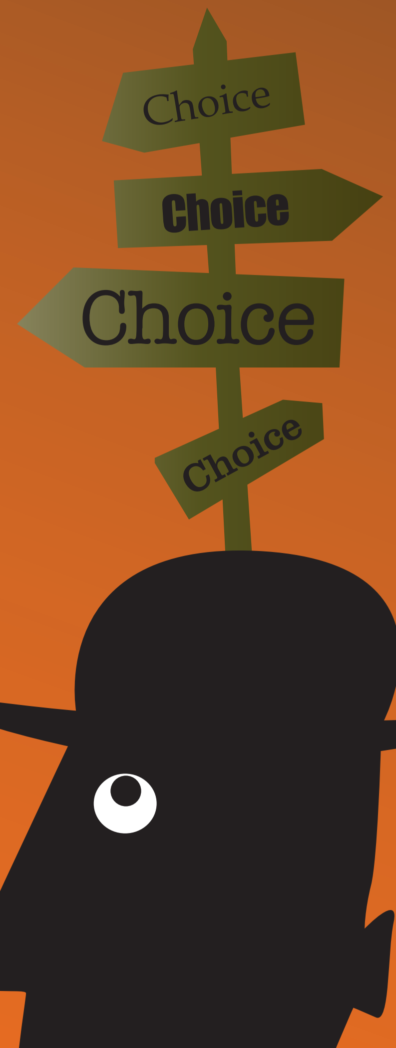
Co-creation

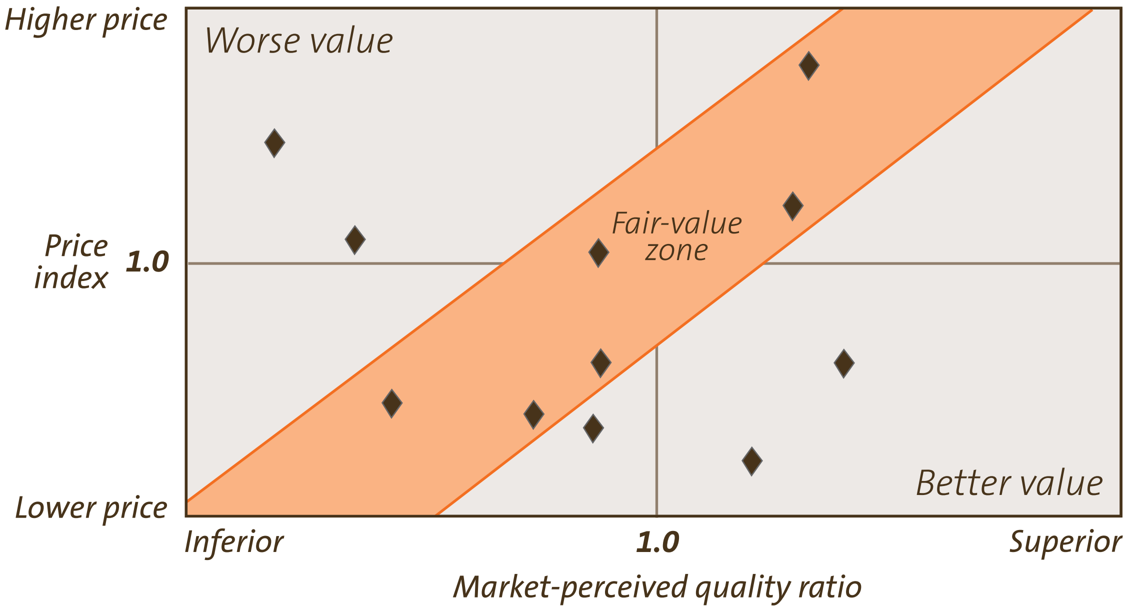
Part 2: Value through Choice

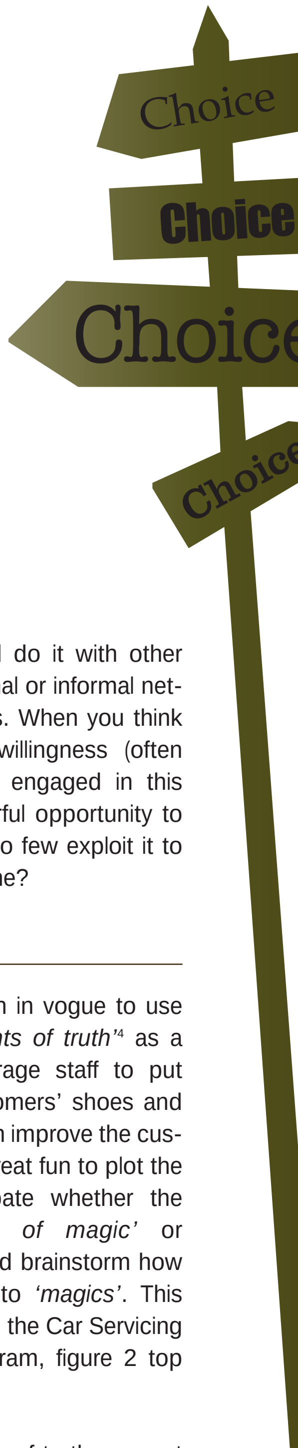
Some trends over the last couple of decades are well known. Exponential technological innovation has led to huge efficiency savings enabling firms to provide better value to customers. But they've had to because customers' unprecedented access to information and easy networking with other customers has turned them into expert and confident buyers. This has led some customers, but a much greater percentage of suppliers, to focus on price as the key differentiator. Companies' pursuit of price competitiveness has resulted in growing standardisation, the net effect of which, ironically, has made it harder for suppliers to differentiate themselves. Hence yet more focus on price, discounts and savings in marketing messages.



But most customers don't just buy on price. They buy on value. People know buying the cheapest can sometimes end up being poor value for money whilst a premium priced product can represent good value if it's exactly what you want. Bradley Gale[1] suggested that value equals quality relative to price. Price includes all costs of doing business with a supplier *(e.g. travelling to a more distant supermarket as well as its prices)*, quality includes all non-price product and service attributes. Quality, price and value are relative not absolute. In other words, a slightly higher price in a competitive market for undifferentiated products can seem very expensive. This relativity is shown in the customer value map in *Figure 1,* over page, where each blob represents a competing supplier. Gale maintains that markets *(i.e. aggregates of customers)* make a rational purchase decision based on relative value. So companies perceived to offer relatively poor value *(high price relative to quality)* lose market share whilst those offering better value gain market share. Not surprisingly, most companies in competitive markets occupy the *'fair value zone'*, the diagonal band. ▶

