

A Customer By Any Other Name . . .

“This idea of being customer-driven makes me feel very uncomfortable. Our mission is to provide a forum for avant-garde African American plays. We have patrons, not customers, and we are not going to cater to the entertainment tastes of the public.”

A participant said this to me while I was teaching in an entrepreneurship training program for directors of community-based arts organizations a few years back. The program was designed and run by business school faculty. The session before mine focused on the importance of understanding and serving customers. Its premise was that social entrepreneurs need to be customer-oriented just like business entrepreneurs, but it was clear that the very notion of having “customers” was foreign—even offensive—to some of the participants. They, like many nonprofit entrepreneurs, feared that catering to customers would cause them to drift away from their missions.

This view reflects an unfairly negative image of how businesses interact with customers, and of customers’ abilities to make informed and appropriate choices. In the best businesses, serving customers is about informing, educating, and creating value for them in ways that are beneficial to the customer, as well as the entrepreneur. When social entrepreneurs reject the idea of being customer-oriented, they may be throwing out a valuable business tool because of unjustified elitism or paternalism.

Of course, I do not suggest the wholesale adoption of business language, methods, or concepts in the social sector. The term “customer” may well have undesirable connotations. The customer-seller relationship may appear to be too arms-length and transaction-based to capture the kinds of close, caring relationships social sector leaders want to have with the constituencies they serve. Harvard Business School administrators resist the suggestion that their students are “customers,” preferring to call them “partners” in an educational process. There are even businesses that balk at using the term “customer.” When I worked at McKinsey & Company, an international consulting firm, we “served clients,” we did not “sell to customers.” The firm’s attention to language helped to create an atmosphere of professionalism.

Nevertheless, social entrepreneurs can learn a

great deal from the customer-service movement that is popular in business nowadays. When markets are working as they should, businesses make money only if they deliver value to their customers. When customers are willing to pay an amount that exceeds the costs of production, it indicates that the customers value the product or service more than the money they are giving up, and the entrepreneur makes a profit. But both parties can come out ahead. Profit from serving customers allows the entrepreneur to attract capital for expansion and grow the business, which may provide customers with more options, lowered costs, or improved services. The entrepreneur pays close attention to customer satisfaction, because if the business fails to deliver sufficient value, the customers will

“If they had to pay, your nonprofit’s ‘customers’ might not want what you have to offer.”

take their money elsewhere. The goal is long-term, mutually beneficial relationships.

Social entrepreneurs need to create these kinds of relationships as well, not only for their intended beneficiaries, but also for anyone whose cooperation is vital to serving the social entrepreneur’s mission. Deliberate attention to this is even more crucial for social entrepreneurs than it is for forprofit entrepreneurs because many social enterprises are buffered from the kind of market discipline that businesses face. Donors and third-party payers often make the buying decision or at least shelter the intended beneficiaries from covering all the costs. Social entrepreneurs, therefore, can survive indefinitely without rigorously assessing whether they are providing value to the people they purport to serve.

It is possible for social entrepreneurs to adopt much of what is valuable in the customer-ser-

vice movement without adopting business language that seems uncomfortable or inappropriate. Following are some of the good habits that social entrepreneurs might learn from customer-oriented businesses:

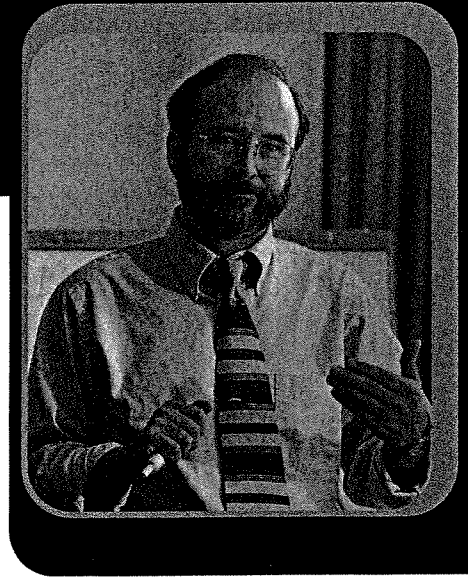
◆ **Understanding what people value and the alternatives they face.** Customer-oriented companies work hard to define their target markets, understand what customers in these markets value, and look for ways to create more value for customers than their competitors. Too few social sector leaders clearly define their intended beneficiaries, much less attempt to understand their values and the alternatives they face.

