

# The Net Present Value in Customer Value Analysis

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# What is Customer Value?

And market-perceived quality?

# Customer Value

- Market-perceived Quality
  - Customer opinion of your products/services compared to their opinion of your competitors
  - Measured for present customers and potential customers
    - Identify important product/service attributes
    - Determine how those attributes affect customer choices
- Customer Value
  - Market-perceived quality adjusted for the relative price of your product/service

# Definition of Quality

- The evolution of Quality thinking:
  - Conformance quality
    - Deming, Crosby, Juran, others
    - Defined in terms of product/service
  - Customer Satisfaction
    - Often mired in endless surveys and analyses
  - Market-perceived quality and value versus competitors
    - Basis of the Baldrige Criteria
  - Customer Value Management
    - Emerging thinking based on customer value analysis

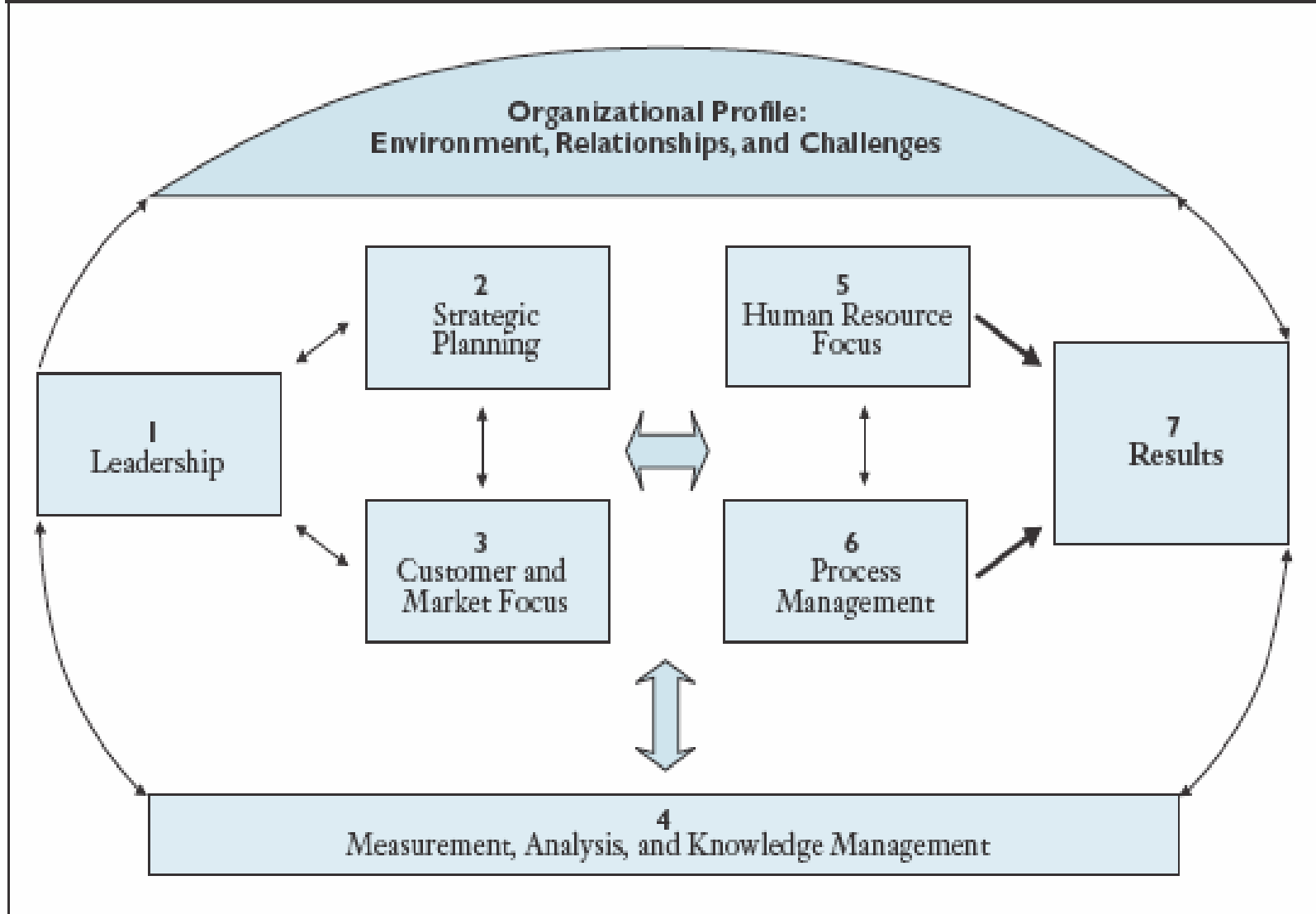
# Quality: a Strategic Weapon

- Four stages of the quality evolution:
  - Total Quality Management (and variants)
    - Stage 1: Conformance quality
    - Stage 2: Customer satisfaction
    - Stage 3: Market-perceived quality and value relative to competitors
  - Customer Value Management
    - Stage 4: Quality and System Thinking are keys to customer value management

# Shift in Focus

- Total Quality Management
  - Stage 1: Internal operations
  - Stage 2: Customers
  - Stage 3: Market performance vs. competition
- Customer Value Management
  - Stage 4: Crucial role of Quality and Value in the overall strategic framework (systems thinking)

## Baldrige Criteria for Performance Excellence Framework: A Systems Perspective



# Measuring Customer Value

- Key Customer Metrics
  - Relative Quality
  - Perceived Value
- Using this knowledge to drive the business
  - Develop measures of quality and value
  - Add the information to the company knowledge base
  - Use throughout the organization - across the silos

# Relative Quality

- What is it?
  - Quality of product or service is always relative.
    - The question: Relative to what?
    - Relative to:
      - Customer perception of “quality”
      - Market perception of “quality”
  - We need to know:
    - Why don't people buy our product/service?
    - What is our performance relative to our competition as perceived by our customers?

# Perceived Value

- What is it?
  - How does the customer perceive the value of products/services relative to all offerings?
    - Customer perception of “value”
    - Market perception of “value”
  - We need to know:
    - What does the marketplace feel about all products?
    - What does your customer think about how your products/services compare to the competition on quality attributes?

