

BusinessPlus+ Newsletter

Issue – November 2020

Create Value for Customers – What does that really mean?

Create Value for the Customer means that every aspect of an organisation should be focused on creating value for the customer. It is helpful to consider this a “true north” concept that should guide decision-making and continuous improvement. An organisation needs to drive all aspects of value, including quality, cost, delivery, safety, and morale.

Many organisations assume that customer surveys tell them what their customers truly value. However, this approach has its limitations, and it's important to understand the difference between customer satisfaction and customer value as they are not the same thing. Customer satisfaction is essential, and unless it is met, we are unlikely to be able to have meaningful discussions about value. One way to look at this is that customer satisfaction looks backwards, i.e., it tells us how well we are doing against things we already do. Customer value, on the other hand, should look at what customers potentially value from us in the future.

A deep understanding of both customer satisfaction and customer value is critical to drive business excellence and innovation. It is important to link the understanding of customer value to strategy and have a system that deploys the understanding of customer value throughout the organisation.

The best assumption that one can make about customer value is that you don't know what it is. Too often we impose our own perspective of what the customer values only to find that they value something completely different. An example of the difficulty of understanding customer value is that standard terms are often interpreted in very different ways. One such example is “response time.” For some people, a response time of 24 hours is fine; for others, it may be a couple of days. For some people, it might be less than one hour. It may even depend on the type of communication (e.g., phone, email, etc.) and/or the type of issue requiring a response. But what's true every time is that the response time requirement will be an expectation by the customer. Often it might not even be explained—they will expect you to know. The only way to find out for sure is to talk to them.

A useful tool to consider understanding value is sometimes called the “customer value proposition.” In other words, have we clearly defined what it is the customers really value from the product or service we are providing? The customer value proposition is a good way to summarise what the customer really values into a simple high-level statement. The key to making this work is that it can only be constructed as a result of discussion with the customer. It should never be written assuming we know what the customer values. Ideally, it is jointly drafted with the customer, and as a minimum, it is signed off by them. It can then be used to inform metrics and targets and decision making.

Good practice is to have it on prominent display on the teams' visual management board.

The customer value proposition needs to be constantly reviewed with the customer as their expectations, and hence what they value, will change rapidly over time. As such, we need to develop systems that not only capture the voice of the customer but have mechanisms that take feedback and make constant adjustments to the way we understand and take actions informed by customer value.

Who Is Our Customer?

A good question for any team and even every individual to ask themselves is: “Who is our customer?”

Although the traditional view of customers as end users, or as a chain of immediate recipients of a product or service en-route toward an end user, may be appropriate in some contexts, this view is often too narrow.

The concept of customers may be expanded to include multiple relevant stakeholders that may span the supply and value chains and beyond. This view will address the needs, wants, and sensitivities of producers or providers; users, consumers, or recipients of products and services; and those directly or indirectly impacted by the manufacture, distribution, use, or provision of a product or service including individuals, civil society, policy makers, and the natural environment. This view requires a balancing of stakeholder considerations and is consistent with increasing expectations that enterprises should be both socially and environmentally responsible.

What Do We See When This Principle Is Applied?

Organisations that create value for their customers grow, and usually very successfully. It is possible to continue in the short- to medium-term not providing value, but growth is very unlikely, and it is not sustainable over the long-term. Eventually, any organisation that does not create value will cease to exist.

Some negative examples that can be observed when this principle is not applied include:

- High churn on customers with few repeat sales
- Negative customer reviews
- Low staff morale due to level of customer complaints
- A shrinking business
- A constant focus on cost-cutting

Where this principle is applied, we see the opposite of all the above, but in addition, some of the positive consequences are:

- Business growth with long-term customers
- Customers are advocates for the organisation
- Employees have pride in the business
- The organisation has a great reputation and strong brand

What is Customer Value?

According to Womack and Jones (Lean Thinking, 1996) the first Lean principle is to understand what customers value. At first, this may seem an obvious start point for any organisation wishing to be successful in whatever products or services they are seeking to supply. However, it is often overlooked, with organisations assuming they know what customers value.

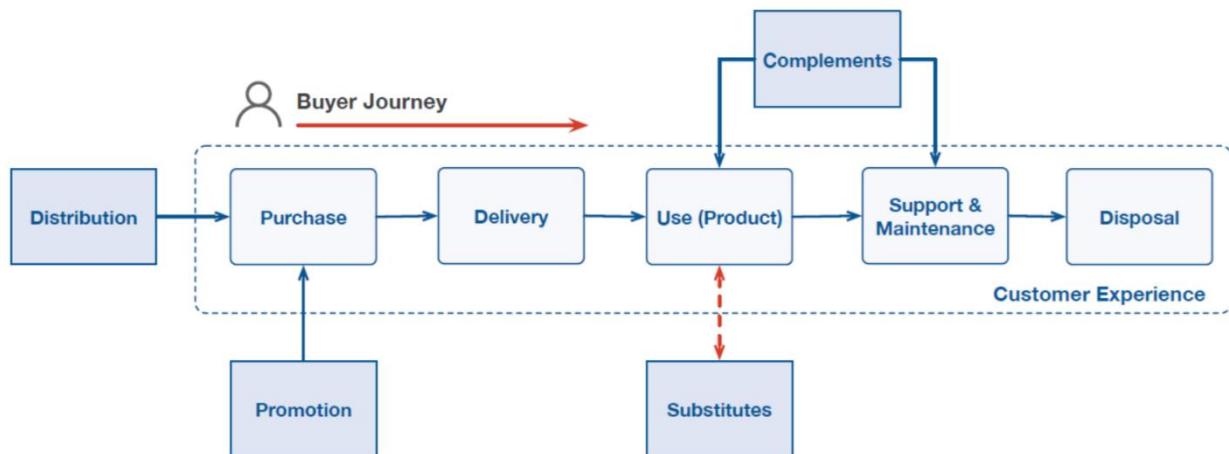
True customer value can only be understood by using a structured dialogue that focuses discussion on the future rather than just assessing historical performance. This model helps explain why every organisation needs to embed a culture of continuous improvement focused on customer value. Without this, the organisation cannot thrive in the long-term, as their offerings become out-of-date.

Increasingly, customer value is being referred to as “The Voice of Customer” (**VOC**), and to truly understand the VOC, organisations need to engage in a structured dialogue rather than rely on static surveys.

The VOC approach follows several key steps:

- *Determine who the strategically important customers are to grow business within the future.*
- *Identify the key stakeholders in those customers whose views on value are essential to understand.*
- *Undertake structured interviews with the key stakeholders using trained personnel to determine the vital few value criteria.*
- *Get insight from the customer on how current performance compares to their expectations against the value criteria they have said is important.*
- *Get insight into how the supplier compares to competitors against the value criteria.*
- *Get insight into how the supplier compares to the customer's best suppliers.*
- *Collate and analyse the feedback.*
- *Build action plans to address the areas of opportunity and agree on review dates with the customer.*

It is often a very useful exercise to get a range of managers in an organisation to determine what they think their customers value and rate themselves against the criteria they have set. In many cases, it quickly becomes apparent to the managers that they are guessing. Comparing the actual feedback from the customer insight process to what the managers initially thought can be very enlightening for the management team.



To maximize the value you extract from an opportunity, you must review the entire cycle of customers' interactions with your product

Summary questions for any team to consider:

- 1) Who is our customer?
- 2) How do we ensure we know what they value?
- 3) How to measure what they value?
- 4) How do we continuously improve to deliver ever greater value?

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