

# “Prioritization of Critical Factors in Delivering Value to Customers”

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## **PRIORITIZATION OF CRITICAL FACTORS IN DELIVERING VALUE TO CUSTOMERS**

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### **Abstract**

The importance of customer focus is generally stated as essential for current and future business success. However, only a minority of companies have developed a coherent customer satisfaction process which is linked to strategies and operating action plans. The issues of customer satisfaction and customer retention are growing in importance due to increased competition and more demanding customer requirements. Monitoring and measurement systems for prioritizing critical factors in delivering value are needed in order to improve and manage customer satisfaction. This paper is a reminder of the challenges and opportunities of re-focusing on customer satisfaction as a neglected part of business practice in reality. Certain pre-testing and adjustments of the methodology presented should be expected when applied to the food industry.

**Key words:** customer satisfaction, expectations, perceptions, customer relationship management, food industry.

### **Introduction**

Winning companies are those which create and offer better value to clients than their competitors do. To do this, companies must know their clients better than their competitors. The constant change in clients' perception of value forces companies to constantly change their processes, business models, products and service portfolios. Companies try to respond to the changing preferences of clients through these constant changes in order to maintain themselves as the preferred choice for today's and for tomorrow's transactions.

The essence of Customer Relationship Management (CRM) strategy is to enable companies to discover changes in preference, to identify new needs as they evolve, and to discover the most efficient way to deliver updated products and services. Constant improvement of customer relationships in order to be as close as possible to customers, and to retain first choice status, may be also an indicator of the company's future development potential.

The basic interest of a company in making all-out efforts to recognize and manage customer relationships is long-term profitability potential. Successful companies have already made a unique impression in the hearts and minds of their consumers as to their own products and service range. This position is continuously improved by the flow of real and valuable innovations (from the consumer's point of view), and is enriched by delivery of added value. In this case a broad base of loyal customers is the logical result of a company's efforts, and the source of long-term profitable business potential.

The purpose of CRM is to optimize the value chain according to wishes and requirements of end-consumers, thus providing greater satisfaction of their needs. Modern information technology advances create the necessary support for the required level of integration and co-operation within value chain creation. In order to fine-tune value chain creation with the needs of end-consumers, advanced technology is used to ensure maximum communication, usage and improvement of information and the necessary coordination.

A correctly formulated CRM strategy cannot rely only on logical arguments when we try to win clients with targeted and tailor-made offers. It also includes assumptions on constantly delighting

and winning the clients emotionally. It is a source of significant improvement of customer loyalty and satisfaction.

While delivering value, a company has to deal with distinct internal and external customers. Internal customers, as represented by a dedicated employee base, are the key to the success of any company. Satisfied internal customers pave the way to good quality service of value to external customers.

Therefore the responsibility and commitment of top management to deliver value to its customers is more and more important in today's business environment which is full of competitive pressure and the globalization of supply.

Also, to start with relationship management, we first have to learn as much as possible about our customers; what they really want and expect, what really matters to them.

The next lesson is to study our own experience. Have we ever tried to test our company's products and services from the customer's perspective? Did we like them? Or did we imagine them in a different way?

The issue is not whether CRM is useful for business, but how to apply it in the most appropriate way.

One of the most dramatic influences on today's business is brought by technology. Technology empowers consumers with the ability to reconfigure traditional face-to-face business contact with a variety of alternatives. Also, consumers have access to more information and choices than ever before. They can get much more information about the products and services in which they are interested in a much shorter time. Well-informed consumers are less likely to accept an inferior product, price or service, and consequently have greater expectations. The speed of the Internet and growing demands on people's spare time shorten their patience. Today's consumers are well-informed, impatient and empowered. Finding a way to meet consumers' increased expectations has become an essential business challenge. This shift of power creates opportunities for smart businesses to increase their market share and reinforce their competitive position or represents potential disaster for businesses which ignore this issue.

The problems for companies arise from the reduction in personal contact they have with the customer. Customers could not care less about the struggles within an organization; they just expect their needs to be met. The company should organize itself in such a way that it can identify customers, treat them according to the level of service they deserve, find their orders whether placed by mail, phone, fax, email, or via the Web, and track them through the supply chain. Also, Internet distance, measured by a mouse click, eliminates geographical advantage for businesses. Now customers are much more aware of equivalent or better opportunities on a global basis, so the best deal may no longer be with the business across the street, but across the ocean.