# Customer Value

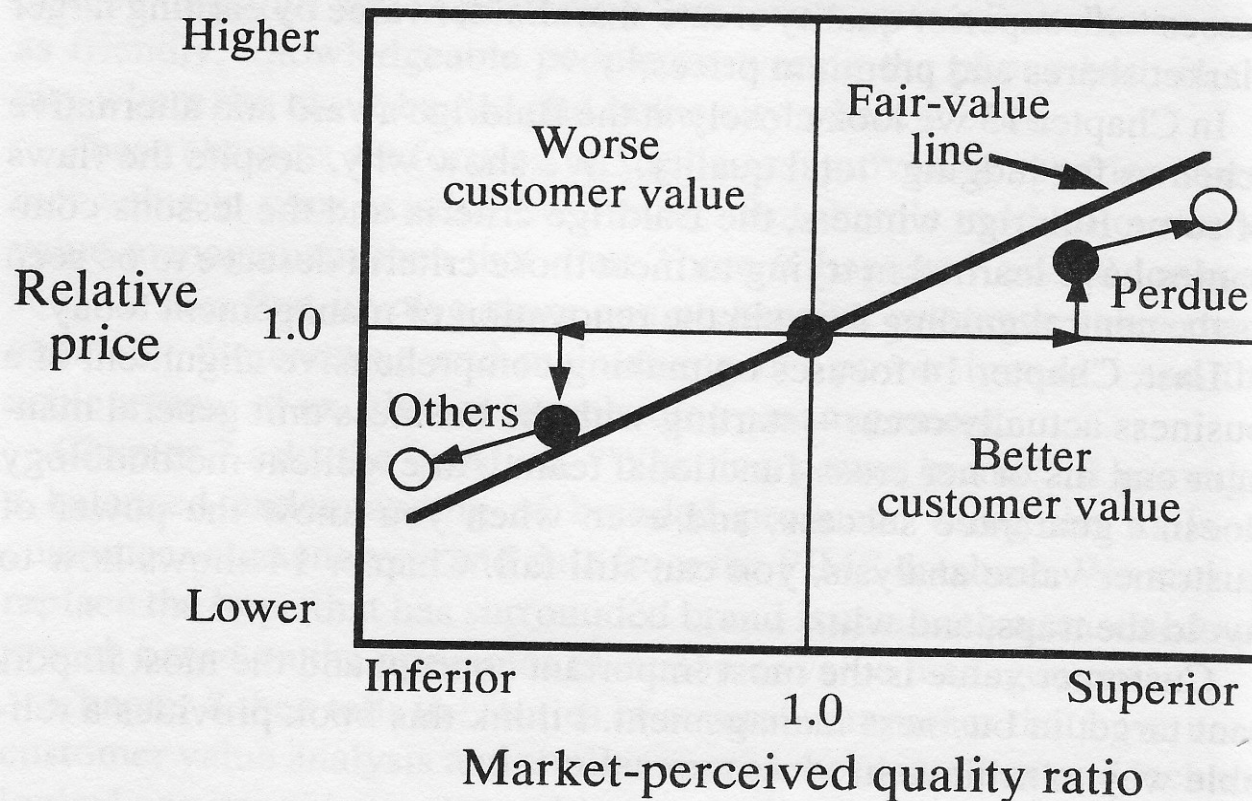
- Customers seek products/services that they perceive deliver better value than the competition.
  - Develop “Generally Accepted Strategic Principles” that define customer value metrics
    - What does “quality” mean to customers?
    - How are competitors performing on those aspects of quality? How are you performing?
    - Define the performance metrics that are traceable to the customer definition of “quality”

# Market-perceived Quality Profile

- Create a profile based on quality attributes:
  - Ask customers and competitor's customers what factors influence purchase decisions
  - Establish a customer-based weighting of the factors as determined by customers
    - Have customers rate each business (Likert scale) on each factor
    - $\text{score} \times \text{weight} = \text{customer satisfaction score}$
  - Plot on a Customer Value Map

