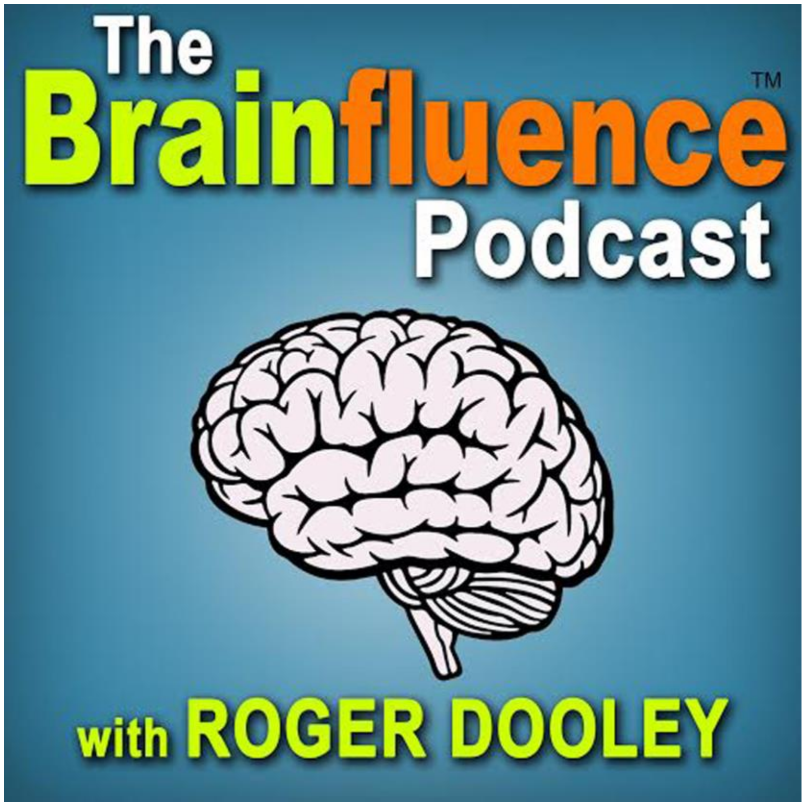
Ep #127: Creating Real Customer Value with Gautam Mahajan



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Welcome to the *Brainfluence Podcast* with Roger Dooley, author, speaker and educator on neuromarketing and the psychology of persuasion. Every week, we talk with thought leaders that will help you improve your influence with factual evidence and concrete research. Introducing your host, Roger Dooley.

Roger Dooley: Welcome to the *Brainfluence Podcast*. I'm Roger Dooley. My guest this week is joining me from New Delhi, India, which is a first for the show. One thing I try and do is bring experts from around the world who you may or may not be familiar with but who have important views and knowledge.

Today we'll be talking with Gautam Mahajan who's a leading global expert in creating customer value. He's the president of the Customer Value Foundation and the founding editor of the *Journal of Creating Value*. He is past president of the Indo American Chamber of Commerce. His new book is *Value Creation: The Definitive Guide for Business Leaders*. Welcome to the show, Gautam.

Gautam Mahajan: Thank you, Roger.

Roger Dooley: One thing that never fails to surprise, Gautam, is how the world is shrinking.

Gautam Mahajan: Yeah, it's shrinking in many ways. There's a lot of commonality between business thoughts and business thinking but I don't there's that much commonality in business execution. On the surface, you might find an Indian executive that is very similar to the U.S. executive but you'll find that there is much more value creation thought processes in the American business leader's mind as opposed to the Indian business leader.

On the other hand, when you look at business schools, there seems to be much more value creation thinking in business schools in Europe and not in the U.S. So there's a lot of difference, even though on the surface everyone talks about value creation. I have my own thought processes on that, I can talk about many of these things.

Roger Dooley: Right. I think just the interconnectedness is going to break down some of these barriers. I was really surprised; I think I found you when I was researching my new book project. We connected and found out that your son, even though you're in New Delhi, your son actually lives in Austin, my hometown, which is pretty amazing. He's an author in his own right who's gotten better reviews from the *New York Times* than either one of us will in our lifetimes probably.

Even more remarkable, a contributor to one of your publications, Laura Patterson, actually lives a few doors down the street from me. So I think the old six degrees of separation is turning into something like 1.5 and shrinking.

