & Voima, 2013; Vargo & Lusch, 2004b)?

In the attempt to understand what online retailers can do to simplify online consumers' purchasing decision-making and ultimately invite retailers into their value co-creation process (Grönroos & Voima, 2013), most online consumers mentioned delivery times and product return policy (*interestingly enough, although online retailers accepted the importance of delivery time, no online retailers mentioned return policy in the context of a value proposition*).

Thus, the research findings suggest that in the online retailing context, the use of a term *service proposition* is more relevant and concrete than the all-encompassing term of *value proposition*, which indeed should be broken down into "a value offering mix of performance value, pricing value, relationship building value and co-creation value (O'Cass & Ngo, 2011, p. 649)". This also partially supports a recent study suggesting firms "no longer having complete control over their value proposition (Jaakkola & Alexander, 2014, p. 31)".

### **6.3.1 Service proposition**

Research findings suggest service delivery is key in the online retail environment, which was agreed to by both online consumers and online retailers. The notion of online shopping convenience and customer experience came down to online retailers' ability to deliver



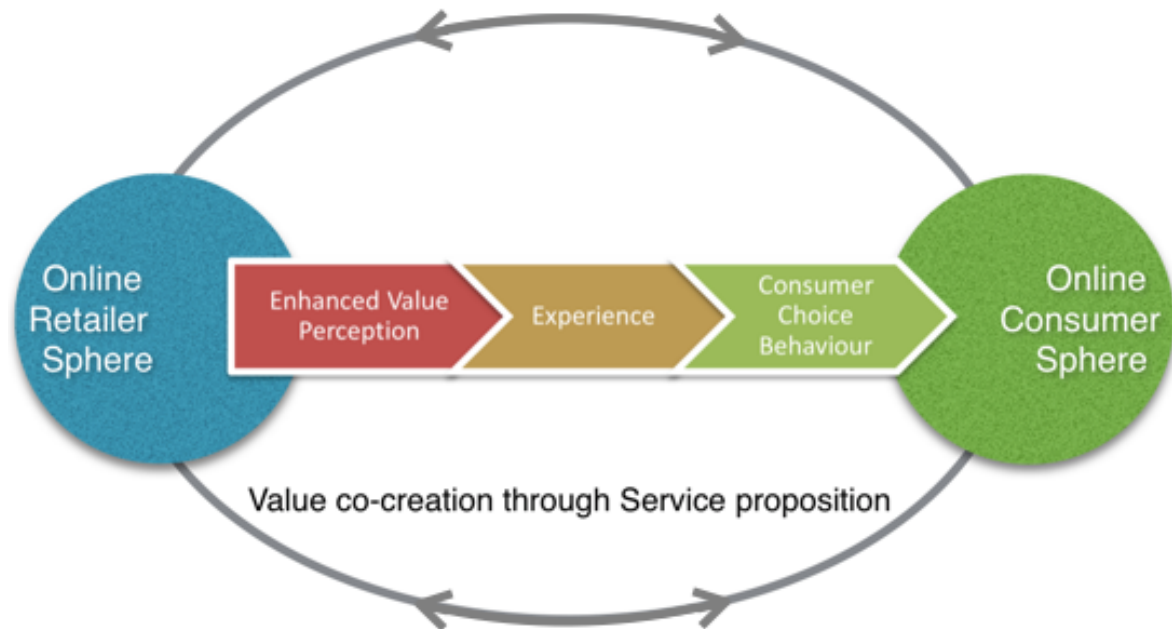
purchased goods on time. In terms of (S-D) logic, it may be argued that if a consumer needs the purchased product *now* in order to be able to create value-in-use for themselves (Grönroos & Voima, 2013; Vargo & Lusch, 2004a), and online retailers are able to facilitate that immediate service delivery and even exceed the customer's expectations (O'Cass & Ngo, 2011), both effectively co-create value through the process of service delivery and product / service consumption.

Furthermore, wearing the lenses of (S-D) logic, value co-creation can also occur, should online retailers be more proactive in communicating their goods return policy. The research findings suggested that this critical aspect in the overall *service proposition* is seemingly left neglected by online retailers. However, drawing upon empirical evidence, online consumers' purchasing behaviour is largely shaped by this aspect, which is clearly of value to them. To reiterate the discussion in research question 1, following (S-D) logic, creation of value-in-use in the consumer sphere will not occur unless positive value perceptions and experiences are formed by means of appropriate value creation (i.e. *service proposition*) in the online consumers' sphere (Grönroos & Voima, 2013).

### **6.3.2 Conclusion**

The figure below conceptualises the above discussion on value-co-creation by means of a *service proposition*.

**Figure 9. Value co-creation through Service proposition**



## 6.4 Research question 2b

Customer-to-customer (C2C) interaction is not a new concept in academia and it has been studied by many scholars, each attempting to examine the notion of C2C, wearing different academic lenses. This research paper attempts to investigate how online retailers can harness the power of C2C interaction (Park et al., 2014) from the value co-creation perspective.

### 6.4.1 Communication as a form of engagement

This research finding highlights the importance of online retailers' e-mail marketing communications, as this may seem to be one of the very few ways they may potentially

engage with online consumers proactively. Furthermore, online consumers appear to be the actual engagement initiators in the context of online engagement. This is supported by Heinonen (2009), who stated “in this way, it is frequently the consumers that initiate the interaction, for example, inquiries, information searches and complaints are easily performed on the Internet (2009, p. 4)”. The author also stated that the way consumers begin to participate in service processes is by “changing value creation in many ways (Heinonen, 2009, p. 4)”.

