

Towards Joint Value Creation Processes in Professional Services

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Abstract

In this paper, we study customer relationships in professional services. Focus is especially directed towards learning and personnel development services that are provided for the customer organisations. Learning and personnel development services include different kinds of courses and personnel development plans that are provided for the customer organisation and for its personnel. In business-to-business context, such services are very complex in nature and require special attention from marketers. The purpose of this paper is to propose a framework for managing such professional service relationships in a way that creates value for the both parties and enables the marketer to discover also those customer needs, which the customer itself is not even aware of. Furthermore, our intention is to show how a professional service company can benefit from understanding its customer's value creation process. The basic idea is that every customer has own processes by which it creates value through its business activities. By understanding these processes the provider can identify much more deeply all the concerns and goals related to customer's business activities. In this way the producer can provide better solutions for the customer and build a lasting relationship with the customer.

However, the way the service provider is going to answer to the needs of the customer always has to be profitable to the provider, at least when evaluated in the long run. In other words, the main idea is to connect one's own core competencies and value creation process to the value creation process of the customer. Through this kind of zippering¹¹⁵ both parties of the relationship are ready to adapt their processes to each other so that the value is created for both.

Furthermore, our overall aim is to illustrate the benefits of zippering with the help of a case company, which provides learning and research services for other companies. Our intention is

¹¹⁵ The term Zippering is a process tool developed by CRM Customer Relationship Management Ltd.

to achieve this aim by defining the process by which the customer companies develop their personnel and by identifying the concerns they have in these processes. After identifying these, one can create a strategy that can be used in zippering the processes of the customer and the provider together.

Introduction

During the past three decades, the importance of services in the post-modern economy has grown drastically. This development is partly due to the growing number of service companies and partly due to the fact that manufacturing companies are including more and more additional services to their products. On the other hand, companies are increasingly concentrating on their core competencies and outsourcing a great part of their processes. As technologies are rapidly developing, internationalisation is increasing and the company structures are becoming more and more complex, companies are required to possess a lot of knowledge from a variety of different fields. Often this kind of knowledge is separate from the core competence of the organisation and the acquisition of such knowledge through hiring experts of the particular field can be too expensive and requires additional resources. The use of professional services can help companies to cope with the continuously increasing need of acquiring and sustaining narrow and field-specific know-how.

Professional services are services based on the knowledge and expertise of a professional (Sveiby 1990; Ojasalo 1999; Eklund 1992). In practice, these services are usually different kinds of advice, plans or suggestions that the professional makes for the customer as it is not able to solve a problem of its own (Sipilä 1996). In business-to-business context, according to several studies (for example Boedeker, Hurmerinta-Peltomäki and Nummela 1995, Lindqvist and Manninen 1998) in Finnish industries, there are some evident problems in the use of professional services, particularly among small and medium sized-companies. First of all, smaller companies do not usually recognise their own professional service needs due to the particular nature of such services. Also, in order to recognise the professional service need, there must be certain expertise inside the organisation. Furthermore, negative attitudes and poor capabilities of the companies to utilise the services as well as the difficulties of entrepreneurs to recognise their own development needs can prohibit the effective use of professional services. These kinds of problems concerning the use of professional services create a need for the marketers of professional services to find better ways of overcoming these problems and recognising the needs of the customer organisations.

In this paper, the focus is especially directed towards those professional services, that deal with the learning and personnel development services provided for the customer organisations. Different kinds of continuing education courses, that are more or less tailored to the specific needs of the customer organisation and its personnel, are typically these kind of learning and personnel development services. Such services are professional services since they are based on the knowledge of the service provider. Furthermore, the purpose of such service is to provide the customer organisation's personnel with such knowledge that it does not already possess but what it needs and receives subsequently during the service process. In the companies, the personnel development is often stated, by managers, as one of the strategic areas of organisations, but still the use of the adult education services can be rather random or scarce, according to our study. Typically, the reasons for this are similar as described in connection with problems concerning the use of professional services.

