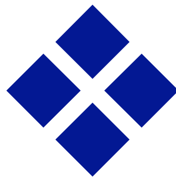

Chapter 6.
Your Customer Radar

"If the people don't want to come out to the ballpark,
how ya gonna stop 'em?"

- "Yogi" Berra
American baseball star

The purpose of the customer radar is to understand the behavior and intentions of your customers, and the forces shaping them. This definition provides a focus for our exploration, so we aren't tempted to wander in all directions studying interesting facts and figures that have no bearing on the decisions we have to make about the strategy of the business.

Markets or Customers?

For this discussion, I propose to trade in the comfortable but vague term "market" for the more specific term "customers." This may seem like a fine distinction to some, but I believe it makes a difference in our thinking process, and in the frame of reference we use to for the environmental scan.

Many executives make a habit of speaking of markets as if they were battlefields or playing fields for sport. We can talk about a market in terms of numbers, statistics, and revenue volume, but it's easy to lose contact with the idea of *a group of customers* who are making choices. Airline executives speak of the "Paris-Frankfurt" market, meaning the people who fly between those two cities. Broadcast executives speak of "the rural-Illinois market" or "the Dallas market," referring to the people in those geographic areas who watch or listen to their shows.

I believe this habit of dehumanizing the discussion of customers, and reducing it to the impersonal language of numbers, tends to handicap the thinking process. It is a typically masculine line of thinking, much like the mechanical vocabulary of warfare. Another tendency of "market" thinking is to define market segments that match of the

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company's products, i.e. the buyers of product A are one market and the buyers of product B are another market. Presumably, wine drinkers are a market, beer drinkers are another market, and drinkers of liqueurs, cordials, and other fancy products are another market. But any one person might use each of those products on various occasions, for various purposes. I'm not claiming that market thinking is fundamentally wrong in any way, only that customer thinking can often bring marketing issues into clearer focus.

My favorite definition of marketing is:

the process of matching the resources of the organization with the aspirations of its customers.

Marketing is not the same thing as selling. It means finding a match between something we can do well and the needs, problems, or desires of people who are willing to pay us for doing it. Disciplines such as product design, brand management, advertising and promotion, distribution management, and pricing all flow from a consensus about the customer buying dynamic. Marketing is more than pushing your existing products to a new set of customers. It also includes evolving your total value package to bring it into sync with the wants of existing customers as well as potential new ones.

The "Molecular Customer"

In our discussion of the customer radar, as well as most of the other radars, we may have to take different views and use different methods depending on what the customer looks like. In particular, we have to consider whether the customer is the consumer, i.e. the direct buyer and end-user of our value package, or a more complex buying entity. In some cases, the customer may be a "molecule," i.e. a special combination that may include people and organizations, or even political or other entities.

For example, if we are an insurance firm trying to sell a special plan to the members of an association, we will probably have to make one kind of sale to the elected leaders of the association, another kind of sale to the appointed executive director, and another kind of sale to the individual members who may or may not want to buy it. To make the sale and continue doing business with this "customer," we have to think in molecular terms. We have to understand how the various participants in the customer molecule relate to one another, what their respective desires and motivations are, and what kind of offering we must create to have a successful relationship with them.

If we are publishing a newspaper or a magazine, we typically receive most of our revenue from the businesses whose advertisements we transmit, so obviously we must offer them an appealing value package. But we must also have an appealing

information product that will bring enough people into contact with their messages. In this case, who is the customer, the advertiser or the audience? The answer is: both. Our value package must serve the needs of a molecular relationship. Actually, in the case of an information product, journalists might argue that the publishing firm itself becomes part of the molecular relationship, by delivering a socially valuable product which must meet some ethical standard of quality irrespective of the commercial considerations.

As another example, suppose we sell paints and other coating materials used by companies that manufacture various commercial products. The primary focus in this case will be on the company that buys our products, and we can rely on them to specify the requirements for the coatings that will satisfy the quality requirements of their end-users. However, our company customer is not a single entity, but actually a molecule in its own way.

For example, we may be dealing with the purchasing manager who tries to get the best price by playing us against our competitors. We may also have relationships with the company's manufacturing experts and design engineers, in which we can show them better ways to build their products using our materials. We may become a preferred supplier, and advance to the level where we link our ordering and accounting systems with theirs, strengthening our relationship so that we can maintain an edge over many competitors, if not all. In using our customer radar, we have to focus on each of the key participants in the customer molecule. We have to understand not only what each of them values, but how they interact with one another, and how those interactions affect our opportunities.

As we will see, most of the methods we can use to understand the individual consumer customer will apply, with appropriate variations, to the process of understanding the molecular customer relationship. One is necessarily more complex than the other, but they are conceptually very similar.

Demographics: the Great Engine of Marketing

If your customers are businesses and not consumers, don't be in a hurry to turn the page. If your customer's business is demographically driven, then yours is too.

