

Analysis

Create customer value in five steps — part two

In the past issue (*C&I* 2002, 12) Phil Allen outlined the importance of mapping the market and understanding your customer's value expectations. Now he rounds up this section with how to discover your customer-value segments, assess your competitive position and select your target customer-value segments.

The four remaining steps in the customer-value management model will be explored in more detail in further articles, which will appear in *C&I* during the rest of this year.

Discover customer value

Segmentation is based on the idea that markets can be divided into groups of customers with homogeneous needs and value drivers. Segmenting helps you to understand customer value. It is the basis for choosing target customers and the building block of your customer-value commitment. It allows you to concentrate your strength against your competitors' weaknesses.

Once you have this understanding you can go on to discover what drives your customer's behaviour. The most powerful way to define a customer-value segment is through groups of unmet or poorly met needs. If you don't find any unmet or poorly met needs on a first pass, look again. Every customer has some.

Start at the last level in the value chain, where the value or benefit of your offering is still recognised and work back from there. You should discover customer-value segments at each level up to the direct trading partner. You will have to target customer-value segments at each of these levels in the value chain, to develop a winning marketing strategy. It is crucial to start at the last level in the value chain, where the real value and benefit of your customer-value commitment is still recognised. It is here that the greatest value in your offering is

likely to be acknowledged.

That's the best way to do it, but if time presses, I have developed a generic segmentation model with four basic types of customer. The innovator is primarily driven by the need to maintain a competitive advantage in its market, and to be perceived as an innovator in its industry. It does this by leading innovation and creating value leading edge products, technology, markets and processes. A highly knowledgeable risk-taker, the innovator focuses on the desired benefits of purchases, and offsets the relative cost with a higher priced offering.

The optimiser is similar to the innovator, but the most important value driver is the need to reach full market potential by fulfilling demand and not missing opportunities. The optimiser balances desired benefits and relative cost.

The operationaliser's value decisions are driven by the need to optimise profits. Desired benefits are sought to optimise total cost of acquisition and use. This customer-value segment expects relative costs to be satisfied by achieving operational efficiency.

The economiser must buy from the low-cost supplier in its value chain. Purchase decisions are made on the basis of price alone, when no further cost advantages are perceived overall.

Competitive position

Understanding the competition and your competitive position are relevant, your strategic thrust should not be to crush the competition. You will be in a position to deliver sustainable performance and profit by delivering products and services that your customers need. Whether the competition will be able to deliver superior value now or in the future is relevant, but should not be the essence of your business philosophy. Are you in business to sell products or value?

Customers are the only arbiters of value who matter. Superior value for customers wins them and keeps them loyal. It also confuses the competition.

Select your target

Customer-value management is laser-guided marketing which identifies customer-value segments to pursue. You decide whether or not the company has the critical processes and desire to meet the customers' value expectations, and if those relationships result in value. Answering those two questions helps select target customer-value segments and ignore others. You must judge whether you can profitably do business with any customer better as an individual, or as part of a customer-value segment. The larger the customer the more likely they are to be in a value segment of their own.

Always consider the cost of acquiring and retaining customers. Most often there are more opportunities than you either can or want to exploit. So you must make choices. As a supplier, you have a value ratio just as customers do. Your desired benefit is a profit stream over time divided by the cost of that profit. Your relative costs are the acquisition, maintenance and retention costs associated with your customer relationships.

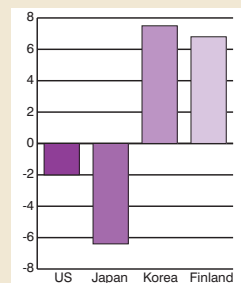
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Latest Data

Source: OECD

Industrial production

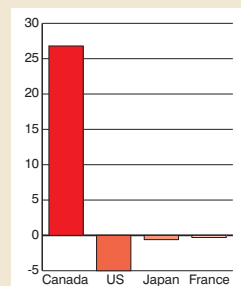
2002	Apr	12 month rate of change, %
US	121.7	-2.0
Japan	93.9	-6.4
Korea	166.7	7.5
Finland	143.8	6.8



Construction

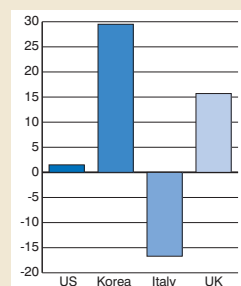
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2002	Apr	12 month rate of change, %
Canada	163.9	26.8
US	114.3	-5.0
Japan	77.5	-0.6
France	99.3	-0.3



Passenger cars

2002	Apr	12 month rate of change, %
US	717.0	1.5
Korea	121.4	29.5
Italy	169.0	-16.7
UK	214.0	15.7



Retail trade (volume)

2002	Apr	12 month rate of change, %
US	150.0	5.7
Japan	85.0	-2.7
Korea	135.8	6.5
UK	134.6	6.7