This study highlights that it is up to online consumers to decide whether or not to engage with the online retailers, who in turn may facilitate a perception of value by means of online marketing communication. Therefore, it is imperative to foster a positive value perception in order to create perceived value for consumers, and should this occur, as discussed in research question 1, consumer choice behaviour will trigger the purchasing intent.

This finding is partially supported by a recent study, in which findings provided an additional insight into “understanding the important role of marketing in communicating the right value to the customer via the firm's value proposition” (O’Cass & Sok, 2013, p. 1083), as well as another study that suggested “the firm’s engagement with customer interactions may influence the customer’s value creation positively and negatively, or no influence may occur (Grönroos & Voima, 2013, p. 10)”.

#### **6.4.2 Community**

Building further on the above discussion, the research findings suggest that online consumers’ word-of-mouth communication plays a profound role in forming their own opinions about online retailers. What emerged most prominently was how often online

consumers used the word *experience* in describing their reliance on community recommendations as far as online shopping is concerned.

It was originally proposed that communities co-create value independently from firms and often the co-creation process occurs even without the online firm's knowledge thereof (Prahalad & Ramaswamy, 2004a). Further, according to the conceptual framework of value creation spheres (Grönroos & Voima, 2013), during the value co-creation process "two or more parties influence each other or, using service marketing terminology, interact (Grönroos & Voima, 2013, p. 8)". The authors implied firms and their *direct* customers in the joint sphere, suggesting that value co-creation in the customer sphere is closed to the firms (Grönroos & Voima, 2013); "co-creation can take place only through direct interactions" (Grönroos & Voima, 2013, p. 10).

**Table 6. Direct and indirect interactions: defining the roles of the customer and service provider: Consumer Sphere (Grönroos & Voima, 2013)**

<b>Customer sphere</b>	
<b>Customer (individually)</b>	<b>Customer (collectively)</b>
Value-in-use	Value-in-use
<b>Indirect interaction</b>	
<p>Independent value creation</p> <p>The customer's resources/processes/ outcomes (visible and/or mental) interact with the service provider's resources/processes/ outcomes in an independent (individual and/or social) value creation process (indirect interaction)</p> <p>2) The customer reads the travel brochure and dreams about a vacation for the summer (independent individual value creation).</p> <p>8) The customer looks at pictures</p>	<p>Independent social value co-creation</p> <p>Other actors/activities/ resources interact with the customer's resources/processes/ outcomes (visible and/or mental) in a collective/social value creation process</p> <p>3) The customer discusses different destinations and hotels with the family over dinner (independent social value co-creation)</p> <p>4) A colleague recommends a specific hotel and the customer reads some</p>

Although, this research paper suggests that engagement is necessary to facilitate a value perception and therefore value creation, it also highlights the fact that direct interaction also takes place in the customer sphere where the exchange of value perceptions and experiences take place. Thus, the research findings, coupled with theoretical premises, suggest that value co-creation in the consumer sphere may in fact be initiated by online

retailers through enhancement of *direct* online consumers' perception of value, which, as discussed in research question 1, would lead to the formation of positive experience and consumer engagement behaviour.

Even though online retailers do not interact with potential customers in the customer sphere directly, through the (S-D) logic of value creation, they create value for *immediate* online consumers, who in turn effectively become value facilitators for other potential customers. Thus, research findings suggest that online consumers, through the process of communication, share their value perceptions and experience and therefore posit certain consumer buying behaviour in their own customer sphere.

