NEGOTIATING CUSTOMER VALUE

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ABSTRACT
This paper presents a strategic agile framework to help companies in the deliberation of providing customer value. It is argued that three stages are involved in formulating value: responsive strategy, resource-based strategy and a negotiated process. The paper explores each stage and highlights the key processes involved. Six case studies illustrate the three stages. The paper concludes that firms must recognise both responsive and resource-based strategies if they are to negotiate superior customer value.

Keywords: agile, value, strategy
INTRODUCTION

In an environment of increasing global competition and accelerated technological change, customer value is becoming increasingly important to strategy (D'Aveni, 1994; Brown, 2000). The emergence of low-wage economies and proliferation of world-class process practices have intensified competition in the manufacturing sector (Kanter, 1996). Price, quality and on-time delivery strategies are no longer sufficient to win new customers, let alone sustain market share (Hill, 1985). Successful companies cannot be complacent; a winning strategy today may quickly become obsolete as customer demand continuously changes (Hayes, 1994; Porter, 1996). In response it is argued companies must seek to continuously offer superior customer value (Kay, 1996; Woodruff, 1997). An important factor that facilitates continuous value provision is the formulation of a strategic agile framework.

Establishing a strategic agile framework encompasses three strategy types that recognises customer value may be shaped by reacting to customer demand and external forces, while simultaneously configuring and reconfiguring internal resources and networks. The orientation of each type depends on the initial impetus. The responsive value strategy initially considers the current and future needs of customers and end-user to form the responsive (customer) value criteria. However companies cannot be entirely customer-driven. Companies often steer customers to new products and services that have been generated internally. The resource-based stage provides companies the opportunity to configure structures, processes, human resources, and supply chains towards a resource-based value proposition before any direct customer input. The final strategy in an agile framework entails a period of instability when customer and resource align and, through a negotiated process, companies and customers arrive at a unique customer value position.

The paper develops the framework from case studies of six medium size companies in the UK. First, we consider agility in terms of organisational capabilities and draw on several examples of how agility contributes to value strategies. Next, the paper explores how companies manage the responsive stage. This reactive phase encompasses customer and end-user interfaces to identify buyers' immediate and future demands. The third section of the paper turns to the resources managed by companies. We highlight the importance companies place on the configurations of critical internal resources, such as processes, structures, people, and supporting networks, such as supply chains and collaborating partners (Teece and Pisano, 1994; Feitzinger and Lee, 1997; Bessant et al, 2001). In our examples, the case companies follow either a responsive or resource-based strategy to the exclusion of other considerations in the short term.

The final part of the paper considers the process that needs to take place between the responsive and resource strategies in the medium and long term – the negotiated value stage. The paper concludes by suggesting that companies often incorrectly read external

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1 The case studies are based on the results of two research projects (one of which is on-going) that were funded by the EPSRC. The data for this paper comes about through a series of interviews with company senior managers and a manufacturing audit tool. Secondary material was used when available to confirm the data supplied by the case companies.
signals such as customer demand if they only focus on a resource-based strategy. Alternatively, companies will often mismanage internal resources if they only follow a responsive strategy. The examples in this paper illustrate the importance of managing this negotiated process, that both responsive and resource strategies should be aligned to realise superior customer value.

VALUE STRATEGIES AND AGILE CAPABILITIES

Agility may be defined as, 'an organisation's capacity to gain competitive advantage by intelligently, rapidly and proactively seizing opportunities and reacting to threats', (Bessant et al, 2001). Embedded in this definition are sixteen organisational capabilities which are grouped under the four themes; strategy, people, processes and structures (Bessant et al, 2001). Steering these dynamic capabilities to meet the demands of the marketplace are the strategic choices made by companies.

Several authors have highlighted the contribution agile enablers have made to the successful implementation of value strategies in the past twenty years. An agile approach highlights the following value strategies: variety (Macduffie, Sethuraman and Fisher, 1996; Kahn, 1998; Da Silveira, 2001); new product development (Bowen, Clark, Holloway and Wheelwright, 1995; Dodgson and Rothwell, 1996; Bessant and Francis, 1997) speed of response (Stalk, 1988), flexibility (Hill and Chambers, 1991; Gerwin, 1993), customisation (Pine, 1993; Anderson, 1997; Da Silveira, 2001) and variations on themes related to location (Levitt, 1980), seasonality (Radas and Shugan, 1998) and marketing (Keller, 1993; Michell, et al, 2001). The common agile enablers identified by these authors centre on advances in technology, particularly information and communication technologies (ICT) and advance manufacturing technologies (AMT), organisational structures and customer and supplier linkages. Table I illustrates the agile capabilities associated with each value strategy.

