

National Productivity

R E V I E W

Summer 1995

Volume 14, Number 3

Ideas and Opinions

- 1 *A Point of View*/New Power, Real Power through Behavior Change
- 9 Competing Based on the *Customer's* Hierarchy of Needs
- 17 Restructuring the Purpose of IT in an Organization

Features

- 27 **Quick Response: The Consumer's Handshake with Manufacturing at Union Tools**
- 39 "It's Customer Loyalty, Stupid": Nurturing and Measuring What Really Matters
- 61 **Modern Management and Technology Complement Traditional Craftsmanship at Henredon Furniture**
- 69 **Employee-Owned Standard Operating Procedures Smooth and Regulate Production at Nature's Sunshine**
- 81 **The Secrets of Successful Empowerment**
- 91 **Winning Ways: Establishing an Effective Workplace Recognition System**
- 103 **Kimray Meets the Manufacturing Challenge by Building Character—and Following Biblical Precepts**
- 111 **Using a Family of Measures To Assess Organizational Performance**

Departments

- 133 *Book Review*/The Birthplace of Silicon Valley
 - 139 *Books and Articles in Brief*
-

Competing Based on the *Customer's* Hierarchy of Needs

Doug Schaffer

Even when companies improve their performance, they often have difficulty achieving real competitive advantage. In the face of often astounding operational improvements, most customers just don't seem very excited.

The reason? Customers have largely been excluded from improvement efforts to date. For companies to better performance in ways that matter to their customers, they must know why customers buy from them in the first place. And once they do, why they keep coming back. This represents a shifting heirarchy of needs that often escapes the notice of companies trying to gain advantage in today's marketplace. This article outlines the stages of the customer-supplier relationship and provides guidelines for companies that want to improve their performance in ways that will make their customers sit up and take notice.

The signs that business is undergoing fundamental, historic changes are everywhere. In every market and industry, companies face turbulent competitive environments. Suddenly the rules are unfamiliar, the pace is faster, and the standards of performance are higher. Virtually every management team is struggling with the problem of how to survive in this rough and tumble world, how to pace their company's performance with the escalating demands of the marketplace. The methods they use vary. Some employ the techniques of total quality. Others are dedicated to lean operations. Still others are reengineering core business processes. Almost every company has downsized; all are just trying to clear the bar, before it's raised another notch.

The good news is that many companies are starting to see results. The business press, along with the shelves of local bookstores, overflow with accounts of streamlined processes and improved operations. Yet even the most successful companies seem to have trouble achieving improvements that deliver competitive advantage. It is typical for companies to launch improvement programs in response to competitive pressures, then several years down the road report improvements that primarily affect internal

Doug Schaffer is a principal with Strategic Alignment, a management consulting firm dedicated to organizational performance improvement located in Snobomish, Washington. He has over 20 years of experience in quality improvement and human resource management and has served at the executive management level for two West Coast electronics companies.

CCC 0277-8556/95/140309-07
© 1995 John Wiley & Sons, Inc.

operations. Published reports often list fewer manufacturing defects, streamlined purchasing processes, lower receivables, improved employee safety, increased inventory turns, and shorter manufacturing cycle times. All are worthy goals and certainly contribute to a healthy balance sheet, but may be only of marginal interest to customers and little help in fending off competitors. There is, of course, nothing wrong with improving the balance sheet. But many programs to improve corporate performance are more effective in reducing costs and improving profitability than in spurring growth and increasing market share.

Why are the results often so one-sided? In the heat of battle, companies simply overlook the need to target improvement efforts at performance issues that matter to the customer. Rather, they view performance in more insular terms. Are budgets and schedules met? Is overhead under control? Is money being wasted on scrap and rework? Are customers paying us on time? Are employees happy and productive? When planning what and how to improve, companies just forget to consider the customer's point of view.

To avoid improvement programs that yield lopsided results, management must first agree on priorities and objectives. If the intent is improved competitive position and sales growth, the company must examine the dynamics of its business environment and target improvement efforts at the factors that determine success in their industry. Only then will the powerful tools of performance improvement be aimed at what matters most to the customer.

