Chapter 6
How to deliver customer-experienced value
Value definition

- Value is the customer’s perception of the balance between benefits received from a product or service and the sacrifices made to experience those benefits.
Value equation

Value = Benefits vs Sacrifices
Sacrifices

- Money
- Transaction costs
- Psychic costs
Perceived risk

- Perceived risk is an element of psychic cost.
- Perceived risk takes a variety of forms – performance, physical, financial, social and psychological.
How do customers reduce perceived risk?

1. Delay purchase
2. Seek word-of-mouth endorsement
3. Negotiate service contracts
4. Seek additional information from advertising copy
5. Buy established brands
6. Build a relationship with a supplier
7. Transact with reputable supplier
8. Seek performance guarantees
9. Buy with credit card (protection if product fails)
10. Negotiate discounts
11. Take out insurance
12. Request pre-purchase trial
13. Read testimonials
Total Cost of Ownership (TCO)

- TCO looks not only at the costs of acquiring products, but also the full costs of using and servicing the product throughout its life, and ultimately disposing of the product.
- What is thought of as ‘consumption’ can be broken down into a number of activities or stages, including search, purchase, ownership, use, consumption and disposal.
- TCO is an attempt to come up with meaningful estimates of lifetime costs across all these stages.
When do customers experience value?

- **Value-in-exchange**
  - value is created by the firm, embedded in products, distributed to the market, and realized when those products are exchanged for money.

- **Value-in-use**
  - value is realized only when customers possess, use, consume or interact with the good or service.

- **Value-in-experience**
  - customers can experience value as they interact with or are exposed to any marketing, sales or service output of the firm throughout the customer lifecycle.
Zeithaml’s four forms of customer perceived value

1. value as low price
2. value as whatever the customer wants in the product
3. value as the quality obtained for the price paid
4. value as what the customer gets for what the customer sacrifices
Sheth’s five types of value

1. functional
2. social
3. emotional
4. epistemic
5. conditional value
## Holbrook’s 3D model of customer perceived value

<table>
<thead>
<tr>
<th></th>
<th>Extrinsic</th>
<th>Intrinsic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self-oriented</strong></td>
<td><strong>Active</strong></td>
<td>Efficiency (output/input, convenience)</td>
</tr>
<tr>
<td></td>
<td><strong>Reactive</strong></td>
<td>Excellence (quality)</td>
</tr>
<tr>
<td><strong>Other-oriented</strong></td>
<td><strong>Active</strong></td>
<td>Status (success, impression management)</td>
</tr>
<tr>
<td></td>
<td><strong>Reactive</strong></td>
<td>Esteem (reputation, materialism, possessions)</td>
</tr>
</tbody>
</table>
Treacey and Wiersema

1. Low price
2. Product innovation
3. Customized solutions
Customization

- Customization
  - has both cost and revenue implications.
  - may mean the loss of economies of scale thus increasing unit costs.
  - means that companies have to be aware of and responsive to customers’ differing requirements.
  - configurator technologies assist in customizing products.
  - has been the norm in B2B markets for many years.
  - any of the 7Ps of the marketing mix can be customized.
Customizing the 7Ps

- **Product**
  - Solvay Interox, a chemicals company, customizes its hydrogen peroxide product for textile industry customers.

- **Price**
  - Dell Computer offers lower prices to its larger relationship customers than its small office/home office (SOHO) customers.

- **Promotion**
  - Ford customizes communications to its dealership network.

- **Place**
  - Procter and Gamble delivers direct to store for its major retail customers but not smaller independents.
Customizing the 7Ps 2

❖ Process
  ● Xerox customizes its service guarantee and recovery processes for individual customers.

❖ People
  ● Hewlett Packard creates dedicated virtual project groups for its consultancy clients.

❖ Physical evidence
  ● Thomson and other major tour operators overprint their point-of-sale material with travel agency details.
Mass customization definition

Mass customization is the use of flexible processes and organizational structures to create varied and even individually tailored value propositions, with neither a cost nor a lead-time penalty.
# Types of mass customization

<table>
<thead>
<tr>
<th>Type of mass customization</th>
<th>How it works</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Match-to-order or locate-to-order</td>
<td>Selection of existing standard products or services to match customer requirements</td>
<td>Cars</td>
</tr>
<tr>
<td>Bundle-to-order</td>
<td>Bundling of existing products and services to suit customer requirements</td>
<td>Conferences</td>
</tr>
<tr>
<td>Assemble-to-order</td>
<td>Assembly of products or services from existing standardized components or processes</td>
<td>Computers</td>
</tr>
<tr>
<td>Make-to-order</td>
<td>Manufacture of customized products including components</td>
<td>Tailored suits</td>
</tr>
<tr>
<td>Engineer-to-order</td>
<td>Customer co-designs products or services which are then made-to-order</td>
<td>Aircraft</td>
</tr>
</tbody>
</table>
Mass customization questions for CRM strategists