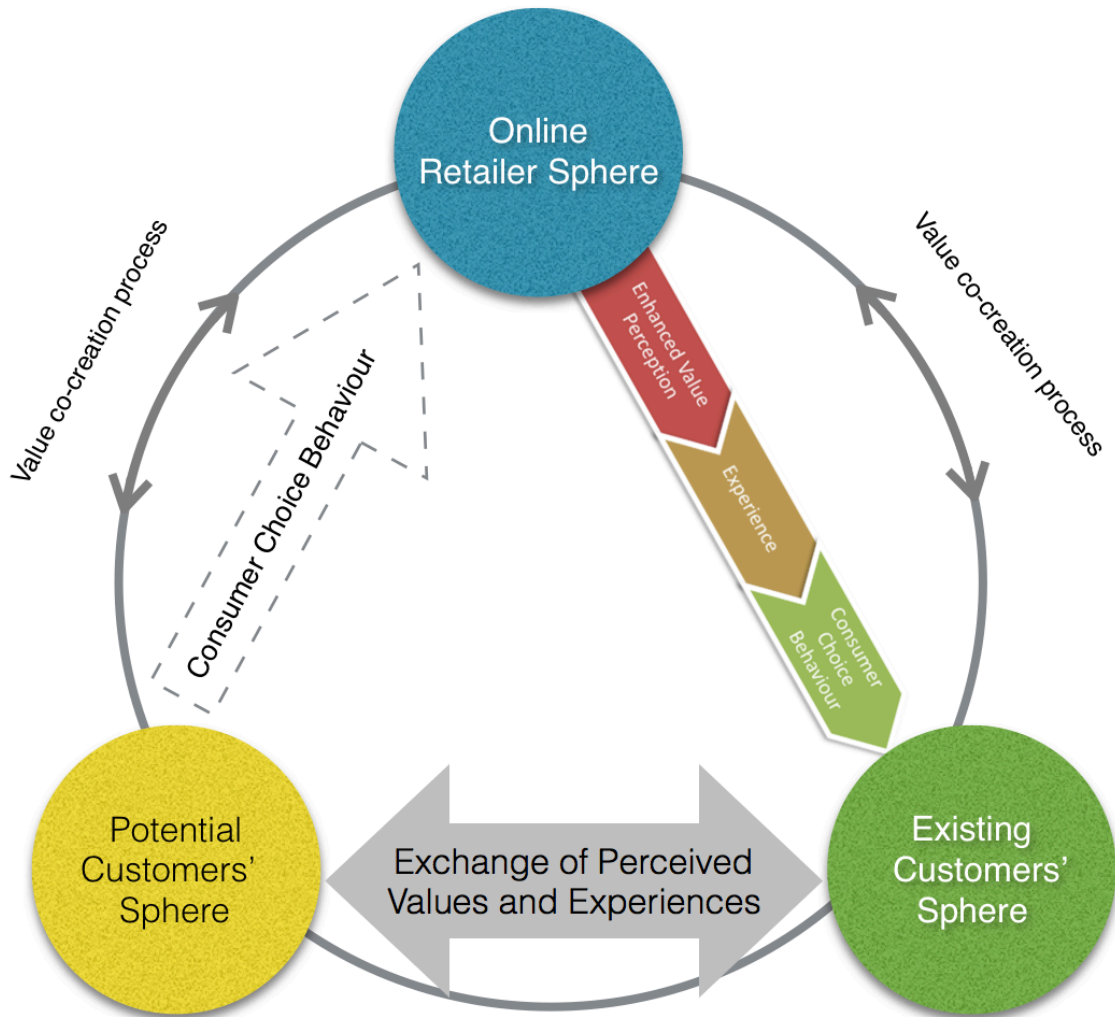
This is partially supported by a recent study, where the authors argued that “to enhance value for the customer in an e-service experience, it is also necessary to consider the integration of environment resources (i.e. the resources provided by networks of firms and customers). For example, when customers are buying a product over the Internet, they will rely on the knowledge available in their social context (friends, family or knowledge provided by a virtual community) (Paredes et al., 2014, p. 118)”. Another recent paper proposed that:

“( ... ) consumer engagement behaviour affects value co-creation by virtue of customers' diverse resource contributions towards the focal firm and / or other stakeholders that modify and / or augment the offering, and / or affect other stakeholders' perceptions, preferences, expectations or actions towards the firm or its offering. Through inducing broader resource integration, consumer engagement behaviour makes value co-creation a system level process (E. Jaakkola & Alexander, 2014, p. 2).

### 6.4.3 Conclusion

As discussed in research question 2b, the online customer sphere is closed to online retailers; hence, according to (S-D) logic, no value co-creation is possible (Grönroos & Voima, 2013). However, research findings, coupled with theoretical premises, suggest that online consumers can play their role of value facilitators in the closed customer sphere through the exchange of perceived values and experiences, which in turn have been shaped before by the online retailers' process of value creation, by means of enhancement of the value perception. As a result, potential customers may form their own consumer purchasing behaviour and commit to an online purchasing transaction. Therefore, based on the described logic, online retailers play a role of value co-creators jointly with existing online customers in the potential customers' sphere. The figure below depicts the concept.

Figure 10. Online retailers value co-creation in the customer sphere





## 7 CHAPTER 7 - CONCLUSION

### 7.1 Introduction

This chapter will outline the background and objectives to the research problem set out in Chapter 1. Further, a summary of key findings, which have emerged from the empirical data, as well as managerial limitations will be reviewed and presented accordingly. The chapter will be concluded with managerial implications and future research recommendations.

### 7.2 Research background and objective

The future financial success of modern organisations will depend on how effective they are in evolving their existing business practices to harness the power of value co-creation (Libert et al., 2014, 2015), particularly in light of (S-D) logic (Grönroos & Voima, 2013). Increasingly, consumers make use of technical advancement of the 21<sup>st</sup> century and, by means of social networks and Internet accessibility overall, they engage with one other to share their experiences of the product / service use. It is critical for organisations to understand the nature and fundamental origins of such C2C interactions in order to be able to co-create value with customers and, as a result, to remain relevant in the market (Hughes, 2013).

This research paper set out to investigate the process of value creation and value co-creation in the online retailing context. Despite various academic contributions to the main body of knowledge and particularly the (S-D) logic (Vargo & Lusch, 2004b, 2008), the literature review presented in Chapter 2 identified a number of gaps, which were deemed to be important enough and called for further investigation. Some of the gaps identified the lack of empirical and analytical examination of the notion of value co-creation in light of the value-in-use concept (Grönroos & Voima, 2013; Paredes et al., 2014). Another gap was found in

clarification of whether a firm may co-create value in a closed-to-firm customer sphere, where the only engagement that takes place is based on C2C interactions (Grönroos & Voima, 2013, Park et al., 2014).

In order to meet the research objective, three research questions were proposed in Chapter 3, which structured a systematic evolution of the study whereby addressing how value creation is perceived, how it is co-created, and how it may be co-created in the customer sphere, independently from online retailers.

