

SERVICE SYSTEMS AND INNOVATIONS
IN BUSINESS AND SOCIETY COLLECTION

Jim Spohrer and Haluk Demirkan, *Editors*



How Creating Customer Value Makes You a Great Executive

Gautam Mahajan



BUSINESS EXPERT PRESS

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Dedication

This book is dedicated to

The great Value Creators I have come across and those that have helped me.

*Many have created value for me, even when they had nothing to gain
from me. Thank you.*

And to Naina and Shiv, Karan and my wife Veena, and to my readers.

Abstract

More and more executives and companies are using the phrase “Customer Value.” Yet its understanding in main stream management is hazy. The word “value” is overused and under understood.

Chris Ross, the pharma industry writer, has suggested that “There’s a strong argument for changing the term ‘marketing’ and renaming it ‘value creation’.”¹

Yet most companies try to create value, and fail to do so as well as they could. Why is it this the case? Because executives do not have the tools to implement Customer Value completely to their benefit and the success of their company. This book corrects this in simple steps, defining value and Customer Value, how it builds loyalty, market share, and profitability; and how Customer Value can be measured and created.

Fundamentally, value means doing good for others, and this can be done easily and increases the value (worth of your offering).

The book suggests easy methods such as building a Customer strategy, breaking silos, bringing all departments into focusing on the Customer, measuring Customer Value Added, instituting a company-wide circle of promises that ensures promises made to Customers are kept, starting Customer-Centric circles, Customer Bill of Rights, using resources such as Total Customer Value Management and quality techniques on Customers, thereby building Customer-centricity and marketplace success.

I want you to ask “Why wasn’t I doing this” and then figure out how to create value. CxOs and executives can then institute these simple ideas to create greater Customer Value.

Following these learnings will make companies and executives more Customer-centric and winners in today’s difficult marketplace, because Customers will become their best advocates. All executives (including students), managers, all companies, and institutions will benefit from this book.

Remember that if you create value for others (Customers), they will create value for you! This book will help you create value for yourself.

¹C. Ross, 2016, http://www.pmlive.com/pharma_news/a_new_view_1181987 (last seen 27 March, 2017).

Keywords

Attribute trees, co-creation, culture, customer-centric circles, customer experience, customer strategy, customer value, emotions, employee value, executives, total customer value, value creation, value management, waterfall of needs

Advanced Quotes for *How Creating Customer Value Can Make You a Great Executive*

“Gautam Mahajan is clearly a top expert on Creating Customer Value. The key to winning the customer war is to know how to create superior customer value. Mahajan shows you how to do this.”—***Philip Kotler, Kellogg School of Management, Northwestern University***

All too often we read that a such and such a book is timely and important for a given domain and indeed this has become a rather clichéd expression. However, in the case of *How Creating Customer Value Can Make You a Great Executive* such statements are completely merited and valid. The author Gautam Mahajan, Founder Editor of the Journal of Creating Value and President of Customer Value Foundation, has produced a book which offers a potent mixture of manual and thought-provoking philosophical call-to-arms on the critical issue of creating value. The book’s arguments and presentations are filled with excellent examples and diagrams which provide executives and managers with maps to understand and explore value creation. This is a vital text for the twenty first century.—***Professor Peter Stokes, Leicester Castle Business School, De Montfort University (UK)***

“Value, the personal and individual perception of what a product or service is worth (rationally and emotionally) to a customer, relative to alternatives available in the marketplace, is perhaps the most challenging concept for enterprises and leaders to define and execute. In this comprehensive book, Gautam Mahajan, a world expert in customer-perceived value, the understanding of real benefit is taken well beyond merely understanding the customer experience journey and the effect of pricing.

Value is built on experience memory, and the tangible and functional components of vendor-provided products and services; and the book examines the enterprise culture, processes, feedback channels, messaging and positioning which impact customer decision-making. The book offers actionable tools for calculating and strategically sustaining perceived value and customer loyalty. Finally, the author provides two important foundations for organizations to follow. The first is a Customer Bill of Rights, with examples, stating the parameters of what the vendor will provide and what the customer should expect. The second, especially important (and something very few books cover), addresses drivers of employee commitment and contribution to added value for customers. All in all, the book provides needed insights and methods for every organization and manager.”—**Michael Lowenstein, PhD, CMC, Thought Leadership Principal, Beyond Philosophy (www.beyondphilosophy.com), author of Employee Ambassadorship, Customers Inside, Customers Outside, and The Customer Advocate and The Customer Saboteur.**

Only about 10% of firms are highly effective at creating value for, and from, customers. In this book, Gautam Mahajan pulls back the curtain to reveal why value creation is a critical discipline for every CEO and then backs it up with practice advice on how to make value creation a way of life.