Admittedly, some social missions do not have a clear human intended beneficiary group. They may be created to serve God or nature or some ideal. However, most social enterprises are created to improve the lives of people. It is naive to assume that you know what will improve people’s lives without understanding their values. For instance, if you want to enrich people’s lives through theater, you will be more effective if you find out your audience’s entertainment preferences and their views of theater as an option.

Besides intended beneficiaries, every social enterprise requires the cooperation of many other constituencies, such as funders, staff, boards, and volunteers. These constituencies are another type of “customer.” In each case, they make a voluntary decision, similar in spirit to a purchasing decision, about whether to cooperate with the social entrepreneur. It is helpful to identify the values of potential cooperators so that you can target those whose values fit most closely with your mission.

◆ **Creating and communicating attractive value propositions.** Based on this market knowledge, entrepreneurs approach likely cooperators with value propositions: “If you do what I ask, you will benefit in the following ways.” To frame an attractive value proposition is not enough; your prospective cooperators must know about it and be in a position to assess it. Customer-oriented businesses know that this requires marketing outreach. You must give people information and establish your credibility. At its best, marketing is an interactive communication and learning process in which value propositions are tested and refined based on the

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reaction of the targeted parties. It is educational for potential cooperators and for the social entrepreneur. People have many ways to spend their money, use their time, or apply their expertise. Even if they would benefit from seeing your avant-garde plays, they may not know it. Promoting your plays is therefore crucial to success. Hesitancy about marketing outreach leads to missed opportunities and muted impact.

◆ **Assessing value creation and gauging satisfaction.** The market test of value-creation requires charging primary beneficiaries a fee. If they are willing to pay enough to cover the costs of serving them, this is strong evidence that the service is creating value. For a number of social enterprises, this kind of market test may not be practical or appropriate. The beneficiaries may be disadvantaged, unable to pay anything but a token fee, as in a homeless shelter. It may be impossible to require payment, as in the case of ventures that benefit future generations or the public at large. Or, requiring payment might violate the moral values inherent in the organization's mission, as in the case of a rape crisis center or humanitarian aid after a natural disaster.

Nonetheless, I suspect too few social entrepreneurs use pricing to test value-creation. The sense of charity and compassion that is offered to justify giving services away sometimes masks an underlying fear of the potential results of a market test. If they had to pay, your intended beneficiaries might not want what you have to offer. Using scholarships, sliding scales, deferred payment plans, and cross-subsidization schemes, social enterprises can charge for their services without driving their low-income clients away. A price tag can even improve the intended beneficiary's experience: For example, clients who have to pay for a training program are more likely to do the work necessary for the training to be effective and to insist the organization improve the program if it is not helpful.

Customer-oriented businesses go beyond the market test of value-creation. They don't wait for their customers to vote with their feet. They monitor satisfaction frequently and fix problems before customers defect, constantly shifting resources to higher-valued uses based on customer feedback. They do this by providing easy-to-use mechanisms for critical feedback, and using the feedback to improve their offerings. Social entrepreneurs could benefit

from similar systems for their cooperators and beneficiaries. This may not be feasible for some social sector beneficiary groups (such as future generations). If your intended beneficiaries are not in a position to assess the value created and convey their feedback, you should determine who, if anyone, is in a position to make that judgment. Then create feedback systems to make it easy for the knowledgeable parties to express their views. Management systems need to be created to assure that the feedback is put to good use.

—J. Gregory Dees

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