### 7.3 Key findings

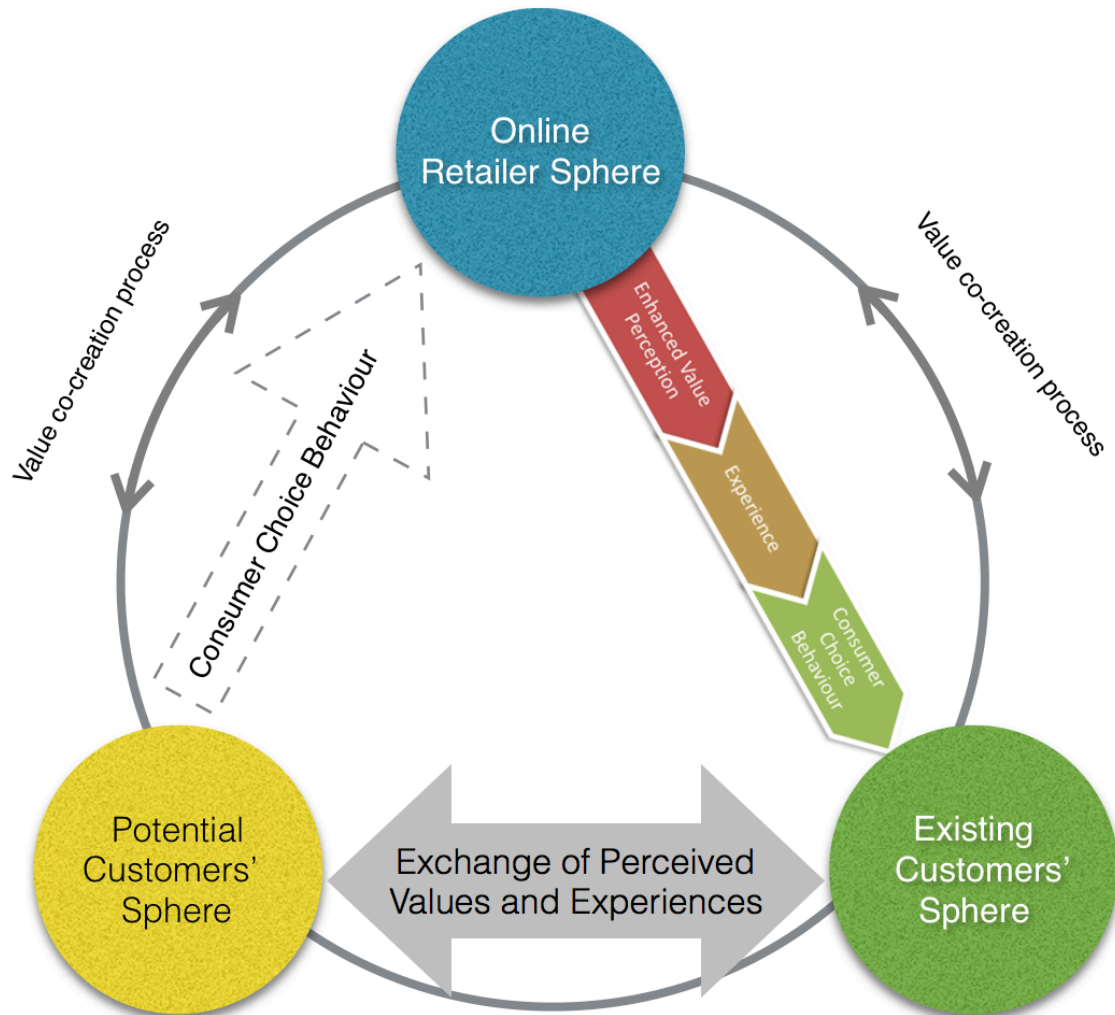
The research findings showed that value creation indeed occurs through the process of enhancement of online consumers' value perceptions, which results in a positive user experience and ultimately consumers' behaviour towards committing to an online purchasing transaction. The research findings indicated that the overwhelming amount of products and product categories presented on retailers' websites often dissatisfies online consumers leading to worsened user experience. As far as consumers' personal fulfilment is concerned, the key findings suggested that when consumers' choice behaviour is driven by *wants*, the consumers are prepared to sacrifice service (delivery times) over the quality of a product. The opposite was true when consumers' choice behaviour is driven by their *needs*, the service delivery plays a major role in this regard.

In terms of the process of value co-creation, wearing the lenses of (S-D) logic (Vargo & Lusch, 2004b, 2008), it was found that an appropriate online retailers' *service proposition* plays a key role. Online consumers gain value for themselves through the value-in-use process (Grönroos & Voima, 2013). Yet, online consumers rely on the online retailers' service ability to deliver the goods in order to be able to gain that value in the first place.

Furthermore, it was found that online consumers facilitate value to other consumers in their own closed customer sphere by means of exchanging perceived values and experiences among one another. Therefore, potential customers develop their own consumer choice behaviour and, should the communicated perceived value and experience be of a positive nature, they may commit to an online purchasing transaction.

Taking into account the fact that online retailers shape existing customers' experiences through the process of enhancement of value perceptions, the key research findings suggested that online retailers – jointly with their customers – effectively can co-create value in the potential customers' sphere, resulting in new customer acquisition and revenue growth. The concept is represented by means of a graphical model below.

Figure 11. Online retailers value co-creation in the potential customer sphere model



#### 7.4 Managerial implications

This research paper adds valuable contribution to both the academic body of knowledge in the field of value creation and value co-creation, as well as several practical managerial implications. In the online retail context, firms should be aware of how they create value for the consumers, as it is evident that through the process of fostering a positive value perception they not only secure repeat purchases among existing customers, but also

acquire new ones through the process of value co-creation in the consumer sphere. It is critical because the ability of an organisation to acquire new customers through the process of successful value co-creation with existing customers, at practically no costs, will separate financially sound organisation which continue to increase shareholder value from those that fall behind (Libert et al., 2014, 2015).