With disruptive innovators attacking every industry, I can think of no greater priority.—**Bob Thompson, CEO, CustomerThink Corp., author of Hooked On Customers: The Five Habits of Legendary Customer-Centric Companies**

Reading *How Creating Customer Value Makes you a Great Executive* showed me how someone with Gautam’s experience could write a comprehensive book on an important topic and provide a perfect level of detail in relatively few pages. Included in each chapter is not only the “technical” information but also a set of exercises to help the reader apply the reading to her own situation. The authors description of the Value Waterfalls and quantifying Value Added should provide the reader with enough motivation to take her business into the world of Value Creation leaders, with the attendant shareholder benefits.—**Sam Klaidman, Middlesex Consulting and President Customer Value Creation International**

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A number of friends of mine have read and commented on my book. Thanks.

Introduction

Customer Value and value are widely used in the business jargon. Few, who use these terms, really know what they mean. Either they have a vague idea or have a preconceived meaning such as benefit, trust, price, and so on.

In so doing, many miss the real meaning and importance of Customer Value. They never understand what a vital, crucial and overarching business tool Customer Value is. It is invaluable. This book is an introduction to Customer Value, to enable the reader to easily understand and use the concepts of Customer Value. It also goes into the wider notion of Total Customer Value Management. The book is meant to be self-learning, which is encouraged by the “Do It Yourself” sections in each chapter.

The book also helps in comprehending and using Customer Value and its measurement, Customer Value Added in your company, and dispels fear of discarding current Customer metrics, by augmenting them.

Understanding the nuances of Customer Value, how to use and apply its learnings will make you smarter and better than other executives, because you will be able to create value for yourself and for others, and move away from functional thinking to value creation thinking. For being effective at value creation you must have self-confidence, you must become aware of what is around you and what is happening around you. Notice and observe things. Your agility, ability, and attitude will help you create value especially if you are aware. Being ambidextrous helps. Thus you should be able to look, for example, at digital selling and physical selling, or the present and the future simultaneously. Learn from this book and you will get ahead.

Advanced readers are invited to read three other books written by the author (all Sage Response Books):

Customer Value Investment, *Formula for Sustained Business Success*.¹
Total Customer Value Management, *Transforming Business Thinking*.²
Value Creation, *The Definitive Guide for Business Leaders*.³

Enjoy your Customer Value journey and create value for yourself.

¹G. Mahajan, 2008, *Customer Value Investment: Formula for Sustained Business Success*, Sage Response, New Delhi

²G. Mahajan, 2011, *Total Customer Value: Transforming Business Thinking*, Sage Response, New Delhi

³G. Mahajan, 2016, *Value Creation: The Distinctive Guide for Business Leaders*, Sage Response, New Delhi

CHAPTER 1

What Is and How to Use Customer Value

Customer Value measures and tells us why Customers buy, and why she* rebuys or will buy more and from whom. It looks at the benefits a Customer gets versus what it costs her for the product or service she buys. If the Customer perceives she gets more benefits than what she paid (total cost in price and non-price terms), value is created for her. And when she goes to buy, she compares the value created by competing products or services, and buys from the company she perceives is creating the most value for her in this competitive world.

Companies are in business only because they have or can find Customers who buy from them. Companies get and retain Customers by creating value for them. The value we create depends on the Customer's perception of the value. Companies try to evaluate the Customer's perception. Often, this is done by measuring Customer satisfaction. It has been proved that satisfaction alone does not correlate to business outcomes such as market share (unless it creates competitive value). Customer Value goes beyond Customer satisfaction, and correlates to business results. This book tells you more about Customer Value, how to understand it, create it, measure it, use and manage it, and create value for yourself.

