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Published in:
Open House International

Published: 01/01/2004

Document Version
Publisher’s PDF, also known as Version of Record (includes final page, issue and volume numbers)

Please check the document version of this publication:
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Link to publication

Citation for published version (APA):

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Download date: 05. Dec. 2018
Housing Management and the Creation of Customer Value

Patrick Dogge & Jos Smeets

Abstract
Creating customer value is the greatest challenge facing profit and non-profit landlords nowadays. By offering valuable products landlords can distinguish themselves from competitors in the housing market.

In marketing literature two meanings exist for the phrase "customer value": value of a customer and value for the customer. As a matter of fact, this distinction refers to the traditional contrast between exchange value and the utility value of housing.

One meaning is the value of a customer for the landlord. The customer as tenant is seen as an asset; as a potential source of income representing a certain value.

The second meaning is value for the customer, created by the landlord by offering a bundle or package of qualities. Both forms of customer value are connected to each other. This paper deals with creating customer value in the second meaning. One of the ways to create superior value for a tenant is by extending the traditional product 'housing' with additional services. For this reason landlords in the Netherlands are developing all kinds of additional services, such as health care services, comfort services, safety and security services etc. The value adding potential of additional services must however not be overestimated.

This article focuses on the possibilities and limitations of additional services to provide additional value to the traditional product of landlords: 'housing' (DOGGE, 2003).

Keywords: Landlords, Market Orientation, Value, Satisfaction, Additional Services

1. INTRODUCTION

Nowadays in the Netherlands landlords become more and more aware that they should be more sensitive to market changes. Although in the short term the current situation on the housing market shouldn't worry them too much, to be sure of surviving in the long term they need to operate more market oriented. Landlords must follow the needs, wants and desires of customers and the conduct of their main competitors. Landlords have to perform their letting and management activities in a market-oriented way based on strategic choices.

In accordance with NARVER & SLATER (1990), market orientation implies three behavioral components and two decision criteria. The behavioral components are:

- Customer orientation: the continuous drive to get a permanent and sufficient insight into the needs and desires of the customers to be able to create products of superior value.
- Competitive orientation: the drive to get insight into the possibilities in the long term as well as in the short term of (potential) competitors.
- Integrated efforts: the efforts of all functions and resources within an organization to cooperate to achieve the common goal of creating value for the customer.

The two decision criteria are long-term focus and profitability. The creation of a product with superior value is, in the theory of market orientation, seen as the way for an organization to distinguish itself from competitors. This article focuses on the possibilities and limitations of additional services to provide additional value to the traditional product of landlords: 'housing' (DOGGE, 2003).

In this first section the concept of market orientation was described. The second section focuses on the
concept of customer value and its relationship with service quality and customer satisfaction. In the third section the traditional product of a landlord is described as a housing package containing several elements that all contribute to customer value. The fourth section describes the possibilities and limitations to add value to the housing package by developing additional services for customers. In the fifth section it is shown how the effect of adding value to an element of the housing package may affect customer value.

2. CUSTOMER VALUE

As stated before, in the marketing literature two meanings exist for the phrase "customer value" (for example THOMASSEN, 2001). In this article we focus on the meaning of value for the customer (see for example ZEITHAML (1988), HIRSCHMAN & HOLBROOK (1982), HOLBROOK, 1994, MATHWICK et al, 2001).

When we speak of customer value in this article we mean the value of the product for the customer. ZEITHAML (1988) evaluates four definitions of value for customers:

1. Value in terms of price. 'Value is price' or 'value is low price'.
2. Value in the context of trade. Value as a trade-off of costs and benefits. 'What I get for what I give'.
3. Value as the trade-off of perceived product quality and price. Value in this meaning increases when quality increases and the price remains the same or when the price decreases and quality remains the same.
4. Value as the overall and subjective appreciation of all relevant (qualitative and quantitative, objective and subjective) elements that are of importance when buying a good or a service. According to this meaning, the experience of the whole purchasing process is also important and not only the concrete purchase of the good or the service.

ZEITHAML (1988) sums up the four definitions as follows: "Perceived value is the customers' overall assessment of the utility of a product based on perceptions of what is received and what is given (.....). Value represents a trade-off of salient give and get components."

Based on the work of HIRSCHMAN & HOLBROOK (1982) and HOLBROOK (1994) GIANOTTEN (2001) adds a fifth definition to those of Zeithaml:

5. Value of a product is determined by the continuing stream of services one obtains of the product during its use. The difference from the fourth definition is that according to this definition it is not the experience during the purchasing process that is important but the experience during the use of the product.

All these different descriptions of the concept of value show that it is a complex construct. Consensus about how a customer experiences value does not yet exist. It is, however, clear that the experience of value is individual and that it at least consists of perceived quality related to the (not only monetary) price that has to be paid.

Quality, value and satisfaction

Several authors have shown that service quality is an antecedent of satisfaction (for example SPRENG & MACKOY, 1996). This means that quality of products and services is one of the determinants of satisfaction. In their research DE RUYTER et al (1997) conclude that an increase in quality leads to an increase in satisfaction. This does not mean, however, that consumers always buy the product with the highest quality. Easiness to use, price, availability and other factors can influence customer satisfaction, without changing the perception of quality by the customer. This is where customer value comes in. Value is the moderating factor between quality and satisfaction (for example CARUANA et al, 2000).