Due to these above mentioned problems in the use of learning and personnel development services, a new kind of framework for managing such customer relationships successfully is needed. The purpose of this paper is to propose such a framework based on the value creation approach described in the next section. Furthermore, the framework is illustrated through an empirical study of an organisation providing learning and personnel development services in Finland. The case study presented in this paper is based on several interviews and discussions with the representatives of the case organisation and customer organisations.

The Value Creation Approach

Every customer has his own value creation process. The customer's value creation process exists in order that the customer can achieve his goals or mission. Ultimately this means that the customer always measures value in relation to his own goals. This also means that if the provider wants to build a good relationship with the customer, he has to know and have a thorough understanding of the customer's mission, goals, vision and strategy. (Storbacka, Sivula and Kaario 1999, 81) In other words, this means that in order to build up a lasting and successful customer relationship the provider needs to achieve a deep understanding of the customer's business activities in which the customer creates value for himself.

The fundamental idea in the value creation approach is that by knowing the customer's value creation process the provider can better identify the problems that the customer has concerning his business activities. In fact, the provider can even notice those problems and concerns that the customer himself can not see. (Storbacka, Blomqvist, Dahl and Haeger 1999, 16) By providing a solution to these problems the provider can offer a more valuable relationship to the customer than other competitive providers can. Hamel and Prahalad (1991, 85-90) point out also that those companies that know their customers' problems better than even the customers themselves do, are often the most innovative ones.

However, this kind of customer's problem solving should be done in a profitable way, at least in the long run. As Anderson and Narus (1999, 2) have pointed out, besides recognising those actions by which the provider can create value to the customer, it is also crucial that the provider can perform these actions in an economically profitable way. That is why one has to remember that solving the customer's problems is good to be based on the provider's own core competencies. When the provider bases his actions on his own core competencies, he can solve his customer's problems in an economical way, without any big resource sacrifices. That is because core competencies are something that do not deteriorate as they are applied and shared; in fact, they even grow when they are applied (Prahalad and Hamel 1990, 82).

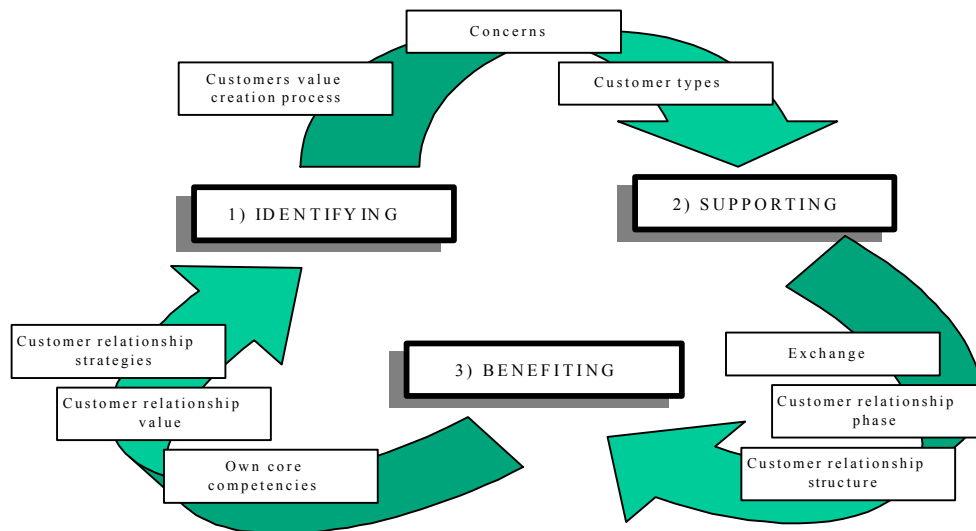


Figure 2. The proposed analytical framework for managing customer relationships effectively.

In **Figure 2** we present an analytical framework that is based on the ideas of the value creation approach. According to this three-phase model, the provider first needs to *identify* his customer's value creation process before he can aim at *supporting* it. This supporting should be done in a profitable way so that both the provider and the customer could *benefit* from the relationship.