One of the most important starting points for building a radar picture of your customers, or any particular group of customers, is the demographic profile. A thorough discussion of demographic techniques is well beyond the scope of this book, but we can review the basic thinking process that can help you discover interesting possibilities about your customers. I will apologize in advance to readers well-schooled in demographic analysis, who may find this discussion a bit elementary for their needs. However, those who are not may benefit from an explanation of the basic logic of demographics.

The compelling feature of demographic information is a certain sense of predictability,

almost bordering on inevitability, due to the fact that human populations change in fairly predictable ways. The current number of people in a certain demographic category, plus the number of people moving into it for various reasons — birth, coming of age, making certain life changes, etc. — minus the number of people moving out of it for other reasons, will equal a fairly good estimate of their number in the future. Twenty years from now, the number of people on the planet in the age range of 40-50 can be no larger than the number who are in the range of 20-30 today, and will certainly be less.

We cannot predict the exact number of people who will be living in Canada one year from today, but we can guess what it will be fairly confidently, using the information we have at hand today. Barring significant wildcards such as a natural disaster of epic proportions, an unprecedented rise in birth rate, or unheard-of levels of immigration or emigration, we know the number of people there will probably not exceed a certain level. That knowledge, applied to doing business in Canada or any other country, or in fact, any economic sector, can establish certain boundaries for our estimates of what is possible.

One of the most common and useful tools for demographic analysis is the *population pyramid*, a chart that shows the number of people in various age ranges, usually divided into males and females. A population pyramid can tell a compelling story about the people of a whole country, or those in a certain economic sector we're interested in exploring.

For comparison, look at the population pyramid shown in Figure 6-1, which shows a typical age distribution for a fast-growing underdeveloped country. Note the simple shape of the pyramid, with relatively large numbers of infants and young people due to the high birth rates, and rapidly declining numbers of people in the higher age ranges due to high death rates from disease (and, in some cases, warfare).

Now contrast the third-world country's pyramid with that of a highly developed nation, in this case the United States, as shown in Figure 6-2. Note the radical difference in the pattern of ages. In fact, the American pattern could hardly be called a pyramid; it resembles a "Coke bottle" pattern, to use a symbol from the American popular culture. A number of other highly developed countries, such as Japan and others, tend to follow this same general pattern, with individual variations.

The peculiar bulge in population about half-way up the American pyramid is a result of a decline in birth rates during the depression years of the 1930s, followed by an explosive increase in births after World War II — the infamous "baby boom" — followed by a decline in birth rates to more typical levels. As the women of this *age cohort*, as demographers call it, moved into their child-bearing years, they produced a secondary boom, but one proportionally smaller than their own.

Although age is only one of a number of important demographic drivers of customer behavior and intention, it is one of the most powerful of all variables in predicting changes over specific periods of time. Many patterns of buying, saving, investing,

consumption, and leisure activities show strong age correlations. Home buying, for example, is clearly age-related. It takes most young families some period of time to achieve sufficient financial stability and confidence to undertake the purchase of a new home. As they accumulate wealth over a number of years, they may trade up to

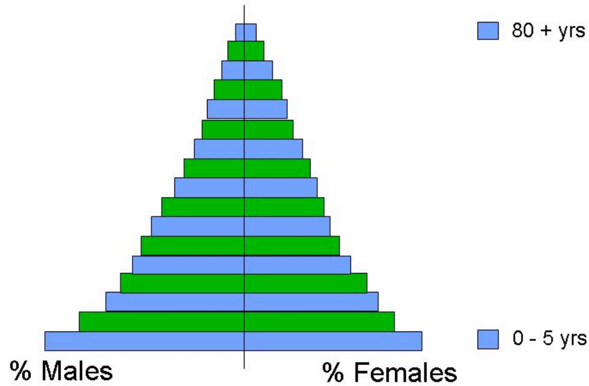


Figure 6-1. Population Pyramid: Developing Country.

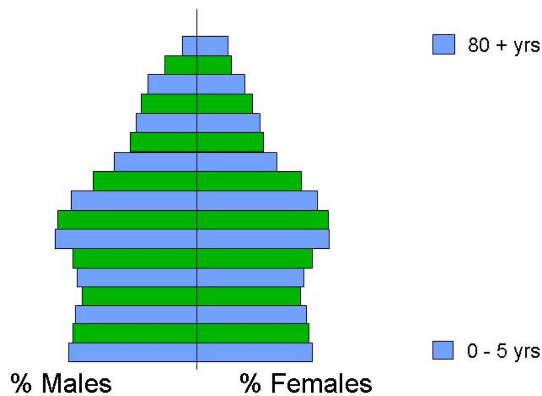


Figure 6-2. Population Pyramid: US.

more expensive homes. Past a certain age, they tend to remain in the homes they have, or in some cases to relocate and trade downward to more modest homes.