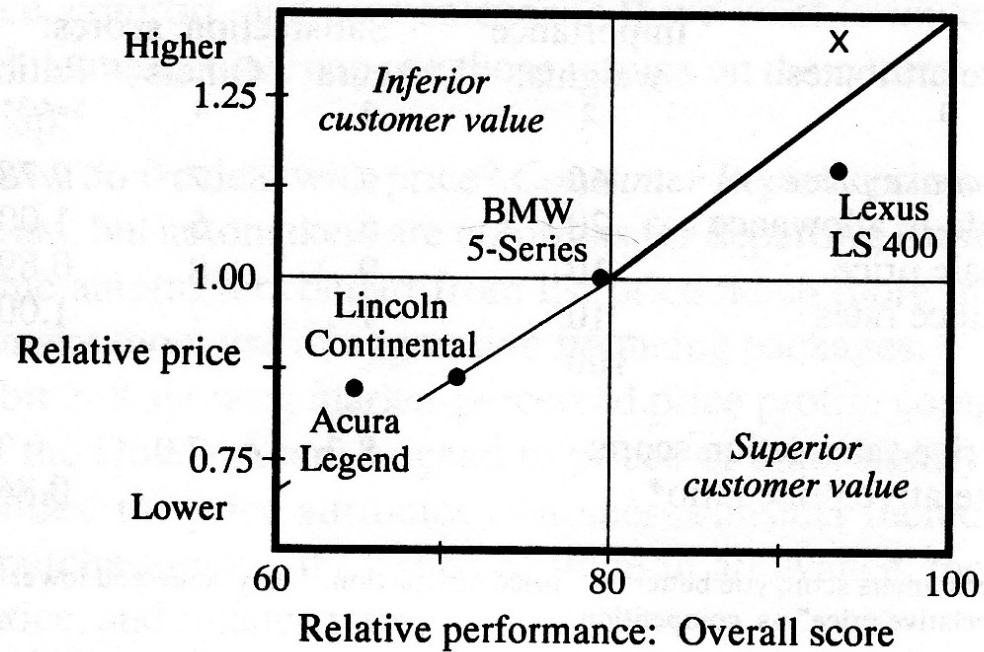
# Customer Value Map

Customer value map: Chicken business



# Customer Value Map

**Luxury cars: Customer value map**



Information for relative performance based on *Consumer Reports* ratings, April 1993.

# Customer Loyalty

- The basics:
  - Understand your customer value proposition
  - Create a value proposition for your employees
  - Provide a value to your investors and other stakeholders
- Products/services will keep customers returning for additional products/services
  - Loyal customers are retained customers (as long as you continue to deliver value)

# Loyalty-based Management Model

- Customers see their value proposition being fulfilled
- Loyalty is a *strategy* not a tactic
- Maximize profitability
  - Decrease hiring costs
  - Decrease employee turnover
- Grow the business through customer satisfaction and competitive costs