<table>
<thead>
<tr>
<th>VALUE STRATEGIES</th>
<th>MANUFACTURING AGILE CAPABILITIES</th>
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<tbody>
<tr>
<td>Product variety</td>
<td>ICT and AMT; Creative workforce, Supply linkages</td>
</tr>
<tr>
<td>Mass customisation</td>
<td>AMT; Changes to product architecture; Organisational processes; Customer linkages</td>
</tr>
<tr>
<td>New product development</td>
<td>Project management; Cross functional structures; Supplier linkages; Customer linkages; ICT and AMT</td>
</tr>
<tr>
<td>Flexible volume production</td>
<td>ICT and AMT; Customer linkages</td>
</tr>
<tr>
<td>Quality and reliability</td>
<td>Information and flows; Audit tools; ICT; TQM</td>
</tr>
<tr>
<td>Fast production and delivery</td>
<td>ICT; AMT; Creative workforce; Measuring performance; Continuous improvement; Supplier linkages; Concurrent engineering; Quality tools and Product standardisation</td>
</tr>
<tr>
<td>Flexible delivery times and locations</td>
<td>ICT; Collaboration with suppliers and customers; Cross functional structures</td>
</tr>
<tr>
<td>Seasonality</td>
<td>Customer demand modelling; Flexible workforce; Supporting service outsourcing; Modularity</td>
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Table I. Value strategies and agile capabilities
The affiliation between agile capabilities and value strategies listed in table 1 does not suggest that moving from one value strategy to another can be facilitated by a shared set of agile capabilities. Each value strategy may require a different set of specialised technical and organisational competences and will often depend on unique supplier and buyer relationships, all of which must be learned and mastered (Teece and Pisano, 1994; Meade, Liles and Sarkis, 1997). Agile capabilities are often firm and industry specific.

Agile capabilities are also dependent on the strategic stage of a company. For instance companies will utilise capabilities to capture external signals from their customers in a responsive strategy before they launch enablers to configure internal resources. Alternatively, companies following a resource-based strategy will formulate a value proposition from organisational resources such as new product development activities, competitive analysis and customer insights. Each strategy will be discussed in turn.

**RESPONSIVE STRATEGY**

Responsive or customer-driven strategies focus all manufacturing and business activities towards delivering customer value (Skinner, 1974; Hill, 1985). Customer value criteria define the appropriate operational processes and structures, plant and equipment, and human resources (in other words the manufacturing strategy). Companies have to acquire an insight into what customers’ value before any manufacturing strategy can be formulated.

The starting point of a responsive strategy is to prioritise the value criteria of customers. As a guide, customer value criteria may correspond to the value strategies identified in table 1. In other words some customers may value flexibility, other customisation and so on. A responsive strategy is structured around three sets of questions. The first set of questions asks: *What do customers value today?* However strategy is about staying one step ahead, mobilising resources to fulfil future customer needs requires foresight. A related question should inquire: *What do customers want in the future?* Companies make use of an array of customer insight enablers (Meredith and Francis, 2000) to reveal these value criteria. Indirect customer insight enablers such as marketing focus groups, electronic feedback and customer satisfaction surveys are used for standardised products. On the other hand, direct customer insight enablers facilitate customer input into the production process and product design. The key point is that companies can be caught unaware of any change in demand or customer preferences if communication channels are neglected.

The second set of questions centre around strategy: *What value strategy(s) aligns with the identified value criteria?* Answering this question will set in motion an action plan to provide customer value.

Finally, a company has to ask: *How can the company align its manufacturing resources to ensure that the current and future value criteria are provided?* At this point, companies can draw upon those agile enablers (see table 1) most appropriate for the selected manufacturing strategy. Responsive strategy is shown in respect to three case study firms.
Table 2 illustrates three companies and the customer insight enablers used (or not used) to inform them about their customers’ value criteria. Company B sold products directly to the UK Ministry of Defence and was either not informed directly about budget cutbacks in defence spending or failed to respond to indirect signals. Company D manufactured products for the mass market but responded to demands from individual customers and introduced a dedicated production line for batch customisation. Company F had to find a way to meet end-users of their products to ensure that the market was aware of their products. It is argued that the earlier companies recognise these value criteria the better prepared they are to respond. Agile customer insight enablers may help generate quick response to shifts in value criteria.

