Embracing Customer Experience

Is the board ready to embrace the value of Customer Experience?

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1. Introduction

Back in the 50s, Peter Drucker (1954:37) already argued that there is only one valid definition of business purpose, that is to create a customer.

In the dynamic landscape of modern business, the customer stands as the fundamental cornerstone upon which organizations build their success. Yet, despite the undeniable centrality of customers to their operations, many organizations struggle to fully align all aspects of their activities and priorities around the customer. This articles/paper delves into the multifaceted reasons behind this apparent paradox, exploring the complex interplay of factors that shape organizations' approaches to customer-centricity.

From traditional and entrenched organizational structures to short-term financial pressures, from competitive market dynamics to leadership philosophies, understanding the myriad forces at play is essential for unlocking the potential of Customer Experience (CX) strategies. Putting the customer at the center of an organizations' operations requires a strategic and holistic approach that encompasses every aspect of the organization. But it is not just a strategy for short-term or long-term success, but a fundamental principle for building enduring relationships, driving growth, and maintaining competitiveness in today's dynamic business environment.

At the heart of this complexity lies the concept of Dominant Logic, a prevailing mindset that shapes the organization's approach to various aspects of its operations.

Dominant logic, deeply ingrained within an organizational' culture, typically prioritizes internal processes, operational efficiency, and financial outcomes over Customer Experience initiatives. This mindset poses a barrier to the seamless integration of Customer Experience strategies within organizational frameworks.

When dominant logic dictates that short-term financial gains supersede long-term investments in customer satisfaction, companies may struggle to realign their priorities to meet evolving customer expectations.

The interplay between organizational complexity and dominant logic creates a barrier to the successful implementation of Customer Experience strategies. Overcoming this barrier requires effort to challenge existing mindsets, foster cross-functional collaboration, and cultivate a culture that places the customer at the center of decision-making processes.

CX in Annual Reports – it is widely seen as a competitive advantage. In the realm of corporate strategy and financial reporting, the theme of CX emerges as a central narrative, resonating within the pages of Annual Reports written by large organizations worldwide. These reports, accurately crafted, serve not only as a window into the financial health but also act as a testament to their dedication to customer-centric principles.

When I read these reports, a compelling story unfolds—one that underscores the paramount importance of prioritizing customer experience and engagement. As they articulate their achievements and aspirations, organizations underscore the intrinsic link between customer satisfaction and financial performance. Most organizations acknowledge that in today's hyper-connected and digitally-driven marketplace, delivering seamless and personalized experiences is not just a differentiator but a prerequisite for success.

By investing in CX initiatives, organizations aim to foster long-lasting relationships with their customers, thereby bolstering loyalty and advocacy and driving profitable growth. I refer to my article (2023) where I introduced the CX-Led profitable growth flywheel representing how CX drives both profit and growth https://www.patrickburggraaf.me/cx-led-profitable-growth-flywheel

So, the prominence of Customer Experience within annual reports underscores its significance as a strategic imperative for large organizations. As they navigate the complexities of the modern marketplace, organizations recognize that investing in CX is not merely a business strategy but a fundamental philosophy that drives sustainable growth.

Back to 'the reality' – what has Dominant logic to do with this?
In the realm of larger organizations, dominant logic serves as the foundational framework that guides decision-making, shapes organizational culture, and defines strategic priorities. This mindset often dictates how organizations perceive and approach various aspects of their operations, such as creating products, going to market, and as such how they see their customers. While dominant logic has historically centered around optimizing internal processes and maximizing operational efficiency, significant challenges arises when these organizations struggle to prioritize customer-centricity within their strategic agendas. Many organizations commonly encounter two main difficulties in shifting their focus;

a. Inertia and Resistance to Change

Change within large organizations is often met with resistance. Mainly because it disrupts established routines. Shifting towards a customer-centric approach requires cultural and organizational transformations, which may encounter resistance from stakeholders who perceive such changes as threatening their status within the organization.

b. Short-term Profit Focus

Quarterly financial targets and short-term profit goals frequently dominate the agenda of large organizations. This emphasis on immediate financial gains can overshadow the long-term benefits of prioritizing customer satisfaction and loyalty. Consequently, investments in customer-centric initiatives may be deprioritized in favor of initiatives with more immediate financial returns.

2. Let's connect the two - Dominant Logic and Customer Experience

Organizations and customers sometimes apply different perspectives, which can result in inconsistencies between what is important in business practice. Since the business environment is dynamic, organizations must continuously revise or at least consider the underlying perspective to remain competitive (Prahalad, 2004). How these changes in the business environment are recognized, depends on whether they are real or perceived. So, with that I mean whether they are interpreted and constructed by the different actors involved in the relationship, e.g. the board, managers, frontline and customers.

Either way, the perspectives that managers in organizations (but also often customers) apply, may be deep-rooted and not easily changeable. With the result that they may generate incorrect interpretations of the market, the relationships and the actions taken.

