

Creating customer value

Phil Allen of MarketAbility continues his series on customer value management, highlighting the need to build a customer culture as a necessary early step in the process.



Phil Allen

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In my first article, I introduced the concept of Customer Value Management, which is a best practice five-step model to enable supplier and customer to create value through a planned and systematic exploitation of mutually beneficial sustainable and profitable market opportunities. The subsequent articles have explored the first step of this model, Understand Your Customers, and the second step, Commit to the Customer.

The model sets up and reinforces the linkage 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 in the form of value received (through product and service delivering benefit) and acknowledged (through price paid); for the supplier in terms of 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 this article, I would like to explore in more detail the third step in this five-step model:

3. Create Customer Value

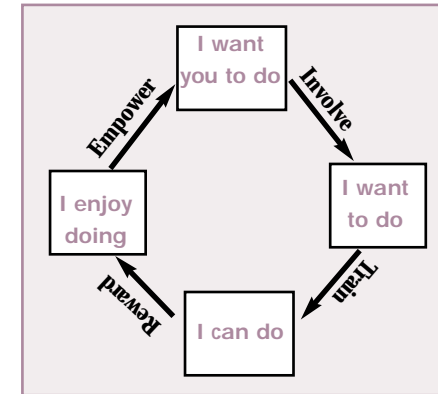
Implementation of customer value is probably the most challenging aspect of this whole process for many companies, and yet it really can be and should be quite simple.

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 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.

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 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 is to populate the processes with people who have the appropriate skills and competences to carry out the tasks



identified in the processes, people who are empowered and motivated – and thereby enabled – to carry out their tasks effectively. This simple model (left) 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 failures are caused by

companies jumping straight in at the deep and 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.

This table summarizes the channel options:

	Owned	Partnership	Procured
Standard Channel	Sales and marketing, company website, order taking	Purchasing co-operative	Outsourced purchasing
Mass Customized Channel	Customer & 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

Partner Selection Criteria	Weight	Partner 1	Partner 2	Partner 3	Partner 4
Financial Strength	10%	80	75	90	100
Sales Strength	15%	85	75	100	85
Reputation	10%	100	80	95	90
Market Coverage	25%	90	90	95	80
Sales Performance	15%	90	90	100	90
Management Strength	10%	85	100	90	90
Willingness to commit to individual brands	5%	90	100	75	75
Willingness to co-operate in joint programs	5%	90	100	75	75
Willingness to share data	5%	70	65	50	40
	100%	87.75	86.00	91.25	

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

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 this simple linked action plan.

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	31 November 2002	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 2002: contact with customer; 31 October draft meeting schedule