

Analysis

How to create customer value in five simple steps

What is your company's biggest marketing *faux-pas* or disaster, and how much of the failure was attributable to not understanding the customer and their value needs and expectations?

Understanding customers is the first step to achieving profitable business through customer-value management. To do this you must discover what your customers' needs and value expectations are, by looking at the business relationship through their eyes. 'Who are the other players in the value chain?' and 'what is their commitment to the other players in the channel?' are key questions to ask. Measure the value that flows between the value chain members and discover which customer-value segments exist, based on their value needs, expectations and choices.

Discovery demands a much greater commitment than surveying customers or listening to them. It requires attentiveness to their requirements, as well as creativity and imagination.

There are five major actions in the discovery process, two of which — defining and mapping the market, and understanding your customers' value expectations — are dealt with here. The final three points will be covered in *C&I* 2002, 13.

Market mapping

Defining and mapping the market aims to identify clusters of customers with similar needs and helps change your view of target buyers from a random aggregation to a linear plot, from those most likely to respond to your customer-value commitment, to those who will never respond. You should develop

market maps with varying degrees of detail.

Start with a high-level map describing all the needs, value expectations and chain members. From this knowledge, you can

work down to deeper levels of detail. Always start with the final customer and work back up the value chain.

The map is a first step — you may also need to know why customers choose certain solutions or sources of supply, why their behaviour may change, and what unmet or poorly met needs they have. Questions like these can help you discover groups of customers with similar needs or behaviour.

Customer expectations

Understanding your customers' value expectations can help target those most likely to value your offering and enable you to calculate whether you can serve those customers profitably.

Customers are not just the people who buy your products; they are any member of the value chain who directly, or indirectly, purchases or influences the purchases of your products and services.

More complex or high-value purchases are more likely to be made by a decision-making unit comprising several individuals. In such cases, the key factors are who makes the final decision and how much say each individual has in it. These criteria could determine the choice or preference of supplier.

Table 1 can help define buying behaviour. For the low-necessity/

low-value buyer, an EDI interface for order placement could be suitable, whereas low-necessity/high-value buyers are driven more by price. For a high-necessity/low-value buyer, guaranteed availability of a just-in-time supply would be a key value driver compared to a long-term supply. R&D, finance and marketing partnerships would be necessary for a high-necessity/high-value customer or customer-value segment.

By discovering, understanding and focusing on these drivers, from whatever source is available, you create a stronger foundation on which to build a strategy and compelling offer to your customer.

Customer preferences should be analysed in terms of trade-offs that then shape your company's customer-value commitment. Trade-off analysis is a widely used customer-research technique, which can help determine:

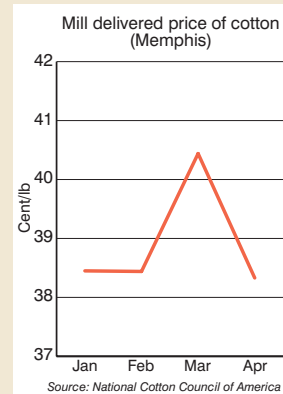
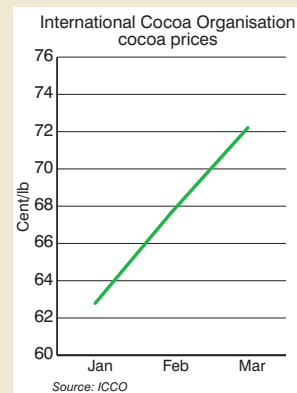
- the relative importance of each of the desired benefits and relative costs of a given offering;
- the desirability of each benefit-and-cost option; and
- the optimum combination of benefit-and-cost options that results in the most value.

Phil Allen runs the marketing excellence practice MarketAbility in the chemicals and energy sectors, covering all aspects of improving business profitability through applied practical marketing and customer-value management. MarketAbility operates on both a local and global level. Allen is also the founder of the Customer Value Management Circle of Excellence. He can be contacted on +41 1 783 8777 or at phil.allen@marketability.org.

Table 1

High-purchase value	price buyers	partnership with supplier
low purchase value	programmed re-buys	security of supply
	low necessity of purchase	high necessity of purchase

Latest Data



Petroleum, \$/bbl

Product	Price	Rate of change, %
Dated Brent \$	23.16	0.06

Natural gas, \$/m MBtu

Product	Price	Rate of change, %
Nymex Henry Hub	3.13	-0.07
Chicago City Gate \$	3.06	-

\$ = cash

