

Is The Customer Always King? Finding the Optimum Level of Customer Orientation

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This article is an extended summary of a study published in the [Journal of Marketing](#) in March 2011, pages 55-74.

Whether in retail sales, business-to-business sales, or home sales, conventional wisdom suggests “the customer is always right.” Identifying and meeting customer needs is also at the core of the notion of salesperson customer orientation, introduced by Saxe and Weitz (1982) to the academic marketing literature almost exactly 30 years ago. Moreover, there is much empirical evidence that suggests that customer orientation positively influences customer perceptions. However, as a recent meta-analysis documents, researchers have had a hard time finding an effect of customer orientation on sales performance (Franke and Park 2006).

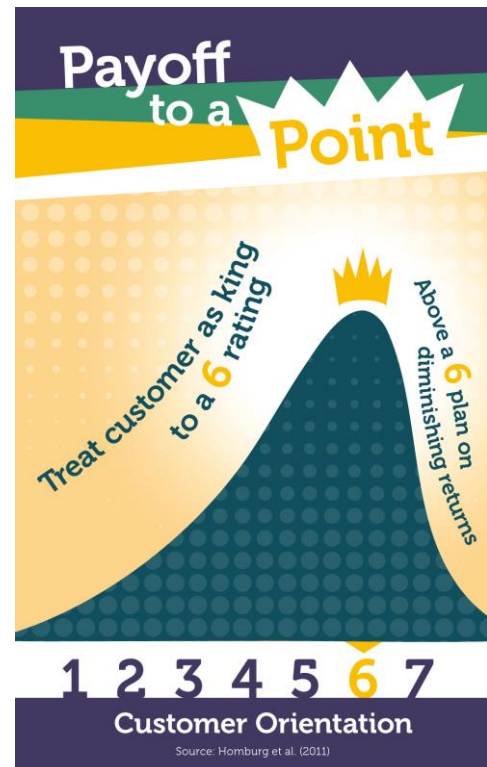
While it is clear that developing long-term, collaborative relationships with customers is important, the lack of a clear effect on sales performance suggests that maybe a salesperson can put *too much* emphasis on his customers.

This unconventional suggestion is worth consideration, as many salespeople may not realize the cost of customer-related activities, both in terms of time and opportunity costs. Therefore, in our recent study we sought to understand and identify the optimal level of customer orientation in a sales encounter. Specifically, we wanted to determine: “How right should the customer be?” (Anderson and Onyemah 2006).

The results of our study have important implications for salespeople in the real estate industry. Identifying the optimum level of customer orientation that a real estate agent should exhibit can help her maximize her customer relationship potential to achieve maximum sales results.

Defining Customer Orientation and Identifying Outcomes

Against the backdrop of Saxe and Weitz’s (1982) framework of customer orientation, we define customer orientation in sales encounters as *the degree to which a salesperson identifies and meets customer needs and interests in the different stages of the sales encounter*. Five major stages of a sales encounter are often considered (e.g., Jobber and Lancaster 2006):



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- 1) Need and Problem Identification
- 2) Presentation and Demonstration
- 3) Dealing with Objections
- 4) Negotiation
- 5) Closing

These five stages also reflect the typical stages of a home buying transaction. Regardless of the context, though, salespeople can choose to exhibit different levels of customer orientation in each stage. Based on a prior relationship with the client, the potential for a financially significant sale, or a genuine predisposition to meet customer needs, among others, each stage of the sales encounter can tip the scales of the “ideal” balance of time and resources an agent contributes to the transaction.

Finding ways to measure and manage outcomes based on the framework of the five stages of the sales transaction are paramount to conserving resources and maximizing sales potential. In our research we have linked salesperson customer orientation to two key outcome variables.

- 1) *Sales Performance* – the financial result of sales activities
- 2) *Customer Satisfaction* – a customer’s overall evaluation of purchase and consumption, based on attitudes toward the salesperson and attitude toward the products

We find it important to include both aspects of performance, because short-term financial performance alone could ignore long-term benefits of customer orientation. This would be particularly important in relational selling environments. In real estate selling this typically depends on the customer structure and the real estate that is being sold. Especially with business customers real estate agents could establish long-term relationships, where it will not suffice to focus on the financial outcomes of selling.

Studying Sales Managers, Sales Representatives, and their Customers

Using sales performance and customer satisfaction as outcome variables, we conducted a large study among sales managers, sales representatives, and customers in multiple industry contexts to better understand the optimal level of customer orientation in a sales encounter.

Mail-based surveys were administered to sales managers and sales representatives from more than thirty different business units in the financial services, logistics, health care, and information technology sectors, among others. Overall, we collected survey data from more than fifty sales managers and nearly 200 individual salespeople. Additionally, we were able to obtain data from more than 500 customers of these salespeople. As we sought to understand individual salesperson customer orientation, data were matched at the salesperson level by averaging customer responses from the surveys for each salesperson.

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What We Found

The study uncovered key findings for salespeople. First, the data revealed an inverted U-shaped effect of a salesperson's customer orientation on sales performance, which suggests there is an optimum level of salesperson customer orientation. In fact, the data reveal that that approximately 30 percent of salespeople exhibit customer orientation levels higher than the optimum, resulting in diminishing returns on customer orientation past a certain level.

We also looked at the effect of context factor of the optimum level of customer orientation. In particular, we found that the optimum level of customer orientation is higher for highly individualized products and lower for standardized products (e.g., commodities). Likewise, the optimum level of customer orientation is higher for premium products versus budget products and in competitive environments.

