

Customer Value Management: Five steps to creating customer value.

Step 3: Create customer value

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In my first PharmaChem article (September issue ¹), I challenged you to inject more customer focus into your marketing thinking. In a

related article on Customer Value Management, which appears in the PharmaChem directory ², I introduced the 5-Step Pentadigm Customer Value Management (CVM) Model – an integrated view of the entire business process that focuses on the value needs and value expectations of the customer, that is focused and implemented in five continuous, dynamic steps that help you create value for both you and your customers.

- Step 1 – Discover: understand the customer.
- Step 2 – Commit: commit to the customer.
- Step 3 – Create: create customer value.
- Step 4 – Assess: obtain customer feedback.
- Step 5 – Improve: measure and improve your customer value commitment.

The model sets up and reinforces the link between customer needs, supplier offering and implementation by the supplier of the offering to meet the customer needs, at the

same time providing value to both parties: for the customer value received (through product, service and solutions delivering benefit) and acknowledged (through price

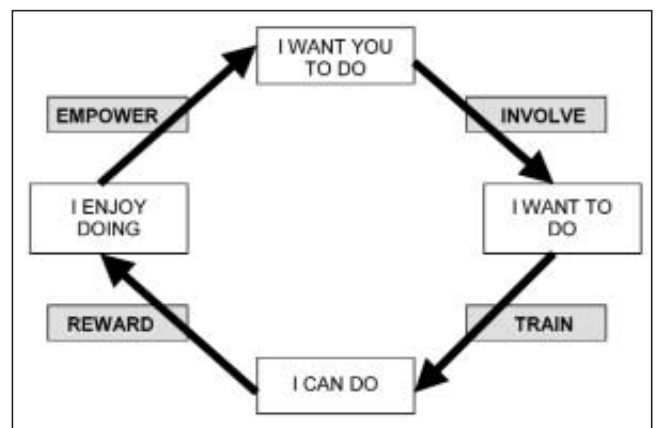


Figure 1

paid); for the supplier value created and captured (through price received exceeding costs to supply and serve and through a concentration of resources where they will have the most impact and create the most value).

In the third (October issue ³) and fourth (November/December issue ⁴) articles I explored, respectively, the first and the second step in this five-step model. In this fifth article, I'd like to explore in more detail the third step.

STEP 3 - CREATE CUSTOMER VALUE

Implementation of customer value is probably the most challenging aspect of this whole process for many companies, and yet it really can be and should be quite simple.

The most important action in this third step is to create a customer culture within the organisation. The customer culture must be driven from the top and it must

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1. *PharmaChem* 2003, 2 (9), 23-25
2. *The Worldwide PharmaChem Directory*, 2003, p.21-25
3. *PharmaChem* 2003, 2 (10), 80-83
4. *PharmaChem* 2003, 2 (11-12), 56-60

Table I

	Owned	Partnership	Procured
Standard Channel	Sales and marketing, company website, order taking	Purchasing co-operative	Outsourced purchasing
Mass Customized Channel	Customer and technical services	Company credit cards	Delivery Services, Billing and Collection
Value Commitment Channel	Key account management	Account database	Contract negotiating service

Source: De Bonis, Balinski & Allen "Value-Based Marketing for Bottom-Line Success", McGraw Hill, 2003

infiltrate every part of the organisation, whether they are directly customer-facing or not. It is equally important for the production people to know why and how they contribute to creating customer value. The best and most effective solution is to include in every job description an element called "customer value" and then define how that job contributes to customer value creation. I would even go so far as to say that having a marketing, sales or customer service department or function can sometimes be counter-productive to the development of a corporate-wide customer value culture because everyone assumes that it is the role of that function to "do the customer stuff" and so they do not take ownership of it themselves.

Next priority, having put in place a customer culture, is to define all the processes needed to create customer value, from how to obtain customer understanding, how to develop, produce and deliver offerings to fulfil the customer needs, how to evaluate and select appropriate channels to market, how to set value-based prices and secure payment, obtain customer feedback and improve customer value.

These processes define the structure and organisation – the form – your company needs to assume in order to serve your chosen customer segments

Table III

Superior Customer Value	Offering Element	Action Detail	By Whom	By When	Time Needed	Desired Outcome	Milestones
1. First to market at their customer with innovative, leading edge products	First exposure to innovations from our R&D labs	Define a monthly R&D outputs review with customer	Gerald Boffin	30 November 2004	2 Person days	Customer and we have scheduled for the entire coming year monthly R&D reviews to ensure that they can benefit from our latest technology and ideas first	'30 September 2004: contact with customer; 31 October 2004: draft meeting schedule

Source: De Bonis, Balinski & Allen "Value-Based Marketing for Bottom-Line Success", McGraw Hill, 2003

effectively and profitably. The processes will define all the tasks needed to carry out these activities effectively and efficiently.

The third action in creating customer value

support the development of the competences and skills.

A simple model (Figure 1) shows the way to empowerment and motivation.

Our fourth action in this step is to define and develop the enabling infrastructure. This is where we tackle the issues of channel definition and choice, information and communications systems and all other enabling systems. It is worth noting that many infrastructure failures are caused by companies jumping straight in at the deep-end starting with their systems definition, before they have even considered what they actually want the systems to do.

Channel and channel partner selection can be a very critical factor in successful value creation, as the channel is often a representative of your company at the customer interface. As such, it is worth investing some time and effort to select the right channel and the right channel partners.

Table I summarizes various channel options.

Table II portrays an example of a channel partner selection model.

The final and most critical action in this third step, create customer value, is to implement effectively. Again, in our experience, a major source of pitfalls and errors. Again, we have a relatively simple solution, which begs the question: why don't more people do this.

In order to ensure that your actions and activities are driven by customer value creation, LINK the action plans back to the customer value commitment, as shown in the simple **linked action plan** reported in Table III.

About the Author

PHIL ALLEN runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in the construction, chemicals and energy sectors covering all aspects of improving business profitability through applied practical marketing and customer value management. He counts more than 30 years of practical experience in marketing and sales, including several years in the construction industry. MarketAbility operates both at global and local levels around the world. In a recent profile of MarketAbility on EuroNews, Juan Senior, International Business Writer, praised MarketAbility for its unique and practical approach to business value creation. Phil is the founder of the Customer Value Management Circle of Excellence (www.customer-value.com), a learning and sharing organisation for all involved and/or interested in managing customer value and building customer loyalty. He is co-author, with J. Nicholas de Bonis and Eric Balinski, of the book "Value-Based Marketing for Bottom-Line Success", published by McGraw Hill in December 2002. Find out more about MarketAbility at www.marketability.org Find out more about the Pentadigm model at www.pentadigm.com