I think a good starting point, Gautam, would be to explain what you mean by value and value creation. I think we all know that a company has to offer products or services that meet some kind of a customer need, but you have a more holistic concept of value.

Gautam Mahajan: I'm going to make this a rather long answer. I worked in the U.S. about 17 years for a Fortune 50 company. I think our customers were very, very happy with us. We managed to charge them a little bit more than the market price and they were very happy to pay that because they got many more things in return. But I really didn't know or I really didn't use the word "value" knowingly.

It wasn't until I came back to India about 20, 25 years ago and then I was doing some strategic consulting work for the second largest group in India that I came across a word called customer value management. What intrigued me about that was that if you could measure customer value, you could actually predict market share. Many of our listeners probably have to figure out what they'll be selling the following year and all of us budget. We sort of say that "Roger bought 100 widgets from me. He's going to grow by ten percent. I'm going to get 50 percent of his growth. Therefore, I'll sell him 105 widgets."

I do all of that and I add up everything and I come up with 50,000 widgets and I tell my boss we'll sell 45,000 widgets so I can get a bonus. So there really wasn't a very good way of predicting market share. Here was a technique that allowed you to do it. I said, "Hey, I thought I was hotshot marketing guy. How come I didn't know this?" That's how I started to delve into customer value. That's when I discovered that, like me, most people didn't understand the word value. It was used very loosely to mean prized, to mean benefits, to mean worth.

Actually, customer value is what something is worth to you versus competitive offers. So we tried to standardize on that. I wrote my first book, *Customer Value Investment*, because I was so frustrated that people couldn't understand what customer value was and weren't willing to use it.

The second book was *Total Customer Value Management*. The reason why I wrote that was I realized that every single person in the company had to be involved with the customer. I gave a prescription or a formula for doing that and how to get everyone involved in focusing in on the customer.

While that was happening, I suddenly realized this wasn't good enough because the role of a company is not just to create value for the customer but it has to create value for the employees. It has to create value for the partners of the company, that's the supply chain and the delivery chain. Value has to be created for society, and thereby for the customers. If you do all of these things, you'll create much more value, read profit, for the company.

Roger Dooley: Which would be shareholder value, which I know I dimly remember some of what I learned in business school. I would say that the common wisdom, at least then, was that businesses are there to create shareholder value. What you're saying is you've got to take care of all these other stakeholders, in particular the customer, in order to do that.

Gautam Mahajan: Yeah. It's kind of funny what you learn in business schools. If you walk into a room, as I often do and there will be middle through senior level executives, including CXOs and I'll say, "What is the purpose of a company?" 95 percent of these guys will raise their hands and say, "The purpose of a company is to create profits." That is not the purpose of a company.

Profits are a measure of how well you do. How well you run your business. You don't get up in the morning and say, "Hey, guys. I'm going to create profit today." You get up in the morning and say, "I'll take care of this customer," or "I'll make sure this product works," or "I'll make sure that this customer gets a return product because the product didn't work," or whatever it is. You think of all kinds of functional things but you don't think about creating profit. That's just a result.

Roger Dooley: I'm not doubting that you're right but I think that despite the things that you said about American business, I do think there is a short-term profit orientation where a lot of these executives have probably been told what their profit has to be for this month and this quarter so the corporation can make its number and satisfy shareholders.

Even if it's not right or a good business practice, I think that's kind of reality for a lot of executives. They're answering to a higher level executive who's trying to meet a profit number and the CEO answering to investors and shareholders who are expecting a certain profit number. If they come in two cents under, the stocks going to go down. If they beat it, maybe it will go up a little bit.

Even then, assuming they're a public company, there are the activist investors who are going to emphasize shareholder value and shareholder returns, who if the company is perhaps focused too much on other stakeholders an activist investor will come in and say, "Hey, you've got the resources to distribute some of your wealth to shareholders in the form of dividends or stock buy backs. So we're going to reorient your priorities." I guess I would have to say there's a tension between generating profits and shareholder returns and doing these other things that arguably are the golden goose.

Gautam Mahajan: I think Roger you've said three or four different things in this question. So let's go back to profits. The profits are the measure of how well you do. It's like going to college and saying, "Do I go there to get educated or do I go there to get grades?" If your answer is to get grades, then what I can say?

