

## CUSTOMER VALUE PROPOSITIONS

### Driving our understanding of customer satisfaction

When Sandra, a successful recruitment consultant, resigned recently from her previous employer and joined her current employer, she brought with her 2 large and profitable accounts. Her new employer was delighted with his sudden growth in business. Her previous employer was dismayed by the loss of two valued clients.

It is a situation we have often seen. It is not, however, an ideal situation for the client, or the employer, or even for Sandra. There may be some short term opportunistic advantage for the client and the new employer, but in the longer term the implications are not good. For the client, the service they receive can be fragmented and unreliable; for the employers the client relationship is fragile and volatile.

### Customer Value Proposition

What can businesses do to grow strong and durable relationships with their customers?

It is fundamental for all business to understand what the client values in dealing with your business. Design and build your services around this, then develop management systems to deliver this value consistently and reliably. The understanding which links all this together in a design framework is the Customer Value Proposition.

The Customer Value Proposition has been defined in the Customer Service Management Standard (CSMS™:2004), by the eCommerce Standards Board, as:

*“The total commercial package offered to customers in response to their expressed or implied requirements. Value is determined by customer judgement if this commercial package is worth what they are asked to pay for it.”*

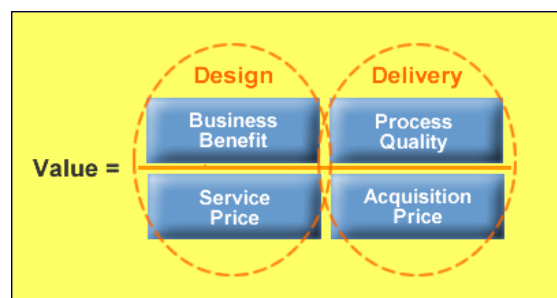
The total commercial package is the entire experience the customer enjoys when dealing with your business. It includes the type of services being offered - including value added services - as well as the manner in which they

are delivered, and the way the customer is treated.

Understanding the express requirements of your customers is straightforward - ask them what they want. However, sometimes customers find it difficult to verbalise exactly what they need. To identify and understand these implied requirements you need to know your customers, and be prepared to discuss the tough issues in the interests of learning better what works well and what doesn't work for your customers. You can be sure that customers are quick to know when they have not received what they expected!

### Customer Value

Understanding customer value is a judgement by customers, and is a little more complex to understand. In the path breaking book, The Service Profit Chain, (Heskett, Sasser and Schlesinger 1997)<sup>1</sup> customer value is described as a function of both the design and the way service is delivered. Diagrammatically this can be shown as below.



Essentially, this says there are four “pillars” to customer value:

- the overall business benefit to the customer from the service
- the quality of the process the customer experiences in delivery of the service
- the actual dollar price of the service
- costs incurred by the customer in acquiring the service.

The Business Benefit and the Service Price are both elements of service design. The service will be designed to deliver a particular result or benefit to the client.

<sup>1</sup> The Service Profit Chain, Heskett, Sasser and Schlesinger, The Free Press, 1997.

The Service Price is the actual dollar cost to the client, and is usually based on the cost to the supplier of providing the service.

Business Benefit and Service Price are elements that are typically considered in the product or service design; what customers are supposed to get and what they are supposed to pay. This is the easy part and the part that attracts most attention. The straight forward mechanics of benefit and price are the foundations of many product managers' dreams. It often comes astray when we actually try to deliver it.

The ability to realise real value is heavily dependent on the ability to deliver it; not once, but over and over under competitive pressures. This is the realm of Process Quality. It is a given that the product must be right and be priced competitively. Process Quality suggests customers must experience similar service delivery every time they purchase. It is critical to have processes that fully support service delivery; they must be effective and repeatable.

Further, the very process of delivery must be easy for the customer. The Acquisition Price must be low. The Acquisition Price includes the cost of convenience and ease of doing business with a supplier. Often hidden rather than explicit, these are nonetheless real costs which can impact the a client's preference for a supplier.

### **Management systems**

Maintaining customer value is dependent on getting these four value pillars right for any business.

Only a predictable management system dedicated to service delivery can do this. Investing solely in the power of individuals to repeatedly "pull rabbits from the hat" is a poor customer strategy and misrepresents the popular principles of staff empowerment. It may seem paradoxical, but in fact it is the management system which is routine and repetitive which actually provides the greater customer benefit, as it ensures the delivery of the service is right every time.

So what does all this mean for value propositions, customer satisfaction and the recruitment industry?

### **Application**

Thinking through the requirements of the value proposition can be an enlightening experience, as it forces the business to think critically about what services it is providing and why. There may well be a

number of services or elements of the service offerings which are inconsistent with the developing customer value proposition. Very often there are failures in the systems which support the supporting management system which delivery the services.

The business does not need to be large to support this approach. More important is the ability to be selective and decisive about the value inherent in the service offerings and the delivery system, and a commitment to implementing the system consistently and diligently.

Each service line needs to be supported by a discrete value proposition that considers each of the four pillars of value. Using the same "engine room" for both could be disastrous. New service lines can be a very hazardous challenge.

If a strong recruiter moves in to the "value add" space of providing training services, the market will expect a similar level of service delivery in this new service as it receives in the recruitment line of business. If the market does not receive the expected level of service, the overall brand appeal and perceived value of the recruitment service as well as the new service could be adversely impacted over time. The speculative move to reap "low hanging fruit" might have longer term consequences that can be initially predicted.

### **Conclusion**

Defining a clear Customer Value Proposition is fundamental to establishing a strong relationship with clients - one which is built around the businesses rather than individuals. The Customer Value Proposition itself must be developed with a view to the requirements of the customers, the design of the service to meet these needs, and the capacity of the business to delivery the service consistently and reliably.

Business which can support service delivery are those which will win, and more importantly, retain the business. This is the is often the part of the value proposition which is overlooked. Best practice is all about building strong management systems for service deliver.

Michael Hart is the CEO of Fathom Consulting Group, based in Melbourne. Fathom has developed the Service Excellence concept, and is leading the development of IP to support the application of eCommerce Standards in Australian businesses.

For more information please view the Fathom website at [www.fathomconsulting.com.au](http://www.fathomconsulting.com.au), or email directly to Michael.Hart@fathomconsulting.com.au.