Competitive advantage through anticipation, innovation and relationships

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Abstract
While service quality has proved an essential ingredient in convincing customers to choose one organisation over another, many organisations have realised that maintaining excellence on a consistent basis is imperative if they are to gain customer loyalty. This long-term perspective has created a strong shift in orienting service strategy towards a service promise. Moreover, in the present competitive setting, if one were to understand the lifetime value of a customer, creating and maintaining long-term relationships with the customer and other stakeholders is paramount to an organisation’s market leadership. Relentless advances in technology have rendered products and services with shorter life cycles and, hence, diminished customer appeal. This paper argues that firms are required not only to improve, but to innovate products and services and anticipate customer needs on a continuous basis. It is highlighted here that, in order to maintain a long-term relationship with the customer, firms need to demonstrate their ability to think, anticipate and innovate products and services they offer; it is “the job” (what is being offered) that seems to constitute the focus of customers’ continued loyalty. Value, contends Zeithaml (1988, p. 14), is the consumer’s overall assessment of the utility of a product or service based on perceptions of what is received and what is given. However, Slater and Narver (1994) argue for a holistic concept of value. According to them, creating superior value for consumers requires a detailed understanding of the consumer’s entire value chain (holistic needs), not only as it is today but also as it evolves over time (anticipated need). Thus, what establishes a firm’s competitive advantage is their ability to serve customers’ present and future needs (holistic needs); indeed, it is the firm’s awareness and fulfillment of customers’ evolving needs that nurtures and validates their ongoing relationship with the customer.

Introduction
Quality today no longer constitutes a competitive weapon but the basic core offering, expected by customers from all organisations (Kandampully, 1996). Managers have realised that traditional approaches to management and marketing are inadequate means of keeping abreast with an escalating competitive market. An organisation’s ability to enhance the perceived value of the result continuously (Vandermerwe, 1993), the so-called customer value (Parasuraman, 1997; Woodruff, 1997), has become the critical factor in ensuring customers’ continued loyalty. Value, contends Zeithaml (1988, p. 14), is the consumer’s overall assessment of the utility of a product or service based on perceptions of what is received and what is given. However, Slater and Narver (1994) argue for a holistic concept of value. According to them, creating superior value for consumers requires a detailed understanding of the consumer’s entire value chain (holistic needs), not only as it is today but also as it evolves over time (anticipated need). Thus, what establishes a firm’s competitive advantage is their ability to serve customers’ present and future needs (holistic needs); indeed, it is the firm’s awareness and fulfillment of customers’ evolving needs that nurtures and validates their ongoing relationship with the customer.

Further, it can be argued that an organisation’s long-term success in a market is essentially determined by its ability to expand and maintain a large and loyal customer base. Moreover, the yardstick by which an organisation’s superiority in the marketplace may be measured is its returning customer ratio – the loyal customer base (Buzzell and Gale, 1987). Through market competition, it has become evident that there is no longer an ever increasing body of customers. Hence, argues Slater (1997), organisations must focus on maintaining their existing customers’ loyalty. Evaluating the impact of service quality through customer retention will assist companies in gauging the financial impact of service quality (Zeithaml et al., 1996). However, the criteria for a firm’s future success will be determined by its ability to offer loyalty: to fulfill customers’ present needs, to anticipate their prospective needs and to enhance the ongoing relationship (Frid and Freid, 1995). Customers will be inclined to maintain their relationship only if the firm maintains its market leadership, both in exceptional service and in innovativeness. As Popcorn (1991) indicates, “if your customers reach the future before you, they’ll leave you behind”.

The author, here, suggests that “loyalty” should be perceived as a verb, not as a noun: customer loyalty is time specific and non-permanent and, thus, requires continuous and consistent investment. Organisations must, therefore, constantly strive to develop and maintain their customers’ loyalty or, as is true in the majority of relationships, risk losing it to someone else. It is crucial that organisations focus on service loyalty: an organisation’s commitment to its customers – to think, anticipate and innovate products and services in accordance with customers’ evolving needs. Service loyalty is thus manifested in those activities undertaken by the organisation for the development of a long-term relationship with the customer (Kandampully, 1998).

Towards a new paradigm
In the haste to satisfy customer needs, organisations are often preoccupied with the services they offer; it is “the job” (what is being offered) that seems to constitute the focus of attention. However, from a customer’s perspective, it is not “what is being offered” that renders a firm more appealing, but “how it is being offered”. It is not the action which differentiates the firm and engages a customer’s trust, it is the intention behind the action that distinguishes a firm’s offering from its...
competitors. In order to establish a long-term relationship with the customer, firms need to win their customers’ trust (Crosby et al., 1990) on a continuous basis. Customer loyalty is, in fact, the effect of winning the heart of the customer. This can be gained most effectively through anticipation, through a firm’s employees who play a major role in creating and maintaining the trust and relationship between the firm and the customer (Parasuraman et al., 1991). Quality is no longer a competitive weapon, superior quality is essential in maintaining customer confidence in a firm’s market leadership (Berry et al., 1994; Parasuraman 1995). However, a firm’s aim should not be to merely achieve market leadership, but to maintain that leadership.