Therefore, identifying and analyzing the dominant logic is essential. I combined different insights from Dominant Logic research and tried to connect this with Value Creation (Helkkula et al, 2012). Later in part II of this series, I will connect both dominant logic an value creation with the Economic Evolution as introduced by Pine & Gilmore (2011).

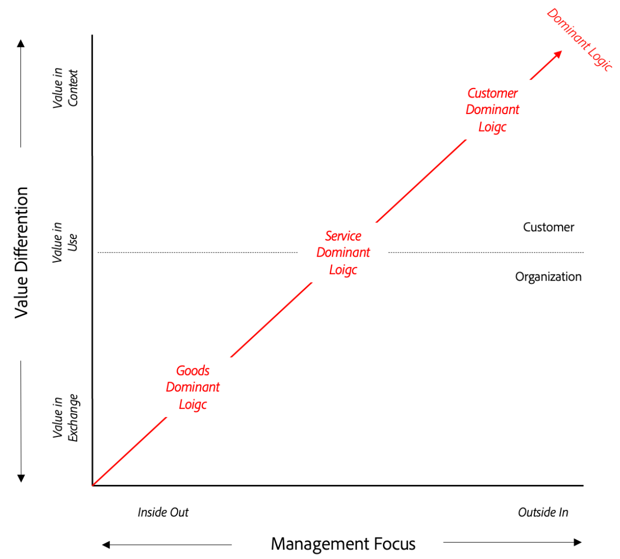

Fig. 1 Dominant logic in the context of Value creation and differentiation

On the Y axis in figure 1, I have plotted the different value creation systems.

Value in exchange refers to the economic value of a product or service. It is determined based on the market price that customers are willing to pay. Value in use, is the inherent value that a product or service delivers to its customers. It represents the satisfaction, utility, or benefit that customers receive from using. Value-in-context, emphasizes the importance of considering the broader context, circumstances, and individual preferences and unique needs of customers when assessing the value proposition of a product, service, or experience.

In literature, a new value creation phenomenon is increasingly being used, value-in-experience. Value in the experience is a subjective phenomenon arguing that value is directly or indirectly experienced by customers in their lifeworld context. For this paper, I won't use this concept.

On the X-axis I placed the management focus where inside-out management focusses on internal and organizational capabilities, processes, and objectives. Outside-in refers to an organizational approach that prioritizes understanding and meeting the needs, preferences, and expectations of external stakeholders, particularly customers, as the driving force behind strategic decision-making and operational practices.

Goods Dominant Logic

Organizations with an inside out management focus and differentiating via value-in-exchange has (often) a mean towards Goods Dominant Logic (G-D). G-D logic would consider the purpose of exchange to be organization profit. This exchange is in reality a sale. At this point the organization exchanges the goods in which they have embedded value in for cash. And simultaneously the customer gains ownership of the value (the goods) after handing over cash. It is a one-off transaction. And we call the concept value-in-exchange.

Furniture manufacturers, chemical firms, computer companies and energy organizations have all started by being fully goods-centric.

G-D logic is bounded by how we think of value. It is embedded, exchanged and destroyed. We often focus only on the outputs of manufacturing processes or the outcome of services as holding value which we exchange in a one-off value-in-exchange transaction. G-D logic emphasizes a very clear distinction between the organization and customers where the organization is very much the creator of value, the other the user.

Key characteristics of Goods Dominant Logic include:

- Emphasis on tangible products as the primary source of value.
- Focus on production efficiency and economies of scale.
- Transactional relationships between buyers and sellers, with emphasis on one-time transactions.
- Value creation is often viewed as a linear process, starting from production and ending with consumption.

Service Dominant Logic

Instead of the focus on outputs, we also see organizations focus on how the output is achieved. Instead of goods versus service, we see goods as a mean of capturing service so it can be distributed to another time and place and applied.

In Service Dominant (S-D) Logic we see goods as a distribution mechanism for services. S-D logic's conceptualization of value creation significantly differs from the linear and sequential creation and destruction of value emphasized in G-D logic (Wieland et al., 2016). Rather than placing the organization as the primary value creator, S-D logic argues for the existence of more complex and dynamic exchange systems within which value co-creation occurs at the intersections of activities of providers (organizations), beneficiaries, and other actors (Vargo & Lusch, 2011; Wieland et al., 2012)

Nike is well-known for their various engagement platforms allowing customers to co-create their own value with the brand. E.g. with exclusive rewards and personalized fitness experiences via Apple Watch. Nike By You acknowledges that some customers like to stand out from the crowd and gives them the freedom to create and customize their own products.