- Do customers want customized products and services?
- What degree of customization is desired?
- Are customers willing to pay a premium for customization?
Value through the marketing mix

- Product
- Price
- Process
- Promotion
- People
- Place
- Physical evidence

THE MARKETING MIX
Three perspectives on the ‘product’

- The *core* product is the basic benefit that customers buy.
- The *enabling* product consists of the physical goods and service that are necessary for the core benefit to be delivered.
- The *augmented* product consists of the factors that position and differentiate one competitor from another.
‘Competition is not between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people value.’
Sources of product-based value

1. Product innovation
2. Incremental benefits
3. Product-service bundling
4. Branding
Repositioning Lucozade as a sports drink
Product-service bundling is the practice of offering customers a package of goods and services at a single price.

- Tour operators routinely bundle several elements of a vacation together – flights, transfers, accommodation and meal plan, for example.

For the customer, bundling can reduce money, transaction and psychic costs.

For the company, there are economies in selling and marketing.
A brand is any name, design, style, words or symbols that distinguish a product from its competitors.
Two major perspectives on service quality

- **Conformance to specification**
  - This is consistent with Philip Crosby’s view of quality. Conformance to specification might mean producing error-free invoices, delivering on-time, in-full as promised to customers, or acknowledging a customer complaint within 24 hours.

- **Fitness for purpose**
  - Joseph M. Juran advanced the point of view that quality means creating products that are well suited to customer requirements, and which therefore meet their expectations. It is the customer, not the company, who decides whether quality is right.
## Nordic model of service quality

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical</td>
<td>The quality of the outcome of a service performance</td>
</tr>
<tr>
<td>Functional</td>
<td>The quality of the performance of a service</td>
</tr>
<tr>
<td>Reputational</td>
<td>The quality of the service organization’s image</td>
</tr>
</tbody>
</table>
## SERVQUAL model of service quality

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>Ability to perform the promised service dependably and accurately</td>
</tr>
<tr>
<td>Assurance</td>
<td>Knowledge and courtesy of employees and their ability to convey trust and confidence</td>
</tr>
<tr>
<td>Tangibles</td>
<td>Appearance of physical facilities, equipment, personnel and communication materials</td>
</tr>
<tr>
<td>Empathy</td>
<td>Provision of caring, individualized attention to customers</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Willingness to help customers and to provide prompt service</td>
</tr>
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</table>
SERVQUAL gaps model

Customer

- Word of mouth communications
- Personal needs
- Past experience

Perceived service

Company

- Service delivery (incl. pre- and post-contacts)
- External communications to consumers

- Translations of perceptions into service quality specifications
- Management perceptions of customer expectations

Gaps:

- Gap 1
- Gap 2
- Gap 3
- Gap 4
- Gap 5
Scandinavian Airline’s understanding of customers’ expectations

- Tailoring of the service
  - Support the customer’s activity
    - Fundamental service performance
      - Get me there safely
      - Get my stuff there as well
      - Get me there on time
      - Helm me through the process
      - Support what I need/want to do
      - Support my situation
A service guarantee is an explicit promise to the customer that a prescribed level of service will be delivered.
Sample service guarantee

ADT Money-Back Service Guarantee

If within six months you are not satisfied, ADT will give you a full refund of your installation price and any monitoring fees paid. See back for details.

Customer: ______________________________   Account #: ______________________________

Signature: ____________________________

Mike Snyder, President

Always There.

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A service level agreement is a contractual commitment between a service provider and customer that specifies the mutual responsibilities of both parties with respect to the services that will be provided and the standards at which they will be performed.
A variety of SLA metrics

- **Availability**
  - The percentage of time that the service is available.

- **Usage**
  - The number of service users that can be served simultaneously.

- **Reliability**
  - The percentage of time that the service is withdrawn or fails in the time period.

- **Responsiveness**
  - The speed with which a demand for service is fulfilled.

- **User satisfaction**
  - This can be measured at the time the service is delivered or periodically throughout the agreed service period.
### SLA Scorecard Reporting

#### Reports for Messaging Service
- **Service Line**: Exchange
- **Calendar Date**: 06/02/2005
- **Metric**: ALL

#### Metrics Scorecard by Week

<table>
<thead>
<tr>
<th>Metric Name</th>
<th>SLA Target</th>
<th>Last Week 05/22/2005</th>
<th>Current Week 05/29/2005</th>
<th>Trend</th>
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</thead>
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<tr>
<td>Bridgehead Server Availability</td>
<td>99.000</td>
<td>93.492</td>
<td>96.354</td>
<td>↑</td>
</tr>
<tr>
<td>Client Availability</td>
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<td>93.000</td>
<td>96.000</td>
<td>➔</td>
</tr>
<tr>
<td>Exchange FrontEnd Server Availability</td>
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<td>92.034</td>
<td>96.700</td>
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<td>Exchange Mailbox Server Availability</td>
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<td>96.700</td>
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<td>Internet Gateway Server Availability</td>
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<td>95.796</td>
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<tr>
<td>Public Folder Availability</td>
<td>99.000</td>
<td>95.327</td>
<td>98.475</td>
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Service recovery definition