Figure 1 Customer Value Map





Companies towards the lower left corner provide fair value by being cheap, cheerful and good enough whilst those towards the top right have higher prices but are still perceived as fair value due to the superior benefits they offer.

Whilst still a good analysis of the way markets work, companies are increasingly trying to treat customers as individuals. Nor does the diagram encompass the relative weights given to price and quality in the purchase decision. Do they have equal weight, as the diagram suggests or does one or the other mainly drive the purchase decision? We all know that the weight given to price in the value equation will vary from one customer to another – some are more price sensitive than others. But many companies under-estimate the extent to which the weight given to price varies across the purchase decisions made by each individual customer. Even the most price-sensitive customers don't buy everything on price. So what determines which purchases are price-based and which are driven by the 'quality' elements of the value equation? Two main things:

1. How important is the purchase?
People are more price sensitive when buying things that are of little interest to them, but they buy on quality when something is really important to them. For some people it's their hobbies, for others it might be the children's education, their car or their holidays. I wonder how many cost-conscious football fans buy their normal clothes in the sales or at the supermarket but regularly spend £48 on the latest Manchester United replica shirt and have the away and third kits too.

2. What's the point of paying more?
For some products and services it's easy to see how some customers conclude that there's no real difference between competitors so you may as well buy the cheapest. The car insurance market is a good example. Most promotion is price based. Where insurers do offer value-added benefits they often don't break through the price promotion noise and therefore don't succeed in differentiating themselves from competing suppliers.