Furthermore, each of these three phases includes different actions which helps the provider to manage successfully his customer relationships. In the identifying phase the provider defines the *customer's value creation process* in order to better understand the *concerns* related to customer's business activities. Another advantage of understanding the customer's value creation process is that the provider can then also better communicate with the customer concerning the value it can create to the customer (Anderson and Narus 1998, 1). As MacStravic (1999) has noticed, it is important to communicate to the customer in a right way so that he could realise the value that the provider creates for him. When the provider understands that different customers have different kinds of concerns, the provider can also classify its customers into different *customer types*.

In the supporting phase of our framework, it is important to understand that in every customer relationship at least three types of *exchange* is included; the exchange of knowledge, emotions and actions (Cross and Smith 1997; Storbacka and Lehtinen 1997, 35-38). This means that the provider can gain a share of customer's thoughts by giving him enough information, a share of his heart by shared values and branding and finally a share of his wallet by right actions. Furthermore, customer relationship can also be seen as being at different *phases*. Different models of the relationship phases have been presented in recent years, for example by Dwyer, Schurr and Oh (1987), Ford (1980) and Halinen (1994). One possible way of analysing the customer relationship phases is the model presented by Storbacka and Lehtinen (1997). According to Storbacka and Lehtinen (1997) the relationship is in one of the following phases: in the phase where the relationship is born, ennobled or ended. Relationships create most value for both parties at the phase of ennobled. Also the new customer relationships are important for the provider because the new customers usually

demand new ideas and actions from the provider and in that way force the provider to develop its own business activities. By analysing those customer relationships, which are already ended, the provider can learn which kind of mistakes he has done.

Customer relationships should also be analysed at different levels. According to Storbacka, Kaario and Sivula (1999, 23-25), three levels *structure* customer relationships: the contact level, the relationship level and the overall level. The contact level refers to the purchasing situation, but on the relationship level the customer evaluates how well the chosen product/service support his own value creation process. On the overall level the customer will also be interested in understanding how well the whole relationship with the provider will support the accomplishment of his overall goal or mission. Unfortunately it is common that many providers only think about their success in the contact level while in fact they should concentrate more on the relationship level and on the overall level, as pointed out in the theories of the relationship marketing (for example Grönroos (1997), Gummesson (1997), Morgan and Hunt (1994)).

The provider can benefit from the customer relationship only when the provider's actions are based on his own *core competencies*. Another important point in the phase of benefiting is that the provider should also *evaluate* which customer relationships are the most valuable ones and therefore should be protected the most. Storbacka, Blomqvist, Dahl and Haeger (1999, 131) suggest that this kind of evaluating can be based on the learning value, the reference value and the strategic value of the customer besides the economic return of the customer relationship. After this evaluating customers can be divided into those customer relationships which should be either protected, changed or developed (Storbacka, Blomqvist, Dahl and Haeger 1999, 15).

After the provider has defined both his own and his customers' value creation processes and the concerns related to these, he can choose which kind of *customer relationships strategy* he is going to apply to each customer type. According to Storbacka and Lehtinen (1997) there are three alternative customer relationship strategies: the provider adjusts his processes to the customer's process, or the customer adjusts his process to the provider's process or both the provider and the customer adjust. The mutual accommodation strategy demands commitment and willingness to invest in the relationship because this strategy can be the most expensive strategy at first. But in the long run this strategy can lead to joint value creation processes and finally into a win-win situation. Storbacka and Lehtinen (1997) have named this mutual accommodation strategy as *zippering*.

Although the idea of the *zippering* is to tie together the value creation processes of the customer and the provider, the provider has to understand that his own value creation process can usually produce solutions only to one part of the customer's whole value creation process. In fact, the provider can only answer to those needs which are related to the value creation process of his own. So the provider needs to have a deep understanding of that sub-process of the customer which is related to the provider's own business. Of course the provider has to also know how this sub-process fits into the whole value creation process of the customer in order to understand the overall goals and missions of the customer, but the most important thing is to define the customer's sub-process related to provider's own value creation process. In the following case analysis of the learning and personnel development business, we are going to concentrate on identifying this kind of sub-process of the customers and the concerns related to it.