Most people who invest seriously begin doing so only after reaching a certain point of

income stability. In their early adult years, many people tend to favor greater spending on their material possessions, and tend to invest more extensively as they grow older, earn better incomes, and have accumulated many of the material possessions they wanted.

Marketers of lifestyle products and discretionary items such as music, fashion clothing, and movies know that age is a primary driver of customer preference. As people age, their preferences for sporting activities and other forms of recreation tend to shift. Tennis is a more highly favored sport for people below the age of 40, while golf becomes progressively more popular with people over 40.

Healthcare is clearly age related in its demand patterns and its costs. Serious illnesses such as cancer, heart disease, and stroke tend to afflict those over age 50 much more extensively than those under 50. A large fraction of medical costs are involved in treating people over the age of 60, who tend to have more acute health problems, and who are very costly to treat when they have terminal conditions.

Retirement is becoming a serious demographic issue for most of the developed countries because of the shifting age structure of their populations. The median age for the American population shifted from about 26 in 1950 to about 35 in the late 1990s. Japan has seen an even more significant shift. As the members of the post-war baby boom move into the age range typically thought of as the retirement years, they will nearly outnumber the wage-earning portion of the population who must pay taxes to subsidize their retirement.

As conditions change in the developing countries, their population structures will shift toward the pattern of the developed countries, for a number of reasons. For one, it has become clear that as economic conditions improve, women tend to have far better opportunities for education. As they become more educated, their birth rates tend to fall. Huge families give way to smaller, planned families. In addition, infant mortality rates drop, fewer women die in childbirth, and people tend to live longer as a result of better nutrition, better healthcare, and the reduction of disease. Overall population growth rates decline, and the population pyramid tends to become taller and less sharply diminished at the upper levels.

Many other demographic variables come into play in estimating the behavior and intentions of your customers, of course. Educational level is very often a strong predictor of customer preference. And, certainly, income level or general financial status strongly influences patterns of buying and investment. Other factors such as ethnic origin, occupation, religious preference, and health status also come into play.

Differences in geographic location can be correlated with customer preference, in the sense that they relate to community attitudes and values, or to the extent that they are associated with other significant demographic variables such as age. The median age in the city of Miami, Florida, is over 50, compared to about 32 for the US in general, because of its high concentration of retired people.

Geographic differences can cause consumer demand to rise much more rapidly in some regions than others. Asia, for example, has further to go then the wealthy Western economies, and so the proportional rise in demand there will be dramatically higher. Economists predict that, shortly into the 2000s, China alone will have over 200 million middle class households, with the usual middle class aspirations and consumption patterns. The number of Asian households classified as affluent, i.e. incomes equivalent to US $30,000, will double to over 50 million. Asia will have over 250 million TV households, with all of the associated socioeconomic side effects.

Identifying the demographic drivers for your business might be fairly simple, or it might require careful thought and investigation. If you're in the business of selling funeral services, you're in an age-related business. But other demographic factors will come into play as well. If you're in the business of selling sporting goods, age will be a factor, as well as gender. If you sell computer software, educational level may play a significant part in your customers' choices.

One obvious way to understand your customer demographics is to measure, or estimate, the demographic characteristics of your current customers. What are the age patterns? The proportion of males and females? What seems to be the typical level of education? What are the most likely levels of income, based on various cues that signal their lifestyle choices? Many firms neglect to capture even the most elementary demographic information about their customers. Except for intuition and general hunches, many strategic planners can only guess the demographic profile of their customers, and may have little insight into the major variations within their customer populations.

As mentioned previously, if your customer is a business then you may need to understand the demographic patterns of your customer's customers. For example, if you sell custom-molded plastic parts to manufacturing firms, and your largest single customer makes sporting goods, then the rise and fall of that firm's customer demand flows through to affect the demand for your products. If age demographics favor an increase in your customer's business, then you can be thankful, but if demographics favor a steady decline in demand for the customer's products, you'd better be planning for the effects on your business.

Whatever Happened to Customer Service?

For a stretch of about ten years, from 1985 through about 1995, American business flirted with the idea of "customer service" as a possible competitive weapon. The service revolution spread from the US to many other countries, through books, conferences, consultants, and seminars. Some firms became permanent advocates of the concept of *strategic customer focus*, others tried to implement it with disappointing results, and still others never understood it at all.

I hope I may be permitted the privilege of a short dissertation on this topic, inasmuch as it was my book *Service America!: Doing Business in the New Economy*,[1] co-

authored with Ron Zemke, that largely triggered the so-called service revolution. In 1983 I had discovered the germ of an emerging concept in Scandinavia, which advocates there were calling *service management*. It invited a complete rethinking of the paradigm of western management, with the customer's experience as the starting point rather than the organization and its processes. I brought the concept to the US, created an implementing model called the "service triangle," and began to write, speak, and consult on applying the methods of service management.

