



Co-creation

the new customer experience



Consumers today have more choices of products and services than ever before, but they often remain dissatisfied with their experiences with many organisations. Firms are constantly investing in greater product variety but find it increasingly difficult to differentiate themselves. It may be that this paradox can be explained by the fact that the meaning of value and the process of value creation are rapidly shifting from a product- and company-centric view to personalised customer experiences. Informed, networked, empowered, and active consumers are increasingly co-creating value with the organisations they most value. Consequently, the interaction between the organisation and the customer is becoming the essence of value creation and customer loyalty. As value shifts to experiences and opportunities for communication multiply, many markets are almost becoming breeding grounds for conversations and recommendations between friends, customers and consumer communities.

Involvement

The key to making this work is **involvement**. Organisations need to make their customers feel involved. This doesn't mean some kind of automated CRM system that spews out selling messages whose net effect is to irritate customers. What it does mean is listening to customers, consulting customers, responding to customers' problems and aspirations and making it obvious that you're doing that. Some businesses do it in real time with the customer right there in front of them. The ultimate examples are tradition-

al services businesses such as hair dressers where the 'product' is designed, produced, evaluated and paid for with the customer right there doing it with the supplier. The academics have christened this **co-creation**.

Co-creation

Many service businesses do it without thinking, and that shines through in the excellent customer satisfaction scores achieved by the Service and Tourism sectors in the UKCSI. In this article we're going to investigate what it is about serv-

ices that produces these great customer experiences and very high levels of customer satisfaction, and how mass market organisations can take a leaf out of their book.

Characteristics of services

For many years marketing science concentrated almost exclusively on products. It wasn't really until the 1980s that there was any significant academic interest in the marketing of services as a distinct type of business. Even then textbooks and university courses did little more than insert a



single chapter or the odd lecture explaining what was different about service businesses. However, from this initial academic interest in services we can identify the main elements of pure services that result in the delivery of a superior customer experience. We'll examine in turn the four distinctive characteristics of service businesses:

1. Intangibility
2. Perishability
3. Heterogeneity
4. Inseparability

2. Perishability

You can't find a product that's much more perishable than a 7.30pm table reservation at a restaurant. If nobody buys it, it can't be sold again. So what do service businesses often do? They charge different prices for same product. Sometimes services are expensive sometimes cheap - pensioners' midweek lunches, earlybird evening meals with free wine, the massive range of prices for same route on Ryan Air or Easyjet. And customers love it. They understand that some 'products' are in greater demand than others. Some are happy to pay more for a Saturday evening table at 8pm whilst others really value the midweek earlybird bargain.

4. Inseparability

For true services, such as hair dressing, production and consumption are inseparable. They happen at the same time. Customer management professionals have started calling this co-creation. The supplier and the customer create product together. When you think about it that's pretty scary - anything goes wrong and the customer's right there watching it happen. Not the case with the yogurt or the BM - they can get everything spot on long before the customer's ever judging it. Even a lot of services don't have to bear the full brunt of this. In financial services, for example, the vast majority of the work happens behind scenes. As it does in a restaurant - although customers really like the ones that are all open where you can see what's going on in kitchen. If you put all these service characteristics together you can identify a key thread running through them.....



Legal / professional service
Intangibility - you don't know how good the advice will be until after you've paid for it



Dentist
Heterogeneity - one check-up is never the same as the next 15 minute slot

1. Intangibility

Services are intangible. You can't touch, feel, see or smell them. So they're really difficult to sell because customers are not sure what they're going to get. Products are easy to sell. That's why retailers focus nearly all their resources on products and merchandising. Service businesses have to work much harder to make sales not least because they're also perishable.

3. Heterogeneity

Services are heterogeneous. They're all different. Most products are homogeneous. One Dairy Crest de-luxe yogurt is just as thick and creamy as the next one. One BMW 530d looks exactly same and goes just as fast as another. But a dental check-up is never the same as the next 15 minute slot with same dentist. And that's because of the fourth characteristic.