Study of Three Customer Value Creation Processes

In applying the value creation approach to managing customer relationships in the learning and personnel development business, the first step of the proposed framework is thus to identify the value creation processes of a customer and furthermore, to identify the goals and the concerns that the customer has in these processes. In a case of learning services the sub-process of the customer's whole value creating process that is to be studied is the personnel development process. In other words the focus of our case study is on the process by which the customers develop their own personnel.

In the personnel development process the need to personnel development is created when there is a gap between the demands of the environment and the competencies of the customer company. During *the process of identifying the need of personnel development*, some problems indicating the need arise and usually, developmental discussions are taking place between the superiors and their sub-ordinates. On the basis of these discussions, the organisation prepares plans of personnel development and realises, that it has to enhance the personnel's competence level either by recruitment or by further education. If the company decides to educate the existing personnel, it is usually done through acquiring learning services. This *acquisition process* includes, for example, identifying and evaluating the potential suppliers, bidding rounds and contract negotiations. After the buying decision is made, begins *the education process*, that is the time when the course is taking place as on-site training or distance learning. Often a sort of exam or end report is required to pass the training. Usually, some kind of course feed-back is collected after the course and this feed-back can be argued to reflect the way the participants feel about the course.

The *process of utilising the learning services* refers to the process in which the course participants actually use the learned skills in their work and the real results of the education can be seen during this process. The real result can be seen as the individual changes his behaviour or furthermore, if the whole organisation changes its behaviour as a result of the education. Of course, the learned skills may not be used in the work at all. It can be concluded, that the utilisation process of the learning services is actually the most important process for the customer, that is the process in which the actual value for the customer organisation is created.

We have illustrated the personnel development process in Figure 2.

