Perspectives on Customer Value Analysis (No. 3)
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This month's topics:

> *Strategies* looks at how to use Customer Value measurement as a part of the key-account management process. In "the Customer-Value Conversation" (formally, the customer-value profiling session) account teams develop the information they need to structure competitive bids.
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> *Features* shows how to interpret the best-value frontier line that is displayed on value maps.
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> *Tips* shows how to measure how big an improvement in price or performance is necessary to achieve a position on the best-value frontier.

Strategies: The Customer-Value Conversation

Customer Value Accounting is an ideal framework to help a key-account team understand and communicate the value that they can bring to a customer. The contents of a single customer-value-profile table can tell the team (a) what is most important to that customer, (b) how your business is performing relative to these needs, (c) who among your competitors is setting the standard for performance, and (d) how much money the customer must spend to get different levels of performance. Armed with this information, an account team can confidently structure an attractive deal, identify the key selling points it wants to stress, price the product in line with its worth to the customer, develop an account service plan, and communicate back to the marketing department what customers want.

To gather customer-value information for a key account it is necessary to have a rich dialog with the people who will be making the purchase decision. This is done in a customer-value profiling session, a "conversation" in which the key elements of the profile are reviewed. This session should be a key event on the account-management calendar. Ideally, the session yields a completed customer-value-profile table:

- Identification of the benefit attributes customers want, and their relative importance
- A performance score for each attribute for you, and for your competitors
- Prices charged by your and your competitors

The format of this data is the same as that used by marketing to measure and manage customer value. However, in marketing applications such as formulating a value proposition for a business, the information describes a market – a composite of all customers in the overall market or in a major market segment. In account management applications, the profile is developed for the individual customer.

Sales people often cringe at the thought of engaging a customer in a frank assessment of how their products stack up against the competitors. They worry about, among other things, having the customer use the occasion to (a) browbeat them on price, (b) self-realize that the competition deserves another look, or (c) conceal the weaknesses of competitors to elicit a better offer from us.

All of these outcomes are possible. However, the risks of not having this dialog – of not understanding what the customer is thinking - outweigh these minor possibilities. Also, keep in mind that customers have needs that can only be accomplished through better dialog

- They want more choices that meet their needs
- They want better products and services
- They want to direct your thinking about innovation
- They need to lower their total costs, not just the costs of purchasing your types of products.
- They need to put out a better product than their competitors do.

So, when looked at from the perspective of the customer, the more informative a dialog can be, the more these needs can be satisfied

The challenge for an account team is to keep the customer interviewing process from being confused with selling. If every comment uttered by either of the parties is taken as a negotiating ploy, then the dialog will not generate real information. Here are a few of the ways companies keep customer-value profiling from lapsing into negotiation:

- Timing – An ideal time for value profiling is shortly *after* a contract has been signed. Since a renegotiation is well in the future there is minimal pressure for jockeying for position.
- People – Some companies keep the account reps out of value measurement process. Using the supplier's engineers, logistic specialists, and senior managers on the measurement team can help turn the conversation to areas that may never be covered by the sales team.
- Benchmarking – Although customers may feel uneasy talking with you about your competitors, they are often enthusiastic about revealing their standards for performance. For example, if you ask "How does Acme compare to us on reliability?" the customer may feel uncomfortable. However, if you ask "Are you finding that we offer the best reliability?" it is likely the customer will give you an honest answer. If you follow this up with "Who is the best?" and "How good are they?" you are probably on a track of finding what you need to learn.
- Account planning – companies use customer-value profiling as a part of the process for developing an account service plan. In this context, this activity clearly stands apart from negotiation meetings. Account reps often like to develop a scorecard for the supplier's performance. By revealing the scorecard and the measurements that will be used, customers reveal their needs and expectations – fitting right into the customer-value profile format.

By engaging the customer's buying team in a rich dialog about their needs and views, your key account team builds insights and a relationship with the decision makers and influencers.

DWR Features :Exploring the Best-Value Frontier

The Customer Profile below is typical of the kind of data that would be gathered in a discussion with a customer in a business-to-business situation. In this (disguised) case, the company, called "Us", is trying to sell its "T33 subassemblies" to a company called AmerEl. The major competitors have been identified as Able, Baker, and Charlie.