Personalised experiences

This is where co-creation comes in. Prahalad and Ramaswamy[2,3] *(see book review on page 38)* maintain that the process of value creation is *"shifting from a product- and firm-centric view to personalized customer experiences"*. Today's knowledgeable and confident consumers want their customer experience to be just right and they're increasingly prepared to engage in research, dialogue and co-creation to get it that way. If they can't do that with the supplier they'll do it with other customers through formal or informal networks and communities. When you think about it, customers' willingness (often eagerness) to become engaged in this way presents a wonderful opportunity to suppliers. What a pity so few exploit it to the full. So how is it done?

Moments of truth

In recent years it's been in vogue to use Jan Carlsson's *'moments of truth'*[4] as a training tool to encourage staff to put themselves in the customers' shoes and brainstorm how they can improve the customer experience. It's great fun to plot the customer journey, debate whether the steps are *'moments of magic'* or '*moments of misery*' and brainstorm how you can turn *'tragics'* to *'magics'*. This approach is illustrated in the Car Servicing Moments of Truth diagram, figure 2 top right.

In its time, the moments of truth concept was a great tool for overcoming one of the main barriers to good customer service – the fact that employees in many organisations had no empathy with the customers. They just didn't think like customers or put themselves in the customers' shoes. This is the first essential step towards delivering a great customer experience, but it's no longer enough.

Figure 2 Car Servicing: Moments of Truth

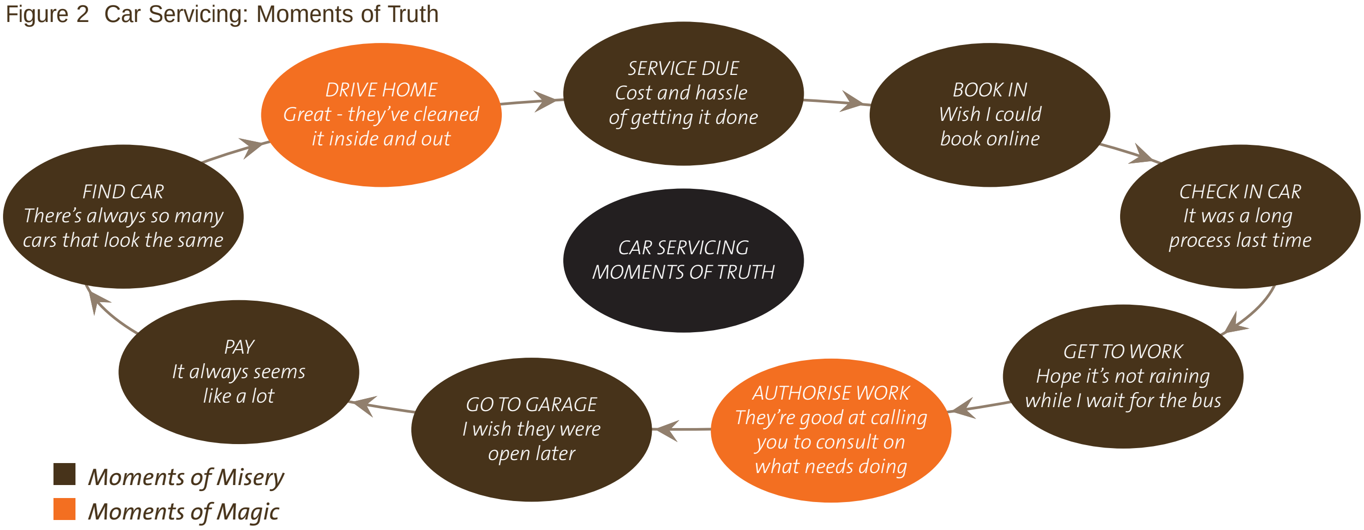
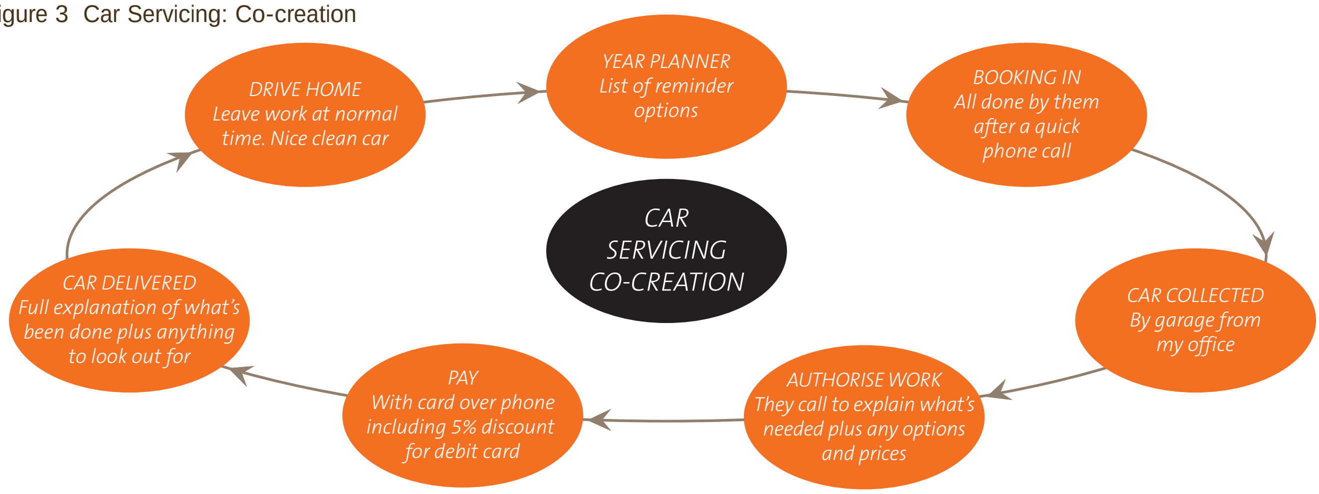


