How to resolve customer value with multiple sometimes divergent customers who aren't all paying the bill!

The first step in applying Lean to any organization is being able to define the Value the organization delivers. Normally in Lean we define value add work as "what the customer wants to pay for". There are however many situations when the customer is not the one paying, so we need another way to define value add.

This was exactly the challenge we had for a Calgary based organization, funded provincially, but having to answer to both industry and general Alberta population. As an organization at the start of their Lean journey being able to define who their customers are accurately was essential to them defining Value Add, So how did we approach helping this Calgary organization work through this challenge, a clue they were Example 3 the more messy example.

Example 1 – traditional lean definition
The simplest situation to consider is a commercial organization selling direct to the public, a gas station is a good example. The person filling their tank and paying for the gas is the customer and the value add is the delivery of gas to the car in a typically clean and safe environment.

Example 2 - little messy
For an organization such as a NHL club (Flames or Oilers take your pick) it gets messier. Every NHL hockey club has multiple customer groups. There are the fans who pay to attend the games and who's attendance gives the game atmosphere. There is the league which handles TV revenues and game commitments. There are the team sponsors who pay to get their name seen, and even the concession holders who pay to be able to retail at games. Sometimes some of these customer value requirements can conflict with each other. The league wants games scheduled to meet TV's needs with more breaks to meet advertiser's needs. The fans on the other hand wants the game at a time they can easily get to and don't want frequent breaks in the play.

The challenge is recognizing the value add to each customer and understanding the importance to each customer group. The club can then work at finding the right balance between each group's needs. TV is not going to want to broadcast a match at which no fans have turned up to cheer.

Rethinking the definition of Value Add
Before we go any further, we have to challenge the statement that value add is what the customer wants to pay for. For manufacturing this is a great statement that makes companies focus on what they should be doing. But for many organizations the customer is not always paying the bill. If we think of charities, public services, even some companies such as Facebook payment and customer are separate. If we start thinking of value as what the customer wants or needs from the providing organizations we can move forward.

Example 3 – more messy
Moving away from a commercial business to service delivery organization we get more complexity. Let us consider how to handle value and customers for a school. Looking at a school the multiple customers include:

- Students - who want/need a rounded education (not that many 5-18 year olds would be able to define that)
- Parents - who want a child who can progress in life
- Tax payers - effectively those paying will want additional future tax payers
- Local businesses - require skilled potential employees and customers
- Government - fund the school and often have achievement targets for the school

In this situation the answer is to identify the primary customer, for a school the primary customer is the student. The other customers, often referred to as stakeholders as secondary customers. This gives us a structure to define value across the school and how it can best deliver that value add to all customers.

Consequence of defining wrong customer
If however we confuse the primary and secondary customers we will misalign value delivery. For schools the example is when Government becomes the primary customer by dominating the school with standardized testing. The result is that teachers then teach to achieve against standardized testing instead of addressing the specific needs of their pupils. This can even go as far as

Summarized method
1. Recognize customer groups
2. Define the value add for each group
3. Identify if there is primary and secondary customers
4. Balance out each customer groups value requirements against how important it is for each customer
5. Check to ensure the primary customer is not losing out on value delivery

Why is this important; you can only implement lean if you know what value add is and non value add is. For help starting your lean journey as an Alberta company or organization give us a call to chat.

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