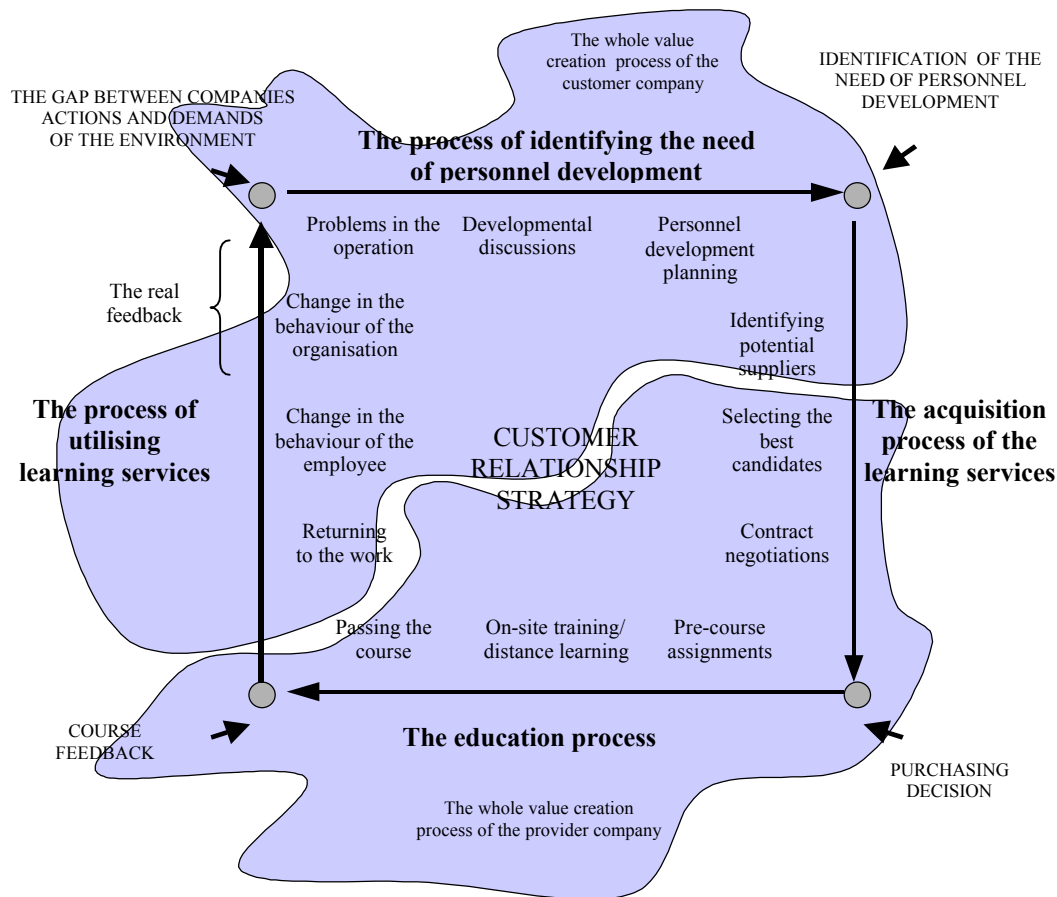


Figure 3. The personnel development process.

Our case organisation provides learning and personnel development services for public and private customer organisations. The case organisation is a team-based organisation in which each team is specialised on a particular educational expertise area, such as language education, technology education or managerial education. Each of these teams organise the courses independently and they are also responsible of managing their own customer relationships and marketing the courses. Typically, the organisation uses educators from outside the organisation and courses are organised through on-site training and distance learning. Therefore the core competence of the organisation is not on the substance knowledge but on the expertise of planning and organising high quality education for the customer organisations. Customer organisations include small and medium-sized enterprises, large international corporations and public sector organisations.

The current marketing practices of the organisation were based on somewhat personal relationships that the individual employees of the organisation had with the representatives of the customer organisations. Usually, these friendly relationships were the main information channels through which customer organisations received information about the services of the case organisation. The attitude of the customers towards the case organisation was very positive but also, the picture that the customers had of the whole case organisation and its services was scattered. In other words, a certain customer might had a close relationship with one team of the case organisation, but it still did not have any idea of the existence of the services provided by other teams. This was mostly due to the team-based marketing actions and poor internal information flow inside the provider organisation. In other words, on the contact level the organisation had managed the customer relationships rather well, where as

on the relationship level and more importantly, on the overall level the organisation needed a more effective way of managing its customer relationships.

Our analysis of the value creation processes of the customers of the case organisation includes three different customer cases, each of these representing a large and rather important customer organisation. The three customers were analysed on the basis of the process of personnel development described earlier in the text. The focus was especially directed towards identifying the goals and concerns related to each parts of the personnel development process, in the process of identifying the need of personnel development, the acquisition process of the learning services, the education process and in the process of utilising the learning services.

Customer A

The case customer A represented a rather large public organisation, with which the case organisation had had a long and stable relationship. However, the full potential of the relationship was not achieved, since the customer A acquired a lot of personnel education that was supplied by other organisations. Concerning the identification process of the personnel development need, the customer A had difficulties in following the trends and new ideas of different fields. This was due to the fact that the structure of the organisation was quite inflexible and also, the personnel were rather old and the personnel resources available were scarce. The identification of the educational needs of a single employee was one of the major concerns related to this process. Furthermore, in the acquisition process, the planning range of the whole organisation was very long. In other words, plans and decisions were made for at least one year ahead and this restricted the customer A to respond to the educational needs that raised fast and needed immediate actions.

The case customer A had also those concerns in the education process that were directly derived from the poor economic situation common to public sector organisations. Since the personnel resources were extremely scarce, the strict pace of the work inhibited the workers to take part in the education. This decreased the efficiency of working and increased sick leaves, which in turn added the work of the other employees. It was very difficult to break this vicious circle by personnel education although this might be just the cure for better working efficiency as the education could help the personnel to work more effectively. Finally, concerning the utilisation process of the learning and personnel development services customer A aimed at spreading the knowledge and abilities that one worker had learned during a certain course, also to the other employees in working community. In this way, a larger part of the organisation could be taking advantage of the education that one employee has received. However, several problems and difficulties were included in this, since this is not a very easy task for the employees.