In an era of dramatic changes, relationships continue to maintain their value in determining customer behaviour. While other traditional forms of competitive differentiation erode, customer relationships grow in their importance for determining future success potential. Businesses cannot control economic and technological development, nor their competitors, but the major area they can manage is interaction with their customers. But to be really effective, CRM should be integrated in all business processes that create customer experiences.

Internal benefits resulting from good CRM enable people throughout the company to make smarter decisions faster. It should help to analyze, measure and improve effectiveness, giving a picture of lifetime value to customers and their satisfaction level. CRM must be accessible to every person within the company who is involved in processes that shape customer experiences.

### **Value Chain Creation – what comes first?**

Growth potential may be determined as a company's capabilities to manage the internal and external dimensions of satisfaction and loyalty.

Leadership capabilities will affect the internal side of the value cycle through the creation of corporate culture, employee satisfaction and loyalty. Managing company capabilities will contribute to better performance through more efficient utilization of resources and improved flow of the supply chain.

*This affects value for effort perceived by customers, representing the beginning of the external side of the cycle. Perceived value affects customer satisfaction and customer loyalty.*

A genuine CRM initiative has to rely on developed company culture and processes. The creation and maintenance of customer satisfaction and customer retention over an extended period of time cannot happen by chance. Companies have to invest a lot of effort in order to create positive attitudes, awareness of the significance of customer loyalty to the company, and constantly remind employees of their valuable contribution to value chain creation.

Since loyalty is a characteristic of a subjective human relationship, the company must develop processes that will be able to provide the same level of experience for the customer, no matter who personally serves the customer. When supplying customers on a regular basis, offering a standard and superlative experience while serving them, has proved to be the biggest challenge for customer relationship management. The received wisdom is "to manage yourself before you manage others"; therefore, managing customer relationship begins with managing employees.

In this respect, management, employees and customers generate relationships which may impact long term prospects of business.

The management "service role" for the organization is not limited only to providing clear guidance and reasoning as to who, what, why and how, until something needs to be done, but begins with understanding customer needs, wants and levels of satisfaction.

If in the experience economy the product is just "an excuse" for delivering experience, then we have to learn from the experiences of service businesses how to boost and retain existing relationships and build new ones.

Further, we must not forget that this search for continuous performance improvement has certain financial and resource constraints under which delivery of products and services have to be executed. That is the next reason why customer expectations have to be properly understood and measured, and the gaps in delivered value identified. Gap analysis helps managers to identify cost-effective ways of closing gaps and prioritizing which gaps to focus on – a crucial decision but with limited resources.

In industries where there is an intermediate role between providers and customers, e.g. trade sectors, relationships become even more complex. In practice it is very difficult to find out who in a company is responsible for customer relationships; sales, marketing, marketing services or top management. A step further is to consider relationships among the organisation, trade and customers, and there is mutual sharing of experience and expectations. But then reality seems to be too complex to be covered by a single model.

## **Employee Satisfaction and Loyalty**

People measure value for effort whether they are a customer or employee. When this ratio is favourable, satisfaction is greater, and the chances of developing a loyal relationship are stronger. Satisfied employees feel good about their job, clients, company, colleagues and bosses. Satisfaction and loyalty have a strong impact on personal contribution and therefore on business competitiveness.

The behaviour of satisfied employees contributes to the process of creation and performance of memorable experiences for the customer, and the value chain creation has been switched on.

Delivery of the service element of value propositions to customers depends on the competences and commitment of employees. Satisfied and loyal employees make substantial contributions to

value performance and to the company's goals. If a company succeeds in creating, developing and maintaining special emotional bonds with its employees, and makes them satisfied and loyal, then similar results of customer satisfaction and loyalty can be achieved.

People's contribution at work depends on their natural abilities, talents acquired at the work place and attitudes. Attitudes are a driving force for great performance. Positive attitudes, a passion to learn and do things well make a substantial difference to results achieved in a certain time period. The right attitudes are a source of willingness to do things well, and affect the way employees think and feel about their work and the company. Attitudes are also a source of contribution to improvements over time.