Figure 3 Car Servicing: Co-creation



Involvement

The key word when moving from customer experience to co-creation is not empathy, it's involvement. Companies need to think in terms of doing things with their customers rather than for them. *Figure 3 above* illustrates how the customer journey for car servicing might differ if it's based on co-creating rather than delivering a customer experience.

The obvious difference is that the customer is involved in shaping the customer experience. Most customers would want to be reminded when an MOT or a service was due, but how? It would be easy to send customers a pre-paid response card enabling them to choose between post, telephone, email or text. Customers may prefer to spend a few minutes on the phone giving any essential information such as specific problems with the car or its current mileage rather than spending time getting the vehicle booked in on the day. Give them the choice. Equally they could be given options for dropping the car off, having a courtesy car or having their car collected. These don't have to be free. The vast majority of customers are sufficiently rational to understand that the courtesy car and collection options do add cost for the garage, and why should customers who simply drop off their car subsidise those preferring the added value options? There's also no reason why customers should waste time waiting to pay if they collect the car. The garage could give them the option of pre-payment by phone. In fact it could give a range of options such as web, phone, on-site or invoicing, plus credit card, debit card, cheque or cash payment options. If the price of the service is based on the highest cost payment method, customers could be offered a range of discounts for choosing less costly alternatives. And when the work is done, customers could be given the choice of collecting their car or having it delivered back to their home or place of work. If you've done your research properly and are offering the right choices that do add value in customers' eyes, there's no reason why all this shouldn't be cost-neutral.

The co-creation journey is how CRM databases should be used – for co-creating, recording and delivering the exact experience that each individual customer wants. It should be obvious that a customer's ability to tailor his or her experience in this way will significantly enhance their perception of its value. This, in turn, will increase customer satisfaction, customer retention and recommendation.

Experience or choice?