Success in value co-creation lies in the understanding of what fundamentally drives the consumers' choice behaviour: their needs or wants. The research findings suggested that online retailers' e-mail marketing communications, as a form of engagement, stimulate consumers' wants, where, practically speaking, consumers are willing to wait longer for the products to be delivered, as long as the quality is as expected. On the other hand, when consumers engage with online retailers by means of online search, there are more driven by their needs, where service delivery (delivery times) plays a bigger role. Therefore, by understanding these fundamental drives better, online retailers may potentially structure their logistics function accordingly, which is typically the main constraint in the online retailing space.

Additionally, the research findings pointed out that online retailers' large product assortment may have a negative effect on consumers' choice behaviour. It appeared that an overwhelming volume of items offered online demotivate customers, as it decreases their user experience and lowers their purchasing intent. Therefore, it is advisable for online retailers to re-look into their product offering and potentially delist lower selling items in order to increase customers' value perception and overall user experience.

To conclude, the importance of understanding how online retailers co-create value in the consumer sphere cannot be overestimated. As pointed out in the literature review, acquisition of new customers is a very expensive exercise, especially in the online retailing context. However, through the process of fostering a positive value perception, online

retailers create a positive user experience, which results in a purchasing intent. The practical execution of forming positive value perceptions derives from retailers' websites usability, as well as product delivery times and product return policy communication. It is advisable that online retailers' management teams take these aspects into account to secure a larger online consumer base and consequently revenue streams.

## **7.5 Limitations of the research**

One of the research limitations that may potentially have an effect on these research findings is in fact the limited number of research participants. Due to limited amount of time and funds allocated to the study, only eleven online consumers and eleven online retailers were approached for in-depth interviews to address the research questions set out in Chapter 3. Additionally, most of the interviewed online consumers lived in the Johannesburg area of South Africa. Despite the study's statement that physical geographical origins do not play a crucial role in online consumer behaviour, this aspect still poses an overall research limitation.

## **7.6 Future research recommendations**

The concept of online retailing is no longer a novelty in the business world, with thousands of online retailers operating worldwide. The majority of online retailers do not have a physical presence in the form of offline retailing such as typical bricks-and-mortar stores. On the contrary, there is an increasing number of bricks-and-mortar retailers that take their stores online in an attempt not to miss out on the attracting online retailing opportunity. A future research study may look into how offline retailing business models and practices influence

online retailing within the same retail group in the view of value creation and value co-creation.

In this research paper, the data analysis showed that some online retailers rely solely on manufacturers to perform marketing research, consumer analysis, and so forth, whereby online retailers play the mere role of goods and services facilitators. Therefore, another interesting opportunity for future research lies in understanding how actual product manufacturers influence the entire process of value co-creation following the (S-D) logic. Of particular interest will be whether the concept of (S-D) logic exists in the relationship between product manufacturers and end-consumers, accepting that it is online retailers that facilitate the service delivery.

Although value creation and value co-creation concepts in light of (S-D) logic were examined within a broad online retail environment, a future research may provide deeper insights into how different functions of an organisation are affected and influenced by the concepts. Furthermore, a future research may point out how individual organisational functions can contribute towards adoption of value co-creation business practices, identifying the resulting financial effects thereof.

Lastly, a future research study could provide valuable insights into how different types of consumers (age, gender, race) effect the process of value co-creation in the consumer sphere, taking into account the fact that consumer behaviour as well as means and willingness to engage with other consumers online may differ among various consumer segments.

## 7.7 Conclusion

Value creation and value co-creation in light of (S-D) logic continues to grow among academic scholars and business practitioners. The changing bargaining power of the consumers poses a challenge for organisations to interpret the notion of how value is perceived and how it is used in the modern day society. This research paper provided academic and practical insights into how organisations that trade online may excel in the value co-creation process in order to remain relevant in the market and maintain long term prosperity.



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## 9 APPENDIX A: CONSUMERS QUESTIONNAIRE

### Research question 1

*Where does the process of value creation and value co-creation begin in the online retailing context?*

### Interview questions

1. How do you decide what to purchase online?
2. How often do you think about purchasing something online? Why?
3. How often do you get influenced by online retailers' marketing communication? Why / Why not?
4. What are the main influences in your online purchasing decision-making?
5. What are the reasons for you not to buy something online?

## Research question 2

*Who is the value creator in the online retailing context?*

### Interview questions

1. When purchasing goods online, do you ever think about why you are buying it? How do you think the idea of buying something online is born? Why?
2. How often do you think you encounter spontaneous decisions to purchase something online? What are the reasons and why?
3. What do you think an online retailer can do to help you simplify your purchasing decision-making?
4. When purchasing something online, do you ever think about the value you will get when using the purchased item? Why / Why not?
5. In your opinion, what could an online retailer do to secure your preference of their particular store versus their competitors?

### Research question 3

*How significant is it for online retailers to be able to facilitate value co-creation outside of their influence - the customers' sphere?*

### Interview questions

1. How often do you speak to your friends / family about online shopping experience?  
When would you speak positively? When would you speak negatively?
2. When speaking to your friends / family about purchasing a certain item online, do you emphasise the online store you bought it from or do you emphasise usefulness / value of the item you have purchased? Why?
3. Do you ever not purchase something online because of a negative feedback / recommendation received about a particular e-commerce store from your friends / family / community around you? Why?
4. How would you go about making a purchase at a new online store you have never shopped before?

