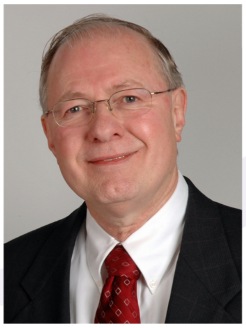
QDI STRATEGIES

20/20 Vision for Marketing Breakthroughs

One by One Value: How to Win Customers & Maximize Profits

by Steven D. Bassill



Mr. Bassill is president of QDI Strategies, Inc. and has spent the last twenty years consulting to businesses in North America and Europe about strategic marketing issues. He conducts workshops and seminars for clients in all aspects of market-driven management.

Take a $20 bill out of your pocket. Tear it up. Do this again and again.

Companies do this every day when they add costs to their products and servcies that customers do not value.

In this article we introduce QDI's Value Equation and show how to use this tool to focus your marketing and product development efforts on the activities that create more value than they cost to implement.

Until you know how to create value to profitably "win" one customer, you cannot master the challenge of creating value for many customers - the requirement for growing market share.

To create "value for one" you must understand the customer. This starts by understanding what defines the *customer's perception of value*.

Perceived Value

Value is in the mind of the beholder. The customer defines value, not the supplier. No matter how much a supplier thinks the customer should value his products or services, the sole judge of value is the customer. Thus, the ability to see value through the customer's eyes is absolutely critical to creating breakthroughs. The relationship shown in ***Figure 1*** depicts the elements that determine customer value and how they relate to each other.

Value is about perception. Both benefits and costs are perceived. Perception, what the buyer thinks, is reality. While most buyers do not have a formal scale to

In This Article

Examining customer perceptions to identify your company's value to the customer measure each of the elements, more and more buyers are moving in this direction. Quality programs implemented throughout industry are focusing more and more on the "total cost," which looks at both the hard and soft costs and benefits of doing business with fewer suppliers. Likewise, more and more sales forces are teaching their salespeople how to sell the "total value" or "value-add" that they supply in the way of services and relationships. Additionally, customer satisfaction scores often index performance on criteria that are similar to the benefits used in QDI's Value Model. Finally, researchers can measure these elements for individual customers or groups of customers using a variety of market research techniques.

The most critical element to creating breakthroughs is the decision makers' collective understanding of what the customer perceives as value. As the formula in Figure 1 shows, there is an inverse relationship between benefits and cost and value. To increase value, increase the benefits and maintain the level of costs, or maintain the level of benefits and decrease costs. Value decreases when benefits decrease and costs stay the same, or when benefits stay the same and costs increase.

The issue for decision makers is to identify what part of the equation they should fix. Should they increase benefits? Should they reduce costs? What can they do most effectively? The trap often is to make changes randomly. For example, downsizing reduces internal costs and allows a manufacturer to decrease prices to his customers. This reduces the customer's cost and increases his perceived value of the supplier's products or services. However, downsizing often reduces the benefits, making it harder to do business with the supplier, disrupting long term relationships and, therefore, reducing value to the customer. The question in cutting internal costs is simply, "Will this change reduce or increase the value the customer perceives? And, will it change the value positively enough to change the customer's behavior?"

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Figure 1: The Value Model

$$\textbf{Value} = \frac{B_P}{\$C_T}$$

B_P = *Benefits Perceived*
product/service/relations/brand

$\$C_T$ = *Total Cost of Purchasing*
purchase price/buying cost
adoption cost/risk costs

The answer to these questions comes from an in-depth understanding of the customer's perception of value. Value is the result of his perception of the benefits and costs of your offerings.

Benefit Components

The benefits a customer perceives reflect the product(s) he receives, the services he gets, and the relationships he has with people in his supplier's organization. In addition, the image that the supplier's brand portrays can be a benefit to the customer. Specifically, these components are defined as:

- *Product*: Functionality, fit (ease of use and adaptation), and form (ease of replacing the present product, service, or function).
- *Service:* Ease of doing business together, service quality, service empathy, the customer's perception

that someone cares.

- *Relations*: Personal linkages to the supplier.
- *Brand*: The fit of a supplier's brand image with the customer's perception of risk and product suitability; i.e., is the supplier reliable, and a leader in this product class?