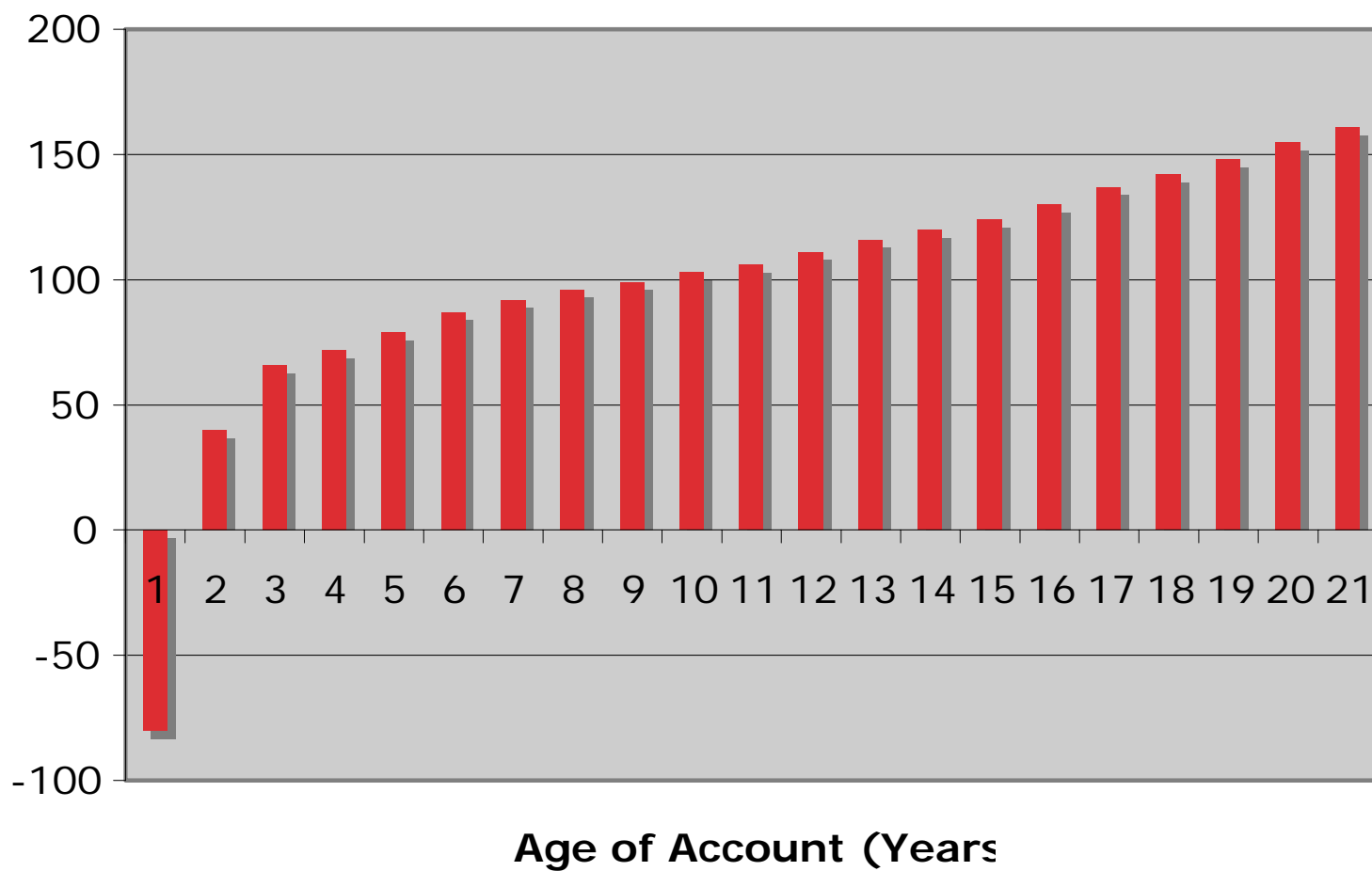
# Today's Marketplace

- A little Latin lesson:
  - We have moved from *caveat emptor*
    - Buyer beware
  - To *caveat mercator*
    - Seller beware
  - People who receive “bad” value seldom return or give your business a second chance
  - A company must get and retain the right customers

