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Enhancing Customer Value: The Principles of Value Addition

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Abstract:

In today's hyper competitive market, the only constant source of competitive advantage is customer value. Traditionally organization tend to create customer value by focusing on one of the three value disciplines – product leadership, operational excellence and customer intimacy. However, such an approach raises the question like which of these discipline is superior to others? Which of these value disciplines is suitable for an industry or market? There were various approaches to combine the three value disciplines but much of them focused on a limited number of attributes. Also, traditional view considers customer value in isolation and does not factor in the impact of competition. This paper attempts to redefine the customer value by combining the value disciplines and factoring the influence of the competition. The paper also proposes five principles through which organizations can consider adding value to the customer. The five principles are to be applied on all activities and functions of the organization in creating and delivering customer value.

1. Introduction

Since the dawn of industrialization, organization strives to better the competition and become market leaders. The shift from monopoly economy to a market driven economy put more powers in the hands of the customer. Organizations, in an attempt to consolidate their market position, strives to meet the ever growing demand of the customers and by creating more value to the customer. In the past, organizations focused largely on internal aspects like quality management, restructuring, right sizing, etc, for identifying opportunities for improvement in adding customer value. In the early 90's the focus was shifted outwards towards customers and organizations began to identify opportunities to create superior customer value (Woodruff, 1997). Managers used various tools and methods to understand the voice of the customer and their satisfaction to identify the opportunities for adding value (Dutka, 1994). However, they fail to create a common understanding on customer value. The term "Value" differs in its mean and its understanding depends on the area of usage (Payne and Holt, 2001). For instance, the meaning of customer value from the perspective of marketing strategist is very different from that of consumer behavior research (Peter and Olson, 1990). From product development perspective value is measured as a weighted perceived benefit to the total cost perceived by the customer. And from customer retention perspective value is measured as the consequence experienced by the customer against the cost perceived (woodside et al., 2008). From the strategic perspective Treacy and Wiersema (1993), proposed a three dimension value discipline model. Accordingly to the model a company can become market leader by excelling in any one of the value discipline – Operational excellence, product leadership and customer intimacy – while maintaining threshold standards on other disciplines (Vliet, 2011). However, by having three disciplines would lead us to question, which of the three disciplines adds more value to customer? Is one discipline better than the other?

This paper attempt to create a new definition for customer value and the means to add more value to customer.

2. Understanding Value Disciplines

Treacy and Wiersema (1993) proposal takes an organizational view on customer value and the means to create market leadership. It is more holistic in nature than other definition of value that concerns with individual area in an organization.

2.1. Product Leadership

Product leadership is about utilizing technological advancement in creating new products and product lines in the market. The principles of product leadership are encouraging innovation, risk taking, design centric recognition and recognition to educate the market on the new product or services. It is about maintaining a level of organizational capability in delivering new products. A product centric approach towards customer value view product as a bundle of benefits to the customer. In other words, "customers are less interested in the technical features of a product or services than in what benefits they get from buying, using and consuming the product" (Hooley and Saunders, 1993). Customer can derive eight different benefit from a product namely (Albert Wenben Lai, 1995),

- Functional or Utilitarian benefit – those that are derived from the use of the product.
- Societal benefit – perceptual benefit derived from being associated with the product.
- Affective benefit – perceptual benefit derived from cultural or ethnic importance of the product.
- Epistemic benefit – derived from the products ability to satisfy curiosity, novelty and the desire for knowledge.

- Aesthetic benefit – benefiting customer with the sense of beauty or enhances personal expression.
- Hedonic benefit – providing customer with the capacity to meet the need for fun, pleasure and distraction from routine life style.
- Situational benefit – refers to the products capacity to meet specific situational need.
- Holistic benefit – benefit obtained from the perception as the product is being complementary and compatibility in the filling up a gap in customer experience.

New product development are strongly driven by increased globalization of markets, increased competitive pressure, technical advancement, changing customer needs and shortening product life cycle. Organization pursuing the product leadership would consider their market based on the expected benefits and their capability to create a competitive product to achieve market leadership. Creation of new products are largely driven by the perception whether the product is new to the company or to the market. Organization pursuing product creation aimed at creating new market has the advantage of being first in the market and also can create intellectual assets to fend of competition (Cooper, 2005).

