

## Perspectives on Customer Value Analysis (No. 1)

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This month's topics:

*Strategies* looks at how you can focus your marketing program by keying in on your business's *comparative advantages* – the key selling points of your value proposition.

*Features* shows how to use the tables on the Digital War Room's Profile Sheet to quickly identify your comparative advantages.

*Tips* shows how you can simulate the effect that a successful marketing program can have on perceived value.

### *Strategies – Knowing your comparative advantages*

Imagine a group of English entrepreneurs setting up a business to export English cloth to Portugal, knowing in advance that the Portuguese can produce their own cloth more efficiently than can the English. Is this new enterprise doomed? Almost 200 years ago an English economist, David Ricardo, studied this question and concluded that, in fact, this business idea might not be as crazy as it sounds. He agreed that when it came to producing cloth, Portugal was indeed somewhat more efficient than England. But, when it came to producing wine, Portugal was much, much more efficient than England. Portuguese workers, Ricardo concluded, were better employed in producing wine than making cloth. Then the country can trade: cheap-to-produce Portuguese wine for English cloth. If the Portuguese were to do this (which is in their own best interest), this could, in turn, open up Portugal as a profitable outlet for those English entrepreneurs. Ricardo's argument was that the world is a better place if each country focuses its energies on doing what it does best, its "comparative advantage".

Ricardo's idea of comparative advantage has parallels in today's marketing. Like the Englands and Portugals of old, all businesses do some things better than others. In most markets, one competitor will lead the others in delivering certain benefits to customers, but will lag on other benefits. There also are cases where one competitor may lead on all of the benefit attributes (just as Portugal led in both cloth and wine). However, even in this latter case, the other competitors may still be able to compete effectively (assuming that their prices are consistent with overall benefits) by stressing what they're good at.

The key to success, regardless of whether you're leading or lagging overall, is to sell to your specific comparative advantages. Specifically, this means that you want to :

- . • Identify the benefit attributes on which you have a comparative advantage
- . • Develop convincing proof statements to demonstrate to potential customers your strength in those areas.
- . • In your marketing, emphasize the importance of the attributes on which you enjoy an advantage (in DWR parlance, increase the importance weight customers

place on those attributes.)

- Make the case to your customers that the attributes on which you are behind are relatively unimportant.
- Identify the segments of the market that most value the attributes where you have a comparative advantage. Reach those customers through a targeted media program and with a focused sales-force campaign with a message that's tailored to their needs.

Some companies aspire to be all things to all customers. But most companies must accept that 100% market share is out of reach. The best that they can do is to emphasize areas where they can perform well relative to the competition – on either benefits or prices – and attract a (hopefully large) part of the market that values those things that they do best.

*DWR Features: Finding your comparative advantages using the Profile page*

Many DWR users treat the Price-Performance Profile page as a sort of technical appendix. They scan the Profile to verify that the data are ok. Then they turn right to the “good stuff” – the Value Map, the Attributes-analysis module for prioritizing improvements, etc. It turns out, however, that there is some good stuff right on the Profile page. The quick identification of comparative advantages and value propositions is one of them.

As you probably know, there are a number of distinct tables on the Profile sheet. The topmost table restates your basic data from an input sheet: the attributes and their relative importance weights, the list of the different suppliers in your market, and each supplier's performance score on each attribute.

Dimension	Attribute	Performance Scores	Weights for:
<b>Benefits</b>	Chloroform Removal	10.0	Filto
Product	Lead Removal	10.0	Walter
Product	Taste Removal	2.0	Envir
Product	Reliable supply	10.0	Brite
Service	Technical support	10.0	Clarion
Service	Relationship	8.0	Average
Relationship	Capital cost	10.0	Attrib.
<b>Costs</b>	Disposables cost	9.6	
Selling price		10.0	
Other costs		8.0	
<b>Weighted cost scores</b>		6.0	
<b>Slope of fair value line</b>		7.6	
		9.0	
		8.0	
		2.0	
		10.0	
		4.0	
		8.0	
		6.4	
		25.0	
		5.0	
		5.0	
		7.0	
		9.0	
		7.0	
		14.0	
		7.0	
		5.8	
		6.7	
		5.8	
		7.5	
		6.6	
		97.0	
		17	
		40	
		30	
		37	
		25	
		30	
		100.0	
		120	
		160	
		54	
		85	
		130	
		110	
		100.0	
		137	
		200	
		84	
		122	
		155	
		140	
		-3.0	
		Alert: low correlation between price and benefit . 31.96	

Figure 1: The first table on the Profile page restates your data

The second table contains ratios for both benefit scores and prices. What are these? For each attribute, there is an average score across all suppliers. The ratios shown in the second table represent simply the ratio of each supplier's score to the average score for each attribute. A ratio of 100% indicates that, for that attribute, a supplier's score equals the average. A ratio greater than 100% indicates that the supplier's score is superior to the average, etc.