The second thing is you raised the issue of short-term profits or short-term results versus long-term results. Many, many businessman, I shouldn't say many, but some businessman are starting to look at this much more carefully. Paul Polman of Unilever told his stockholders that he was not going to concentrate on short-term profits and he was going to look at the long term and they might see some short-term dips. What they saw in the long term was a much better, steadier, and healthier growth than his competitors were focusing in on short term.

Second thing he said, "The purpose of my company is not to create value but to be a good partner in sustainability and in making sure the ecosystem is not destroyed." He went out and stopped buying palm oil from Malaysia. With that, his prices went up. But surprisingly, his customers were willing to pay him a little bit more for that. So there are examples of people who have been able to do this. Whole Foods is an example where people go out and pay much more for what they buy than they could at a national grocery store. I think those are very important things.

Now you’ve come to what the stakeholder is saying, you have to share more with me than with the customers. First of all, there’s a wrong belief that in order to take care of customers, you have to spend money. You have to spend money if you want to do something entirely different. But doing the right things, being polite, being nice to people, making sure that a customer gets what he wants and you don’t keep him waiting, doesn’t cost you anything and it doesn’t cost the stakeholder anything.

Being nice to employees is the same thing. Creating value for the employees is something which means to make them feel important. You make them feel wanted. You make them feel as if they run the business. That doesn’t cost you a lot of money.

Roger Dooley: That’s a great point, Gautam, it sort of echoes something I’ve said for a long time. That is that we talk about spending money on advertising and marketing and how costly it is and the impact it has on other areas of business. But often, good advertising and good marketing costs no more than bad advertising and bad marketing. You're still buying the air time. You're still printing the material and so on, you know, getting the right messaging in there is what really makes the difference. So that’s a good point. Doing things right isn't always more expensive.

How do you quantify customer value? I see you have charts occasionally and so on, where there's customer value on one axis. How do you measure that?

Gautam Mahajan: Before I answer that question, I've got to talk about what is really happening in the world of the customer and all of the consultants that are trying to create a niche for themselves. The sad part is the clients don't know much about what to do about the customers, but neither do the consultants. 90 percent of the consultants will say that you need to measure satisfaction, which is really a transactional thing and has been proved not to create loyalty as a necessary condition.

You really need to create value for people to come back and buy from you. Yet people satisfaction. People measure something called NPS, net promotor score, which has really no correlation with the business. It just makes CEOs look good and they love it. It's a very simple measure. Today, you've probably heard things that people talk about the customer journey and all that. I, as a customer, just don't want to have a journey. I want a product. I want it to work. I don't want to be bothered or hassled by these guys. But the customer journey comes about because something has gone wrong.

I just bought a car and I bought an extended warranty. I got a call from the dealer three days ago, "Are you happy?" I said, "Yeah, except that my extended warranty hasn't come." Today Honda called me, "Are you happy?" I said, "No, my extended warranty hasn't come." Then I got a call from the dealer saying, "In five minutes your extended warranty will come on the mail." Which is fine but I had to make these three extra journeys for no reason.

Yet, there are guys who will come out and sell the whole concept of journey to the customer. The worst journey is the journey that one has to make within the company. So you call someone and say, "You know, my part was supposed to come today. It hasn't come." The guys says, "Well, here's a number, go and call him." So now you're making the journey that the company should have made. So there's all kinds of measurements and very few people actually measure customer value.

What customer value is, very simply, what you pay and what you get. You want to find out what you paid and how important that is versus what you get. What you get are the benefits of the product, the benefits of the people, the benefits of the service, the benefits of use, the benefits of the image, and all kinds of things of that sort.

What you pay is the cost of the product. The cost is not the price because the price may just be a monetary number. The cost could include the time it takes you to buy the product or the effort it takes for you to buy the product. That's a cost to you. So if you have to go back three times to the dealer because something was missing, that's a cost to you.

You have to look at the cost versus the benefits. We can do that by a very simple measurement through a process where we ask the customers how they rate the benefits, how they rate the costs. Of course, the sub aspects of benefits, which are rate the service, rate the product, rate this, rate that.

We find many, many times the product is not very important. The association of the company or the image of the company or the people of the company turn out to be much more important than the product itself, particularly true in commodities. So if you're buying salt or you're buying fertilizer or cement, the product may have an importance of 3 percent or 5 percent. The actual benefits might be 60 percent or 30 percent or 40 percent, and the cost would be 60 or 70 percent. So products may not be that important. Yet, so many people keep focusing on the product because they're product-centric people.

