Customer value management

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Keywords

Value, Customer satisfaction, Customer care

Abstract

Customer value management (CVM) is an enhanced form of customer satisfaction measurement – one that recognises the fact that the price paid for goods and services is a key component of value. Explains the background to CVM and the key issues surrounding its implementation.

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The quality revolution of the early 1990s made organisations pay real attention to customer care. "The customer is king" was the great exhortation and virtually all front-line employees went through customer care training. However, customer satisfaction levels are overall no higher now than before this "revolution". This could partly be because their expectations have risen. Indeed, it may have risen directly as a result of improved customer care. There is more than a suspicion that many firms "got it wrong" – that although they focused attention on customer care, they did not first attempt to find out what their customers wanted.

An example of such a mismatch between the organisation's and the customer's view is the emphasis that some motor manufacturers place on warranty schemes when trying to persuade potential customers to buy. In reality, customers do not ever want to use a warranty scheme. The systematic, logical purchasers among them (those that do not buy on emotional grounds having seen the new interior) will examine reliability ratings before buying. The company's money would have been better spent on improving the engineering reliability.

Addressing the mismatch is what has given rise to the concept of "customer value management" (CVM).

Earlier forms of customer satisfaction measurement were generally rather simplistic attempts to establish a customer satisfaction baseline and then to target year-on-year improvement. Measures were usually simple – often the "standard" five-point scale with satisfaction defined as those responding in the top two boxes (customers who rate 4 or 5 are "satisfied" or "very satisfied"). Such measures are useful but the first two or three of such surveys yield insights and action (and, hopefully, improved customer satisfaction) but the scores soon flatten out and the initiative wanes.

At this point, either the project falls into disrepute, or the practitioners look for improved measures. Typically, this involves an examination of how customer satisfaction scores are related to loyalty intention scores such as "willingness to repurchase" or "willingness to recommend". Soon, however, the benefits to be gained from such "measures" become at best marginal.

In its most basic form, CVM is a kind of enhanced customer satisfaction

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measurement, but enhanced by the inclusion of price and value factors. CVM measures not just a customers' satisfaction with every aspect of a product or service, i.e. the measure of "quality", but measures this satisfaction relative to the price paid. This is a measure of perceived value.

The next enhancement is that CVM measures not just the value perceptions of your customers, but those of your competitors' customers as well, to arrive at comparative value assessments across the marketplace. For it is possible to have highly satisfied customers but a diminishing market share, perhaps because the needs of the marketplace overall have not been identified.

Thus, the customer-value approach focuses on how people choose among competing suppliers (seeking to make gains in both attractiveness and retention, and hence in customer and market share).

The approach leads companies to search for the answers to three basic questions:

(1) What are the key buying factors that customers value when they choose between us and our toughest competitors?
(2) How do customers rate our performance versus competitors on each key buying factor?
(3) What is the relative importance of each of these components of customer value?

This means that it is possible to construct a weighted index of customer value for the company and its competitors.

This enhanced form of customer satisfaction measurement is still not complete CVM. The full concept envisages the inclusion of such quality and value metrics into the strategic planning processes of the entire organisation. The aims of this further, and probably most important, refinement is to allow the organisation to effectively:

- determine the nature of the business it should be in;
- measure its competitiveness;
- prioritise capital investments; and
- evaluate potential acquisitions.

Thus, CVM becomes the setting of organisational strategy in order to maximise the value delivered to target markets, to gain strategic advantage and to enhance profitability.

The "father" of CVM is Brad Gale, president of Market Driven Quality, Inc., and author of the book *Managing Customer Value* (Gale, 1994). The Market Driven Quality Web site is at: http://www.cval.com

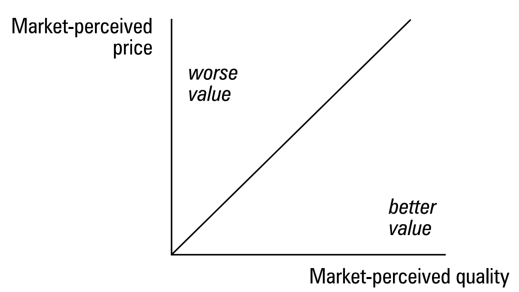
One of the "problems" with CVM is persuading executives of its true potential. Those who half understand it are willing to describe its potential but, in practice, they often fail to implement, preferring to deal with more important or more urgent matters. However, thinking more carefully about the issues might make them realise that the actual marketplace perceptions of the company's products, services and prices compared to the competition would be a major help in focusing time and money on the factors and business process that have the biggest impact on the competitive position. The current set of problems and crises might be a direct result of failing to address CVM.