Service America! sold over a half-million copies and spawned a whole sub-industry in the consulting and management education sector. International congresses devoted to "service excellence" sprouted all over the world. Seminar organizers, training firms, and corporate training departments dutifully included programs on various aspect of winning customers in their catalogs. Consulting firms of all sizes went to work helping their clients implement "customer focus" programs. Companies of all stripes, and government agencies as well, tried their hand at becoming "customer driven." Outstanding service companies such as Disney, Federal Express, and Ritz Carlton Hotels became role models for the study of "best practices."

As we predicted in *Service America!*, the attempts to apply customer focus principles brought mixed results. Some companies approached it thoughtfully and with great determination, and many of them repositioned their companies in their competitive environments. A larger number flirted with the customer focus concept, either because it was fashionable and they had nothing else to do, or because they thought it would be easier than we had warned it would be. And probably half of American firms either did nothing or simply adopted the slogans of customer service as a minimal gesture to the trend.

The focus on service did achieve excellent results for many firms, giving them a clearer sense of focus and purpose, and improving their relations with their customers. Many of those firms continue to maintain and build their commitment to the strategic service model. However, many who tried it failed and their programs withered to nothing. The third category of firms mentioned, those who merely flirted with the concept, simply went on with life. Some of them also flirted with control-based methods like Total Quality Management, or TQM, also with little permanent effect.

Most of the very large firms ultimately showed little or no lasting effect from their dabbling with customer focus programs. The airlines, the mega-banks, the giant retailers, the dominant brokerage firms and insurance firms, almost all survived and grew by capitalizing on their sheer size and market dominance, not by any special magic called "customer service." Of course, it was *de rigeur* to declare in the corporate annual report that "We are customer driven," "We listen to our customers," and the like. However, most of their senior management teams never lost sight of size and market power as their real competitive advantages.

So, in the post-customer revolution period, many firms continue to maintain a strong competitive focus on customer value, but many more rely on asset-based competition. Indeed, there is notable evidence that more and more of the mega-firms

have virtually abandoned customer value as a primary competitive factor. Virtually all of the American airlines, for example, operate as if they see themselves as basically in the freight business. The operational model is essentially that of transporting livestock. The progressive reduction of personal attention, the impoverishment of the on-board experience, exploitive pricing, punitive fees and charges, restrictive policies governing refunds and changes, and overselling and bumping of full-fare customers have all diminished customer approval and driven brand preference to a minimum.

***Case in point*:** America West Airlines recalled one of its planes, en route from Phoenix to Dallas-Fort Worth, ordering it to return to Phoenix and land. Gate agents off-loaded 53 ticketed passengers to make room for a sports team, the California Angels, who had just finished playing a game. It had contracted with the team to transport its players to California, but the plane assigned to their flight had developed mechanical problems. To comply with the provisions of its contract, airline management decided to sacrifice the commercial customers, some of whom were stranded for the night in Phoenix. The incident triggered angry letters, government inquiries, and negative press reports across the country. The company tried to telephone all of the alienated passengers with an apology and an attempt at atonement, but the damage was permanent.

In early 1998, the US Senate took up a bill that would hold airlines more accountable for the abuse of their customers, including the introduction of a “passenger’s bill of rights.” A much-publicized incident in which Northwest Airlines detained several hundred passengers against their will, in airplanes parked for hours on a snowed-in runway fueled the anger many travelers felt toward all airlines.

***Case in point*:** in a personal experience, I lost my ATM card to a rogue cash dispenser operated by a large California-based bank, in a shopping mall near my office. The machine seemed to lose electrical power a few seconds after I inserted the card. When the screen came up again, it had no recollection that it had taken the card. I went to a pay telephone and dialed the bank’s toll-free number given on the ATM, for help. After a 15-minute wait on hold, I asked the bank representative to arrange to have my card retrieved and returned to me. She told me that the bank did not return kept cards; they destroyed them. I would have to go to my own bank, which issued the card, and have a new card issued.

***Case in point*:** when we set up the first Web site for our firm, we ordered the hosting service from one of the eager Internet service providers that contacted us immediately after we registered the domain name. Their sales people assured us that it was easy to get started, and that they provided plenty of help and supporting materials. Once we signed up, we discovered that the assistance in setting up the site consisted of nothing more than a long, rambling Email. Heavily laced with geek language, it didn’t even answer the three or four most basic questions about setting up the site. After a long series of Email requests for help, interspersed with telegraphic answers in geek-speak, we finally discovered the proper procedure by trial and error. Of course, the firm was kind enough to send us frequent offers to upgrade to other services, and

helpfully provided our address to other firms that wanted to sell us additional services.

Some experts and commentators on the state of management thinking contend that the service revolution is over, and that this or that concept is the new theory of choice. That may be true or it may be overstated. In any case, I still believe that, for some firms, creating customer preference by means of a differentiated customer experience still makes a lot of sense. Before we give up on customer focus, or declare it a fad that's had its day, we should think carefully about what it takes to win and keep the customer's business.