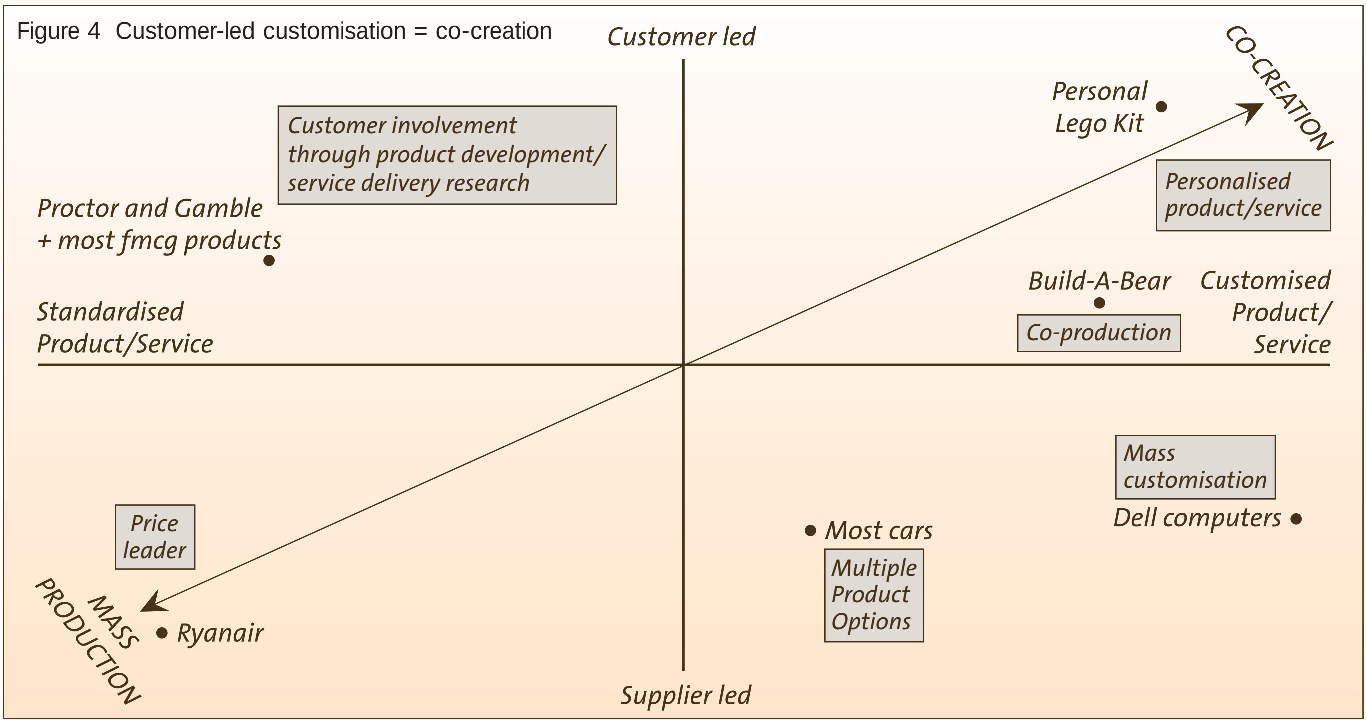
In their ground breaking *'Experience Economy'*[5,6] article and book, Pine and Gilmore suggested that *'the product is no more than an artefact around which customers have experiences'*. This spawned a whole consultancy and training industry to help companies deliver great, unforgettable customer experiences. But how many organisations have designed these experiences from the inside out, and how many have involved customers in co-creating every step of the experience? It's very misleading to think that you have to deliver *'great customer experiences'* all the time. It's not necessarily what people want. If you're taking a young child to Build-A-Bear for a birthday treat - see Stakeholder Satisfaction September 2008 at www.stakeholdermagazine.com/articles - you obviously want an unforgettable experience and a chatty friendly member of staff. If you're rushing to the bank in your lunch hour to pay in a cheque you don't. You want efficient members of staff and no queue. Prahalad and Ramaswamy[2,3] argue that we need a deeper, more genuinely customer-focused approach that goes beyond 'staging experiences'. It's about understanding customers, giving them choices, enabling them to customise how they interact with the supplier. In short, whatever buzzwords you use to dress it up, it's about giving the customers exactly what they want.