2.2. Operational Excellence

Organization pursuing operational excellence focuses on low cost and high quality. It is driven by efficient management of people, maximizing the efficiency of transactions or handovers, rigorous measurement on quality, cost and time, with a provision of limited variety of products. Since the dawn of industrial mass production, there were various tools, methods and philosophies adapted to improve the operations and reduce cost. The most widely recognized of them are lean and six sigma approaches. Lean methods defined operations as a value flow from the perspective of the customer. Thus, it continuously seeks out to improve the operations to make the value flow through the process efficiently and effectively. It defines seven waste in the operations namely, Transportation, Motion of people, Inventory, Waiting or delay, Over processing, Over production and Defect, and aimed to control or reduce these waste to improve the effectiveness of the operational process (Harry and Schroeder, 2005). Six Sigma, on the other hand, focuses on defects or variability in the production system. It defines defects as products/services which are not in conformity with the customer and seeking out a statistical and scientific engineering approach to reduce the defects (Yun et. al., 2002).

Organizations applying operational excellence focus primarily on defect reduction, customer satisfaction, improvement in quality, cycle time reduction, cost reduction, systems improvement, yield improvement, etc. (Sharma and Chetiya, 2010). Effective implementation of operational excellence requires unwavering commitment from the management and leadership team. The second most important ingredient is the use of right tools and technique mix (Anthony & Banuelas, 2002). The philosophy (lean or six sigma) selected by organization not only influences the selection of tools but also the culture in the organization in delivery value (Harry and Schroeder 2005). While six sigma principles takes updirected approach with roles as Green Belt, Black Belt and Master Black Belt, lean philosophy takes a team approach towards improvement, with guidance provided by lean master or sensei. However, both these approaches along with other operational excellence approaches like Theory of Constraints (TOC), Total Productive Maintenance (TPM), etc, focuses improving the production process to match the expectations of the customer.

2.3. Customer Intimacy

Customer intimacy driven organizations steer beyond the general view of market and tend to connect at individual customer level to understanding their problems, need and expectation (Treacy and Wiersema, 1993). Organizations tend to have a full range of services capable to serve the customer on demand, with the business practice to encourage deep customer insight. The primary objective is to help customer see the company as a trusted partner rather than a supplier. It's about demonstrating the customer that the solutions that are being provided are solid, tested and mutually beneficial (McFarlane, 2013). For instance, the managed services model of IT outsourcing promulgates that the outsourcing partner would guarantee a certain level of quality, performance and flexibility, while managing the entire IT operations of the customer (Donaldson & O'Toole, 2007). The customer can focus on their core operations while, the organization can help the customer in managing their secondary processes. Organizations pursuing customer intimacy should have highly sophisticated tools, often involving IT databases, to capture customer centric information and constantly focus on building knowledge about customer need and expectations. It is being argued that the customer intimacy value discipline companies gets its strength from its capability to understand customer, the knowledge and its expertise in coordinating with other in delivering solution. They tend to act as a facilitator or resource integrator between customer and a range of product leadership and operational excellence organizations (Donaldson & O'Toole, 2007).

Customer intimacy organizations consider value is co-created by the producer and the customer and is unique for individual customers. Hence, they dedicate more resources to closely work with the customer to understand the expectation (Treacy and Wiersema, 1997). However, such approach requires high number of dedicated and qualified resources. Thus, the product conceived and the cost involved in developing the product is usually higher than the competitors following other value discipline. However, many customer intimacy organizations are seeking out information technology as their key driver in understanding and capturing customer needs (Adomavicius and Tuzhilin, 2005). With the birth of social media, organizations develop new ways to interact with customer and understand their expectations. However, customers in social media interact with organizations seeking for tangible values. Organizations failing to do so, would find itlosing more than what it could accomplish with the use of social media (Baird C H and Parasnis G, 2010).

2.4. Customer Value – A New Definition

Treacy and Wiersema proposed the value disciplines as three individual dimensions. However, this puts forth the question as which of these three value disciplines is highly profitable and sustainable? Brodo (2015) in his blog analyzed the top 25 brands and their value disciplines and found out that in terms of numbers there is no difference between the disciplines. However, he also found that when considering in terms of quantifiable brand equity, product leadership takes high precedence than the rest. Very few organizations attempt to combine these value disciplines in order to increase the profitability and sustainability. Customer tailored operations helps companies to reduce operational cost and also increase profitability by serving the high profitable customers (Gyrnes, 2011).

Art Weistein (2012), proposed the S-Q-I-P approach for superior customer value creation. He proposed that “value is primarily a combination of services, product quality, image and price”. Similar to Value discipline approach, he stated that organization should focus on a key attribute while maintaining competitive position in the other attributes. Organization should mix service, product quality, brand image and price to create a unique value proposition for the customer and should deliver on them to be competitive in the market. The SQIP approach would help organization design and deliver customer value that are superior to that of their competitor. The SQIP approach aims to affect the customer’s perception of satisfaction (Johnson and Weinstein, 2004).