Working hard and having a pure heart are no longer enough to succeed in today's environment of hypercompetition. If size is all that matters, then you'd better be the biggest and strongest player in your sector, or at least one of biggest few. But if you don't have the advantages of size and brute strength, then you'd better find a recipe that works for you. Customer focus could still be a valuable asset for firms in that situation.

The Myth of Customer Loyalty

More than ten years ago, whenever I asserted that the term customer satisfaction encoded a flawed concept, I would get almost 100 per cent blank looks from the executives I talked to — what one of my associates calls a "staring ovation." The statement was often perceived as a word game, an attempt to obfuscate the obvious. "Everybody knows what customer satisfaction is — it's when you deliver exactly what the customer expects." This was one piece of evidence, among many, that the manufacturing quality mindset had automatically become the default mindset for thinking about the management of service.

But the realization gradually set in that customer approval is not simply a binary proposition. You succeed or fail in the customer's eyes to a greater or lesser degree, rather than by simply hitting a mark or missing it. Then the much-revered Dr. Edwards Deming offered the proposition that the objective of every business was to "delight the customer." As other thinkers and writers promoted the same view, the term customer satisfaction tended to become a source of confusion. What did it really mean?

Shortly into the customer revolution, a number of thinkers and writers began to promote the idea of customer loyalty, on the premise that it was more appropriate to focus on *lifetime customer value* than simply on the management of customer-contact episodes. That further complicated the debate about the choice of labels.

The problem with this debate about customer satisfaction vs. customer loyalty is not in our intentions, but in our vocabulary. I have long believed that subtle differences in our choice of the labels we apply to problems do as much to promote or subvert helpful analysis as the thought processes themselves. Wendell Willkie, an early political figure in America, observed "a good catchword can obscure analysis for fifty years." Mark Twain said "the difference between the right word and almost the right

word is the difference between lightning and the lightning bug."

Let's delve into the ideas behind the slogans, and look for the operational truth about how to win and keep the business of our customers.

The answer to the satisfaction-loyalty debate can be both disheartening and challenging, depending on how you choose to view it. There are two basic, "awful truths" we must face in order to develop a strategic customer focus strategy that has any chance of succeeding.

Awful Truth #1: *aiming for customer satisfaction is a prescription for mediocrity*. If satisfying the customer means performing at the level of his or her expectations, you've sworn a solemn vow to be perceived as no better or worse than your competitors. Parity with your rivals gives you no competitive advantage at all. The customer might just as well choose a supplier at random, and indeed many do.

There can be a big difference between meeting customer expectations and creating the perception of value. If the customer is accustomed to being abused, neglected, cheated, lied to, and pushed around, you can probably meet his or her expectations fairly easily. However, the latent desire for value goes unanswered. This was one of the founding principles of the Saturn car company, with its "one price, no hassle" selling philosophy. This is why SuperQuinn food markets in Dublin enjoys higher sales volume, higher margins, and greater customer return rates than its price-obsessed competitors.

Worse yet, expectations and desires usually vary significantly from one customer to another. Age, gender, income, lifestyle, education, social values, and experience with a particular product or service all influence a person's desires, expectations, and standards. If you don't know what the expectations are, how can you meet them? As the Third Wave progresses, mass markets disintegrate and new microsegments of customer interest emerge.

And, of course, we know that in many types of businesses the customers themselves often don't know what to expect. Being hospitalized may be a once in a lifetime experience, so the person who goes into the hospital may have very little idea of what's in store. This often presents the opportunity to *manage customer expectations*, i.e. to help the customer form a clear concept of the desirable outcome, and then to do the right things to improve upon it.

The basic "Theory of Service Relativity" says:

$$\mathbf{V = R - E,}$$

which means that *Customer Perceived Value* equals Results minus Expectations. In other words, your customer's perception of the benefit of any experience with your business is relative to his or her expectations going into the experience and the results he or she actually experiences coming out of it.

If the results fall short of the expectations, however vaguely stated they may be, then customer perceived value is negative. The surprising implication of this basic quality equation is that, when results are about equal to expectations, customer perceived value is zero. Customer preference results from the accumulation of many such episodes, or, for some businesses, a critical few episodes. This means the battle for future business has to be fought at every transaction, at every “moment of truth.”

Awful Truth #2: *there is no such thing as customer loyalty*. The term customer loyalty also encodes a flawed concept, just as customer satisfaction does. Both concepts are equally dangerous, because they can lead us to dangerous assumptions about customer behavior.

Customer *loyalty*, as most of us like to think of it, usually exists only at the level of one-person microbusinesses, like hairdressers, stockbrokers, travel agents, and therapists. The term loyalty implies a personal bond, rather than merely a continuing relationship of convenience. How can a person be loyal to an airline or a hotel chain? You may do business regularly with a bank, but you’ll take your business elsewhere if the bank fails to perform to your minimum standards. The larger the business, the less sense it makes to speak in terms of loyalty on the part of the customer.