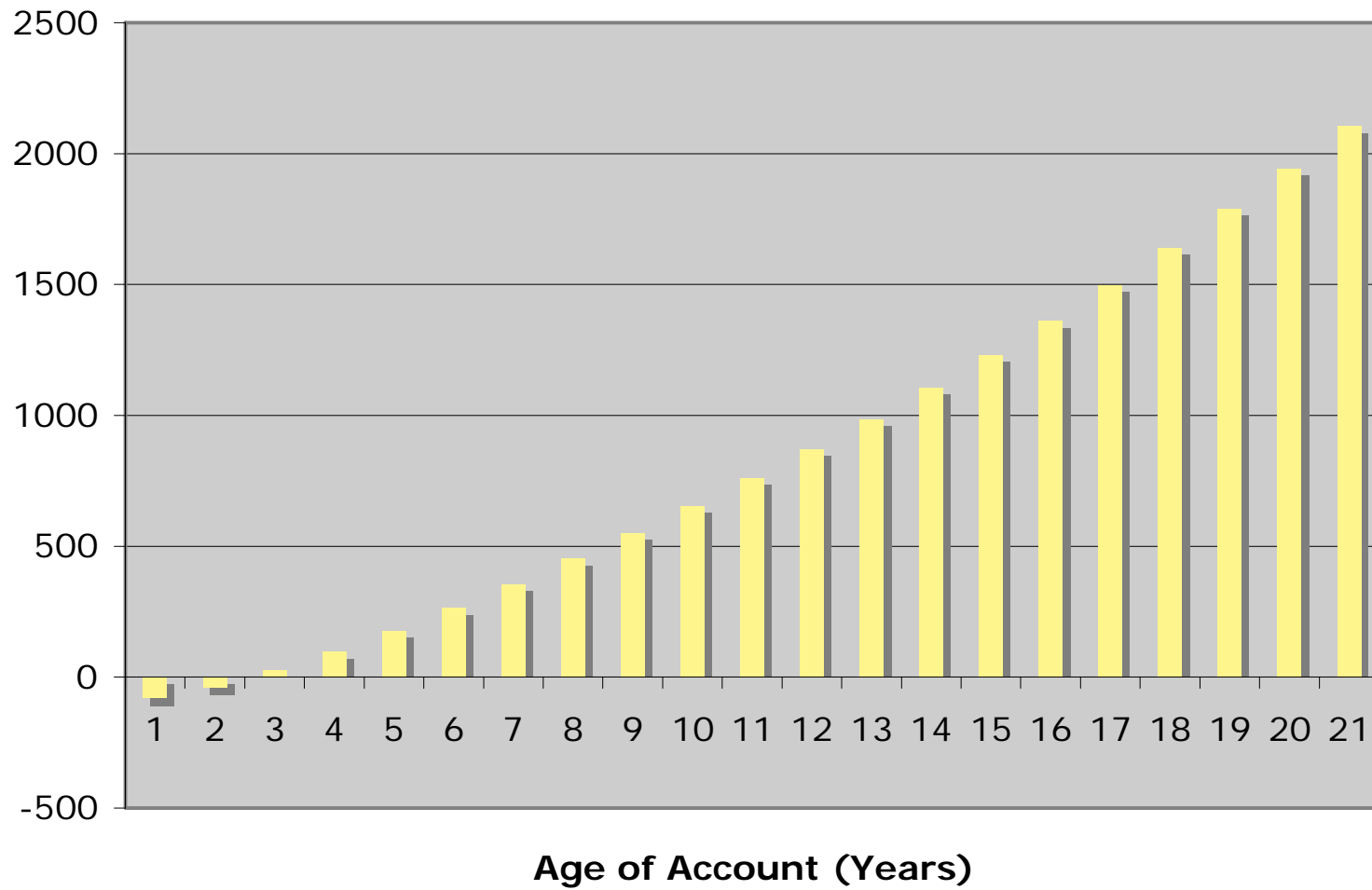
# Economics of Customers

- Loyal customers provide
  - Base profit to the company
  - Revenue growth through added services purchased over time
  - Cost savings in recruitment of new customers
  - Referrals of similar businesses to your product line
  - Price premium - no introductory “deals”

## Customer Lifecycle Profit Pattern (Credit Card Industry)



## Cumulative Profit Over Customer Lifetime (\$)



# Customer Characteristics

- The Loyalty Coefficient
  - Some customers prefer long, stable relationships with suppliers
  - Some customers are more profitable
  - Some customers see your products/services provide more value than the competition
- What are your customer retention rates in each category?

# Customer Loyalty Metrics

- Some measures of the *Value* of your Customers are:
  - Customer Retention Rate
  - Customer Defection Rate to a competitor's product/service
  - Customer Duration with your company
  - Customer Cash Flows
  - Classes of Customer (stratification)

# Investing in Your Customer Base

- How do you make the decision to increase one of the Customer metrics?
  - Calculate the Customer-base Net Present Value
    - Value of Current Customer Inventory:
      - Customer Duration (how long present customers remain with your company)
      - Lifecycle Profits (value customers contribute as they stay with your company and purchase products/services)
    - Flow of value from anticipated New Customers:
      - New-customer Gain Rate (rate at which new customers are added and the quality of those added customers)

# Steps to Customer Value

1. Stratify the customer base:
  - New customers
  - Gainers (current customers doing more business)
  - Decliners (current customers doing less business)
  - Defectors (current customers leave for competition)
2. Attribute revenue growth to each customer type
  - Calculate NPV for new, current and defector customers
3. Use the information to determine improvements in your customer base or value offering
  - Which customers will you seek more of?
  - How will you provide value to retain these customers?

# 7 Tools of Customer Value Analysis

- Bradley Gale, Managing Customer Value
  - Market-perceived quality profile
  - Customer Value Map
  - Market-perceived price profile
  - Won/lost analysis and why
  - Key events timeline
    - Map actions to improve competitiveness to customer value
  - Head-to-head chart
    - Shows customer value relative to competition
  - What/who matrix
    - link quality attributes to business processes

# Company's Value Proposition

- Target Customers to add value
- Identify the dimensions of quality and service that will create value for the target customers
- Create value metrics to track progress
- How will the value proposition be delivered?
- Identify the key metrics to monitor relative to the value of the offering

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