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<tr>
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<th>RESPONSIVE VALUE CRITERIA</th>
<th>CUSTOMER INSIGHT ENABLERS</th>
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<tbody>
<tr>
<td>Company B</td>
<td>Government defence spending decreased dramatically in the late 1990s</td>
<td>None – the Ministry of Defence announced spending cutbacks without any prior warning but the company should have picked up early warning signals.</td>
</tr>
<tr>
<td>Company D</td>
<td>Customers demanded customised products.</td>
<td>Direct sales link with end-users exposed the firm to a customised market niche.</td>
</tr>
<tr>
<td>Company F</td>
<td>OEM customers want their own brand name on all components.</td>
<td>How can firms locked in a supply chain expose their products to end-users? End-user product awareness techniques are needed to ‘sweep’ around OEM buyers.</td>
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**RESOURCE-BASED STRATEGY**

Responsive strategies are important in the short term, ignoring customers is detrimental for any business. Can a responsive strategy be sustained in the long term? It is argued that if one company can provide customers with the desired products and services, over time, so can competitors. Customer insight capabilities can be learnt along with other process learning and, with companies from low-wage countries entering the fold as manufacturing centres, many winning value strategies today will be imitated and offered to customers at lower prices. Capabilities need to be dynamic (Teece et al., 1997).

Global pressures in manufacturing have intensified since the mid 1980s, in particular manufacturing exports from low-wage economies. The market share of global manufacturing exports from developing countries increased from 18% in 1990 to 26% in 1997 (UNCTAD, 2000). Companies in low-wage economies are currently pursuing quality and low price value strategies (Woodruff, 1997). However further value strategies, such as customisation and flexibility are starting to be emulated. Companies strictly adhering to a customer-driven strategy will face strong competition in many markets and, in such cases, may see their margins squeezed. Another strategic framework is needed.
A resource-based strategy consists of reading external signals and providing customers with solutions even before the customers know what their needs are (Shulman, 1997). Companies examine internal resources available (including supporting networks such as supply chains) and compose value propositions. Resource-based value propositions will often be associated with the technological and market experiences of the firm (Dosi, 1982). However, companies can find themselves limited by these past trajectories as existing core competences can become core rigidities (Leonard-Barton, 1995). A balance is needed between taking advantage of hard-won relationships and learned technical competences, and recognising opportunities that arise from new and radical technological development and business models.

Companies formulating a resource-based strategy should consider the following three steps:

1. A review of current activities and undertaking of a competitive analysis: can the current value strategy be sustained or improved?
2. What new value strategy(s) can be proposed, keeping in mind past history and experiences? At first, companies may wish to consider remaining in an existing industry/market and to upgrade into high value-adding functions such as marketing and product design. New and radical ventures may be needed in other instances.
3. What capabilities and resources are needed to align the manufacturing activities to this strategy?

Table 3 illustrates three case companies that developed different resource-based value propositions. These examples illuminate the importance of high value-adding capabilities such as new product development in any resource-based proposition. Value propositions were formulated by: (i) modifying existing products for different buyer types (Company A), (ii) developing radically new products (Company C), and (iii) customising products for customers (Company E). Companies aligned their manufacturing strategies to support these propositions and introduced flexible facilities, new structures and processes and ICT enablers.

<table>
<thead>
<tr>
<th></th>
<th>RESOURCE-BASED VALUE PROPOSITIONS</th>
<th>RESOURCE AGILE ENABLERS</th>
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<tbody>
<tr>
<td>Company A</td>
<td>Products were modified for a different industry (different buyer type)</td>
<td>Company established new facilities and a separate division to support development of a new product-line.</td>
</tr>
<tr>
<td>Company C</td>
<td>Radical new product lines</td>
<td>Company established an innovative product development team and improved problem finding and solution skills.</td>
</tr>
<tr>
<td>Company E</td>
<td>Customised components fit into a fast changing integrated system.</td>
<td>Customised design through direct sales, shared CAD facilities and capable system engineering.</td>
</tr>
</tbody>
</table>
NEGOTIATED VALUE STRATEGY