### **Value for Effort**

In the process of exchange, customers measure the value of the outcome with the effort invested to obtain this value. In most cases this program is run unconsciously, but represents the logic of a client's interest. A company that is aware of client expectation has more chances for gain. Therefore, the improvement of value for effort to customers is also a right focus for the company to increase client satisfaction and loyalty.

Value for effort, or offer attractiveness is influenced by tangible (offer and price) and intangible elements (emotional bond, inconvenience and risk perception).

Company strategy should work out how to offer the best value for effort for targeted market segments. The objective in this search for improvement of offer value does not increase costs for the company. The challenge of creating much more interesting value with no additional cost requires usage of out-of-the-box, fresh and brave thinking. Every opportunity for the improvement of a pleasant client experience should be monitored and utilized carefully. Minor improvements in every contact with any part of the company, service, or product could end up with positive change in customer value perception.

Price attainment is the reward for an originally designed value proposition combined with the creation of a very special feeling, and again, the experience economy provides a return for the creation of memorable experiences.

### **Customer Satisfaction and Loyalty**

Clients who feel good when they have done business with the company are satisfied clients. The level of satisfaction will influence the future relationship with the company. The most important segment for the company consists of highly satisfied and loyal consumers.

Vital knowledge for the company is to learn how to turn customers into satisfied and loyal ones. Loyal customers constantly come and purchase from the company and are willing to share positive experience testimony. Satisfaction consists of objective and subjective elements. Objective elements rely on the tangible side of the offer, subjective ones have to do with a company's personality, warmth and human atmosphere and the way clients feel about the company.

Perceptions and expectations are the most important factors which influence customer satisfaction and feelings toward the company. That is why the way to customer satisfaction begins with management awareness and understanding not only the tangible but also the intangible part of the offer and part of company services.

The experience economy is a step further. The abilities to create memorable and distinctive experiences become main business drivers, before products and services. The experience economy provides a stage to companies in the creation and sale of memorable experiences engaging customers in a unique way.

Pleasant or unpleasant memories of these experiences and feelings affect our propensity to return to these businesses. Have you enjoyed special treatment as regular customers? Have you ever complained about poor service and never returned? Experiences shape buying patterns, signifi-

cantly influencing the lifetime value of customers. A base of loyal customers, who repeat their buying activities, can form a significant competitive advantage for a business in many ways.

True loyal customers create a market share base that is unassailable by competitors. The costs of sales serving to existing customers are much lower than the costs of generating sales to new ones (market awareness, interest creation, desire and action), that is, acquiring new customers, establishing and retaining a business relationship with them.

Future profitability can be ensured by creating higher value for clients and employees that is superior to that of competitors, because of the strong significance of repeat clients – clients who stay bonded to a given company. A repetitive buying pattern creates retention rate over a period of time – a measure of customer loyalty.

While learning how to increase the number of repeat clients, companies should be aware of desertion, and learn as much as possible about the reasons why it happens. Desertion should be monitored for each customer segment and continuously tracked over a certain period of time. The time period depends on how often customers make purchasing decisions for certain kinds of products or services. Besides the cause of desertion, it is also important to pay attention to the flow of customer migration; where deserters go, and where new clients come from.

The challenge for relationship management is reducing the desertion rate of clients close to the natural client loss rate. If a reasonable natural client loss rate may be considered between 3 to 5% annually, the right challenge for management should be focused on reducing existing desertion rate close to this natural client loss rate. The average life span of customers may be computed as a function of desertion rate, for instance, a desertion rate of 25% could represent the average customer life span of 4 years (Serrano, 2005a). It shows the significance of customer loyalty and significance of the potential of every existing client of the company. Focus on creation and retention of a larger number of happy customers who repeatedly come back over long period of time has a significant impact on company profitability and growth potential.

While focusing on “loyalising” customers, the process of attracting new ones must not be neglected. An existing customer base cannot last forever, that is why it is not enough just to retain satisfied customers, but also to interest, sell to, satisfy and retain new ones. The future of a company is defined both by the company’s abilities to attract and retain clients. Which comes first? The ability to retain satisfied clients makes solid arguments for attracting new ones. This happens when management understand the cost of attracting new customers, and loss of income caused by losing existing clients. This also means relationship creation through value and trust, based on customer satisfaction and constant adaptation to the evolution of client needs.

