

## **An Exploratory Research on Perceived Value in Professional Business Services**

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### **Abstract**

The paper presents an exploratory research on perceived value of advertising services, which are classified as professional business services. Value is most often associated with benefits obtained and sacrifice made to obtain them. However some of the literature on advertising agency services and professional business services seems to ignore the influence of cost factors on value. This leads to ambiguity as to how value of advertising services should be conceptualised, which hampers further advancement of knowledge in this important business area. The presented research intended to address this conceptual ambiguity. The findings indicate that cost factors are important and should be considered in the context of perceived value of advertising services. Additional factors influencing the latter were also identified.

## **An Exploratory Research on Perceived Value of Professional Business Services**

### **Introduction**

Customer value is of utmost importance to marketers for at least two reasons. First, according to the economic theory of value (Lancaster, 1966) and the theory of choice (Thurstone, 1927 and McFadden, 1973, quoted in Burke, Louviere, Devinney and Fine ( n.d.)) consumers choose among alternative brands (i.e. among bundles of different product attributes, represented at different levels) the ones that maximise their utility (value). That is, the brands that offer the combination of attributes and attribute levels the consumer values the most are likely to be chosen. This means that purchase choice is a function of perceived value. Second, customer's pre-purchase perceptions that the selected brand is of good value, that don't change with consumption, lead to customer satisfaction, which in turn contributes to customer loyalty (Parasuraman and Grewal, 2000), and leads to increased firm's profitability and long term business success. Thus perceived value has strategic importance to organisations (Lapierre, 1997). This research examines the construct *Perceived Value* in a B2B context. More specifically, the aim is to clarify the meaning of perceived value of advertising services. Advertising is indispensable for businesses, and often commands significant financial resources. Therefore understanding better what advertisers value most in an advertising agency's services proposition can help agencies market better their services to their clients.

### **Perceived Value**

Value means different things to various consumers. In a widely-cited study of consumer goods, Zeithaml (1988) identified four different meanings consumers associate with value: value is low price; value is what the consumer wants in a product; value is what you get for what you give, and value is a trade-off between benefits and cost. Attempting to synthesise the various consumers' views of value in a single generic definition Zeithaml (1988, p.14) proposed that "Perceived value is the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given, i.e. value represents a trade-off of the salient give and get components." However, Perceived Value (PV) is considered to vary with the type of product/service being purchase, situational factors, consumer experience with the product/service, and customers characteristics (Bolton and Drew, 1990, Whittaker and Ledden, 2007). That is, value is a contextual construct, and its meaning varies depending on a range of factors, as listed above. Value is also perceptual, i.e. it is the consumer's subjective view of value that drives her choice and leads to a purchase decision. This research aims to clarify the meaning attributed to value of advertising services.

Advertising services fall in the category of professional business services (Gummesson, 1978; Hill & Johnson, 2003). The study seeks to overcome the ambiguity surrounding antecedents of Perceived Value (PV) of Professional Business Services (PBS), and especially advertising services. While quality and price are widely accepted antecedents of value (Parasuraman and Grewal, 2000; Lapierre, 2000), it appears that some of the literature on business services projects the opinion that price is less important than quality in forming perceptions of value. For example, empirical evidence by Desarbo, Jedidi and Sinha (2001) indicates that for a large proportion of consumers (almost 50% in their sample) value perceptions were based entirely on service quality, and price was totally disregarded. Stock and Zinszer (1987) and Day and Barksdale (2003) also empirically showed that service factors were more important than cost factors in the purchase of PBS, and price was less important than quality in

evaluating service firms' performance. Although value of advertising services has not been explicitly researched, factors influencing agency choice (which is a function of Perceived Value) have been examined by a number of studies (Cagley & Roberts, 1984; Cagley, 1986; Dowling, 1994; Marshall & Na; Fam & Waller, 1999; Verbeke, 1989, etc). These studies have identified a range of important selection criteria that could be considered PV drivers, because they predict choice. Price however has seldom been listed as one of them. In the rare cases where price is mentioned, it is usually one of the less important selection criteria (e.g. Cagley and Roberts, 1984; Marshall and Na, 1994). Thus questions arise regarding the definition and meaning of perceived value of advertising service. That is why this research endeavours to answer the following research questions: *Should both, quality and price be considered antecedents of advertising services' Perceived Value, or is the latter only a function of quality, as some of the relevant literature suggests? What other factors influence advertisers' pre-purchase perceptions of advertising services' value?*

### Literature Review

A thorough search of the existing literature failed to locate scholarly work on value of advertising services at either conceptual, or empirical level. Given the significance of advertising services, as outlined above, the complete lack of studies examining the meaning and measurement of value in this field is puzzling. Research in the immediate parent area of PBS is hardly abundant either. It appears that this field of marketing knowledge is rather under-researched. Only eight studies focusing on value of PBS were discovered after a search of the major electronic marketing and business databases, and are discussed next.

