

Growth and Profitability with Customer Value Management

Focussing on shareholder value has been an essential tactic for senior managers keen to hold onto their jobs in recent years. Phil Allen of consultancy MarketAbility argues that the time has come for a renewed focus on customer value, and proposes adopting a 5-step Best Practice model.

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. Phil is the founder of the Customer Value Management Circle of Excellence (www.customer-value.com).

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Analysts constantly criticize companies in the construction industry for destroying shareholder value. We can reveal one of the reasons why! A recent MarketAbility study of Customer Value Management (CVM) practice in business-to-business highlights that many suppliers to business-to-business markets – including the construction market – give away hundreds of millions of margin pounds, Euros and dollars every year by under-performing in the market place.

Industrial Suppliers must treat their Customers Better

A key finding was that focus in the majority of industrial suppliers is on shareholder value rather than customer value. MarketAbility identified four levels of company performance on Customer Value Management:–

- Non-Starters – whom, we estimate, represent about 20% of industrial companies
- Laggards 40%
- Followers 30%
- Leaders 10%

The good news: there is some very good and advanced Customer Value Management practice to be found...

The bad news: in many companies customer focus is fragmented and inconsistent.

The worse news: in some companies it is non-existent.

CVM Defined

CVM is the marketing process whereby supplier and customer create value through a planned and systematic exploitation of mutually beneficial sustainable and profitable market opportunities.

Industrial Companies: CVM Behaviours

Our research enabled us to identify the key behaviours that typify companies in each of the four categories of CVM performance we have identified, which are summarized in the table (facing page).

Today's Customer Value Managers operate in a world of constant and often rapid change. The dynamics of societies, economies, markets, companies, customers, potential customers and competitors impact the success or otherwise of the Customer Value Manager's strategies, commitments and plans. The effective Customer Value Manager needs to have highly efficient change radar in place to be able to anticipate and respond to these changes.

This means having regular interactive dialogues with customers and asking pertinent questions about their future. This means conducting regular economic and market research to anticipate changes in the macro picture. This means monitoring competitor activities closely and regularly reviewing and assessing competitor strategies. All of these activities should be

| Item | Non-Starters | Laggards | Followers | Leaders |
|--------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------------------|
| Business Strategy | Asset driven | Product driven | Product driven | Customer-focused |
| Market Understanding Customer Intelligence interactive | Poor No customer research | Basic Ad hoc customer research | Good Periodic customer satisfaction research | Advanced Regular customer needs fulfilment dialogue |
| Customer Segmentation | No customer segmentation | Limited customer segmentation, by product/ geography | Well-defined customer segments | Clearly defined needs-based customer segments |
| Competitor Understanding | Basic | Good | Advanced | Strategic |
| Value Propositions/ Differentiation | Poorly defined offerings | Basic offerings defined, no clear differentiation | Basic value propositions for different segments | Differentiated offerings for each segment |
| Internal communications | Offerings not communicated internally | Customer- facing groups understand offerings | Company-wide basic understanding of offerings | Advanced understanding of offerings differentiated company-wide |
| Customer communications | Confused and poorly communic- ated | Poor communic- ations | Limited customer communications | Proactive customer communications |
| Measures of Success (KPI's) | No clearly defined measures | Basic financial measures | Advanced financial and some non- financial measures | Advanced measures using internal and customer metrics |
| Customer service | Poor to non- existent | Poor to non- existent | Reactive service | Proactive service |
| Customer service systems | Non-existent | Non-aligned computer systems | Non-integrated systems | Integrated customer service systems |
| Information/ Communications infrastructure | Inconsistent or undevel- oped | Inconsistent | Basic | Advanced |
| E-business systems | Non-existent | Non-existent | Basic e- Commerce system | Advanced e- business systems |
| Value chain management | Non-existent | Non-existent | Supply chain management | Advanced value chain management |
| Account Management | None | None | Basic | Advanced and comprehensive |
| Account Contacts | Limited customer | Basic sales contacts to customer | Most customer contacts through sales | Multi-functional, multi-level account contacts |
| Customer Feedback | No regular attempt to get customer feedback | Ad hoc customer research | Periodic customer satisfaction survey | Regular customer dialogue and independent research |

an integral part of your Customer Value Management model.