When Roger Bannister broke the four-minute mile, that was powerful, but today kids in high school run the 4-minute mile. In this highly competitive business world, firms cannot compete on yesterday’s standards and expect to be the winner today. According to Porter (1985), competition is essential for business; it is the presence of competitors that checks a firm against complacency with the present standard of performance. Firms are left with very little option but to innovate constantly beyond incremental improvement. Technological changes today are rapid and commonly discontinuous, leading to relatively short product life spans (Achrol, 1991). Hence, it has become imperative that firms not only innovate, but also anticipate and create substantially different standards for the future. There are limited advantages to being a trend tracker; it is the trend creator that wins the game. According to Pilzer (1990), the first law of modern business is no longer “find a need and fill it”, but “imagine a need and create it”.

In business, anticipation is a process of customer orientation into the future. Thinking for the customer and anticipating their future needs has become the leading edge concept in business superiority. In sports, it is the power of anticipation which differentiates the person who is in the hall of fame (a superstar) from someone who is mediocre. Anticipation is what makes Wayne Gretsky (the ice hockey legend) a superstar. When reporters asked Gretsky, “You are not the tallest, you are not the strongest, you are not the fastest, how come you are so successful?” Gretsky’s answer was, “Most people skate where the puck is, I skate to where the puck is going”. Anticipating the future position of the puck makes Gretsky the leader in his field. The same is true in business leadership.

Think about the history and decline of Swiss watch manufacturing. Barely three decades ago, Swiss watches were considered to be the best in the world. In fact, they manufactured nearly 65 per cent of all watches made in the world, securing an approximate 90 per cent of the profit in that trade. Are they the number one manufacturers today? Do you go out and ask for a Swiss watch today? Probably not. You know why? They control only 10 per cent of the world market, while the Japanese control 35 per cent. Is it because the Swiss firms did not practise quality and never-ending improvement? No, they didn’t. They invented the gear system and perfected it through continuous improvement. However, they failed to anticipate major changes and the need to innovate. Indeed, it was the very “unSwiss” concept of the Swatch which rescued the Swiss watch industry (Peters, 1994). Swatch anticipated that telling the time will no longer be the concept behind wearing a watch. Swatch no longer merely sold time, but costume jewellery and a fun and youthful lifestyle.

To be a market leader, firms have to operate from the basic principle which says, “I just because the strategy has worked up until now doesn’t mean that it will work in the future”. In their best selling book In Search of Excellence, Peters and Waterman (1982) reported on 43 of the best run companies in the USA. However, 14 of those companies were in financial trouble within two years of the book’s completion. A study subsequently conducted by Business Week reported a factor common to all the 14 companies: a failure to anticipate, react and respond to changes in the marketplace. It is often considered that firms are afraid of change, both inside and outside the organisation. Virtually every large company that has got into trouble has been criticised for not changing rapidly enough (Ries, 1997), of which IBM, Digital Equipment and Sears constitute notable examples. The author here argues that it is not that firms have a fear of change per se, but that their failure to anticipate change and its subsequent ramifications renders them unprepared, reactionary and lacking the momentum necessary to respond to the market’s demands. It has become increasingly important for firms today to introduce innovation and flexibility into their core competence (Peters, 1987). Moreover, in order to leverage an organisation’s potential resources, Prahalad (1993) argues for the development of a proactive framework in which innovation can be planned and managed.

Products and services offered in the marketplace have become increasingly complex; organisations today offer not one product or service, but a collection of products and services (Albrecht and Zemke, 1985). Thus, in a service organisation, the firm encompasses a
Air Canada’s “Star Alliance” not only provided customers with flexibility in air travel but established a service advantage that profers benefits for all those comprising the partnership network.
needs. However, IBM strayed from that strategy in the 1980s when they opted to sacrifice their promise to their customers (partners) in order to finance a substantial expansion plan; this decision confused and angered most of their long-time customers.

IBM's relationship with its employees had proved similarly long lasting. At IBM, employees enjoyed their security: attractive benefits, competitive salaries and an excellent work environment. The employees were motivated and satisfied; quality and productivity were high; IBM's employees kept their customers happy. However, all this was sabotaged when IBM's expansion plan failed to materialise: IBM broke its promise of security to its employees in order to bail out its shareholders. Critics attribute IBM's failure to the relationship breakdown with its customers in the 1980s and, further, with its employees in the 1990s.