One advantage of CVM is that the concept is very simple. Show employees a "value map" (see Figure 1) and they understand it – they can relate it to their own purchasing decisions.

This makes it an ideal vehicle for "brainstorming" sessions when a number of employees can bring their combined talents to discussing the concept of value (and perhaps of CVM) and how it can be employed.

The concept must be supported with relatively "hard" information. For example, when a company undergoes its annual stocktaking check, it takes a snapshot of the physical inventory at a given point in time. The information is reported to the accounting section, which uses the results, among other things, to create a balance sheet. Information related to the inventory, such as shrinkage or pilferage ratios can help reveal if things are running smoothly for the business. The same principle, of course, applies to monitoring the customer base.

Figure 1 Value map



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In a relatively short period of time, there can be a shared understanding and agreement on the key product, service and price purchase criteria that influence customers' purchasing and loyalty decisions. The next stage is to work towards an action plan to move forward and improve.

When looking at information on "value", it is important to analyse it in the context of other performance information, such as income and expenditure reports, or economic value added for capital projects. For example, a low value rating in an important and/or growing market is a sign of large potential. Similarly, scarce capital resources can be rationed and allocated according to priorities established by CVM performance. If two broadly similar capital projects are competing for funds, and both have a similar potential to reduce operating costs, one important piece of information is the likely effect on customer value.

Achieving performance gains through CVM starts with people throughout the organisation understanding the concept and the quantitative information, then believing that it accurately portrays the customer needs and the market view. This requires winning the hearts and minds of all employees in the company. Achieving this is more an "art" than a "science". As with all such improvement methodologies, the senior executives must "walk and talk" the message. A useful first step is for the executive sponsoring the project to hold a planning workshop with the managers and subject matter experts responsible for the business processes and products covered by the CVM. The purpose of the workshop is to "spread the word" but to capture their attention by establishing targets along with the tactics that will allow them to be achieved. This approach educates the managers about CVM as it is actually implemented.

A cascade approach means that the managers who now own the tactics can then hold implementation workshops with their own teams.

To reinforce the message, and the importance of CVM, it should be a regular agenda item at normal operational meetings along with the "standard" financial and operational information. It makes sense to conduct value analysis each quarter and to present the information at the same time as the quarterly financial reports.

Remember that the managers who receive this regular flow of value-related information are "the customers" for the information. In order to ensure that the information is timely, comparable, consistent, accurate and actionable, there should be a process of consultation with the managers to find out just what they want to know.

Much of the information will be as a result of surveys. These must be well designed (with outside, expert help) and systematically issued and analysed. It is obviously important to prioritise customers in key markets – either because they are growing or shrinking, where the potential for gain is highest. It is useful to maintain a core set of questions to ensure some comparison over time, but the inclusion of new, fresh questions also helps to keep the attention of those filing in the survey.

To effectively monitor and manage the survey/fieldwork quality (especially when undertaken by an external agency), it is important to ask about:

- if the quality standards will be complied with;
- the procedures for eliminating/minimising sampling and non-non-sampling errors;
- who will be doing the work (after all, they will be an agent of your organisation); and
- updates, turnaround times, follow-up work and additional services.

It is, of course, important to recognise at what frequency any customer is likely to start to resent the request for help! Since questionnaires and surveys are often best carried out in tandem with less structured ways of gathering information, a "focus group" approach can be used both to collect data and to reward customers for their participation, perhaps simply by giving them a good dinner.

One interesting approach is to ask what customers believe are the "ideal outcomes" they can gain from doing business with your company. These, because they force the respondent to think "outside of the square", can be quite revealing, to the extent that they can force a reconsideration of the main business direction. A complementary measure is provided from an analysis of Question 2 (of the previously-listed key questions) – identifying the competitor who scores highest on each key buying factor.

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The company should then define the core competencies and capabilities it needs (and at which it needs to excel) if it is to deliver the outcomes. This, in turn, leads to an examination of the "enabling infrastructure" to deliver the outcomes.

One advantage of CVM over other "softer" forms of customer-orientation is that the quantitative data involved in the process satisfied those "hard-nosed" managers who like to act on facts and figures, rather than on intuition and hunches. This move towards performance metrics has been a general pattern throughout the 1980s and 1990s, and CVM carries this trend. If increases in customer value can be traced to improvements in output performance measures, the success of CVM is assured.

Reference

Gale, B. (1994), *Managing Customer Value*, The Free Press, New York, NY.