Therefore, to create customer satisfaction landlords need to steer on customer value. Which means finding the right balance between offering products and services that best meet customer needs, wants and desires for the lowest possible price in the most pleasant way. When a landlord finds the right balance he creates value for his customers, which will result in satisfied customers.

The Service Profit Chain

A conceptual framework that also assumes the relationships between quality, value and satisfaction as
described, is the Service Profit Chain, developed by HESKETT et al (1994, 1997). But it assumes more. It assumes that integrated efforts in an organization, which are represented as quality of internal services and skilled, productive, satisfied and loyal employees, contributes to external service quality which, as mentioned before, contributes to customer value.

Furthermore the Service Profit Chain assumes that creating superior customer value may lead to enhanced competitiveness for a service organization. According to the Service Profit Chain customer value leads to customer satisfaction; customer satisfaction leads to increased loyalty among customers and increased loyalty leads to a better competitiveness for a service organization. See figure 1.

The Service Profit Chain supposes a direct relationship between satisfaction and loyalty. Satisfaction will lead to more loyalty than dissatisfaction. The Service Profit Chain assumes that when a landlord succeeds in offering the tenant a valuable product, this will have a positive effect on satisfaction. Satisfaction among existing tenants will lead to more loyal tenants, which means less turnover, less vacancy and will therefore have a positive effect on the competitive position of the landlord.

3. VALUE OF THE BASIC HOUSING PACKAGE

The basic housing package

To create value for the customer, landlords have to offer an aggregated product. The product 'housing' is a very complex one and includes the dwelling, the building as well as the environment of these buildings. (SMEETS, 1993) To create customer value, a mix of qualities on different levels should be delivered by the landlord or a service organisation during the use of a dwelling. According to LEVITT (1986), the product is seen as multi-level with a core and several levels or layers (see also figure 2).

Landlords basically offer a core service, which is traditionally described as 'supplying housing'. This core service is the result of the supplied, so-called facilitating elements of the product. All facilitating elements of the product are necessary to be successful in supplying the core service, are compulsory because of legislation or are so established that the tenants expect them to be supplied. We call the total package of facilitating elements 'the basic housing package'.

In this basic housing package of a landlord four main categories of facilitating elements can be distinguished.

1. Dwelling - on the private level, the quality of elements of the dwelling like size, layout, conveniences and maintenance condition determines the total quality of the dwelling, which contributes to customer value of the basic housing package.

2. Semi-public spaces - on the semi-public level, the quality of elements of backdoor alleys (such as cleanliness and lighting) and corridors, stairwecs and elevators in apartment buildings, contribute to the total quality of the semi-public spaces which contributes to the customer value of the basic housing package.

![Service Profit Chain](source: Heskett et al. (1994))
3- Living environment - on the public level, the quality of elements of the living environment like the vicinity of amenities, the physical quality of the neighborhood, the (absence) of nuisance and the residents with whom one shares the environment, contribute to the total quality of the living environment which contributes to the value of the basic housing package.

4- Services surrounding the rental process - without the services surrounding the rental process, the basic housing package can't be supplied to the customer and therefore the core service of a landlord 'supplying housing' cannot succeed.

These services are called facilitating services. Examples of facilitating services are registering housing seekers, informing housing seekers, signing contracts, maintaining the dwelling etc. Quality aspects are, for example, responsiveness and customer friendliness. The qualities of these services also contribute to the customer value of the basic housing package.

The dwelling and the semi-public spaces are called the facilitating goods of the housing package, the services surrounding the rental process form the facilitating services and the living environment forms the facilitating environment.

4. ADDING VALUE TO THE BASIC HOUSING PACKAGE

Based on the existing housing-stock of the landlord, and aiming to increase customer satisfaction and loyalty, two options are open for a landlord: he can add value by investing in improvements of facilitating elements and/or he can add services to the product. In this article we focus on the second option.

The possibilities of additional services

In marketing literature, several reasons are mentioned as to why additional services can have value adding potentials and may lead to increasing satisfaction (MEYER AND BLÜMELHUBER, 2000).

Firstly, additional services can extend and intensify the relationship between tenant and landlord. With additional services, the number of contact moments between tenant and landlord can be increased. This might result in affinity with the landlord instead of affinity with just the basic housing package.

Secondly, with additional services overall satisfaction with the total product can be raised because value is added to the total product. This is shown by the relationships of the aspects in the Service Profit Chain.

Compared to investment in dwellings, estates and the living environment, investments in services are quite easy to realize. One of the characteristics of services is their flexibility. Because of this, services are very suitable for landlords to distinguish themselves from their competitors. The flexible character of services does, however, also have a disadvantage. Successful services can be copied quite easily. Whenever more landlords in the same market offer the same additional services, these services become something the tenants expect from a landlord. Those services then degrade from additional services to facilitating services. This makes it hard to keep an achieved competitive advantage, if a landlord does not strive continually to develop new or better services.