The forging of a tight link between customer, employee and the shareholder loyalty lies at the heart of the strategy which helped to turn around a floundering Rank Xerox in the early 1990s. The strategy was the catalyst for the cycle that signalled their revival: employee satisfaction directly affected Xerox's relationship with their customers which, in turn, increased the firm's market share, leading to a higher return on investment and, ultimately, a greater shareholder value. Xerox's return on assets rose from 6 per cent to 19 per cent and was accompanied by a corresponding increase in their customer loyalty and employee satisfaction (Syrrett, 1997).

Anthony Rucci, executive vice-president of Sears, attributes their firm's transformation to their concept of an "employee-customer profit chain". He is convinced that Sears' advantage over their competitors derives from their realistic understanding of how employees and customers actually think and behave. At Sears, employee attitude not only drove customer service high, but also substantially reduced employee turnover. In addition, their employees assumed the role of true part-time marketers, promoting Sears not only as the best place to work, but also the best place to shop (Rucci et al., 1998).

Conclusion

Market leadership, the author here argues, can be attributed to the firm's ability to think beyond the present (anticipation), to think for the customer (innovation) and to think beyond the parameters of the firm (relationships). Indeed, one of the inevitable traits managers of leading organisations possess is the ability to forecast, far in advance of the reality, the progressive nature of customer needs. Effective management can be achieved through strategies that embrace and interpret customers' concerns and dreams for the future. Firms are thus required to think both as a customer and on behalf of the customer, developing the products and services that tomorrow's customers want before they become a reality.

Moreover, in order to maintain sustainable leadership, firms will have to out-innovate the competition continuously so that it is the customer who constitutes the ultimate beneficiary. All too often firms lose sight of their primary goal - their customers' needs, wants and values - in pursuit of innovations that appear to promise improved efficiency and augmented financial benefits. "Thinking for the customer", it is argued, implies that innovation derives from customer orientation: the firm's desire to serve and reward their customers. Furthermore, beyond a firm's technological innovations, what has become increasingly important is the firm's service innovations. Service innovation is the process through which a firm undertakes changes in its philosophy, culture, operations and procedures to add value to the result of the service/product for the benefit of the customer. It requires an understanding of the complex nature of customers' needs and the values attributed to combined product and service offerings (service package). Essentially, therefore, service innovation depends on a firm's ability to use this understanding to evolve, collaborate and enter partnerships that effectively fulfil their customers' holistic needs and, thereby, increase the opportunities for customer allegiance (relationship).

One of the primary management challenges faced by every organisation, from a long-term perspective, is how to create the environment that successfully nurtures and maintains their relationship with the customer. The strength of the firm - customer relationship is in fact reflected, affirmed and maintained through the effective connection and relationships established between the firm and the various stakeholders: its employees, business partners, suppliers, distributors and shareholders. Thus, management's task today is increasingly associated with the actualisation and unleashing of the potential from both within and outside the organisation in an effort to strengthen the loyalty between the firm and the customer. However, what convinces the customer is the firm's service loyalty; it is this which successfully elicits customer trust and confidence, thus leading to a long-term relationship.

Today's competitive arena implies a greater number of firms offering less differentiable
products and services, an increase in customer choice and an apparent reduction in the customer base. The need for firms to realise the importance of gaining their customers’ loyalty has possibly never been greater. However, a firm’s future is dependent, not only on the lifetime value of the customer but, additionally, on the relationships that it is able to maintain with other stakeholders within the business activity. In a relationship context, the task of management thus extends far beyond the firm’s primary relationship (firm-customer) to include both the internal and external relationships that the firm must aim to develop, nurture and maintain.

In a hyper-competitive environment, it has become imperative for practitioners and theoreticians to embrace the ultimate benefit of competition. The Latin root of the word competition means “conspire together” and it is essentially the act of conspiring (pushing each other to compete for higher limits) which shapes and ensures that customers receive the superior service they want. Moreover, it is by conspiring selectively that enables a firm to forge the partnerships which augment customers’ perceived value of the core competencies.

A number of issues have emerged from this study which have important contributions in both management theory and practice. While the above arguments proffer conceptual understanding and explanation, the authors recommend future empirical research to complement this study, particularly in terms of identifying those sectors of the industry which manifest the highest propensity for gain through the development of relationships with different types of stakeholders.

References


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Application questions

1. How would you calculate the lifetime value of a customer in your organization?
2. Will a customer always trade off a higher price for better service? In what circumstances will the lowest price provider prevail?