So, here's the trick. Look at the second table -the table of ratios. You will see that some of the entries in this table are in bold type. These represent areas of comparative advantage. Generally, every supplier will have some comparative advantages, even if the supplier is below average on all attributes. The bold-face list is a good starting point for thinking about marketing your relative strengths.

What's happening is this. At the bottom of the benefit-attributes section is a weighted average of these ratios. This is a single number that represents whether, across all attributes, the supplier's average score is equal to (100%), better than (> 100%), or worse than (<100%) its competitors. Now, let's say that a supplier's weighted average ratio is 88.5% (like that of Walter, below), indicating somewhat below average scores on the attributes. For the average to be 88.5%, the ratios for some of the attributes are likely to be greater than 88.5%, and for others to be less than 88.5%. Those attributes for which the ratios are significantly greater than 88.5% are the ones that bring the relative score up. In Walter's case, these are Chloroform Removal, Lead Removal, Taste, and Relationship. And these are the attributes that represent comparative advantages. They are highlighted in bold.

		Performance Scores										
Dimension	Attribute											
	Chloroform Removal											
	Lead Removal											
	Product Taste											
	Product Clogging	Filto	Walter	Envir	<b>147.1</b>	<b>147.1</b>	129.4					
	Service Reliable	104.2	<b>104.2</b>	104.2	105.3							
	Service supply	<b>131.6</b>	<b>105.3</b>	<b>125.0</b>	31.3		Brite	<b>147.1</b>	83.3			
	Relationship Technical	<b>156.3</b>	71.4	71.4	100.0	71.4	35.7	78.9	62.5			
	Weighted benefit scores	<b>107.1</b>	100.0	<b>128.6</b>	71.4	106.5		<b>128.6</b>	35.7			
								Clarion	29.4	104.2	78.9	100
												100
												100
												100
												100
											100	

Figure 2: Each vendor has its own comparative advantages (highlighted in bold).

So, to find your comparative advantages (and your competitors' comparative advantages) look at the second table on the Profile page. The numbers in bold face correspond to comparative advantages. They highlight the key selling points for each vendor.

Tip: Do your what-ifs on the Profile page

Say your advertising campaign is successful and you succeed in convincing customers to place more importance on the attributes where you have a comparative advantage. Will

this really improve your average score significantly? You can find out by simulating the change, increasing the importance weights on the attributes of interest.

To do this, you could go back to your input form, make the changes, and reload the Profile page. However, there is a quicker way. The Digital War Room is set up for you to simulate such changes by making changes directly on the Profile page. So, to test out what happens when the weights are shifted, simply click on the cell representing the weight that you want to change in the top table on the Profile sheet. Enter a new weight and press “Enter”. (You’ll see a warning when you make changes to the weights that bring the total weight above 100%. If you increase the weight on some attributes, you’ll have to decrease the weight by an equal amount from some of the other attributes.) That’s it. To see the results, look at how your average score has changed and click to the Value Map, or to any of the other analyses linked to the Profile sheet. Below, we have increased the weight on chloroform by 12 and reduced the weight on technical support by 12. This caused Walter’s score to go up from 5.8 to 6.9.

To simulate weight changes, make changes here

Dimension	Attribute	Value	Weight
Benefits	Product	10.0	10.0
	Product	6.0	6.0
	Product	6.0	7.6
Costs	Selling price	7.0	16.0
	Other costs	6.9	6.9
Weighted benefit scores		97.0	17
Weighted cost scores		137	200
Slope of fair value line		84	122

  

Attribute	Weight
Chloroform Removal	24.0
Lead Removal	10.0
Taste Clogging	10.0
Reliable supply	8.0
Technical support	6.4
Relationship	25.0
Capital cost	5.0
Disposables cost	5.0

  

Performance Scores	Weights for:	Filto	Walter	Envir	Brite	Clarion	Average	Attrib.
Value	10.0	10.0	2.0	10.0	2.0	6.8	24.0	10.0
	10.0	8.0	6.0	6.0	7.6	9.0	8.0	2.0
	10.0	4.0	8.0	6.4	25.0	5.0	5.0	7.0
	9.0	9.0	7.0	14.0	7.9	6.9	6.6	6.9
	6.9	6.9	7.0	97.0	17	40	30	37
	25	30	100.0	120	160	54	85	130
	110	100.0						

*Alert: low correlation between price and benefit . 31.96*

Figure 3: For simulations, make changes right on the first table of the Profile page.

That’s the tip for this month. Please send in your comments and suggestions for future issues.

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