

# VANTAGE POINT OF VIEW

—A tune-up from experts in market-focused strategy



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## There Is No Value except Customer Value...

By Robert Christian

### Key Points:

- Understanding the concept of customer value is basic to how you should think about and ultimately connect with your customers.
- Customer value isn't inherent in the product but in the customer's perception of the product.
- The supplier's perspective: value is the difference between what the customer is willing to pay for the product and the cost of supplying the product.
- The customer's perspective: value is the sum of the benefits received less the costs of acquiring these benefits.
- You don't create value. Value is created when the customer pays you more for the product than it costs you to supply the product.
- Companies don't create value. Companies create products that provide benefits. Benefits must be anchored in features that satisfy important customer needs or wants.

### Value, Value Everywhere

The word "value" is overused in business. "Perceived value," "added value," "value-adding," "value capture," "value systems," "value package," and "value chain," just for starters. A web search on "value" yields over 40 million responses! So... given all the noise, what does "value" really mean? And how can the concept have benefit for you?

One particular usage of "value" goes to the heart of market-focused strategy—"customer value." Understanding this concept is basic to how you should think about and ultimately connect with your customers.

### What Is Customer Value?

From the customer's perspective, it is the customer's specific estimate of a product's usefulness and the customer's degree of satisfaction from using the product. In other words, customer value is derived from a customer's needs and perceptions. It isn't inherent in your product—rather, it lies in the customer's perception of your product.

### The Economic Dimension

From your perspective as a supplier, value is the difference between what customers will pay for your product and what it costs you to supply the product. As your customers see it, the value you offer is the sum of the benefits they receive less the cost of acquiring these benefits. Costs include both the money spent on the product's purchase and maintenance ("transactional costs") and the time and effort spent or frustration experienced ("psychic costs"). To determine customer value, you need to determine from customers what features, or attributes, of your product provide benefits, from the customers' points of view.

### Where Is Customer Value to Be Found?

In the mind of your customer! It consists of your customer's best estimate of your product's capacity to satisfy his or her expectations. You need to focus on your customers—not your organization—to determine customer value.

Why? Your organization can't create customer value. Value is created in the marketplace. When you make distinctions between "physical value" and "perceived value," or "economic value" and "customer value," or when you talk about the value creation process as if you create value, you are instead creating confusion about the true nature of value. Value can only be defined from the customer's perspective. Even the phrase, "customer value" is redundant—there is no value except customer value.

# Determining and Comparing Value

A customer determines value by weighing benefits against their cost. Product features combine to provide benefits sought by customers. Experienced buyers seem to “intuit” value at a glance. What’s going on? An *additive compensatory model* can represent, in a quantitative, objective way, the customer’s thought process, with strength for certain benefits compensating for weakness in others.

For example—a typical laptop computer has 12 or so features: screen, processor, RAM, etc. Together, these features provide some five primary benefits.

The additive compensatory model, presented as an equation:

$$V = \sum_{z=1}^n [X_z * Y_z]$$

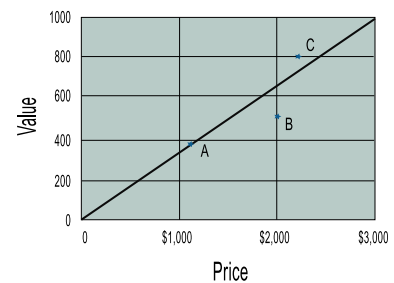
where

- V is a measure of relative value
- z represents the specific benefit
- n is the number of benefits considered by the customer
- X represents the importance of benefit, z
- Y represents the degree to which the benefit, z, derived from the features, satisfies needs and meets expectations

The example below applies such a model in a way that represents how a customer might intuitively compare 3 laptops.

(z) Benefit	(X) Importance Weighting	Laptop A Features	(Y) 1 - 10 Rating	Laptop B Features	(Y) 1 - 10 Rating	Laptop C Features	(Y) 1 - 10 Rating
Computing speed	25	Celeron 600MHz 32MB	3	P3-866MHz 32MB	5	P3-1.1GHz 256MB	9
Display quality	30	13" SVGA 16MB Video	5	10" XGA 16MB video	4	15" XGA 64MB video	9
Storage capacity	10	5GB	2	5GB	2	15GB	7
Portability	20	5.8 lbs., 2 Hr. Battery	4	3.5 lbs., 3 Hr. Battery	8	7 lbs., 4 Hr. Battery	5
Style / Ergonomics	15	"Boxy", large keyboard	4	Stylish, small keyboard	5	Sleek, large keyboard	7
Totals	100	(V) Sum of Wtg. * Rtg.	385	(V) Sum of Wtg. * Rtg.	500	(V) Sum of Wtg. * Rtg.	770
Price		\$1,099		\$1,999		\$2,199	

The results of the calculation provide the customer with a basis for making a decision—more readily understood when the value scores are plotted in relation to price, as shown at the right. The diagonal line represents “fair value” as perceived by the market. Products above the line can be considered to offer greater value whereas those below the line are likely to be overpriced for the value they provide. Of course, value, like beauty, is in the eye of the beholder. Ultimately, the customer has to decide what price / value combination best satisfies his or her needs.



## Connecting With Customers

Your insights about value should encourage you to connect better with your customers. Some suggestions:

1. Understand what customers value. There are many tools for doing this—focus groups, interviews, direct observation, spending a day in the life of the customer, putting customers in the “wish mode.”
2. Find out why customers value a particular benefit. You may assume that you know, but it is surprising what you can learn by asking.
3. Improve features that add value for the customer. Such improvements will enhance customer value through delivering benefits customers want.
4. Challenge designers and engineers to reduce costs by eliminating features that customers don’t consider of value. Of course when removing features you have to be careful not to throw the baby out with the bath water.
5. Seek price points that reflect customer value. Customers will not pay for features they don’t consider beneficial. But they will pay for what they need if they see sufficient benefit.



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