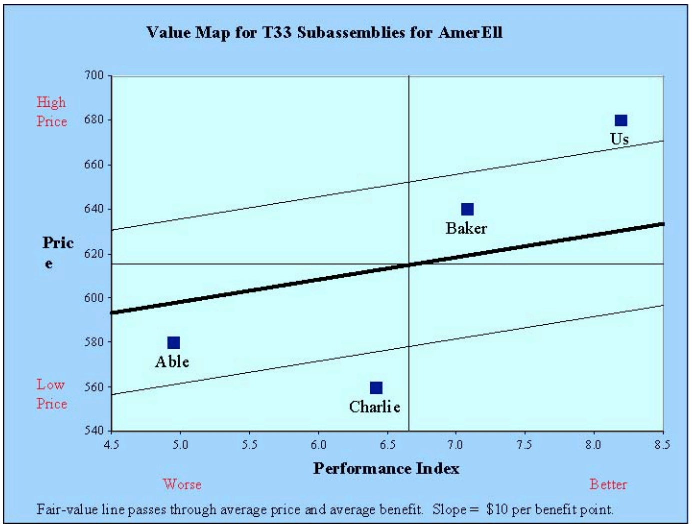
Dimension	Attribute	Performance Scores: Us	Able	Baker	Charlie	Average	Weights for: Attrib.	Value
Benefits	Energy Efficiency	9.0	4.0	9.0	9.0	7.8	36	
	Durability	8.0	6.0	9.0	6.0	7.3	25	
	Reliable delivery	7.0	4.0	3.0	3.0	4.3	4	
	Knows our business	7.0	5.0	2.0	2.0	4.0	8	
	Rapid protoryping	8.0	5.0	3.0	2.0	4.5	12	
	Flexible design	7.0	7.0	7.0	7.0	7.0	5	
	Ease of assembly	8.0	5.0	6.0	8.0	6.8	10	
	Fit and finish	7.0	3.0	5.0	7.0	5.5	0	
Weighted benefit scores		*8.2*	*5.0*	*7.1*	*6.4*	*6.7*		*96.8*
Costs	Price	680	580	640	560	615	100	
Weighted cost scores		*680*	*580*	*640*	*560*	*615*		*-3.2*

Table: "Us" is the high priced alternative in the T33 Subassembly market

As can be seen from the cost data, the "Us" product is the most expensive of the lot. Charlie's product is almost 20% less expensive. The question is whether AmerEll will pay extra for our product. We know that this is likely only if we meet AmerEll's needs better than do our lower-priced competitors.

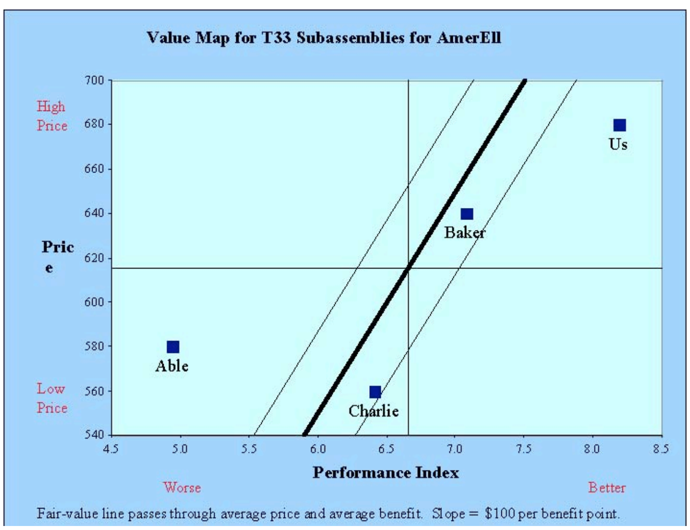
The Value Map reveals the overall price/performance tradeoff available to AmerEll based on the profile data gathered in the account team's customer profiling session. Each competitor offers a unique combination of price and performance.

If AmerEll is very price sensitive, it will favor the lower priced offers. The value map below shows the fair-value line as it would appear if AmerEll is willing to pay no more than $10 per additional point of performance. (Note: benefit scores in this example are measured on a 10-point scale. In this case there happens to be a 3.2-point difference between the best and worst average benefit scores.) The very best value is the supplier that is furthest from the fair-value line in the lower-right direction. In this case, with high price sensitivity, the furthest from the line in the lower right direction is clearly Charlie.