Just to finish this argument, there was a good centric logic which was used until the end of the last century. Steven Vargo and Lusch started in 2004 with the service-dominant logic. Now people are working on the customer-dominant logic and we're working on the value creation dominant logic because you have to go beyond the customer. You have to go to create value for everyone, including the shareholder.

Roger Dooley: How does a company start looking at this? They presumably have in the past focused on the customer and try to do things right, but they realize that they are still not as good as they could be. How does a company start focusing on customer value as sort of an entity or a metric?

Gautam Mahajan: It's a very difficult thing for the CEO to change his mindset, particularly if he's being bombarded by stakeholders for short-term profits. So the customer word remains just a customer word. You asked me earlier, the shareholder wants more of the returns, and the answer to that is if you don't take care of the customer and the customer leaves you—this is just a cliché, everyone knows it—you have no business. All you'll have is a hobby if you have no customers. So the CEO has to realize how important the customer is. He's got to start changing himself.

I just wrote an article called "Service Culture Versus Customer Culture" which is going to appear on LinkedIn. The idea is that sometimes the service people are extremely good. And yet, you'll say the company isn't very good. The reason for that is that the backend, the people who should be supporting the frontend, are not customer-centric.

So the customer culture does not exist in a lot of companies because again, everyone says if you focus on service you'll be all set. That too is not correct because there are so many things that come from strategic thought processes, from how we deal with customers, how we take care of customers, is the customer first? Or is the company first? There's something called CEO gods, particularly in emerging countries like India. The CEO is a god and you can't question god. So the customer is no longer god. The customer is just a has-been.

Roger Dooley: One of the things you suggest is doing a task audit that looks at everything that you're doing as a company and determining whether it is relevant to customers and customer value. You actually created a little quadrant chart. It reminded me of Stephen Covey's prioritization system that put your daily tasks into things that were urgent and not important or important but not urgent and so on. Prioritize things in a way that made sense as opposed to letting them happen to you. Your metrics are whether they're relevant to customer value and whether they're necessary. Explain what kind of tasks fall into there and in particular, what would be an unnecessary but relevant task?

Gautam Mahajan: I got into this because I would meet a lot of CEOs and they'd say, "I've got so many other priorities and I just don't have time to do this customer thing that you're talking about." I'd say, "You don't have time for the customer?" And they'd said, "No. We've already got a program going. We're doing this and we're doing that. We're revamping our plan."

I said, are these guys really doing the right things or are they just wasting time? An unnecessary task from the point of view of the customer but relevant to him is CRM. He doesn't really care, it's not necessary that you do CRM, but it's relevant to him. So he can crack open something relevant for the customer but he doesn't think it's necessary.

There are other things that are necessary for the company and irrelevant to the customer. For example, doing your taxes or doing your accounting falls into that kind of system because you have to do that. So it's necessary from the point of the view of the company but not relevant to the customer. Really what you have to do is to figure out how many of these things are necessary for the company and how many of these are necessary for the customer.

The most important thing you have to do is get rid of unnecessary and irrelevant work. The easiest example of that, a whole bunch of people sitting in a meeting waiting for the meeting to start. Maybe ten people are in the room and they've got 30 minutes and 300 minute are lost. That's completely unnecessary and irrelevant work.

An example of that, many of us get emails that might take us a two or three hours to read and maybe 50 or 60 percent are completely unnecessary. I just send all and Roger gets an email that has to do with the tax in India is due in three days or something of that sort. So Roger has got to learn how to get rid of that kind of stuff and not open it. Once he reaches that point, he might even blacklist me but that's worth his while because he's not doing unnecessary and irrelevant work.

Roger Dooley: Think you've hit on a couple of topics there, Gautam, that plague every level of individual in organizations and that's unnecessary meetings or meetings that run too long or being invited to meetings that you don't really have a need to be at. Then of course, email, which is probably the great plague of the modern age, how much email you receive versus how much of it is actually useful to you.

Gautam Mahajan: Yeah, that's truly destructional value.

Roger Dooley: A recurring theme in the book is the disconnect or potential disconnect between top management decision makers and the front line people who are actually serving the customers. In some cases, like a call center, those interactions might even be outsourced. How do you prevent this disconnect from occurring?