## 10 APPENDIX B: RETAILERS QUESTIONNAIRE

### Research question 1

*Where does the process of value creation and value co-creation begin in the online retailing context?*

### Interview questions

1. How do you decide what products to add to your product catalogue?
2. How often do you introduce new products? Why?
3. What makes you decide what products to use in your marketing communication?
4. How often do you listen to your existing customers when deciding what products to introduce? Why? Do you ever listen to potential customers? Who is more important and why?
5. How often do you change your internal business practices based on customers' feedback / recommendation? Why?

## Research question 2

*Who is the value creator in the online retailing context?*

### Interview questions

1. What do you think your customers value the most about you online store? Why?
2. When running a marketing campaign, where does your preference lie in terms of what to market first: the store itself (easy of use, reliability, delivery), or do you market the actual products' features available in your store? Why?
3. How do you go about understanding how your customers will personally benefit from purchasing a product from your online store? Why?
4. How do you go about understanding how your customers will be using a product purchased from your online store? Why?
5. When do you think your customers engage with your online store? Under what circumstances?

### **Research question 3**

*How significant is it for online retailers to be able to facilitate value co-creation outside of their influence - the customers' sphere?*

### **Interview questions**

1. What do you think your customers say when speaking to their friends / family about your online store?
2. Is it important for you to have your customers speak about your online store to their friends / family / community? Why?
3. What message do you typically try to communicate when engaging with your customers?

## 11 APPENDIX C: THE FIRST CODEBOOK

The codes are presented in order of emergence during the process of data collection.

**Table 7. The first codebook**

availability	fulfilment	retailer engagement
behaviour	hesitation	shipping cost
bricks and mortar	necessity product	usability
communication	negative experiences	broken product
comparison	non-necessity product	business practices
condition	online review	customer support
convenience	product before shop	product review
delivery time	refund policy	brand awareness
ease of use	reward	familiar shop
general products	service delivery	inconvenient
generalisation	shop before product	new online shops
gift purchasing	unique product	offline marketing campaigns
idea to buy online	bad user experience	product category
influence	bargain	product knowledge
need	constraint	products return process
offline purchasing	cost saving	shop discovery
online marketing	customer expectations	shop recognition
packaging	free delivery	bring in physical experience
past experience	insurance option	differentiation
price	market disruption	event driven purchasing
purchasing decision	no influence	planning
reason not to buy online	technical aspect	product comparison
reason to buy online	trend	website navigation
return policy	value proposition	novelty
special deals	advanced search tool	positive experiences
spontaneous buying	credibility	repeated trend
time frame	historical data	exclusiveness
unfamiliar product	online environment	returning customers



variety	product discovery	user journey
want	shop's recommendation	misleading information
conscious awareness	trust	secure payment
good deal	urgency	shop dishonesty
impulsive decision	user experience	testimonials
loyalty	visual perception of products	advantage
loyalty program	good user experience	excitement
motivation	personal touch	exploratory
perception	shop identity	delivery fee
personal characteristics	shops interaction	opportunity cost
preference	user's lack of control	product benefit
purchasing methods	direct marketing	transparency
value perception	request	social influence
anonymity	routine	change in need
community	waste product	good feeling
community recommendation	less product offering	reputation
desire	product use	self reward
word of mouth	user friendly website	misalignment
product quality	customers reason to engage	retail experience
anticipation	online search	sign of success
customer service	relationship building with customers	brand power
education	service delivery influences	business models
terms and conditions	shop honesty	choice of brand
fraud	brand recognition	in-store sales vs special deals
product experience	business strategy	market place
product type	challenge	protection of suppliers brands
social media	inform decision making	price sensitivity
product relevance	large product variety	relationship with suppliers
shop community involvement	new products	risk
care for community	servicing the entire market	user behavior
advertising	shopping behavior	demographics
competition	suppliers influence	family buying
costs	customer satisfaction level	internet connectivity
customer engagement	product and price	accessibility
customer feedback	product	deal breaker
customer request	consumer driven demand	ease of access
customer retention	consumer value creation	research purpose

difficulty	dominance of e-commerce	time saver
existing customers	new value proposition	limited funds
guess	online consumer targeting	purchasing frequency
keeping customers interested	origins of demand	communication with shop
keeping stock	product curation	product reservation
listening to customer	zero-sum game	customer experience
new customers	new vs existing e-shops	customer loyalty
online mailers	customer survey	customer recommendation
potential customer engagement	demand anticipation	different marketing
product variety	marketing communication	problem solving
push marketing	shop knows best	understanding value
regular launch of products	assumption	unique positioning
revenue driver	blurred needs and wants	value driver
time and resources	consumer need	great deals
trends identification	consumer's product usage	refer a friend system
use of metrics	consumerism	
customer education	customer intent	
customer focus	education medium	
customer segmentation	focus on "mature" online shoppers	
customer want	importance of large product variety	
internal business processes	importance of product assortment	
shop's offering	accessible price	
supply chain	different customers' views	
time constraint	happy customers	
uncertainty	late delivery	

## 12 APPENDIX D: THE FINAL CODEBOOK

The following codes are presented in alphabetical order.