### **Service Quality Gaps Model and the SERVQUAL Instrument**

If the relationship is based on the value for effort ratio, or on a combination of products, services and experiences, then there is room to introduce service quality model analysis for relationship analysis. Why do we need to introduce measurements when we consider a relationship? To be sure that we have made progress in a relationship, we need to be able to determine a starting point and to measure improvement.

Being aware of the importance of customer satisfaction implies a responsibility to act to eliminate possible customer dissatisfaction. If expectations are greater than performance, the difference in customer expectations and perceptions is an area of customer dissatisfaction. Usage of the service quality gaps model could help determine and implement necessary improvements in order to retain satisfied customers and employees.

It is also important to find answers with sub-research for the following questions:

- ◆ How to determine customer segmentation?
- ◆ What do customers really want?
- ◆ What factors are important for purchasing decision making?

***Service Quality Gaps Model***

The extension of Parasuraman *et al.*'s model (1985), (ASI Quality Systems, 1992; Curry, 1999; Luk and Layton, 2002), covers 7 gaps:

Gap 1: Customer expectations versus management perceptions

Gap 2: Management perceptions versus service specifications

Gap 3: Service specifications versus service delivery

Gap 4: Service delivery versus external communication

Gap 5: The discrepancy between customer expectations and their perceptions of the service delivered

Gap 6: The discrepancy between customer expectations and employee perceptions

Gap 7: The discrepancy between employee perceptions and management perceptions

Gap 1: represents the difference between customer expectations of service and management perception of those expectations. There are many reasons why managers may not be aware of what customers expect. For instance, a lack of interaction between management and customers, insufficient relationship focus, e.g. focus on transactions rather than on relationships or on new customers instead of on existing customers or inadequate market research. A strong relationship with existing customers prevents Gap 1 from occurring and companies are more able to understand the changing needs and expectations of their existing customer base.

Gap 2: shows the difference between management understanding of customer expectations and development of customer-driven service standards. Customer expectations cannot be understood without asking the right questions reasonably frequently to find the right answers. Gap 2 might be a result of an inadequate commitment to service quality, inadequate task standardization or absence of goal setting.

Gap 3: the difference between service specifications and the actual service delivered affects the customer's perception of service quality. Appropriate resources, the right people, processes and technology must be put in place.

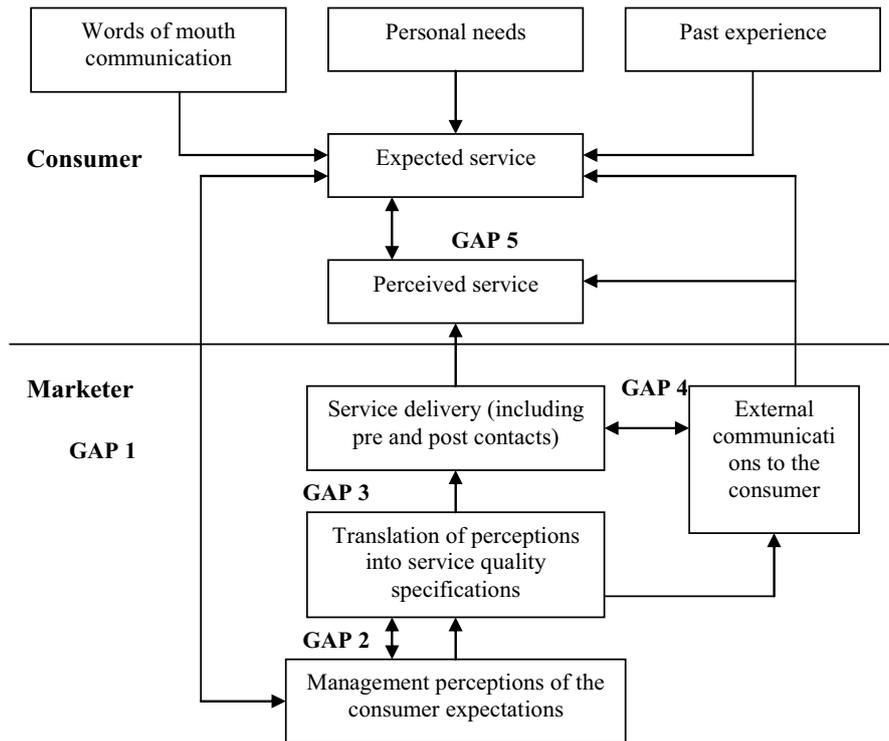
Gap 4: the difference between service delivery and the promise of service communicated to consumers. A key factor is related to companies regarding promises in advertising, personal selling, or through physical evidence cues. It is also important to inform and educate customers about service benefits to assure quality that is not visible to customers in order to improve their value perception.