To better understand how a salesperson's customer orientation can actually reduce sales performance, we also conducted some descriptive analyses of the costs of customer orientation. In particular, our data indicated that salespeople with higher than optimal levels of customer orientation serve much fewer customers than their colleagues. Also about 55 percent of their customer interactions have no sales elements. Hence, the key cost of customer orientation is the time spent on interactions with customers. Very high levels of customer orientation demand a lot of time, which is then missing to serve other customers. For the salespeople with the highest customer orientation levels this is not compensated by additional sales to existing customers.

It is worth emphasizing that the data show that customer orientation in sales encounters has a continuously positive effect on customer attitudes. Not surprisingly, the more time and resources a salesperson contributes to his customer, the better the customer's attitude towards the salesperson. Finally, a customer's attitude toward the salesperson and a customer's attitude toward a supplier's products influence customer satisfaction. In turn, this positively affects sales performance. Please see the [original study](#) for in depth analysis on the study's constructs and findings.

What This Means for Real Estate Agents

Real estate agents know that making customers a priority is important for building long-term relationships. At the same time, it is important to consider that customer-centric activities require a considerable amount of a salesperson's time and resources. For agents, our findings can help assess and understand the optimal level of customer orientation and what factors determine its magnitude.

Agents should reconsider the link between salesperson customer orientation and sales performance. Recognize that there *is* an optimum level of customer-oriented behavior in sales encounters, and activity beyond the optimum level results in diminishing returns. In a struggling economy, finding ways to reduce the time and financial expenses of a real estate transaction

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while maintaining performance is imperative. This means that there are times when customer *should not* always be king. While working to provide high levels of service in real estate transactions is important, more activity does not always mean greater results for the agent. Are you working *harder* on behalf of your clients? Or are you working *smarter*?

One way an agent can work smarter to help achieve his optimal level of activity is to monitor his customer orientation more closely. Appendix I provides a portion of the survey used to conduct our study and is included to help an agent assess and manage the individual facets of his customer orientation in a real estate transaction. Consider using the survey quarterly to monitor your activities. The survey is constructed using a 7-point scale, and our study revealed that scores in any stage of the sales encounter above 6 can be a warning sign that behaviors are verging on counterproductive. This simple tool can also help managers manage their teams more closely.

However, it is worth noting that a one-size-fits-all approach to agent-customer interactions can lead to misallocation of resources. Some circumstances (and some customers) require greater levels of customer orientation than others. In particular, real estate agents selling premium property to customer with highly individual needs should not be alarmed if their customer orientation is larger than 6 (or even close to 7) on the scale mentioned above. Our results show that in these environments, the optimum level of customer orientation is larger than what our existing scale can measure.

Conclusion

Contrary to conventional wisdom, the customer should not always be king. While maintaining a high level of customer-oriented service is important for building long-term agent-customer relationships, identifying the optimum level of customer orientation can help an agent maximize his customer relationship potential to achieve maximum sales results.

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Appendix I - Facets of Customer Orientation in Sales Encounters

Survey

Stage 1: Identification of Customer Requirements

- I ask my customers about their specific performance requirements
- I ask directed questions to determine the specific needs of my customers
- I actively involve my customers in meetings to determine their specific needs
- I attentively listen to my customers to get a proper understanding of their specific needs
- I summarize my customers' statements to get a proper understanding of specific needs

Stage 2: Presentation of Customer Solutions

- I particularly focus on functional information which is especially relevant for my customers
- I focus on those benefits of our products and services, which are of particular relevance for my customers
- I adapt my sales pitch very much to my customers' interests
- When presenting our products and services, I respond very individually to my customers' requirements

Stage 3: Collaborative Handling of Objections and Disagreements

- I am very attentive to customer objections
- I routinely ask my customers for the reasons behind their objections
- I am very committed to resolve disagreements between my customers and me
- I actively create win/win situations to resolve disagreements between my customers and me
- I bring all difference between my customers and me out in the open to resolve disagreements

Stage 4: Consideration of Customer Interests

- In sales negotiations, I extensively account for my customers' interests
- I reconcile my interests with my customers' interests to achieve an agreement in sales negotiations
- I make compromises with my customers to achieve an agreement in sales negotiations

Stage 5: Use of Informative Closing Techniques

- I recommend my customers products and services that are appropriate from my point of view in a non-obliging way to facilitate their buying decision
- I summarize for my customers the major benefits of our offer in a non-obliging way to facilitate their buying decision

***Assess survey questions on a seven-point scale: “strongly disagree” to “strongly agree”**

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Dr. Christian Homburg is director of the Institute for Market-Oriented Management (IMU) at the University of Mannheim. Since 2007, he has also been Professorial Fellow in the Department of Management and Marketing at the University of Melbourne. His research focuses on market-oriented management, customer relationship management, and sales management. Professor Homburg has published numerous books and articles at both the national and the international level. His research has also received several awards. In November 2005 and in May 2009, he was listed first in a ranking of German management scholars in the Germany business daily *Handelsblatt*. In March 2006 (Copenhagen Business School) and in July 2008 (Technical University Freiberg), Professor Homburg was awarded honorary doctoral degrees. Before his academic career, Professor Homburg was director of marketing, management accounting, and strategic planning in an industrial company that operates globally. In addition to his academic position, he is chairman of the scientific advisory committee of Homburg & Partner, an international management consultancy.

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