It all starts with understanding customers sufficiently well to know what their requirements are plus the relative value they place on those things. Some things are 'nice to haves' but not worth paying for, other benefits add real value in customers' eyes and improve overall customer satisfaction and loyalty even if they do push up the price. In the December 2003 edition of Stakeholder Satisfaction (www.stakeholdermagazine.com/articles), we explained how personal finance software company Intuit adopted the Proctor & Gamble technique of following new customers home from the store after they had bought their software and watching them unpack it, install it and learn how to use it. This helped them to co-create a much more *'intuitive'* style of software that customers found so easy to use that they recommended it to all their friends. Based on the 3Rs of repeat business, related sales and referrals, not on advertising and promotion, they became a multi-billion dollar company and are one of the few companies that successfully fought off a Microsoft takeover bid.

Who is using co-creation?

Not managers and departments supposedly responsible for 'the customer experience'. Ironically it's been much more heavily adopted by functions not renowned for their customer focus such as IT and R&D. Fantastically successful examples of collaborative product development in web businesses abound, with You tube and Wikipedia at the forefront. In addition, more traditional IT businesses have for many years involved user groups to shape software and hardware development. In the B2B arena, IBM has its worldwide partner innovation centres to involve customers in its innovation process. Thinking of physical products there has been a significant element of co-creation in areas such as fitted kitchens for many years. Sitting down in front of the computer with the supplier and designing your own kitchen, just how you want it (within budget) has probably been a big reason behind the success of the product category over the last two decades. More recent online product examples include configuring your bespoke built-to-order Dell laptop, building a virtual car with specification and colour/trim options or something as simple as filling your own hamper.

Many of the above product customisation options involve little more than choosing from a wide range of supplier-defined product options or extras. But some companies are starting to involve customers much more in shaping what those options will be in the first place. Proctor & Gamble and Unilever have for many years conducted extensive market research to develop new products that meet customers' needs but they now take the process much further. The P&G Advisor programme, for example, enables customers to contribute to all stages of the NPD process from idea generation to prototype testing and to provide extensive feedback on their views. The Lego Factory enables customers, alone or in collaboration with others, to create personalised models online. Customers have the option of buying a specially manufactured version of their design (or the designs of other community members) and if a design is very successful it could become one of Lego's mass-produced models. Figure 4 top right illustrates the two dimen-



sions of degree of customisation / standardisation and whether that is customer- or supplier-led.

Co-creation in service industries

Using the customer-led customisation definition of co-creation, most service businesses don't qualify. As we said in the first co-creation article, some small service businesses like hairdressers instinctively use co-creation, but can you think of a big service business that does? Most of them are more interested in mass-production rather than co-creation, in the mistaken belief that higher profits come from lower costs rather than added value. Companies should think about their own behaviour. If a supplier, big or small, product or service business, gives you exactly what you want, you stay with them, and probably recommend them to others. The Leadership Factor talks to over half a million customers a year through focus groups, interviews and surveys, always about what makes them satisfied and loyal, or not. Almost without exception it's down to whether the organisation does best what matters most to them. It's not about the lowest price or wowing them with a memorable customer experience. In fact, for many basic service businesses such as banking or utilities, customers' memorable experiences are almost always bad ones. It's the irritating things they remember. A good experience for them is something that happens flawlessly and efficiently with no fuss.

Co-creation, therefore, is NOT the same as customer experience. It's something much bigger and better and certainly something more profitable. Co-creation is about giving customers choices rather than wowing them. It's about giving them the experience they want – doing best what matters most to the customer, which could be a boring but efficient transaction rather than a great experience. S

Organisations can move towards co-creation by starting with 2 straight forward steps:

1. Do you really understand your customers enough to know exactly what matters to them and the relative importance of those requirements? Especially which ones add value in customers' eyes and which are just 'nice to haves'. You can then use this information to offer customers choices that will enable you and them to co-create their ideal customer experience.
2. Obviously, an ideal customer experience can't be mass-produced. It's unique to each individual. To deliver it you'll have to use your CRM database properly. You'll have to use it to capture customers' preferences from the range of choices you offer so that next time their car service is due you know how they want reminding, you know whether they'll bring it in or want it collecting from home or work and you know how they'll want to pay. Get that right and they'll be delighted, they'll be customers for life and they'll recommend you to others. And you'll make more money.

References:

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