

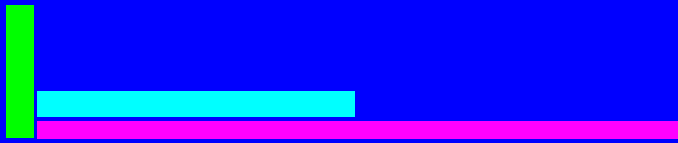


Customer Value Management

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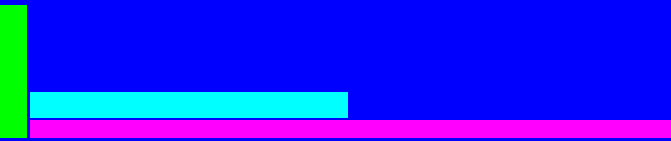
Customer Value Management



Overview

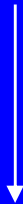
1. What is Value in Business Markets?
2. Customer Value Management
3. Gathering Evidence for Superior Value
4. Value Realization

What is Value in Business Markets?

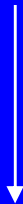


What being *market-oriented* means in business markets is changing:

Features of an offering



Benefits of an offering

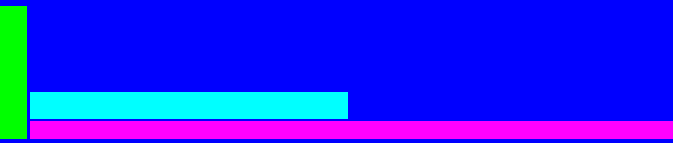


What the offering is *worth* in the customer's application

Supplier needs to translate

Supplier needs to translate

What is Value in Business Markets?



Value in business markets is the worth in monetary terms of the technical, economic, service, and social benefits a customer firm receives in exchange for the price it pays for a market offering.

The fundamental value equation:

$$(Value_f - Price_f) > (Value_a - Price_a)$$

Customer Value Management



Customer Value Management (CVM) is a progressive, practical approach to managing business markets.

In its essence, CVM has two basic goals:

- Deliver superior value to targeted segments and customers.
- Get an equitable return on the value delivered.

The return a supplier can achieve depends upon:

- The next best alternative (in the minds of customers)
- What the customer is seeking
- The tools that the supplier uses to convey the difference in offerings

Customer Value Management



How does the supplier's offering compare to the *next best alternative (NBA)*?

- ***Highly Differentiated:*** Demonstrable points of difference relative to the NBA, most often in the core offering, that the supplier can express in monetary terms specifically for a customer's business.
- ***Slightly Differentiated:*** Points of difference relative to the NBA, most often in the augmenting services, programs and systems, whose value the supplier can suggest broadly for a customer's business.
- ***Undifferentiated:*** No noteworthy differences relative to the NBA, often referred to as "commodities."

Customer Value Management



How does the customer view the purchase?

Strategic

- Has decided purchase significantly contributes to differentiating its offerings in its markets
- Finds it worthwhile to do extensive evaluations of the value in monetary terms

Not Strategic

- Can still be of consequence because of the purchasing spend for them
- Puts pressure on making these purchases in a timely manner, as there are many more of this kind of purchase
- Customer managers pursue shorter process and simpler evaluation
 - It didn't consume too much time or other resources.
 - There are no complaints or problems with the selected alternative.

Customer Value Management



What does the customer want for non-strategic purchases?

- Find two or more suppliers that meet *basic specifications* at a *competitive price*
- Ask finalist suppliers for “*something more*” to make the purchase decision
- Actually does *not* want well-worn supplier reactions:
 - Stressing whatever feature(s) the offering has that competitors do not
 - Simply offering a price concession

Customer Value Management



What customer managers actually want: “*The Justifier*”

- That *pivotal element* of one supplier’s offering, beyond meeting the basic requirements at a competitive price, which causes the customer to choose that supplier’s offering over others.
- A *noteworthy difference* that the customer *wants to have*. That it has value for the customer’s business is *self-evident*, requiring no time-consuming analyses.

Customer Value Management



What does *the Justifier* do for customer managers?

- Enables a customer manager to *justify his or her decision to others* for selecting one supplier's offering over the others, when all have met the basic specifications at a competitive price
- *Justifies the customer manager's contribution to the organization*, when others in the business see that manager as responsible for obtaining the justifier

Customer Value Management



Customer value management can be implemented as *a process for improving specific business performance*:

- Translating business issues into projects
- Customer value workshop
- Customer value research
- Constructing a business case for change
- Value realization

More broadly, customer value management can be *an underlying philosophy for running a business*.

Gathering Evidence for Superior Value

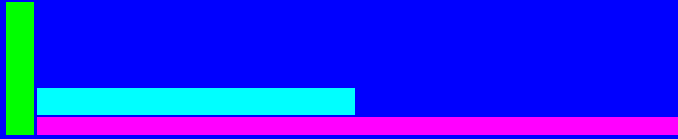


In building *customer value models*, there are two basic considerations:

What is the role that customer perception will play?

“Data light and assumption heavy” models versus
“Data heavy and assumption light” models?

Gathering Evidence for Superior Value



Getting started:

- Put together a customer value research team
- Conduct a customer value workshop
- Gain customer cooperation

Gathering Evidence for Superior Value



Building the initial *customer value model*:

Generate a *comprehensive* list of value *elements*.

Decide which competitor's market offering customers in each (sub)segment regard as the next-best-alternative.

Revisit the value elements to delineate:

Points of parity

Points of difference

In initial customer visits, determine *points of contention*.