**Table 8. The final codebook**

accessible price	demographics	problem solving
advertising	different customers' views	product
bargain	difficulty	product and price
behaviour	dominance of e-commerce	product before shop
blurred needs and wants	ease of use	product benefit
brand awareness	education medium	product category
brand power	exclusiveness	product curation
brand recognition	existing customers	product distribution
bricks and mortar	family buying	product experience
business models	free delivery	product mix
business practices	gift purchasing	product quality
business strategy	great deals	product relevance
challenge	happy customers	product review
choice of brand	historical data	product segmentation
commercial customers	in-store sales vs special deals	product use
communication	influence	product variety
community recommendation	inform decision making	pull strategy
competition	internal business processes	purchasing methods
conscious awareness	internet connectivity	push marketing
constraint	keeping customers interested	reason to buy online
consumer driven demand	stock keeping	refer a friend system
consumer need	late delivery	regular launch of products
consumer value creation	listening to customer	relationship building
consumer's product usage	loyalty program	relationship with suppliers
convenience	market place	reliability
costs	market research	research purpose
credibility	marketing communication	return policy
customer education	nature of the market	returning customers
customer engagement	need	revenue driver
customer expectations	negative experiences	risk

customer feedback	new customers	secure payment
customer focus	new products	service delivery
customer intent	new value proposition	servicing the entire market
customer loyalty	new vs existing e-shops	shipping cost
customer recommendation	offline marketing campaigns	shop honesty
customer request	online consumer targeting	shop identity
customer retention	online environment	shop's offering
customer satisfaction level	online mailers	sign of success
customer segmentation	online marketing	social influence
customer service	opportunity cost	social media
customer support	origins of demand	special deals
customer survey	protection of suppliers brands	suppliers influence
customers reason to engage	potential customers' engagement	supply chain
delivery time	price	technical aspect
demand anticipation	price sensitivity	time and resources
time constraint	understanding value	user journey
time frame	unique positioning	value driver
time saver	universal products	value perception
trends identification	use of metrics	value proposition
trust	user experience	want
uncertainty	user friendly website	word of mouth

## 13 APPENDIX E: INFORMED CONSENT FORM

### Informed consent form

Thank you for agreeing to participate in this study, which will take place from June to October 2015. This form details the purpose of this study, a description of the involvement required and your rights as a participant.

#### **The purpose of this study is:**

To gain insight into the process of creation and value co-creation, within the online e-commerce industry of South Africa. This study samples particularly online retailers.

#### **The benefits of the research will be:**

The results of this research may have a practical value for online retailers when understanding how value may be created and co-created, and which may further assist with better marketing, product selection and offering, consumer involvement in value co-creation.

#### **Your participation:**

Your participation in this study will consist of an interview lasting about an hour. You will be asked a series of questions related to the research topic. You are not required to answer all the questions. You may pass on any question that makes you feel uncomfortable. You are encouraged to ask questions or raise concerns at any time about the nature of the study or the methods I am using.

Our discussion will be audio taped to help me accurately capture your insights in your own words. The tapes will only be heard by me for the purpose of this study. If you feel uncomfortable with the recorder, you may ask that it be turned off at any time. You also have

the right to withdraw from the study at any time. In the event you choose to withdraw from the study all information you provide (including tapes) will be destroyed and omitted from the final paper.

Information gathered during the interview process will be used in writing a final qualitative research report. The signed consent form will be immediately separated from the information provided by you and stored in a separate location. Once separated, a unique code will be assigned to a dataset collected during the interview process and by means of which the information will be presented in the final research report without direct identifiers of any participants. Procedure for maintaining participants' confidentiality will include assurance that links between information and the research participants' identifiers will be time-limited.

If you have any concerns, please contact my supervisor or myself. Our details are provided below. By signing below I acknowledge that I have read and understand the above information.

Signature \_\_\_\_\_ of  
participant \_\_\_\_\_ Date \_\_\_\_\_ Signature \_\_\_\_\_ of  
researcher \_\_\_\_\_ Date \_\_\_\_\_

*Researcher name: Evgeny Samarov*

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*Supervisor name: Priya Thakoor*

*Phone: 082 495 0969*

*Email: [priya.thakoor@gmail.com](mailto:priya.thakoor@gmail.com)*

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**paper text:**

Value creation and co-creation in a consumer sphere within online retail Evgeny Samarov 14445698

13A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirement for the degree of Master of Business Administration. 9 November 2015 University of Pretoria

ABSTRACT Intense business competitiveness, accelerated by web technological advancement of recent years, poses challenges for online organisations to remain relevant in the market, while continuing to serve

68customers' needs and wants, as well as acquire new customers in a

cost effective manner. Nowadays, online consumers possess a much greater bargaining power and are capable of exercising their consumer choice behaviour to a much larger degree than in the recent past. An increasing number of academic scholars and business practitioners maintain, that success of the future business will depend on how organisations manage to revise their existing business practices and bring the customers

20into the process of value co-creation. The

research set out to explore opportunities for value creation and co-creation between online firms and online consumers. In-depth interviews conducted with 22 participants provided further insights

8into the notion of value creation and value co-creation in

online retail. Expansive literature review allowed to form solid academic grounds, upon which the investigation was built and evolved to its conclusion. Coupled with theoretical premises, key research findings suggested that online firms can indeed

78co-create value with existing customers in the closed -to-

firms' customer sphere, where only customer-to-customer interactions take place. Enhancement of customers' value perception plays key

11role in the process of value co -creation in the customer sphere. As a

result, online firms may reduce cost on acquiring new customers and consequently excel in revenue growth and business prosperity. ii KEYWORDS Online retailing

73Service-Dominant (S-D) logic Value co-creation Value

creation Value perception

6iii DECLARATION I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research. Evgeny Samarov 9 November 2015 iv