We've all seen planning processes and systems fail because they become a "fill-in-the blanks" exercise. Planning is a serious process, demanding a high level of analysis and dynamic creativity in the interpretation of data and the development of scenarios, not forgetting the development of your own strategies in the light of the scenarios.

The key to anticipating how customer value expectations and your customer value commitment will change in the future is to measure the impact your customer value commitment is having on your customer value segments and their businesses. This is the most critical leading indicator of performance and yet often the least measured item. Measuring the impact of your current customer value commitments provides insight into your customers' current decisions and future intent and value needs.

Customer Value Management Demands Discipline:

A discipline to understand the customer and the value set of the customer that drives their needs, their buying decisions and buying behaviour.

A discipline to build a commitment to the customer in direct response to that value set that drives their buying decisions and behaviour.

A discipline to design and develop your organization, your people resources and other infrastructure based on your customer value commitment to ensure the relevance of these elements to the creation of customer value.

A discipline to regularly and rigorously obtain feedback from your customers about your customer value commitment and customer value creation.

A discipline to measure your performance using the customer's scorecard rather than your own.

A discipline to never rest on your laurels, to always be looking for way to improve your understanding of the customer value segments' needs and expectations and your customer value commitment.

A discipline to plan rigorously around

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Names and faces

A round-up of who is moving where in construction marketing and business development



■ Another senior marketer has been promoted to head her company, in the shape of **Sarah Bailey** who is now Managing Director of **Laing Homes North**

Home Counties. Sarah's promotion makes her the first female MD in the housebuilder's 150 year history.

Sarah, 36, joined Laing Homes as Sales and Marketing Director in 1999, and at the beginning of this year she was given the unofficial role of Deputy Managing Director in preparation for the top appointment.

■ **Stuart Keeling** has joined leading architectural and decorative lighting specialist **Lightgraphix** to take up the newly created position of Marketing Director.

Stuart has more than 20 years' experience of retail lighting design and has recently completed lighting schemes for such blue chip retailers as Harrods and Sainsbury's.

He has been appointed by LightGraphix to consolidate and strengthen the company's position within the retail sector.

■ **Redland Roofing Systems** has appointed **Paul Larcey** to the position of Sales and Marketing Director.

Mr Larcey, 43, joins Redland from Parker

Hannifin Corporation's Automation Division, where he was in charge of its European sales and marketing function. He began his career as a Research Engineer with Johnson Matthey plc before moving into process engineering with Cookson Group plc.



■ Flooring company Flowcrete has appointed Lin Turner as the new Business Manager for the Traficline and Standline tiled flooring systems. Lin, 33, has 10 years'

experience of the construction industry.

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the changing needs and values of customers and to manage and transform your business, business model and your organization based on the changing needs and values of your chosen target customers

In addition, Customer Value Management demands a mind-set focused on the understanding of customers and the creative application to developing differentiated customer value commitments to create value for chosen customers.

A New CVM Model to Deliver Sustainable Growth and Profitability

MarketAbility has derived a 5-step best practice model to help suppliers to the construction market to improve their CVM performance and practice, using the key drivers identified in our study:--

1. Understand our Customers

Understanding our customers MEANS looking at the world through the customer's eyes and seeing what they see and how they see it.

2. Commit to the Customer

Committing to the customer means creating a compelling offering (value proposition) to the customer that delivers value to them and fulfils their needs.

3. Create Customer Value

Creating customer value means implementing that value proposition consistently and effectively.

4. Obtain Customer Feedback

A vital and too often overlooked aspect customer value management is getting feedback from the customer, ideally using internal contacts and external independent third parties.

5. Measure and Improve

We should also remember the critical importance of continuous improvement in our offering to the customer.

(These five steps will be explored in depth in a series of five articles to follow.)