Published research of PBS value falls into two streams – articles that seek to identify the antecedents and consequences of value in a specific PBS, and those that seek to discover the Perceived Value's dimensionality, i.e. what attributes are typically associated with the meaning of PV. The first stream includes five of the above-mentioned eight studies, i.e. Patterson and Spreng (1997), Lapierre, Filiatrault and Chebat (1999), Caruana, Money and Berthon (2000), Kumar and Grisaffe (2004), and Whittaker et al. (2007). These examine value's antecedents and consequences in a variety of PBS contexts, such as management consulting, auditing, corporate finance services, and consulting engineering services, in Australia, Canada, UK, and USA. Quality is a value antecedent in all of the studies. However only three of them found evidence that cost-related factors (perceived price, sacrifice) are direct predictors of PV. The other two did not include cost-related antecedents to value in their models (i.e. Patterson and Spreng 1997; Caruana et al, 2000). As no explanation was offered for their omission, it may be speculated, that the authors did not see cost factors as so important in the context of PBS, as to be included in the conceptual framework examining value and related constructs. Such an interpretation is consistent with the PBS literature previously mentioned, that ignores cost as a selection (i.e.value) factor.

In the second stream, four papers offered models of the value construct. Lapierre's (1997) paper found that PV in PBS has two temporal perspectives – Value-in-Exchange (assessed by the customer in the course of purchasing PBS) and Value-in-Use (assessed after the contracted PBS has been used or consumed). None of these two constructs included any cost component. Lapierre (2000) however, proposed that PV in PBS consists of two dimensions: benefits and sacrifice. Sacrifice, a reflective construct had three indicators, price, time/effort and conflict. Whittaker et al (2007) proposed and tested a multidimensional structure of the value construct, with six formative indicators: functional, epistemic, emotional, social, image

value, and price-quality ratio. Finally, Howden and Pressey (2008) used qualitative research to examine *relationship value* in PBS, because they believe that buyer-seller relationships create value for the customer separately from the service product. They concluded that *relationship value* in the commercial insurance industry in UK had six dimensions: agent's know-how, service fulfilment, trust, location, personal interaction, and cost (direct, or monetary, and indirect, or non-monetary). In brief, three of the four studies in the second stream of literature included cost/price elements as dimensions of value, or relationship value. However, due to very different conceptualisations of value no consensus emerged about the dimensionality of the value construct.

In summary, due to lack of sufficient research in PV of advertising services, the present study turned for guidance to the literature in the immediate parent field of PBS. The results however, are inconsistent across studies, as to whether or not cost/price/sacrifice should be considered as predictors of value, value dimensions, or value dimension's indicator/s when conceptualising Perceived Value of PBS. The ambiguities associated with the value construct mentioned in the beginning still remain after this review, and hamper the development of a definition and the measurement of the construct in the said context. As Caruana et al (2000, p. 1343) note "problems associated with theoretical definition of the value construct have led to operational definition restraints and difficulties in operationalising the construct." In order to overcome such problems in the vitally important advertising services field, it was decided to collect and analyse primary data on PV of advertising services, as described below.

### **Methodology**

Since PV has not been studied in the advertising services context, an exploratory approach to the research seems logical and justifiable (Aaker et al, 2007). Personal interviews were used as a research method. Large consumer goods and services companies were selected to be studied because these are the most likely continuous users of advertising agencies services, and therefore have the knowledge that this research is aiming to tap on. A key informant approach was applied, i.e. the interviews were conducted with top executives, with direct responsibility for marketing communications within their organisation, and minimum four years' experience in selecting and working with advertising agencies. Seven in-depth interviews with marketing managers or corporate communications managers of very large and large Australian organisations producing and selling foodstuffs, FMCG, beverages, or services such as health insurance, telecommunications and entertainment have been conducted. Two of the companies were not-for-profit organisations. Thus overall the sample represented a diverse set of consumer businesses in NSW.

### **Findings and Analysis/Discussion**

The responses of marketing executives to the questions exploring what value of advertising services meant to them separated into two groups. The first group of responses describes value along the lines of expected benefits: agency service outcomes, and agency's ability to deliver expected results, such as effectiveness of communication, improved brand equity, sales results, and increase in market share. For example, some of the responses defined value of advertising services as "*a very good campaign, that results in memorable outcomes for consumers and sales for us.*", or "*agency's ability to deliver... to interpret customer insight and to translate it into an [creative] idea that will ultimately improve our brand equity scores and sales volumes*", or "*adding value to what we already have, enhance what we are doing*".

Some responses were explicitly and unambiguously associating value only with “*sales results - nothing more, nothing less*“, or “*sales, dollars; more money*” (italicised phrases are direct quotes from informants’ responses). Typically the interpretation of value within this group was not stressing the cost factors very much at all. In one case (a very large global consumer goods company) the informant made it clear, that in fact it does not matter how much the agency charges: “*even if they [the agency] are expensive – we are happy, as soon as they deliver results*”. These findings are consistent with the literature on agency selection, and PV of PBS, as mentioned previously, i.e. they tend to associate value with benefits only, not costs, i.e. “Value is what I want in a product” (Zeithaml, 1988).