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**134x 1** CHAPTER 1 – INTRODUCTION 1.1 Introduction

Online retailing has been growing tremendously around the globe, offering new business opportunities to the existing and well-established retailers, as well as new age online entrepreneurs (Briggs, 2015). The spike in online retailing, alongside the increasing Internet access, has been caused by the upcoming younger generation of consumers, whose rules of engagement with retailers differ to those of non-millennial consumers (Power, 2015). Online technologies empowered the consumers to easily pick and choose the services they want to use, and the products they wish to consume. In response to the shifting notion of the consumers' power, organisations are forced to find better ways to predict online consumers' next move in order to create new and better value (Edelman & Singer, 2015). Due to the changing landscape of online retailing, organisations that do not understand how they can better the value offered to their customers are at risk of losing their market share and becoming insolvent, as rivals continue to thrive.

161The concept of value co -creation has been adopted by some of

the largest global organisations as a solution to meeting the new age consumers' demand (Libert, Wind & Fenley, 2015). Despite an evident business need for adoption of value co-creation, as a new form of business conduct (Hughes, 2013), academic scholars maintain, that the concepts

5of value creation and value co-creation remain unclear and

require further analytical investigation (Grönroos & Voima, 2013). By bringing more clarity

8into the concepts of value creation and co-creation in the

online retailing environment, the paper aims to assist business managers in assessing their own existing business practices and improvement thereof. 1.2 Background The future success of business organisations lies beyond a mere function of internal efficiency improvements and economies of scale (Hughes, 2013). It is critical for the firms to understand what value they create for consumers and how it can be co-created (Hughes, 2013). Most organisations still believe that it is up to them to direct consumers' experiences in light of value creation (Ramaswamy & Gouillart, 2010). However, nowadays consumers shape their own experiences, and those firms that succeed in establishing a prosperous value co-creation environment instead exceed in revenue growth and overall enterprise value (Libert et al., 2015). Various theoretical models emerged to shed more light on the

5process of value creation and co-creation and

assist organisations with establishing sound business practices and growth opportunities. From the original

144DART model (Prahalad & Ramaswamy, 2004b) to the more recent Value Creation

Spheres (Grönroos & Voima, 2013), each study attempted to explain the

5process of value creation and value co-creation

in its own domain. However, despite a vast academic contribution to the

150body of knowledge, the understanding of value and

how it is interpreted by stakeholders in the business environment remains unclear (Shamim & Ghazali, 2015). The traditional view

19of value co-creation in the context of Goods-Dominant (G -D) logic

(Michel, Vargo & Lusch, 2008; Vargo & Lusch, 2004a) has been confronted by the increasing bargaining power of consumers where Internet

73development plays an important role (Berry et al.,

2010). The concept of

122Service-Dominant (S-D) logic has been proposed as an alternative view of

understanding how value is created and what role consumers play

63in the process of value co-creation (Grönroos

& Voima, 2013; Michel

82et al., 2008). It is vital for organisations to understand the process of value co - creation in the

customer sphere. The growing interconnectedness among consumers by means of social networks and Internet accessibility at large obliges organisations to identify how they can utilise the concepts of value co-creation to maintain their relevancy in the market (Hughes, 2013). Increasingly, consumers begin to make use of technologies to share their shopping / service usage experiences, and therefore shape each others' purchasing intent (Ramaswamy, 2014). In a recent Gartner report, the authors predicted

72that "by 2017, 50% of consumer product investments will be redirected to customer experience innovations (Plummer et al., 2014,

p. 2)", hence the urgency to bring more conceptual clarity to the academic body of knowledge, as well as managerial business practice as far

112as the concepts of value creation and value co-creation

are concerned. The firms which understand and embrace technological development in light of value co-creation would excel in their business practices and, as a result, outperform their rivals (Libert et al., 2014, 2015). 1

102.2.1 Value creation and co-creation in the online environment Value creation, as the

main function of any organisation, has been undergoing tremendous changes, due to the increased Internet penetration not only across geographical regions, but also at our homes, places we work at, the places we go shopping (Hui, 2014). As a result, consumption patterns of a general consumer has been changing accordingly. The product / service consumption has become more unique in its experience. It is no longer sustainable for organisations to follow the business frameworks and models established in the 20th century, and new business ideas have to be introduced to be able to serve the market (Hui, 2014). The Internet, with its online web technologies and tools, allows any bricks-and-mortar organisation to become more customer-centric by effectively utilising the concepts of value co-creation (Leavy, 2012; Ramaswamy, 2002). The argument was extended, where authors maintained that the adoption of the value co-creation would assist online business entities to reduce their operating costs and potentially grow their customer base (Floyd, Freling, Alhoqail, Cho, & Freling, 2014; Rafiq, Fulford & Lu, 2013). However, a more recent study argued that online consumers and offline consumers are not the same, hence should not be treated identically (Huberty, 2015, p. 38). Recent studies continued

108to examine the notion of value co-creation in the

online context, proposing that it would benefit firms only financially (Griffis, Rao, Goldsby, Voorhees & Iyengar, 2012; Rafiq

167et al., 2013). However, a more recent research paper proposed that the

## 15 APPENDIX G: THE ETHICAL CLEARANCE LETTER

**Gordon Institute  
of Business Science**  
University of Pretoria

Dear Evgeny Samarov

Protocol Number: **Temp2015-01531**

Title: **ORIGINS OF VALUE CREATION AND VALUE CO-CREATION IN ONLINE RETAILING**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

Adele Bekker