Customer B

The case customer B was a large multinational corporation, and a very dynamic and innovative organisation. One of the teams of the case organisation, the language education team, had created extremely close co-operation with this customer, but this co-operation was only concerning one particular branch of education. Other teams of the case organisation did not have as strong relationships with this customer, although a lot of education from these fields was also needed in the customer organisation. In the identification process of personnel development needs, the customer B had also difficulties in specifying single employee's educational needs individually. Furthermore, as the industry of the customer was developing rapidly, the continuous identification of the education needs became extremely difficult. The

identification of each employee's unique education need relied on the developmental discussions between the superior and the sub-ordinate and therefore, a lot of responsibility was relied on supervisors. The customer B had a very systematic acquisition process of learning and personnel development services and outsourcing contracts are signed annually. Concerning some very specific technical subjects, suppliers of the learning service may be hard to find.

As the case customer B was a very large corporation, organising courses so that they were suitable for the employee's personal needs and working schedule became critical. The customer B monitored the course participation of the employees, but at times an important work-related meeting and a course session could be arranged at the same time and this resulted in conflicts. In other words, the employee was supposed to be in two places at the same time. Although feedback had been gathered after every course, the real results of the education were not monitored. The concentration to the mere course feedback can lead to rather superficial monitoring and inadequate improvements concerning the personnel development.

Customer C

The third customer organisation, the case C was a large manufacturing plant. It was a part of a multinational corporation, but as far as the personnel development were concerned decisions were mostly made locally. The customer C was a very traditional organisation with rigid organisational structures and practises. The customer C had been satisfied with the services provided by the case organisation on the contact level, but due to the failure in the relationship level, the co-operation had been only occasional and rather superficial.

One of the biggest concerns in the personnel development process of the customer C was to identify the kind of learning services that are needed. Also there were difficulties in identifying the individuals who were in need of further education. As the organisational practices were rather inflexible, also the time range of the planning was quite long and this resulted in difficulties concerning the educational needs that come about suddenly, such as educational needs concerning high-technology. So the most important feature of the learning services' acquisition process was the fact that the courses and the suppliers were decided well in advance and the selection was heavily based on written procures and leaflets. Concerning the education process, the customer C preferred courses that were in the local area of the plant. The aim was to avoid travelling expenses and long absence in working times. The real results of the education were not properly monitored, but at some level the feedback from the people participating the courses was collected.

Summary and discussion

It is important to understand the overall value creation process by which the customer creates value through its business activities, because by understanding these processes the provider can identify much more deeply all the concerns and goals related to customer's business activities. So actually the basic point of the value creation approach is to make the business processes of the customer more visible and that way help the supplier organisation to solve the problems of the customer. This was also the main idea in our analysis of the case material.

Although it is important to know the overall value creation process of the customer, it is even more important to understand that sub-process of the customer's business which is related closely to the provider's own value creation process and core competencies. In our case

organisation that kind of sub-process was the process by which the customers develop their own personnel. In

Figure 3 we presented a model describing such personnel development process. This model takes comprehensively into account all the customer organisation's processes that are related to learning services. It takes into account also the process of identifying the need to develop personnel and the process of utilising the learning services besides the acquisition and education processes. In this manner the presented model helps to visualize all kind of problems of the customer organisation concerning their personnel development, not just the problems concerning the acquisition and education processes. In fact, we argue that the power of the value creation approach was to make us understand the importance of the identifying and utilising processes by helping us to see that the biggest problems of the customers were indeed in these two processes.

We also argue, that as the provider company begins to use the basic ideas of the value creation approach and follows the proposed framework in the long run, becomes the relationship between the customer and the provider deeper and more effective. This relationship can even be deepened to the level that the personnel development process shortens as presented in Figure 4 below.