Key characteristics of Service Dominant Logic include:

- Focus on intangible resources such as knowledge, skills, and relationships as drivers of value.
- Emphasis on co-creation of value through interactions between service providers and customers.
- Relationships between buyers and sellers are characterized by ongoing collaboration and mutual value creation.
- Value is viewed as contextual and subjective, varying from one customer to another and evolving over time.

Customer Dominant Logic

Customer Dominant (C-D) logic represents a strategic shift towards prioritizing customer-centricity as thè core guiding principle for driving organizational success, innovation, and growth. It requires organizations to adopt a full customer first holistic approach that integrates customer insights, collaborative partnerships, data-driven decision-making, and organizational agility to create meaningful and lasting value for customers in today's dynamic and competitive business landscape.

In C-D logic, value is created during the utilization of a service in the process of value formation where the organization (provider) is only the value co-creator and the customer is in full control.

An example of C-D logic is the mySugar app. This app enables customers to manage their diabetes in a more convenient and efficient manner fostering compliance. The app consolidates users blood sugar levels meals activity and Insulin intake into a single platform simplifying diabetes management and offering a holistic view of health.

The app's functionality directly contributes to improved customer well-being this feature enhances users understanding of their diabetes management allowing for more informed decisions about their health. The true Value improved well-being for the customer is a direct outcome of the app's functionality, however. By furnishing a user-friendly and efficient platform for diabetes management, the my sugar app actively co-creates value for its users empowering them to lead healthier lives the example of my sugar.

Key Characteristics of Customer Dominant Logic:

- Emphasizes understanding and anticipating customer needs, preferences, and behaviors.
- Focuses on building and maintaining long-term relationships with customers by delivering exceptional experiences.
- Prioritizes organizational agility and adaptability to respond quickly and effectively to evolving customer preferences, market trends, and competitive pressures.

3. Tradeoff

Both perspectives (C-D Logic and S-D Logic) demonstrate the shift of focus towards a process that involves interaction with customers (value formation and value co-creation). Large organizations, especially incumbents, commonly encounter difficulties in shifting their focus from internal concerns to prioritizing the needs and preferences of their customers. As such, organizations cannot be good at everything.

Organizations face trade-offs between the cost of providing the goods and services and how (in) convenient it is for customers to access it. In my article about value of customer Experiences (2019) I used Michael Porters model from 1985 where he showed how companies add value to their raw materials to produce products that are eventually sold to customers https://www.patrickburggraaf.me/the-value-of-customer-experiences

Siggelkow and Terwiesch (2019) graphically shown how this tradeoff works by introducing the efficiency frontier framework.

More legroom means higher 'willingness to pay' but fewer passengers per plan which means higher costs per passenger.

An airliner could become more attractive to customers by increasing their customers' willingness-to-pay by providing more legroom. But there is a countervailing force, the cost of fulfilling such a Customer Experience. Siggelkow and Terwiesch (2019) refers this as fulfillment costs. By the way, the willingness-to-pay is not only dependent on the customers' willingness to pay, but also based on the willingness-to-pay that competitors create for their products and services.

Figure 2 represents the efficiency frontier framework. Imagine Organization A as the airliner who provides more legroom than others. Organization C is a low-cost carrier airline organization which focusses on lowering the fulfillment costs. Obviously both airliners has created a market position and therefore optimized the balance between willingness to pay and fulfillment costs

Organizations that are not on the line between Organization A, B and C, are potentially organizations that are at a severe disadvantage. They face competitors who can either create a higher willingness-to-pay while incurring the same costs. Or create the same willingness-to-pay at even a lower cost.

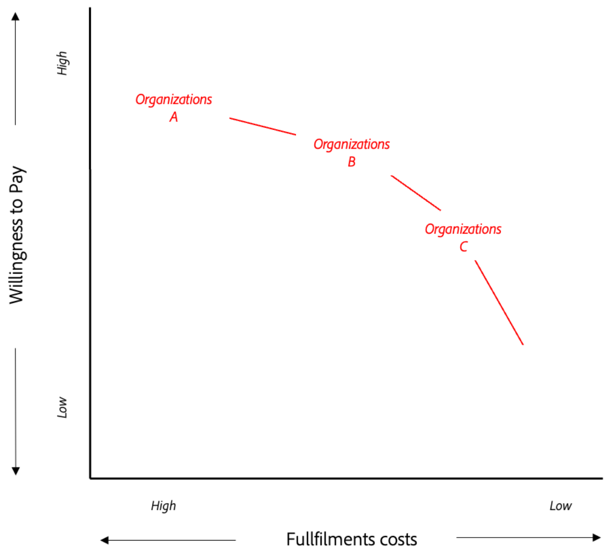

Fig 2. Efficient Frontier Framework

In part II of this series, I will connect both frameworks with the Progression of Economic Value. I will discuss how to balance between (co)-creating value for the customer while keeping the costs under control. A topic that comes back as a red line in most of my articles. See here some other posts I wrote lately about connecting CX with business economics.

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