The operative term is not customer loyalty, but *customer preference*, which is the customer’s predisposition to do business with one supplier over others. It’s highly perishable, and it’s the best you can hope for. But customer preference is something we can measure and strive to build. There are several options, or levels of technique used by businesses in trying to build customer preference. Some are more effective than others, and some are more noble than others.

Customer inertia — it costs you money, time, and inconvenience to move your checking account from one bank to another, so you generally put up with a certain amount of abuse before you change banks. A bank in South Australia discovered that virtually no new customers signed up because of its advertising campaign or giveaway promotions. A review of the data showed that almost all of them came because they were fed up with the abuse they received from its competitors. However, it was passing on its own frustrated customers to other banks at the same rate it was receiving them. Information technology is gradually destroying the inertial advantage for many businesses. For example, the brokerage industry now has a system that allows a stock market investor to move all of his or her holdings from one brokerage to another with a simple telephone call.

Brand preference — strike the words “brand loyalty” from your vocabulary. Is anybody really loyal to a soft drink or a particular running shoe? It’s marketing investment, not customer value, that creates powerful brand images that become cultural icons. A few companies with great determination and huge levels of free cash flow have succeeded in creating world-wide awareness and preference for their brands. In the battle to sell flavored water, is Coca-Cola really better than Pepsi or some other brand you’ve never heard of? Yet, investment guru Warren Buffet commented that “if someone gave me 500 million dollars and asked me to overturn Coca-Cola as the

most-preferred brand of soft drink, I'd give it back and say it can't be done."

Customer handcuffs — frequent-flier programs seem to be the only hope most American airline companies have of maintaining any kind of customer preference, and those apply to a fairly small number of customers. Once a super-flier reaches a certain number of miles, he or she gets additional incentives to keep using the same airline. However, people like me, who fly in many directions, tend to spread the miles among several airlines, once the total goes over the required threshold for any one carrier. In the software market, Microsoft is working feverishly to handcuff as many customers as it can to its Windows operating system, but few could argue that its products offer impressive customer value. Intel has enjoyed the same kind of handcuffed relationship with users of its computer chips, even while rival firms have produced better and cheaper processor chips.

A superior customer experience — a few firms actually consistently outperform their rivals and deliver a *total value package* which is attractive enough to warrant repurchase and word-of-mouth promotion. Firms like Disney, Daimler Benz, and Waterford Crystal have created legends for themselves by their unswerving commitment to the value package itself, combined with down-to-earth business practices.

Customer intimacy — achievable by some kinds of businesses more than others, customer intimacy means nurturing an enduring relationship with the customer that naturally creates more selling opportunities. One reason Volvo Svenska Bil sells insurance to its Swedish customers is to stay in contact with them. If a car buyer disappears into customer land after leaving the dealership, the company has to wait (or pay) for the customer to show up again. With a *continuity product* such as insurance, the continuing contact provides opportunities to build preference and strengthen the buyer-seller relationship.[2]

Understanding Customer Value: the "Need Context"

We've emphasized heavily the need to understand your customers in demographic and behavioral terms. But you need to go even further if you want to be able to create new possibilities for doing business with them. You have to understand the *source* of their behavior and intentions, the *psychographic* factors that drive them. You have to figure out what's making them behave as customers, and what might make them behave in ways that benefit your business. In psychological terms, you have to identify the *need context* that forms the intention to buy what you have to sell, as illustrated in Figure 6-3.

The need context of your customer is simply the set of circumstances in which he or she (or it) operates, insofar as those circumstances influence the customer to perceive what you offer as meeting a need, solving a problem, or adding value.

For example, suppose your firm provides services for importing and exporting goods

between two countries. Suppose a prospective customer is a firm that seeks to gain access to the business environment you're operating in.

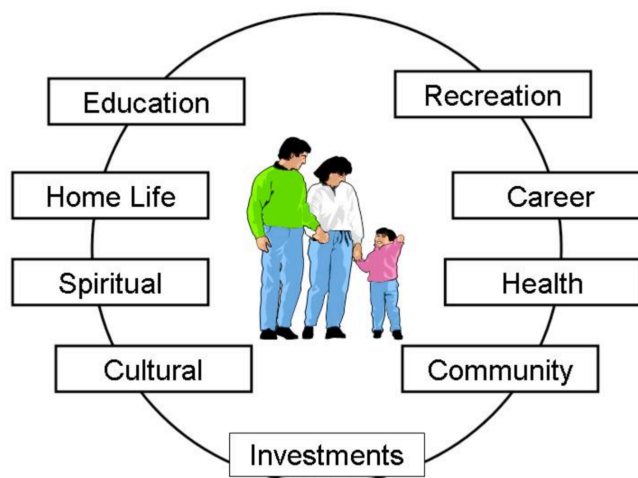


Figure 6-3. The Customer's Need Context.