Cost Components

The cost components include all the costs the customer incurs in doing business with a supplier. As such, some of these costs are represented by payments to the supplier, some are represented as expenses within the customer's business and some of the costs are the risks the customer perceives in doing business with a specific supplier. Specifically, the cost components are:

- *Purchase Cost*: The amount the customer pays for the product, including terms, delivery, etc.
- *Buying and Adoption Costs*: The cost the customer incurs to purchase, handle, store, own, and use the product. This includes all the traditional ownership costs as well as handling costs and adoption costs. Adoption cost includes training, engineering, design, and installation.
- *Risk Cost*: The costs the customer perceives that could result from a product, service or supplier. These costs are a function of the customer's risk tolerance and his perception of the cost and likelihood of problems related to a product.

A simple example of risk cost would be the purchase of a PC. What is the risk of buying an off brand from a mail order house versus IBM? What could possibly go wrong? What would these problems cost? What is the likelihood that this could happen? Is this cost greater than the price difference between the two options?

Only the most sophisticated buyers measure all these costs. However, the trend is in this direction. The "total cost" concept is a precursor to the value concept. Companies can ignore this trend or be a leader in helping their customers understand the value they provide.

Why One by One Value?

Value is an amorphous concept. It is often easy to talk about value in generalities, but just as often it is difficult to talk about specifics. It is easy to say customers buy from a company because they have great service and fair prices. However, when the questions consider a specific customer, "Company X," the answers are less apparent. "How does each influencer and decision maker perceive value for a specific offering? How did each rate the supplier versus competition on the benefit and cost criteria that were critical to them?" These questions often draw blank stares.

What does this imply? Perhaps people in the supplier organizations are not used to talking about value as explicitly as consultants do. However, our consulting experience tells us that most of the time, people can't answer because they don't know any specific customer well enough to even guess how he would react. This is a major problem. Our decision makers get so hung up in big picture strategy that they begin to think in generalities instead of specifics or, the specifics they remember are about customers they personally dealt with years or decades ago. This is the path to ruin. It is the path to making decisions based on old customer behaviors and unproved assumptions. Markets change and to be successful, companies have to know how to delight specific, individual customers before they can win the war for market share.

Market strategies start out one by one. If you can't deliver value to one, you will never be able to deliver value to many. Customers don't buy generalities, they buy value. Once you know how to deliver value to one, you can then consider value to many. QDI's next white paper discusses how to build a strategy from value for one to value for many.

How to Improve Your Market Effectiveness

If you are trying to create a breakthrough or if you are just trying to run a better business, increasing the value you provide customers is a can't miss strategy. "One by One Value," which requires you to specify the value individual customers think they get from you, is a starting point. Ultimately, if you can't manage the value you deliver, you will lose the marketplace battle.

If value is your starting point, get your management team to buy into the fact that their collective performance within their business processes determines the value your company provides to customers. Get them to see the link between each of their decisions and the value you provide to specific customers.

Start with just one customer and define the value you think this customer perceives from you. See if you have different perceptions. See if you can identify how each business process impacts the value you provide. Map the process links to value on the wall. What processes have the biggest impact on value? How can you improve the performance of this process?

The process link to value and overall market effectiveness will be the subject of the final paper in this series. This paper, "Tune Up Your Business," creates the linkage between value, presence, and addressed market decisions and the business processes within your company.

QDI can help. Our business is to help clients create breakthroughs. We do this by:

- Leading clients through Strategic Breakthrough workshops where we help them apply QDI's Systems Model for Market Effectiveness.
- Providing the market research necessary to understand and measure market perceptions and behavior.
- Making your planning process market driven. We work with your planners to internalize the mental models and decision processes that QDI uses to create breakthroughs.
- Providing training programs and workshops to teach you how to use QDI's models and processes.

About QDI Strategies, Inc.

QDI Strategies, Inc. is a marketing consulting firm that specializes in helping companies make breakthroughs in product, brand and channel strategies. Our consultants have helped clients to develop and implement breakthrough decisions across numerous industries over the last twenty years. This experience provides you with the expertise to develop market-driven answers to your business issues.

For More Information

For more information or to arrange a meeting with your management team, please contact Steve Bassill at 847-566-2020.

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