UNDERSTANDING THE BASIS OF THE CUSTOMER'S DECISION TO BUY

Understanding the dynamics of the business environment and targeting improvement efforts at market success factors requires a company to answer a very basic question: Why do customers buy from us, rather than from our competitors? While most companies have a rudimentary understanding of why customers buy their products, few have systematically analyzed why customers buy a particular product or chose a particular supplier over another. Most would be hard-pressed to explain how much of a customer's decision is based on differences in product characteristics, value, service, or reputation. And companies often don't have a clue about how important subtle intangibles, such as product esthetics or how a person is treated, can contribute to a customer's decision.

When companies explore the basis of the customer's decision to buy, they discover that customers approach the selection of a supplier with a seven-point list of needs that forms a series of hurdles that a supplier must clear to win and keep the customer's business. Generally, first on the list is *how closely a product or service matches what the customer needs*. Whether it's something as simple as an individual looking for a fast-food restaurant or as complex as an airline that wants to add to its fleet of aircraft, customers want products and services that are closely aligned with their specialized needs. They want items that solve their particular problems and

Most would be hard-pressed to explain how much of a customer's decision is based on differences in product characteristics, value, service, or reputation.

Customers who have experienced defect-free, reliable products will develop a fierce loyalty that is very hard to break.

fit their intended applications. Customers will almost always gravitate to suppliers who offer choices or are willing to customize their offerings to the individual customer's specifications.

The product or service must also be available when the customer needs it. Anyone who has experience with weekend home repairs understands how important it is for a hardware store to have needed parts or tools on hand. When you have the kitchen sink apart and company coming for dinner, it does you little good to know that the store can get you what you need in just a few days. The issue of availability is just as important to manufacturers needing materials for their production lines and service companies requiring technical support for their computer systems. When a supplier is unable to provide what customers want when they want it, customers will look elsewhere.

In addition to getting what they want when they want it, *customers expect a good value.* When customers speak of value, they're usually referring to what they get for what they pay. Value, therefore, is the relationship of cost to perceived benefit. Most customers approach a potential transaction with a price ceiling in mind. Anything above the ceiling is considered highway robbery, a line they are very reluctant to cross. But below the ceiling, the decision to buy is based on the cost versus the perceived benefit. Customers will often pay more for a product that comes with some additional service or is easy to use. Nordstrom, the upscale clothing retailer, has built a loyal clientele willing to pay extra for personalized service and a no-questions-asked return policy. Many consumer products retailers, from the suppliers of personal computers to hardware stores, are discovering that the best way to fight the cut-rate prices of warehouse stores is by offering customers expert advice and support.

Customers also expect quality and reliability. They never want to encounter a defect or take something back. They never want to be stranded, inconvenienced, or endangered by a supplier's products or services. Customers employ a standard of zero tolerance. All products and suppliers are held to this standard, no matter how unreasonable or unfair. This is so important to customers that they will pick a supplier based on reputation for quality alone. Customers who have experienced defect-free, reliable products will develop a fierce loyalty that is very hard to break. And they happily promote such products to friends and associates with little or no prompting.

Customers want to be treated well, never put down or demeaned. They appreciate a supplier who puts their interests first and can be trusted to do "what's right" over what's profitable. Customers want suppliers to help them use products and services to their fullest, with a minimum of hassle. Author and management consultant Tom Peters tells the story of an airline that lost his luggage and then made him feel like it was his fault because he hadn't allowed enough connection time between flights. His main complaint was that the airline employee never once said, "I'm sorry." The

subtleties of how customers are treated are told and retold to friends and acquaintances—or, in Peters' case, to national audiences. Such stories become the basis of a supplier's reputation, providing an invitation or a warning to potential customers.

Customers have also come to expect an occasional value-added extra that makes it easier to do business with a supplier and improves the cost/benefit ratio. Auto dealers who initiated the free loaner car concept were among the first to use such extras to differentiate themselves. Today, many customers decide whom to patronize based on offers of "free" services, such as free delivery, free memberships, free checking, and free installation.

Despite all efforts to the contrary, in every customer-supplier relationship something will eventually go wrong. Therefore, mistakes should be anticipated and approached as an opportunity. *Customers faced with a problem expect the supplier to recover*, to fix the problem without hassling the customer. They want to see the supplier take full responsibility, no questions asked and on the double. Suppliers who meet this standard will have a customer for life (or at least until the next problem). Suppliers who fail this test will lose the customer and probably create a very vocal detractor in the process.