The first thing to do is try to live a day in the life of your customer. How does the firm operate now? What are its most pressing problems? What are its business circumstances that have led its principals to pursue an exporting strategy? What are its strengths and weaknesses? Do the firm's executives have a high degree of knowledge and familiarity with importing and exporting, or are they just beginning? Do they have a clear concept of what they want to accomplish, or are they guessing? Are they realistic about what can be accomplished, and the amount of money and time required? These questions express the old adage of the service firm: make the customer's problems your problems.

As a consumer example, suppose you're selling investment services such as retirement planning, asset management, and financial advice. Are your clients simply a group of statistical accounts, or does each one present unique revenue opportunities based on his or her particular circumstances?

Many financial services firms have remarkably little useful information about the need context of their customers, so they tend to think in terms of their own financial "products" rather than in terms of individual opportunities. They may have large numbers of "inactive" clients, many of whom have actually defected to their competitors as a result of neglect. Who knows how many of these inactive clients have experienced significant changes in their circumstances, such as retirements or inheritances, which might make them candidates for new business? The customer radar should identify these kinds of opportunities.

Part of understanding your customer is knowing what goes on in his or her life. If your customer is a business, you need to know something about the industry in which it operates. Who are its customers and who are its competitors? How do firms in that sector do business? Learn the customer's vocabulary, which can give you great insight into the thinking processes that shape their competitive choices. The core vocabulary, the slang, the metaphors, and the figures of speech in an industry can telegraph the dominant paradigms, the mindsets, and the ideologies that make the industry what it is. Healthcare has its unique lingo. Publishing, insurance, broadcasting, construction, food service — all lines of business have their unique semantic reference systems.

Of all the possible avenues to customer preference just discussed, the strategy of customer intimacy offers a special kind of appeal. It is, of course, more feasible in some lines of business than others. However, it is worth exploring ways in which any firm can begin to progress up the hierarchy, or spectrum, of strategic customer value pictured in Figure 6-4.

Each of the five levels of the spectrum has its own unique characteristics:

1. Products — tangible items the customer takes custody of. This includes the car, the food purchased in the market, the software product, or the rented tuxedo. In many cases the appeal of the tangible product accounts for almost all of the customer's perception of value received. There is usually some kind of transaction associated with the delivery of the product, but it may be only a matter of necessity.

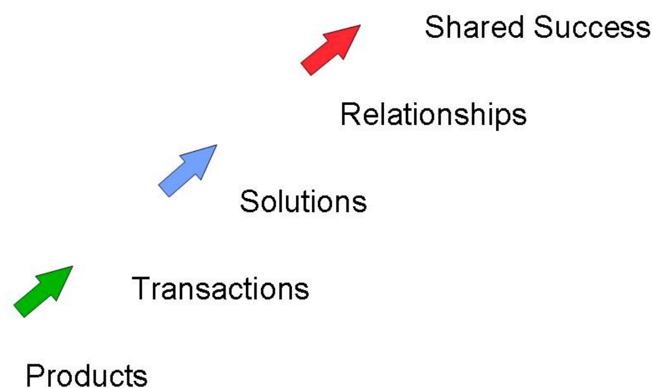


Figure 6-4. The Strategic Value Hierarchy.

2. Transactions — the simplest and least enriched level of involvement with the customer. It may include the handover of a product or other tangible goods to the customer, or it might involve a pure experience such as a hotel stay or getting a tooth

filled. The customer shows up (or we show up), a one-time transaction takes place, such as in a bank or a post office, and it's over with. In its simplest form it has no past and no future; it exists only in the present.

3. Solutions — unique sets of ideas, information, designs, products, and transactions that meet an individual need. The firm must understand the customer's particular problems, needs, preferences, and constraints, in order to sell a designed package of value that answers a particular set of needs. This is the wedding, the vacation package, the planned medical treatment, or the rehabilitation of a home damaged by a hurricane.

4. Relationships — the ongoing interactions, exchange of ideas, sense of empathy, responsiveness to changing needs, mutual definition of value to be delivered, and joint participation in the creation of the value. This is the value package offered by the consultant, financial advisor, trading partner, or the mall operator who promotes the success of the tenant businesses.

5. Shared Success — the state of affairs in which both customer and provider recognize and value their interdependence. It can be the franchiser and franchisee, the automobile maker and the dealers, and the consultant or financial adviser who has a long-term relationship with the client.

Not all businesses are equally suited to climb this hierarchy toward customer intimacy and shared fate. Some are very well suited to do so. In general, however, the search for customer preference has to move more and more toward creating the perception of significant value. We have to do everything possible to differentiate our offering from those of our competitors, and one place to start looking is in the very nature of our relationship with the customer.