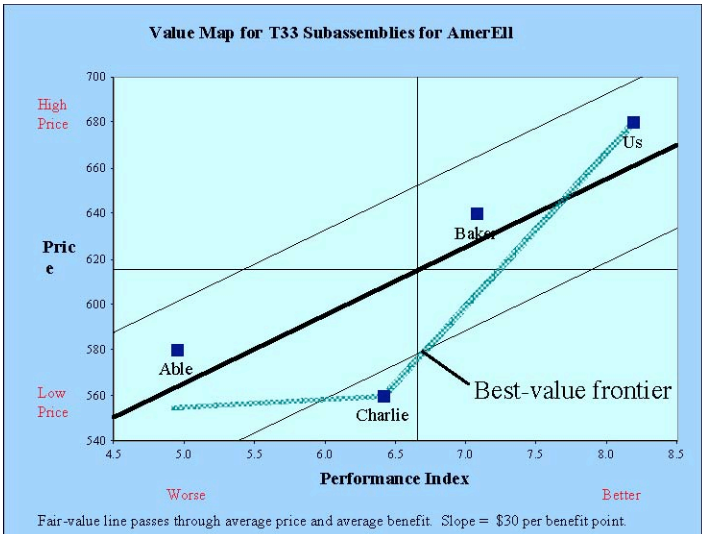
Value Map: With a low slope, low-cost supplier Charlie is the best value

However, if AmerEll is very performance sensitive, it might look at its choice differently. Say that for this critical subassembly, it is worth $100 to AmerEll for every additional point of performance that it can get. In this case, the fair-value line is much steeper, and "Us" emerges as the winner.



Value Map: With a steeper fair value line, "Us", as the high performance choice, isbest value.

It is always interesting to see how the customer's choice might change as the slope of the fair-value line (the measure of the customer's willingness to pay for performance) changes. For example, is it possible that for some value of the slope, Baker might emerge as the supplier of choice? This question is answered by looking at the best-value frontier line. This line, curving across the lower and right-hand portions of the value map, goes through all of the points that represent a best value for some choice of slope. Suppliers like Able and Baker whose points are not touched by the frontier line would never be a best value, regardless of how the slope is chosen. (Incidentally, the best-value frontier can be either shown (as below) or hidden (as above.) Simply click the “options” button on the Value-Map page and check or uncheck the appropriate box in the dialog box.)



Value Map: The best-value frontier connects suppliers that can be “best value” forsome slope of the fair value line.

Companies that are off of the frontier line need to take action to restore their competitiveness. Companies like “Us” need to convince the customer that our particular value proposition is the best. In this case, we need evidence that a point of performance is worth at least $70 to AmerEll in order to make “Us” the best-value choice. If this case cannot be made, we will need to be willing to either lower our price or walk away from AmerEll’s business.

Tips: Reaching Frontier performance

Say that we were Able or Baker, with points not on the best-value frontier. Such “behind-the-curve” competitors need to make some adjustments to restore their businesses to positions of competitiveness. How far are they from the frontier, and how big would these adjustments have to be?

A quick answer to these questions can be found next to the Value Map in the Digital War Room. Go to the Value Map and, if necessary, scroll the screen to the right to reveal the table sitting there. The table will look something like this:

To Achieve a Position on the Best-Value Frontier:

Supplier could ...	Change Benefit Score		... Or Change Prices	
	From	To	From	To
Us	8.2	8.2	680.0	680.0
Able	5.0	6.7	580.0	554.6
Baker	7.1	7.6	640.0	605.2
Charlie	6.4	6.4	560.0	560.0

Table: The table on the Value Map page shows how much each supplier would needto change to achieve a position on the best-value frontier.

The table shows how far a business would have to move to the right (higher benefit) or down (price reduction) to assume a spot on the best-value frontier. For businesses like "Us" in the example below, the answer is that no changes are necessary to get to the frontier. We're already there! Able, however, would have to push its score up from 5.0 to 6.7 to achieve a position on the frontier, slightly above and to the right of Charlie.Alternatively, Able could drop its price to around $554 to become a viable low-price alternative to Charlie.

Note that in the Digital War Room simulator, all information on the Value Map page is linked to the data on the Market Profile page. For example, if you change your business's scores or weights in a way that will move it onto the best-value frontier, the frontier line will automatically be redrawn and the table will be immediately recalculated to reflect the change.