Gap 5: the discrepancy between customer expectations and their perceptions of the service delivered. The differences in quality that consumer perceives and expects are derived from influences on consumer side as well as shortfalls on provider side. Customer expectations are influenced by individual needs, past service experiences and by word of mouth communication.

Gap 6: represents the difference between customer expectations and employee perceptions. It is a result of differences in understanding customer expectations from the front line service provider.

Gap 7: reflects the difference between employee perception and management perception. It is a result of different understanding of customer expectations between front-line workers and management.

The primary thesis of this model is that the service quality shortfall (i.e. Gap 5, the gap between customer service expectations and perceptions) is the result of a series of shortfalls within the service provider's organization (i.e. Gaps 1-4). Thus, improving the quality of service experienced by customers (i.e. closing Gap 5) requires diagnosing the causes of and correcting the internal deficiencies (i.e. Gaps 1-4) (Parasuraman, 2004).



Source: Parasuraman et al. (1985)

Fig. 1. Gap analysis model

### ***SERVQUAL Instrument***

Even though there is no overall consensus of how to measure service quality, the model developed by Parasuraman *et al.* (1985, 1986, 1988, 1991, 1993, 1994), Zeithaml *et al.* (1990), has been extensively applied. The SERVQUAL instrument is most often used to compare customer expectations before service delivery and perceptions of actual service delivered (i.e. Gap 5).

Gaps 1-4 are identified as a function of the way in which the service was delivered, while Gap 5 is connected with the customer and perceived as a service quality measure. The SERVQUAL instrument is used to analyze gaps between customer expectations and perceptions of service quality. Expectations are measured before the service is delivered and perceptions are measured afterwards.

Variety of service attributes are grouped and measured within 5 different dimensions (Parasuraman, 2004):

1. Reliability: the ability to perform the promised service dependably and accurately.
2. Responsiveness: the willingness to help customers and provide prompt service.
3. Assurance: the knowledge and courtesy of employees and their ability to inspire trust and confidence.
4. Empathy: the caring, individualized attention the firm provides to its customers.
5. Tangibles: the appearance of physical facilities, equipment, personnel and communication materials.

The SERVQUAL instrument with its 22 statements measures performance across these five dimensions, using a seven point Likert scale measuring both customer expectations and perceptions (Gabbie and O'Neill, 1996).

The SERVQUAL instrument is an approach for assessing service quality. It should be complemented with different service quality information systems: transactional surveys, mystery shop-

ping, new-, declining- and lost-customer surveys, focus group interviews, customer advisory panels, service reviews, customer complaint, comment and inquiry capture, total market surveys, employee field reporting, employee surveys and service operating data capture.

Each organization should select and implement the most feasible and useful subset of approaches from above list (Parasuraman, 2004).

A case study of understanding customer satisfaction in the UK food industry was carried out (Adebanjo, 2001). A customer satisfaction workgroup of the Benchmarking Club was led and managed by Leatherhead Food RA and engaged representatives of leading companies in the food and retail industries in UK. The focus of the workgroup was manufacturer-to-retailer customer satisfaction dynamics and not retailer-to-consumer dynamics. The workgroup identified six key drivers of customer satisfaction, described as follows:

(1) Define and understand the customer. Fundamental to satisfaction is understanding who the customer is and what his/her specific needs are. It was recognised that this might be easier for companies which service other companies rather than those which service the general public. This is because they are likely to have a smaller customer base and would be readily able to identify who their key customers are and therefore provide a tailored service.

(2) People. Most customer contact is with the people within the organisation. Satisfying the customer will, therefore, depend largely on having a customer-focused culture that will make employees effective and competent representatives of the organisation. Ways in which this may be achieved include:

- ◆ having a total organisational commitment to customer care;
- ◆ ongoing staff training;
- ◆ customer focus measures being included in individual objectives/targets;
- ◆ empowering employees, especially frontline staff, to take decisions that ensure that customers are satisfied; and
- ◆ promoting a culture of continuous improvement.