Companies that analyze the basis of their customers' decisions to buy will uncover the details of this seven-point checklist as it applies to their marketplace and their brand of customers. They will discover that the customer needs that form the basis of the checklist vary in importance over the life of the customer-supplier relationship. They will also find that customer needs are arranged in a hierarchy that determine the customer's key motivations at each stage of the relationship.

THE CUSTOMER'S HIERARCHY OF NEEDS

In his 1954 work, *Motivation and Personality*, Abraham Maslow proposed a theory of human motivation characterized by a hierarchy of needs. At the base of this hierarchy were the physiological needs for food, clothing, and shelter. Further up the hierarchy were needs associated with safety, social interaction, self-esteem, and self-actualization. Maslow suggested that initially we are all motivated by needs at the bottom of the hierarchy, but once these needs are met we essentially take them for granted and focus our attention on the next level in the hierarchy. In this way we move up the hierarchy, focusing our attention on needs that are not yet fully met. Of course, if any of the needs at the lower levels of the hierarchy are threatened, an individual's attention and motivations are immediately shifted down the hierarchy to the fulfillment of those more basic needs. Inserting the needs from the customer's seven-point checklist into Maslow's model yields an enlightening illustration of customer motivation and behavior through the several stages of the customer-supplier relationship (**Exhibit 1**).

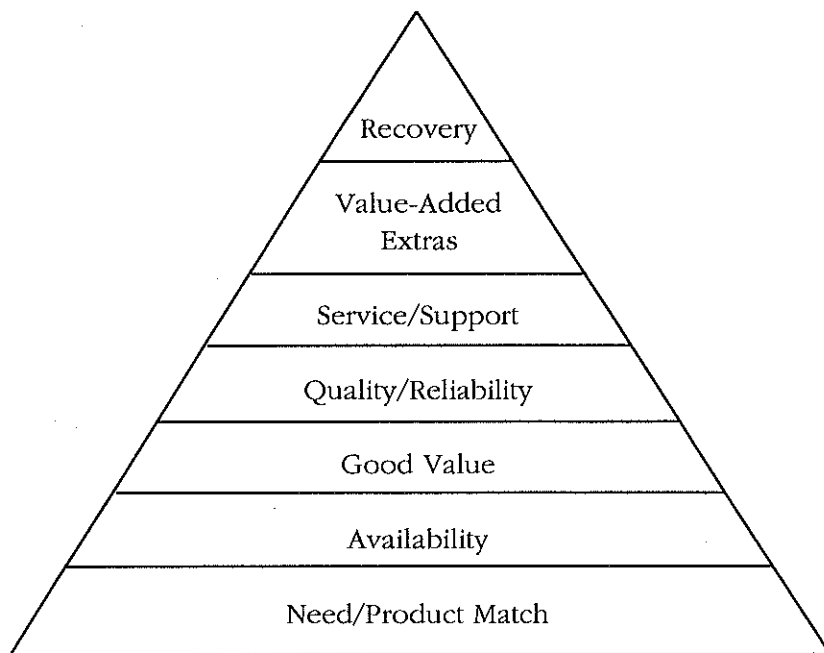
In the initial stage of this relationship customers survey the market-

Mistakes should be anticipated and approached as an opportunity.

place in search of a product or service. As they make contact with potential suppliers, they are primarily motivated by the needs at the bottom of the hierarchy. This generally means that they are looking for a supplier whose products or services fit their requirements. They are inclined to look most favorably on suppliers who offer choices or who are willing to customize their products or services to more closely meet any specific needs. At this initial stage, customers are also concerned with availability. Suppliers who are able to provide the product or service on demand will have the edge over their competitors. If the products or services are of the made-to-order variety, suppliers with the shortest lead times will have the advantage.

Having satisfied themselves that several suppliers are able to provide what they need when they need it, customers now assume that these needs will be met. To choose which supplier will ultimately get their business, they refine their buying criteria by turning their attention to the next levels of the hierarchy. Suddenly, value, quality, and service become the critical factors in customers' buying decisions. Suppliers who offer better perceived quality or service are much more inclined to get business, even when the differences between suppliers are marginal. Such suppliers may even be chosen despite a slightly higher price. A supplier that is able to deliver high quality and superior service at a lower price is almost guaranteed to be the customers' choice. Critical at this stage is how well the supplier is able to communicate the quality and service being offered and the value from the customers' perspective.