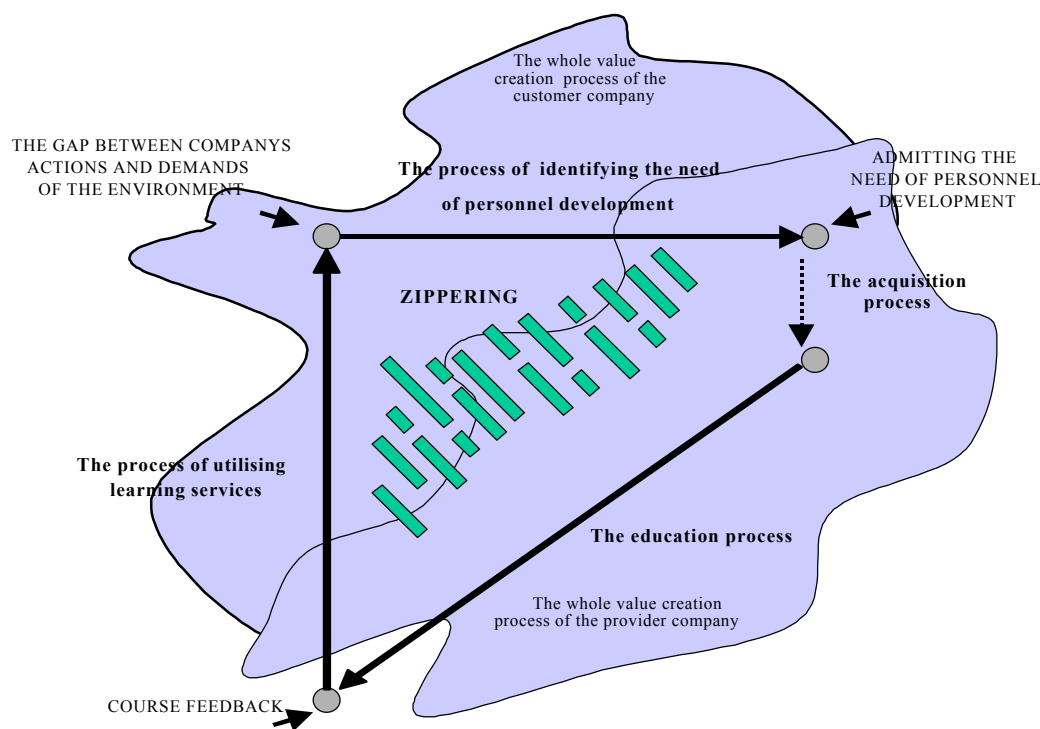


Figure 4. The personnel development process after zippering.

As a consequence of this kind of tight co-operation, the provider and the customer have 'zippered' to joint value creation processes. In this manner the provider participates also in the customer's process of identifying the need of personnel development. When all the needs in customers' processes are jointly identified, the provider can offer those kind of learning services that really are needed in the customer organisation. In this situation there is no need of bidding rounds or contract negotiations anymore. This leads to a more effective process of

personnel development, because the acquisition process of the learning services has shortened. In fact, the acquisition process can in some cases even fall of entirely, as happened with customer B concerning the language education in our case study. When the provider participates also in the customer's process of utilising learning services, he can better predict the customer's future education needs. So after the zippering the provider participates more also on the identifying and utilising processes than he did earlier.

On the basis of our study, we argue that usually in managing their customer relationships, the providers of learning services still concentrate only on the acquisition and education processes. In our opinion, they should also concentrate on the utilising and identifying processes, because these two processes are the most important ones for the customer company. In our case descriptions, the most significant concerns of the customers were in fact found from these two processes, as we pointed out earlier in the text. Unfortunately these two processes with the biggest problems still were not focused on the marketing activities of the provider organisation.

Also on the basis of the three case customers, it can be argued, that each customer had their own specific goals and concerns in their value creation processes concerning the personnel development processes. However, the customers also had some similarities in their concerns, such as the difficulty of identifying each employees' individual further education needs. The case organisation should aim at finding a way to resolve these kind of problems of its customers. The same solution could be used for every customer with appropriate tailoring. Tailoring should be done considering such things like the customer organisation's size, old procedures and the business line in which the customer organisation operates.

As a conclusion we can say that the value creation approach offers an effective way to develop customer relationship by making the customer's business activities more visible. However, because of consideration of space, we concentrated in this study only on the identifying phase of the proposed analytical framework. In future research we are going to play more attention also to the other two phases of the framework and hopefully success to show the power of the value creation approach more deeply.

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