The paper has discussed, and provided examples of, responsive and resource-based strategies. The final section discusses what happens if companies only follow one of these strategies and neglect the other. Of the three companies that followed a responsive strategy, only one company (Company F) configured their resources successfully in order to support their new customers’ value criteria. Company F used the value criteria of their customers to develop a new value strategy (a new training service product). This development took 18 months to accomplish. Companies B and D were less successful. Company B responded to the changes sought by the customer by value-degrading their activities from supplying high value products to providing low value-adding maintenance services. This change was not fully supported by their employees. Company D took two years to establish a customised production line by which time the company had hoped that other customers would express interest in customised products. This production line is currently under-utilised and receives orders from just one customer.

Three companies followed a resource-based value strategy; two companies (Company A and Company E) were successful, but only after significant reorganising after ill-advised initial planning. Company A invested in new facilities and new organisational structures to support their strategy of targeting new buyers with modified products. Commercially, sales in this venture were satisfactory but the activities could have been supported in the existing facilities. The customer response to new product lines offered by Company C was greater than expected. The company could not satisfy the initial demand and had to expand output very quickly, causing product quality to suffer and supply chain bottlenecks and delays in final deliveries. Company E was successful with their resource-based strategy. The company grew from customised small jobs to a mid-volume customised producer over 15 years and remains the only company in Europe that offers a customised product in their industry. This is summarised in Table 4.

<table>
<thead>
<tr>
<th>Company</th>
<th>VALUE STRATEGY</th>
<th>NEGOTIATED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>Resource proposition</td>
<td>Under utilised new facility when cross-function engineering teams would have sufficed. Closer links with new customers are required to justify investment.</td>
</tr>
<tr>
<td>Company B</td>
<td>Responsive criteria</td>
<td>Shift from R&amp;D towards engineering service support but in the process the workforce become demotivated.</td>
</tr>
<tr>
<td>Company C</td>
<td>Resource proposition</td>
<td>Demand for new product was greater than forecasted. Suppliers could not meet demand for material, long delays leading to dissatisfied customers.</td>
</tr>
<tr>
<td>Company D</td>
<td>Responsive criteria</td>
<td>Company introduced a dedicated production process and supporting structure for mass and customised product lines.</td>
</tr>
<tr>
<td>Company E</td>
<td>Resource proposition</td>
<td>Company introduced lean and JIT practices and AMT.</td>
</tr>
<tr>
<td>VALUE STRATEGY</td>
<td>NEGOTIATED VALUE</td>
<td></td>
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<tr>
<td>----------------</td>
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<td></td>
</tr>
<tr>
<td>Company F</td>
<td>Responsive criteria</td>
<td>Cross-functional teams linked to customers and end users to set up a new service (training) product.</td>
</tr>
</tbody>
</table>

In summary, three points are relevant to both responsive and resource-based strategies. First, the configuration of internal assets (including suppliers) and customer demand must be given equal weight. However, it is recognised that the ordering or focus may differ depending on the primary strategy (responsive or resource-based). Second, implementing a new value strategy requires resources. Investment in technology is an obvious requirement but firms also have to consider organisational development enablers such as training, facilitating learning environments and ensuring the support and commitment of senior management (Bessant et al., 2001). Finally, companies have to allocate time. Time is needed to gather information about customers and time is needed for any learning to take root. Managing these three factors is essential if the negotiated value process is to be successful.

CONCLUSION
This paper has presented a strategic agile framework to help companies provide superior customer value. It has been argued three stages are involved in formulating value. Companies following a responsive strategy will make use of key agile enablers to align their customer value criteria with their internal resources. On the other hand companies following a resource-based strategy will use agile capabilities to create new opportunities (Wernerfelt, 1984; Hayes, 1985; Teece, 1992). However, learning new routines and processes are not frictionless and any new value strategy necessitates a negotiated period to get things right.

In his seminal paper on manufacturing strategy, Skinner raised the challenge of focusing corporate and manufacturing activities on one goal, namely providing value to customers (Skinner, 1974). Arguably, although the conditions under which manufacturers operate have intensified, the underlying message remains the same. This paper offers a framework for exploring the tensions that arise between market pull and resource push forces and for helping to locate solutions, such as innovative new product development, customisation, and supporting services, under an agile strategy umbrella.
REFERENCES


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