Based on the concept proposed by Mr. Theodore Levitt, Kolesar et al (1998) proposed industrialized intimacy model in creating customer value. The model states that to serve the customer well, organizations should have deep understanding on the customer but also should be capable of customization, personalization and empathy – components of customer intimacy value discipline. However, both the SQIP approach and the industrialized intimacy approach considered combining only few of the value disciplines or their components. Product leadership was left out in the industrialized intimacy approach while in the SQIP approach, only few components of the three value disciplines were identified as important factor contributing to customer value.

Klanac (2013) studied the three basic definition of customer value – the benefit sacrifice approach, the means-end approach and the experiential approach and found that the approaches are not mutually exclusive but rather complementary. He proposed an integrated approach which combines the customer perception, experience and product characteristics. It appreciates the multidimensionality of customer value and proposed that organization can create customer value by creating insight in understanding the impact of the different components.

Examining various definitions and approaches the paper expresses that customer value is a unique, complex and rich concept which needs to be understood from the combination of various components of value discipline. Also, to be competitive, customer value is not only being considered unique but also be viewed as relation with the competitor value proposition. Our definition of customer value is “about the right product, at the quality, speed and cost, with the right experience relative to that of the competitor”. Thus customer value is generated by combining various components of product leadership, operational excellence and customer intimacy in relationship with that of its competitor. The more the gap between the values created by the organization and its competitor, the more the value experienced by the customer.

Customer value is defined as,

$$\text{Customer Value} = \frac{\text{Summation of (elements of product leadership, operational excellence and customer intimacy) by the organization}}{\text{Summation of (elements of product leadership, operational excellence and customer intimacy) by the competitor}}$$

(for every unit cost)

The paper also propose five principles through which organization can consider creating value:

2.4.1. Reimagining the Existing

Organization should reimage their existing product, process and customer service functions to accommodate the changing customer demand and delivering on experience. Organization should consider what products, process or service components to be added, subtracted or replaced with the existing. Reimagining should focus on creating value which helps to increases the gap offered by that of the competitor.

2.4.2. Enhance the Human Interaction

Industrialization brought in a paradigm shift from craft production to mass production, powered automation and machine replacement. However, not all process or activities can be automated effectively. Organization should identify the element of human interaction and enhance it to create value to the customer. For instance, assisting the customer in better decision making, sharing timely information and streamlining manual activities, would enhance customer value. The case of Apple computers illustrates the importance of human interaction. While, apple is widely known for its innovative product line, it also has equally effective customer service center. Every retail store would sport an Apple Genius Bar. Customers can connect with the apple genius to understand new products or can obtain service help completely for free of cost. While many competitors offer self diagnosing support to customers, apple’s Genius bar creates unique customer value with timely help and through human experience (Schaffhauser, 2013). Also, many organizations separate their retail sales and service center. By bringing the sale and service center under one roof, apple also provides a unique experience to the first time buyers on the type of interaction and service offered by the company to the existing customers. This helps create a perception of what type of service and experience one can get from the Apple when they purchase their product (Schaffhauser, 2013). Apple thus successfully combines customer intimacy with product leadership in creating customer value.

2.4.3. Eliminate Constraint

Every organization set out to understand customer needs and expectation to create customer value. However, organization should not stop at just understanding the needs and expectation but also should study the constraints posed by the customers in realizing the value. Organizations should study what stops the customer from experience the benefit of the product, what process or service or product attributes that are underperforming from the customers perspective? What aspects of the value proposition are not consistent or compliant to that the customer? “Eliminating constraint” principle creates a paradigm shift that the company’s responsibility is not about creating the right product or service to the customer but also the identifying and eliminating the constraints that block them from experiencing the value proposition. This could be bringing the product closer to the customer, pricing it right to help customer buy it or by educating the customer of its uses and benefits.

2.4.4. Thematize Value

Customer perception stems from internal as well as external stimuli. External stimuli include the environment and the situation experienced by the customer. Organization must understand the changes in the stimuli and should create unique value proposition to meet the customers need. Customers are bombarded with information everyday and undergo changes in their life. Organizations should understand the customer and their environment as a whole to understand the type of information being consumed by the customer and the kind of changes that happens in their life. Organization can categorize them as themes such as seasonal/festival celebrations, personal occasions like birthday, marriage, etc, orientation towards information, etc.

2.4.5. Once and Done Value

Organization should focus on once and done value addition to their existing value proposition. It about providing additional value for a customer once and get done with it. Once and done value may be totally unrelated to the current value proposition and is not offered again. However, it should be something that the customer value. It provides organization with many options to consider in adding value to customer. Once and done value addition can consider adding any of the eight benefits (Albert Wenben Lai, 1995) in addition to their existing value proposition.