At the end of World War II, General Douglas MacArthur commented, "There is no security in this life; only opportunity." We have no God-given right to our customers' business. As the level of hypercompetition moves ever higher in this increasingly chaotic business environment, ideas like customer satisfaction and customer loyalty give way to ideas like delivering customer value, earning customer preference, and building customer intimacy.

We can put the strategic value hierarchy to use at these various levels of intimacy by finding out what the customer is really trying to buy when he or she confronts the business. People don't buy "products" or "services"; they buy *value*. They buy solutions to their problems, answers to their needs, and improvements in their lives. The first critical skill in using your customer radar is learning to think in customer-value terms. This is what the *customer value model* enables you to do.

A customer value model is simply a set of critical attributes of the customer experience which the customers themselves tell us are most important factors in forming their perception of value received. Whether it's having surgery, flying from one city to another, opening a bank account, buying or selling shares of stock, or buying a

new outfit of clothes, every customer experience has a basic value model embedded in it.

Discovering and defining the customer's value model is the first step in learning how to deliver it. How can we win the customer's business if we don't know what he or she really wants and doesn't want? What is the most basic and critical appeal of the service experience to the customer? Once we clearly understand this *value proposition*, we can engage in a dialogue with the customer that will help us discover the critical elements of the service experience that make it real. Figure 6-5 shows a typical customer value model, for a hospital stay.

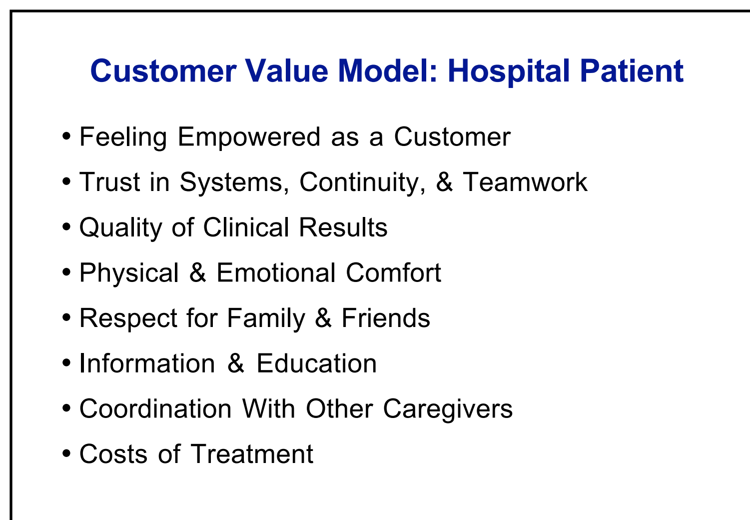


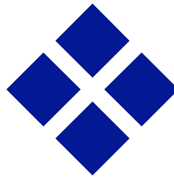
Figure 6-5. A Typical Customer Value Model.

The process of building customer value models for various customer segments or lines of business, known as *customer value modeling*, is becoming more widely used in a number of business sectors. Modern customer research methods focus on helping the customer tell us, in his or her own language and perspective, what the real value proposition is. Using sophisticated computer technology known as *electronic polling*, researchers invite customers into focus group workshops and pose key questions which they answer by pressing numbered keys on wireless keypads. A computer collects the responses and instantly displays the group consensus. Using these and other techniques, researchers can produce much more reliable models of customer value and preference that were possible with conventional techniques which depend heavily on expert interpretations of the discussions.[3]

One of the pioneers of this method of instrumented focus group research, Dr. Kevin Austin of Australia, believes that all firms can benefit by forming and using specific customer value models to describe and understand what their customers are actually trying to buy. According to Austin:

> ***"If you're going to get everyone in the organization to concentrate on delivering customer value, you've got to give them a concrete model of what that value is, as defined by the customers themselves. It's not enough to ask employees to smile and be nice. You need to give them a workable definition of the value they're expected to deliver, and then help them learn and use the critical work practices that deliver that value."***

The key idea of the customer radar is to help you understand customer value: what it is, how the customer defines it, and what you have to do to provide it in a more appealing way than your competitors.



Chapter Notes (6)

1. Albrecht, Karl and Ron Zemke. *Service America!: Doing Business in the New Economy.* Homewood IL: Dow-Jones Irwin, 1985. See also Albrecht, Karl. *The Only Thing That Matters: Bringing the Power of the Customer Into the Center of Your Business.* New York: HarperBusiness, 1992.

2. The discussion of customer loyalty is adapted from an article originally published in *Quality Digest,* April 1998. Copyright Karl Albrecht, all rights reserved. Used with permission.

3. For a copy of a bulletin describing value modeling in detail, contact the author's Web site at albrechtintl.com.

4. For a collection of useful articles on service and customer focus, see Shelton, Ken. *Best of Class*. Provo, Utah: Executive Excellence Publishing. You can contact the publisher through their Web site at eep.com.