2 Defining Hybrid Value Creation

As previously mentioned, this dissertation focuses on understanding the dynamics of value creation in different hybrid value creation business models. Before delving deeper into hybrid value creation, it is important to define the phenomenon. In order to do so, first, a definition of value creation is provided and then the denotation of the prefix "hybrid" is elucidated.

To define value creation, one needs first to understand two concepts of value which are *"use value"* and *"exchange value"* (Bowman and Ambrosini 2000). Use value refers to the specific qualities of the product perceived by customers in relation to their needs. Use value is a subjective and individualistic concept. Exchange value refers to price. It is the monetization realized at a single point in time when goods are exchanged. Exchange value is an accounting convenience. Combining these two concepts, Lepak, Smith, and Taylor (2007: 182) suggest that:

> *"… value creation depends on the relative amount of value that is subjectively realized by a target user (or buyer) who is the focus of value creation – whether individual, organization, or society – and that this subjective value realization must at least translate into the user's willingness to exchange a monetary amount for the value received".*

They state that for value creation to endure:

1. Exchange value (monetary amount) must exceed the producer's cost (this includes money, time, effort, joy, and the like); without which the producer is making a loss;
2. This exchange value depends on the perceived positive performance excess difference between the new use value proposed (from the new focal task, product, or service) and the closest existing alternatives (current task, product, or service) the customer has; without a positive performance difference perceived by the customer, it is value destruction.

They also further state that:

> *"In general, without these excesses, neither the user nor the creator of value would be willing to repeatedly engage in these activities over the long term"* (2007: 182).

V. K. Velamuri, *Hybrid Value Creation,* Markt- und Unternehmensentwicklung / Markets and Organisations, DOI 10.1007/978-3-8349-3961-6_2, © Springer Fachmedien Wiesbaden 2013

The term "hybrid" denotes the presence of two separate kinds of components in an offering:

1. The presence of a product (i.e. tangible component);
2. The presence of a service (i.e. intangible component).

Hence, hybrid value creation is defined as the process of generating additional value by innovatively combining products (tangible component) and services (intangible component).

This definition of hybrid value creation is transferred to the Rolls-Royce and MyMuesli examples. In the case of Rolls-Royce, through its trademarked *'power-by-the-hour'* contracts, an innovative combination of products (engines and spare parts) and services (repairs and preventive maintenance), the firm has taken over complete responsibility for keeping the engines running. By doing so, its customers are given an exact cost projection to the last cent. This way, Rolls-Royce takes over the risk associated with engine breakdowns and creates value for its customers.

In the case of MyMuesli, by contrast, the firm creates value for its customers by providing a unique breakfast cereal to meet the exact tastes of each individual customer. Hence, customers are willing to pay a premium for the perceived positive performance excess the customized cereal brings to them, when they compare it to other alternatives available in the market. The service is integrated in the final product, as it is in the form of individualization that is conducted in preparing the cereal.

http://www.springer.com/978-3-8349-3960-9

Hybrid Value Creation
Velamuri, V.K.
2013, XX, 200 p. 24 illus., Softcover
ISBN: 978-3-8349-3960-9