Gautam Mahajan: You know, it comes back to my article on service culture versus customer culture. The customer culture really has to start from the top. The company must become customeric, the CEO must become customeric. I've written articles on that, it's also in my book. The thing that we do which is very different is sometimes we find that a company culture or the CEO is too busy to change.

We really start with the frontend people and we start something called customer-centric circles where the frontend people work on what they should do for the customer. This is a self-guided approached towards being customeric or customer-centric and changing one's mindset. We find extreme changes in people's thought processes when they are asked what they should do for the customer because they first start off as saying that the customer is irrational, customers get mad at everything.

When they start talking about why customers got mad, they figure out that they did something that caused the customer to be upset. "I promised the customer I would call them back but I didn't." Or, "I said to the customer that if you press this button everything will work and it didn't really work and I said, 'No, no, you haven't pressed it properly, do it again.'"

So there are all kinds of things that people do and when they start talking about it, they start talking about what they should do, what they shouldn't do, what we call the customer's DNA, do not annoy. The most important thing is not to annoy a customer. Then these guys start to become really first-rate customer-centric personnel. Certainly the boss starts to notice that this branch or this region is doing extremely well and he says, “Oh my god, what’s going on?” Then he realizes that the customer culture is setting in. So he is supposed to change himself.

One of the things that we tell the CEOs to do is to build a customer strategy and a shareholder strategy before building a market strategy. The customer strategy is actually understanding the customer opportunity versus the market opportunity. Then those are two entirely different things. If you're in the retail business, the market opportunity might be different from the customer opportunity because the customer may not want to come to a retail store.

Roger Dooley: One last question, Gautam. Do you think that today’s electronic communications with Facebook and Twitter and various other ways of people sharing information to much larger groups than in the past, is that forcing companies to become more customer-centric?

Gautam Mahajan: It should, but you see it’s all a competitive thing. If all the competitors are on the same boat, it makes no difference to you. That’s one aspect of this. The second thing that is happening is companies are using the electronic media as a means to communicate or get customers to communicate with them. Generally, it’s a one-way communication. The company can communicate to the customer but the customer has great difficulty in communicating to a person or getting to a person or getting instantaneous answers if they're not part of the system.

So if someone comes to your house to drop off a packet from Amazon and you're not there, he leaves the note, “You weren't there, I’ll deliver it tomorrow.” It’s very difficult for you to find out what time he will come tomorrow, at least in India it is. So customers have to worry. Customers have to wonder. This electronic usage which is becoming more and more of a one-way street is going to ruin a lot of companies in the coming years.

Roger Dooley: I think even in monopoly companies—I think your point about the competitive situation is important because you look at the U.S. at cable TV providers or cable providers. Typically, they are a near monopoly in their areas. They may have some competitors from satellite or some other technology but they’ve been known for horrible customer service.

Occasionally, one of these experiences get publicized where some months back a customer service interaction was recorded by the customer where the customer service rep was just extremely arrogant. This went viral on social media. That’s even in a situation where the competitive environment isn't that powerful. That sort of thing I think does force a little bit of change. We’re actually seeing the cable companies making an effort to improve although they're still very far from perfect.

Gautam Mahajan: Yeah, that’s very cool.

Roger Dooley: Let me remind our listeners that we've been speaking with Gautam Mahajan, an expert focused on the concept of customer value and the author of the new book *Value Creation: The Definitive Guide for Business Leaders*. Gautam, how can people find you and your content online?

Gautam Mahajan: The best place is to come to my website which is www.customervaluefoundation.com, all one word, customervaluefoundation.com. Or my Twitter is @JCreatingValue. J for John. J Creating stands for journal, so it's J-C-R-E-A-T-I-N-G-V-A-L-U-E.

Roger Dooley: Great. We will link to those places along with Gautam's books and any other resources we mentioned on the show notes page at RogerDooley.com/Podcast. We'll have a downloadable transcript of our conversation there too. Gautam, thanks so much for being on the show. I appreciate you joining me from so far away.

Gautam Mahajan: Thank you so much. I'm glad I was able to chat with you.

Thank you for joining me for this episode of the *Brainfluence Podcast*. To continue the discussion and to find your own path to brainy success, please visit us at RogerDooley.com.