Involvement

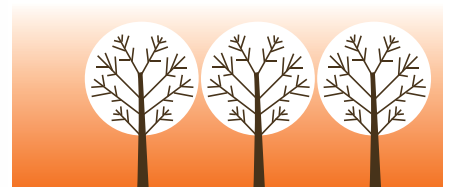
The customer is involved with service businesses. It means the supplier spends time with the customer. In person. This can be a double edged sword. Get things wrong and it's a big problem. Get things right and it's a great opportunity. You can build a relationship with the customer. A genuine one. These days, all companies want to build relationships with customers. The trouble is they're trying to do it artificially through CRM software. Real people do it by spending time together or at least through two-way communication if they're not face-to-face. Genuine service businesses also do it by spending time with customers, understanding their aspirations and concerns and consequently co-creating and delivering a product that's just what customers want. ▶



Restaurant
Perishability - the revenue from those empty tables is lost for ever



Hair dresser
Co-creation - designing the product with the customer





Unlike most marketers, Ted Levitt was saying this 40 years ago:

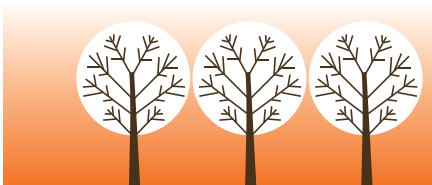


There is no such thing as service industries. There are only industries where service components are greater or less than those of other industries.

But most senior managers weren't listening. Improving one-to-one service was expensive. They were more interested in cutting cost and the way to do that was standardisation, mass-production. In the early years of the 21st century, academics at the University of Michigan, basing their views on a huge amount of real ACSI data came to the conclusion that the main reason why US businesses were failing to improve customer satisfaction was that in an increasingly service-based economy, most organisations still haven't got the message about why customers love genuine service businesses. Depressingly, it's just the opposite with many organisations trying to grow profits by making their "service" business as much like a factory as possible. In the words of Claes Fornell:



In an increasingly service-based economy companies are still behaving as though they're manufacturers – growing profits through maximising investment in productivity-enhancing technology



Conclusions

So what can we learn from all this:

1. Customer dissatisfaction

Service providers are there with their customers. A good waiter knows if a table's unhappy with something even if they don't complain. For any customer-focused member of staff it's very, very important to them that customers don't have problems for two reasons. First, if they've been recruited for attitude and trained for skills they'll be instinctively empathetic and will want to make other people happy. And second, it's because they're right there, witnessing the dissatisfaction perhaps even the distress customers feel when things are not right. They're responsible, so unless they've no intention of doing a good job they've got to do something about it. Even just from a selfish perspective, it's much better to get it how the customer wants it. And that's a big reason why customers love genuine service businesses more than most organisations. In most organisations, if a customer's unhappy, perhaps really unhappy who's bothered? How much real discomfort does it cause to how many staff? I'll leave you to answer that question for your own organisation.

2. Recommendation

As we've seen, services are intangible. They don't have a physical product. The customer experience is their product. The downside of intangibility is that it makes services really hard to sell. Unlike when they're buying a physical product, it's really difficult for customers to form any clear view of what they're going to get. Think about buying and insuring a car. If you buy a car you can touch, feel, drive it, listen to it. Unless you're an existing customer of an insurer with experience of going through their claims process, you pay your money and hope for the best. You've no idea till you make a claim what they're going to be like. So you've really got only two choices – buy on price or on recommendation from a trusted source who has actually experienced how well, or

badly, the insurance company looks after you when it really matters. Which is better, buying on price or recommendation? For the customer? For the supplier? So why has the insurance market ended up being one where so many insurance purchase decisions are based on price?

3. Keeping existing customers

Because services are so hard to sell, it's crucial that service businesses keep their existing customers. They have to be really good at Harvard's 3Rs (retention, related sales and referrals) just to survive. It's easier for product businesses. That's why most organisations that aren't manufacturers try to automate, productionise, their business as much as possible. It makes it easier and less costly for them. But it doesn't make it better for the customer. It probably is better for short term profits but where's it leading to?

4. Commodity or value-added?

Based on research conducted for PayPal, Experian are forecasting that UK online spend will increase by 137% from £9bn in 2008 to £21bn in 2011, pushing its market share up to 7.4% from 3.2%. As this trend continues (and at the moment the rate of increase is still accelerating not levelling off), where will that leave many traditional bricks and mortar businesses? For some products, like books or DVDs, if you want to compete on price, automation and being a low cost provider, you already have to be an internet business. Others like electrical goods are rapidly following. If you want to or need to compete with internet businesses you're going to have to recall the words of Ted Levitt, think about the views of Claes Fornell and listen to what customers are increasingly telling us.

You're going to have to compete on price or added value customer experience, and if it's the latter you're going to have to try and become much more like a proper service business. **S**