


KNOW YOUR CUSTOMER

New Approaches to
Understanding Customer
Value and Satisfaction



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AND
SARAH F. GARDIAL



**KNOW YOUR CUSTOMER:
New Approaches to Understanding
Customer Value and Satisfaction**

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**This book is dedicated to our families
who provided the encouragement and support
that we needed to complete this work:**

**Dorothy Woodruff
Christopher Woodruff**

**Phil Gardial
Meredith Anne Gardial
Julie Fisher Gardial**

TQM SERIES FOREWORD

In August of 1991, six US corporations with substantial global operations, American Express, Ford, IBM, Motorola, Procter & Gamble, and Xerox, sponsored The Total Quality Forum. The Forum was an annual gathering of academic leaders and corporate executives. Its purpose was to discuss the role of Total Quality Management in the United States and its role on US campuses, especially in business and engineering schools.

The chief executive officers of the six sponsoring companies summarized the importance of the topic in the November-December 1991 issue of the *Harvard Business Review*, "An Open Letter: TQM on Campus."

"We believe business and academia have a shared responsibility to learn, to teach, and to practice Total Quality Management. If the United States expects to improve its global competitive performance, business and academic leaders must close ranks behind an agenda that stresses the importance and value of TQM. Working together, companies and institutions of higher education *must* accelerate the application of Total Quality Management on our campuses if our education system and economy are to maintain and enhance their global positions." (94-95)

In 1989, 14 leading European corporations founded the European Foundation for Quality Management. By 1993 the membership had grown to nearly 300 European organizations (corporations and universities). The September 1993 Membership Information brochure included the following objective and vision.

"The European Foundation for Quality Management (EFQM) believes that, through Total Quality Management, Western Europe will become a leading force in the world market. Our objective is to create conditions to enhance the position of European industry by strengthening the role of management in quality strategies. EFQM's vision is to become the leading

TQM Series Foreword

organization for promoting and facilitating Total Quality Management in Western Europe. This vision will be achieved when TQM has become an integrated value of the European society, and European management has achieved a global competitive advantage.”

The commitment of the Japanese to quality management is legendary. Herein lies the theme of this series of books on TQM. As a system of management, whether in the Americas, the Pacific Rim, or Europe, TQM has become important for global competitive positions. Therefore, learning about TQM models and practices is relevant in universities, in corporate training centers, and in individual development.

Michael Stahl
Series Editor

PREFACE

For quite a few years now, we have been conducting research on customer value and satisfaction. At first, we just wanted to learn how customers understand value and satisfaction and how these concepts linked together in their minds. Our research has helped us do just that. Over time we became more and more concerned with how organizations learn about their customers. Most of our research has been done in partnership with companies that have graciously allowed us to test our ideas using their managers and customers. We have interacted with many organizations on consultation projects and in executive education. We also have attended a number of practitioner conferences where companies and research firms talk to each other about how to do customer research. All these experiences have been instrumental in helping us develop invaluable insights into how organizations try to know their customers.

We have been asked for our ideas on customer value, satisfaction, and techniques for learning about customers quite often – in business briefings, MBA classes, executive education programs, and by our corporate research partners. While we have published numerous articles in journals and proceedings that discuss our work, such publications are not the best means to reach students or practitioners in a timely way. So we felt the need to put our thoughts into this book, which hopefully will better communicate with our intended audience – students in advanced undergraduate and master’s business courses and practitioners in organizations. We know that it is difficult to write a book for both students and practitioners, but we decided to try because both are so concerned with the same issue: how to improve the value that an organization delivers to its customers.

One of the most important things that we learned early on is how organizations understand the concepts of customer value

Preface

and customer satisfaction. We never asked managers what these concepts meant directly; instead, we looked at the research that their organizations do. We found two things. Surprisingly, many organizations use rather similar techniques to know their customers, reflecting a great degree of commonalty in how value and satisfaction are conceptualized in industry. Consider the impact on competitive advantage. If every organization uses similar ways to know their customers, all competitors learn about the same things. Their research may not gain any edge in customer knowledge over competitors.

Secondly, many companies are not entirely happy with their current processes for learning about customer value and satisfaction. In the book, we discuss important reasons for this dissatisfaction. Fortunately, on both accounts our research suggests that there are opportunities to improve current practice. This book is intended to provide guidelines for those organizations that want to pursue these opportunities.

The book offers several ideas that we think will lead to improvements. We discuss a new way of thinking about customer value, one that delves into the customer's world. We show how customer value is linked to customer satisfaction. In fact, both value and satisfaction provide the conceptual foundation for an expanded process for learning about customers. In addition, this book presents new techniques for getting customer value information from customers and demonstrates how this information can be incorporated into satisfaction surveys. We also discuss the difficult challenge of predicting how customer value is likely to change in the future, among other ideas. Hopefully, every reader will come away from reading the book armed with new information.

Like any effort of this kind, this book could not have been completed without help from others. First, we thank our families, who provided the support and understanding that we needed to spend all the hours that we have on this project. In addition, we are grateful to be part of a very productive Customer Value Research Team at the University of Tennessee. We especially appreciate the contributions of David Schumann, who, along with the authors, codirects this team. David's ideas, leadership,

and constant encouragement are a source of inspiration for us. We have benefited in many ways from other members of this team who have been our collaborators on research projects. Many thanks to Joseph Rentz, Pratibha Dahbolkar, James Foggan, Richard Reizenstein, Mary Jane Burns, Scott Clemons, Linda Wright, Bob Graves, Amy Cathey, Dan Flint, and Mike Garver.

We also want to thank Ernest Cadotte, David Cravens, and Al Shocker for their suggestions on the manuscript and to Pat Pecorella, Bill Barnes, Tina Davis, Bill Adams, Al Carey, John Mariotti, Al Cole, and Michael Stahl for their support for our research. In addition, Blackwell Publishers has been a joy to work with, particularly in giving us the freedom to write what we felt was important. We especially appreciate the help that we have received from Rolf Janke and Mary Riso in developing the manuscript. Finally, we would like to thank the Center for the Advancement of Organizational Effectiveness of the College of Business Administration at the University of Tennessee for providing initial funding for our early research. Thanks also go to Charles Cwiek and Rick Beckley for their expert help on the figures.

Our research on customer value and satisfaction is in progress, and we know more learning is yet to come. For that reason, we do not view this book as complete. It addresses only those customer value issues on which we have focused for the past several years. There are others, and hopefully in our future research we will begin to tackle them.

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