- Service recovery includes all the actions taken by a company to resolve a service failure.
Service recovery and justice seeking

- **Distributive justice**
  - what the firm offers by way of recovery and whether this output offsets the costs incurred by the customer from service failure
  - distributive outcomes include compensation, re-performance, apologies.

- **Procedural justice**
  - customer’s perception of the process experienced to obtain recovery
  - some procedures offer prompt recovery, others delayed; some require complaints to be legitimized.

- **Interactional justice**
  - the customer’s perception of the performance of service recovery people
  - empathy, politeness, courtesy, effort.
Xerox’s 14 key business processes

1. Customer engagement
2. Inventory management and logistics
3. Product design and engineering
4. Product maintenance
5. Technology management
6. Production and operations management
7. Market management
8. Supplier management
9. Information management
10. Business management
11. Human resource management
12. Leased and capital asset management
13. Legal
14. Financial management
A successful complaints-handling process enables companies to capture customer complaints before customers start spreading negative word-of-mouth or take their business elsewhere.

Research suggests that negative word-of-mouth can be very influential. Up to two-thirds of customers who are dissatisfied do not complain to the organization. They may, however, complain to their social networks.

Unhappy customers are likely to tell twice as many people about their experience than customers with a positive experience.
Why don’t unhappy customers complain?

- They feel the company doesn’t care. Perhaps the company or the industry has a reputation for treating customers poorly.
- It takes too much time and effort.
- They fear retribution. Many people are reluctant to complain about the police, for example.
- They don’t know how to complain.
Complaint-handling tips

- A well-designed complaints-handling process will capture complaints from various touchpoints, then aggregate and analyse them to identify root causes.
- This should enable the company to achieve a higher level of first-time reliability, reduce the amount of rework, and lift levels of customer satisfaction and retention.
- An international standard – ISO 10002 – has been released to help companies identify and implement best practices in complaints policy and process.
- Software is available to help companies improve their complaints-handling expertise.
Improving the complaints management process 1

1. Make the complaints-handling policy and processes visible and accessible to customers and employees
2. Design your complaints-handling policy and processes to ISO 10002 standards
3. Enable web-based complaints capture
4. Empower employees to resolve complaints
5. Install a dedicated free-phone line to receive complaints
6. Link complaints to customer satisfaction and retention goals
Improving the complaints management process

7. Appoint a complaints management executive
8. Teach customers how to complain; publish your process
9. Ensure all employees understand the complaints management process
10. Reward customers who complain
11. Collect complaints data and analyse root causes
12. Use technology to support complaints-handling and deliver useful management reports
Physical evidence consists of the tangible facilities, equipment and materials that companies use to communicate value to customers.
Forms of physical evidence

- company premises
- internal and external environments
- print materials
- websites
- corporate uniforms
- vehicle livery
Web portal definition

- A web portal is a website that serves as a gateway to a range of subject-related resources
- Two types
  - Public
  - Enterprise
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As featured in:
Nuts about Southwest

Southwest Airlines Celebrates Women's History Month
By: Dr. Christa L. Thompson Thompson, Guest Blogger
March is Women’s History Month and Southwest Airlines is proud to honor the incredible women who have made history around the world, as well as the talented women, Customers and Employees alike, who are making a positive difference in our own backyard. This is a guest blog post from Dr. Christa L. Thompson, President, Breakthrough Transitions, LLC, and daughter of... read more

Southwest Recognized as a Customer Champion
By: Teresa Larson
Last week, we learned that FORTUNE has once again recognized Southwest as one of the World’s Most Admired Companies for the 20th consecutive year, for our Leadership, corporate responsibility, and innovation, among other attributes. This week, we are being recognized yet again for the outstanding Customer Service our Employees deliver day in and day out to you. Our... read more

Going Green: Spring Cleaning
By: Alexis Anderson
It's that time of the year again—time for spring cleaning! The flowers may be about to bloom, but that clutter on your coffee table is still lingering. Why throw it all out?
Value from communication – three key processes

1. Disintermediation
2. Personalization
3. Interactivity
Virtual routes to market

- Social media platforms such as Facebook
- Search engines such as Google
- Public or enterprise portals such as www.eMall.sg
- Virtual resellers such as Amazon