(3) Organisation. The organisational structure and business focus of the supplier must be centred on delivering the needs of the customer. Ways in which this may be achieved include:

- ◆ the company mission should include a focus on customers;
- ◆ supplier strategies should be aligned to deliver the mission;
- ◆ processes should be compatible with customer needs and expectations;
- ◆ there should be ongoing self-assessment to ensure that the processes and strategies are still relevant and effective;
- ◆ there should be flexibility and a readiness to change when required by relevant forces, such as changing customer needs; and
- ◆ as far as possible, suppliers should try to work in partnership with their customers.

(4) Communication. Effective communication is essential to ensure clarity of direction and to monitor progress towards jointly agreed objectives/expectations. Communication should be both internal and external, with internal communication focusing on ensuring that all relevant departments and individuals are aware of their input and also highlighting any problems they face.

(5) The offering. The offering refers in part to the actual product or service that is the subject of the transaction between supplier and customer. The workgroup, however, identified that the offering is a total package, of which the product is part. In addition to the product issues (i.e. availability, quality, presentation, functionality), other factors to be considered in the offering include the environment (e.g. premium customers will expect an environment different from that of a discount store) and service level (e.g. physical accessibility of a product, length of checkout queues, refund policies and helpfulness of staff).

(6) Agents of dissatisfaction. These are factors that may not in themselves drive satisfaction, but which, if not present, or not executed, may cause dissatisfaction. The food industry, in particular, is susceptible to such concerns, which include:

- ◆ poor labelling or non-identification of genetically modified foods (lack of organically grown alternatives);
- ◆ non-identification of products containing nuts could have serious consequences where there are consumers who are allergic to nuts and their by-products;
- ◆ a perception that an organisation is not environment-friendly could lead to dissatisfaction, even if other satisfaction drivers are present;
- ◆ ethical concerns; applies to a whole range of sectors including the food industry, and may include issues concerning how organisations develop, test, source, manufacture or market their products or even the economies in which they operate.

Although the nature of the workgroup's activities implied that most findings were pitched at a strategic level, it is easily conceivable that some well established customer-related models (e.g. SERVQUAL) would be useful in improving some aspects of customer satisfaction (Adebanjo, 2001).

Despite this, the broad base of the customer satisfaction process is stressed in the literature.

## Conclusion

Ideally, CRM ensures that everybody who can influence customer experience has the right information about customers, their values and needs, and is empowered to ensure a positive experience for the customer. Such an initiative should integrate the whole company around a common goal to exceed customer expectations, understand their needs and recognize which customer efforts should be focused on, and how to optimize company processes continually. Successful CRM transforms expectations into an exciting experience, creating the grounds for competitive advantage, growth and profitability potential.

Measurement of service quality enables organizations to monitor, maintain and improve service quality. Better understanding of various dimensions and the way they affect overall service enable organizations to design a more efficient service delivery process, better allocation of resources and ultimately better service to external customers.

Information on service quality gaps can help managers to understand where performance improvement can best be targeted. The largest negative gaps, combined with assessment of where expectations are highest, facilitate prioritization of performance improvement. Equally, if gap scores in some aspects of service do turn out to be positive, implying expectations are actually not just being met but exceeded, then this allows managers to review whether they may be over-supplying this particular feature of the service and whether there is potential for re-deployment of resources into features which are underperforming (Shahin, 2005).

The SERVQUAL instrument could be used for comparative benchmarking purposes, allowing yearly comparisons, and for defining service improvements and effects on customer perception.

Further investigations should be carried out to pilot and research a model of prioritization of critical factors regarding value delivery in the food industry. To focus groups: customers, management, employees, and retailers in order to determine a set of hypotheses for expected and perceived values. Then, development of a questionnaire, contacts and collection of data, data analysis, elaboration of key findings, reaching conclusions and final remarks on limitations and future research to be carried out.

Generally speaking, the study of customer satisfaction is both important and challenging in the food industry. Future efforts should be continued in order to enhance an understanding of the concept and the means to measure and improve customer satisfaction in the food industry.

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