Exhibit 1: The Customer's Hierarchy of Needs



Once customers have decided to purchase a product or service from a particular supplier, their overall satisfaction and willingness to do business with that supplier in the future rests with the supplier's ability to satisfy needs at the top of the hierarchy. Suppliers who are easy to do business with—who provide the free loaner car, impose little or no paperwork, or accept returns no questions asked—build customer loyalty. Suppliers who immediately accept responsibility for problems and make every effort to recover quickly without hassling customers make customers for life. Those who fail to manage the customer relationship at the top of the hierarchy lose customers despite the value, quality, and availability of their products. Eventually, they create a reputation for themselves that waves off potential customers and erodes their sales base.

IMPROVING COMPETITIVE PERFORMANCE

An awareness of the customer's hierarchy of needs can be very beneficial to a company trying to improve its competitive position in the marketplace. The customer's checklist provides targets for performance improvement and suggests measures of success. The dynamics of customer motivation, illustrated by the hierarchy, provide help in setting priorities for internal processes and functions. Together, they define the scope of performance over which a company must excel to gain competitive advantage.

Any performance improvement effort should begin with an analysis of the company's performance against its customers' hierarchy of needs. Strengths and weaknesses should be identified and priorities set based on this analysis. Resources allocated to performance improvement should be targeted to the areas offering the greatest competitive leverage. Of particular importance is the need to pick "whole" processes that deliver value to the customer. Reducing manufacturing cycle time, for instance, may help a company's bottom line, but the customer won't be affected unless the cycle time of the entire order fulfillment process—including the subprocesses of order entry, manufacturing, inventory control, and shipping—is reduced. Here are some general issues suggested by the customer's hierarchy of needs that every management team implementing a performance improvement program should consider:

Resources allocated to performance improvement should be targeted to the areas offering the greatest competitive leverage.

- To what extent does the process for designing new products or services ensure close alignment with customer needs? Are customers involved in the design process in any way? Do design teams utilize data on customer preferences? Are flexibility and choice embedded in the design ethic?
- Does the order fulfillment process work to make products and services available on demand? Is availability measured and tracked? Are the cycle times for order fulfillment being reduced? Is the customer involved in forecasting demand? Are suppliers involved in forecasting material requirements? Are delivery commitments met?

Many companies overlook their customers' perspective when defining improvement goals.

- Does the organization as a whole work to provide value to the customer? Are activities that provide little or no value to the customer identified and eliminated? Is the customer involved in identifying non-value-added activities? Are cost savings shared with the customer?
- What is the perceived quality and reliability of the company's products and services? Is this perception the customers' or the company's? How does the company gain insight to customer perceptions? What percentage of products and services fail or are returned? Is this failure/return rate tracked and worked down? Do process owners work to fail proof their processes?
- How do employees who have regular contact with customers treat them? Does the company have a customer service standard? Have employees been trained in good customer service? Are service levels monitored? Are employees evaluated and rewarded for good customer service? Does the organization provide the expert support and information the customer requires? Is expert help a deliberate strategy for winning and maintaining customers? Do senior-level managers have frequent interaction with customers? How easy is it to do business with the company?
- Does the company offer the customer any value-added extras? Do these extras increase the overall value provided to the customer or differentiate the company from its competitors? Is there a deliberate strategy to provide extra value or exceed the customer's expectations? How much freedom do front-line employees have to provide value-added extras?
- What is the company's strategy for recovery? Do employees take responsibility? Does the company hustle to fix customer problems? Are problems measured and tracked? Does senior management take an interest in problems and how they get resolved? How much authority do front-line employees have to solve problems on the spot?

Such questions seem simple, even obvious. Yet, they are just the questions that don't get asked when a company's attention is captured by internal operations. As a result, many companies overlook their customers' perspective when defining improvement goals and end up working on improvement projects that are of marginal benefit to achieving competitive advantage. The message for companies working to improve their competitive performance is: Start with your customers. Find out why they decided to buy from you in the first place. Then improve the performance factors that are critical to keeping those customers and winning new ones. ★