2.5 Applying the Principles

Unlike the value disciplines approach, the application of the value addition principles should be considered holistically in all organizational operations. The value discipline approach suggests organizations to pursue one discipline while keeping others competitive. This led to organizations giving precedence to different functions of the organization and not taking a holistic approach. For instance, organizations pursuing product leadership value discipline tend to focus more on R&D and product innovation, while that of operational excellence focus on operations and processes. Customer intimacy gives more weightage to sales and services. However, unless the organization make inclusive development of all the functions, it would not be possible for the company to deliver superior customer value. Porter (1985), introduced the concept of value chain in his book “Competitive Advantage: Creating and sustaining superior Performance”. The focus is on linking organizational activities to generate competitive position.

The basic model of value chain is as follows:

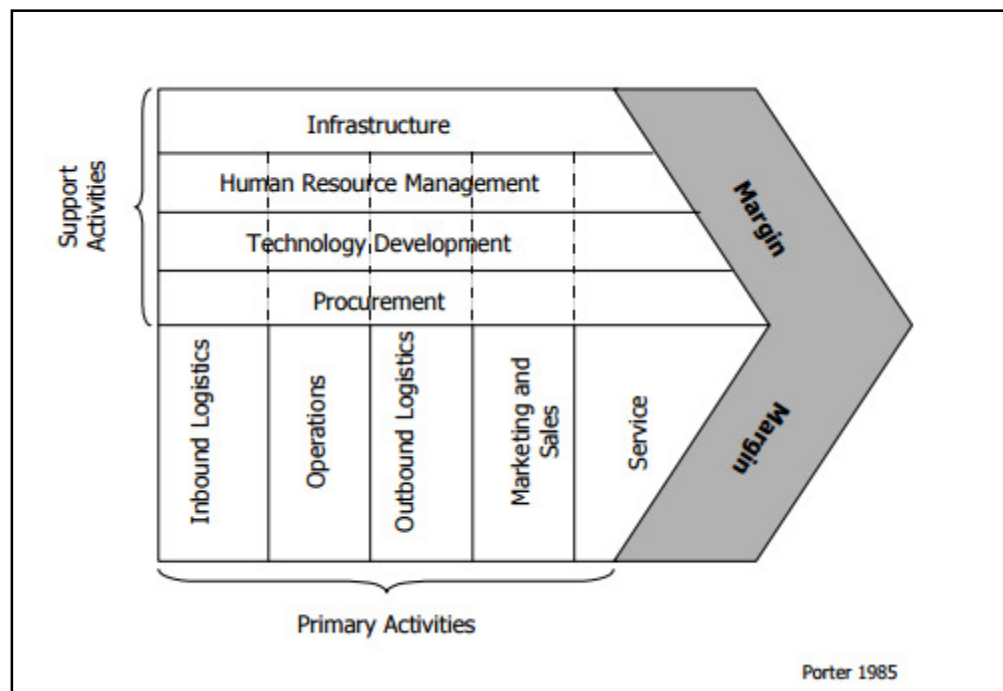


Figure 1

While the value chain concepts focuses on the organization and its activities to create profitability and competitive advantage, the same can be considered for creating customer value. Organizations should focus on all its functions and activities to create customer value. The principles of value addition should be applied to all of the organizational functions in creating customer value.

3. Conclusion

In hypercompetitive marketplace, market leadership becomes increasingly difficult for organizations. The factors once considered competitive has largely become commonplace and organizations compete on equal factors and equal footing. Traditional approach to customer value like product leadership, operational excellence and customer intimacy would not remain a competitive factor as every other organization strive to achieve it. There were various attempts in the past to combine the three value disciplines to create customer value. Art Weinstein's SQIP approaches and Kolesar, Ryzin and Cutler's Industrial Intimacy approach are widely accepted approaches that combines the three value disciplines to provide customer value. However, both approaches consider only few attributes/elements of the value disciplines in customer value creation. Also, traditional approach on customer value focuses on the benefit customer receive against the cost they give out. Such definition considers value in isolation and without the influence of the competitor. For instance, if a customer has to give out X in order to get X+1 from Product A, as per traditional definition, the customer would go for it. However, in hypercompetitive environment, such may not be the case. Customer would also evaluate the benefits the competitors are offering. Thus, if a product A provides customer with X+1 benefit and product B to provide X+2 benefit for every unit cost, customer would prefer product B. The paper's definition of customer value takes a paradigm shift from the traditional approach and considers customer value as a relative, which is sum of all benefits generated from elements of all three value disciplines to that of the competitors. We also propose five principles that organizations in increasing their customer value. The principles should be applied on all organizational activities and creation of customer value should be considered holistically.

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