However, these results differ from the rest, thus a second view of value emerged. Although the responses in the second group also identified the importance of service quality and achieving market results, as well as agency possessing certain attributes (e.g. “*innovation and creative thinking*”, etc), they weighted these against the agency’s costs. Too expensive agencies were not seen as good value, and the informants seemed more interested in working with middle size, quality agencies that request reasonable remuneration, because they were seen to deliver “*value for money*”. At the same time, some of the interviewees shared that if the agency remuneration was too low, this would sound a warning bell for them, as they feared low price might mean low quality. In other words, this second interpretation of value falls under the classic definition of trade-off between benefits and costs. It is important to note here, that the two not-for-profit organisations, that presumably have more limited advertising budgets, were in this category. Although it is difficult to generalise on these ground alone, one can suggest a possible correlation between size of advertising budget and perceptions of value, with companies of more limited budgets being more concerned with both quality and value, i.e. looking for value for money in agency services.

By and large these results mirror the literature on PBS perceived value, in that there seems to be two views of value - one is value as equivalent to quality/benefits, and the other is value as benefits weighted against sacrifices. However, the former view seems more likely to be associated with the mega-large advertisers, with huge advertising budgets, that typically deploy market penetration strategies, based on extensive advertising and vast distribution network. Given their size and scope of operation, the incremental return on sales in these organisations, associated with a unit increase in advertising effectiveness, more than compensates the incremental expense of employing costly, high quality advertising agencies, which usually deliver higher advertising effectiveness. That is why quality of advertising services matters the most for such firms, while cost seems to be not important. However, not so many companies are that large, that is why it is not justifiable to adopt this view of PV as a prevailing one. Evidence from the current qualitative research indicates that cost of advertising services is highly important, just as is advertising quality. For this reason, the research concludes that PV of advertising services needs to be defined as a trade-off between quality and price, as indicated by most of the informants, and some of the reviewed literature.

In relation to the second research question, *what other factors might influence advertisers’ pre-purchase perceptions of advertising services’ value*, agency-client relationships and the ability of the agency to play the role of “business partner” rather than just a supplier, emerged from the interviews. Respondents pinpointed the importance of “interpersonal chemistry” (Day et al, 2003, p.573) and agency rapport building skills in achieving good relationships.

One of the interviewees noted “*As the work involves so much interaction... we need to work with them a lot of the time...we have to like them [i.e. the agency people]*”. This is consistent

with the literature on agency- client relationships, which emphasises the fact that the client's marketing people get actively involved in the advertising service production, and together with the agency staff co-create value.

Many of the other determinants of value mentioned by respondent relate to agency expertise and experience (Day and Barksdale, 2003). For example, the informants identified agency's strategic thinking skills, ability to drive strategy in new directions, skills in working with media, ability to balance budgets across different media, i.e. cost consciousness (Cagley and Robert, 1986), ability and willingness to handle equally well big or small projects, and experience with similar size accounts in consumer markets, all describe agency expertise and competence. Creativity and innovativeness featured strongly as predictors of value, as did agency resources (e.g. size of agency allows flexibility to deploy more staff and resources to *"my account as I need them"*). Another valued agency attribute that emerged was agency professionalism. It was pointed that *"the agency must have in place all the processes needed to ensure smooth operations"*. Also related to professionalism, the ability of the agency to immerse itself in advertiser's operations to an extent where the marketing manager felt that agency staff working on the account *"become an extension of my own marketing department, and save me time by thinking on their own, and not bother me with every little detail"*. The response pointed to the value creation potential of by being able to understand when it is important to engage senior marketing staff with campaign issues, and when it is not.

### **Conclusion, Limitations and Future Research**

The described research delivers important insight into the research problem. The results indicate that even though value is first and foremost perceived as arising from advertising services quality, price is also an important antecedent of value among the Australian advertisers, but the super large ones. That is, advertisers weight the provided advertising service quality against the sacrifice involved (i.e. agency remuneration, time, effort required). That is why future research in modelling PV of advertising services, needs to consider sacrifice along with quality. The likelihood of developing successful relationship with the agency is also a value antecedent, as are agency expertise, creativity, innovativeness, professionalism and agency resources. The described research is only a small scale exploratory study that was conducted with a sample of large and very large advertisers, all of which were located in NSW. These limitations warrant caution with the results, which should only be used for orientation and for structuring of future, larger sample-based research. The results can be used to design and conduct a quantitative research which could seek to identify the relative importance of various advertising services PV antecedents, including price. The outcomes of such study could provide advertising agencies with more specific information about the decision making processes of clients and thus help them tailor better business propositions.

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