Focus the model and data-gathering on points of difference and points of contention. Construct a *value word equation* for each one and be *explicit* in the assumptions made.

Gathering Evidence for Superior Value



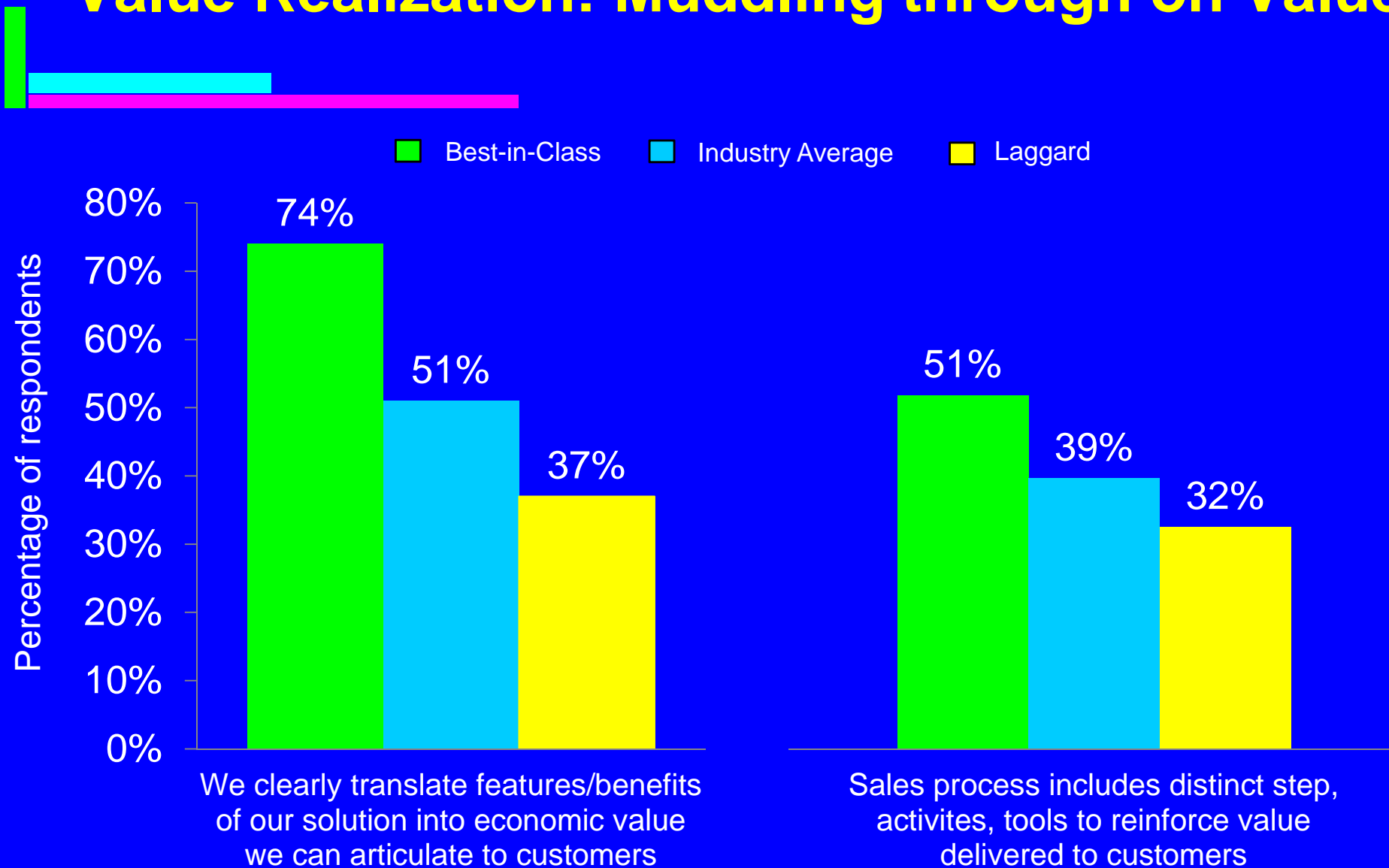
An example of a *value word equation*:

A point-of-difference between two large-format, document reproduction systems was the number of paper jams a customer would experience each day. The word equation for this was expressed as:

Paper Jam Cost Savings_{B,A} =
[(paper jams per day x minutes to fix jam)_A – (paper jams per day x minutes to fix jam)_B] / 60 minutes per hour x operator wages per hour x annual work days

An explicit assumption made was that if operator hours could be reduced, the Engineering Department would reassign him or her to other value-adding tasks.

Value Realization: Muddling through on Value



Source: Aberdeen Group, September 2011

Value Realization: Using CVM Sales Tools to Provide the Evidence that the Customer Wants

Supplier's Offering Is...

Highly
Differentiated

Slightly
Differentiated

Customer Views Purchase As...

Non-Strategic

Strategic

		Value Case History Value Calculator Value Documenter
Justifier Value Cases		

Value Realization



Realizing the *value* and **incremental profit** detailed in the *business case for change* requires:

Senior management approval and continued support of business case

Action plan for implementing business case:

- Refining or extending customer value models
- Supporting changes in performance review and compensation
- Devise system for tracking incremental profitability
- Create value-based sales tools and sales force training

The SKF logo is positioned at the top left of the page. It consists of the letters 'SKF' in a bold, blue, sans-serif font. The background of the entire page is a close-up photograph of a computer keyboard with a hand typing. The keys are slightly out of focus, with the 'Total Savings' and 'prove it' keys being the most prominent in the foreground.

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