Organizations, like landlords, for whom it is hard to distinguish themselves from the competition using the existing physical product, should focus more on improving existing services and on addi-
Additional services. This is known as a shift from core product focus to service added focus. Figure 3 shows the extended housing package.

Additional services are often focussed on healthcare, independence, freedom of choice, safety and security, profit and comfort. Examples of comfort services are odd-job services and moving house services.

For landlords that focus on these kinds of additional services a description of the core service like ‘supplying comfortable living’ seems much more appropriate than the traditional description being ‘supplying housing’

The limitations of additional services

Adding services to the basic housing package might be an adequate strategy to improve the competitive position of a residential estate. However, there are some strict conditions (Based on MEYER AND BLÜMELHUBER, 2000). If these conditions are not met, success with additional services is not very likely.

The first condition is that the additional service needs to have a (preferably strong) relationship with the core service of the organization. So, they should be related to housing services. Adding dining or grocery services is from this viewpoint not a good idea.

Secondly, the additional service has to add value to the basic housing package for the customer. The value of the total housing package after adding the services has to be higher than the value offered by competitors.

Last but not least, the elements of the basic housing package of a landlord (the dwelling, the semi-public spaces, the living environment and the facilitating services) should not lead to dissatisfaction. These elements of the existing product must have an acceptable standard quality for the tenant.

Especially this last condition, the strong connection of the success of additional services with the quality of the other elements of the total housing package, has consequences for property management. At the level of residential estates, it needs to be determined whether expanding (or improving or disposing) the supply of services is a proper strategic option to improve the competitive position of the estate.

This however does not mean that landlords will not expand, improve or dispose of their supply of additional services for one single estate. These strategies will only be executed if there are enough residential estates where these strategies have a positive influence on the competitive position of the estates. Only then the strategy will be financially feasible. The number of estates that is necessary for the strategy to be feasible depends on the type of service.

In this section it is shown that additional services have value adding potential. The described conditions, however, show that this potential should not be overestimated.

5. CUSTOMER SATISFACTION - THE POSSIBLE EFFECT OF ADDING VALUE

Being an antecedent of value, satisfaction can be seen as the degree in which customers experience value. A way of investigating whether customers experience value is measuring customer satisfaction. As shown in the service profit chain, value experienced by the customer results in customer satisfaction.

In our research, we wanted to estimate the impact of satisfaction with the dwelling, the public spaces, the living environment, and the services in the overall satisfaction with the total housing pack-
age. This gives us an indication of the effect adding value to one of the elements of the housing package will have on overall customer satisfaction.

**Used Method**

Structural Equation Modelling was used to estimate the relationship between satisfaction with several attributes of dwellings, semi-public spaces, living environment and services and the overall satisfaction with the housing package and to estimate the relationship between overall satisfaction and loyalty (BYRNE, 2001).

In a survey, among 600 tenants of housing association SWS in Eindhoven, 137 variables were used as indicators for satisfaction with the housing package of the housing association (DOGGE et al., 1999). By using four confirmatory factor analyses the indicators where grouped into factors that explain the satisfaction with the dwelling, the semi-public space, the living environment and the service. Next, the indicators that formed the different factors in the results of the four confirmatory factor analyses were aggregated into new constructs (like size of dwelling, layout of dwelling etc.). Those new constructs are used as the observed variables in a second order factor analyses. In the first order the relationships between those observed variables and the satisfaction with the dwelling, the semi-public spaces, the living environment and the services (all latent variables) are estimated. In the second order the relationship between satisfaction with dwelling, the semi-public space, the living environment and the services and the overall satisfaction with the housing package (latent variable) is estimated. Besides these two orders also the relationship between overall satisfaction (latent variable) and the tendency to move house (observed variables) is estimated.

The results are shown in figure 4. The coefficients in this figure are standardized regression weights.

**Results**

The satisfaction with all named elements in the existing product appears to weigh significantly in the overall satisfaction with the basic housing package. Although there are no extreme differences in the weight of these elements, there are some remarkable results. Satisfaction with the dwelling appears to have the highest weight in the overall satisfaction with the basic housing package; the living environment has the second highest weight and services have the third highest weight.

Thus, the results show that all elements of the housing package contribute to the overall satisfaction. This means adding value to all of these elements would increase overall satisfaction. This includes services.
Detailed results

There are also more detailed results which show the contribution of attributes of dwelling, semi-public spaces, living environment and services on overall satisfaction. In the case of satisfaction with the (facilitating) services, satisfaction with friendliness, responsiveness, ease of reaching by phone and maintenance services all have comparable weights.

6. CONCLUSIONS

Although additional services have value adding potentials, these potentials should not be overestimated. Adding services to the basic housing package of a landlord might, under the right circumstances, enhance the satisfaction of the tenant. The analysis shows however that also satisfactions with the dwelling as well as satisfaction with the living environment have high weights in the overall satisfaction with the product of a landlord. To create value for the costumer it often makes more sense to improve the quality of the dwelling and/or living environment, instead off blindly adding services to the basic product.

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