Customer Value is fundamental to business. Learn how to create Customer Value before you enter (sell, market, manage, price, service, or do other things) into the Customer marketplace (not just your business marketplace). The Customer marketplace may be different from yours. As an example, you maybe experts at physical selling, and the Customer prefers to buy digitally on the net.

*The customer, referred to in this book by the feminine pronoun, includes both male and female persons.

Meaning of the Word Value

Value has many different meanings. To some, value means price (what is the value of this car?). To others, it means benefit (the value I get from this car). It also means the worth of something. That is, why you hear some people saying “Value for money” (meaning they are price sensitive); and others who prefer “money for Value” (meaning they are willing to pay for what they consider as higher benefits, as from a brand or a better product, or more convenience, etc.).

In business, we describe value to be the worth (benefits vs. cost) of a product or a service compared to competitive offers. We will define cost later.

The dictionary meaning of value includes:

The regard that something is held to deserve; the importance, worth, or usefulness of something. Synonyms are merit, worth, usefulness, use, utility, practicality, advantage, desirability, benefit, gain, profit, good, service, help, helpfulness, assistance, effectiveness, efficacy, avail, importance, significance, point, and sense.

You must also have come across the word values. Values are distinct from value (the plural of value as defined in the earlier paragraph is value). Values are what someone or a firm stands for honesty, morals, ethics, sustainability, integrity, trust, fairness, and so on.

Your company sets out to deliver value. This value remains potential value till the Customer perceives it, buys, and uses your service. These concepts are called Value-in-exchange and Value-in-use. Thus, the exchange process and the Customer’s use process are important to your company. In addition, the value the Customer perceives depends on her mood, attitude, her need, her emotions, her experience, her culture and background, and so on.

Customer Value Defined

No wonder, the reader is confused about the value word that she uses so often. When used in the vernacular, it does not matter; but when used as a technical term, like Customer Value, the meaning of value must be

precise, so that everyone understands what it means, as shown in the following:

Customer Value is the perception of what a product or service is worth to a Customer versus the possible alternatives. Worth means whether the Customer feels she gets benefits and services over what it cost her, and versus competitive offers.

In a simplistic equation form, Customer Value is Benefits – Cost ($CV = B - C$). *It is what the Customer perceives, not what the company thinks.*

What the Customer pays is not only price during the life of the product or service (cash, cheque, instalments, interest, payment during use and maintenance of a car such as fuel and servicing, and resale potential) but also non-price terms such as time, effort, energy, and inconvenience. In B2B and B2C, price justification is very important. Price and non-price together make up the **cost** of the product or the service. Most people mistakenly believe price and cost are the same. This is generally not true.

The benefits include the advantages or quality of the product, service, image and brand of the company or the brand of the product, the company's values, experience, and success one gets in using the product or the association/relationship with it, its people, and so on. Other factors impacting value are emotional and psychological factors. Sometimes, we think of these as psychological or emotional benefits. An example is feeling good about the person serving you, or feeling happy when wearing a new dress or being complimented on it. This increases the value to you.

Consumers and Customers

Consumers are distinct from Customers. Consumers use the product or the service, but may not always buy the product or the service. The value the consumer perceives influences the buying evaluation and perception of the decision maker or the Customer. The Customer is someone who buys or makes the decision to buy. Often, the consumer and the Customer can be the same person.

Though in a wider sense you are a Customer if someone took you out for dinner to a restaurant, in the context of this book, you are a consumer. The person who invited you is the Customer of the restaurant. You might or might not have influenced the choice of the restaurant and what wine to buy.

A Non-Customer is someone who could buy from you or is a prospect, but is buying from someone else, or not buying now. She is also important to you for your future.

Sometimes Customers are known and sometimes unknown or anonymous. Many companies do not know how many Customers they have and who they are. This makes it difficult to reach the Customer or customize for them.

Meaning of B2B, B2C, and C2C

Sometimes, our Customers are businesses or business Customers in which case we sell Business-to-Business (B2B). If a business sells directly (or through third parties) to a Customer, then we call this Business-to-Customer (B2C). Note that B2C is not Business-to-Consumer, because the company sells to Customers and not to consumers who could be influencers. Also, when you are selling B2B, do not forget you are still selling to people within the organization, and they want to be treated like people and not as just someone in a company.

Take a food item on the shelf. In a generic sense, it is sold B2C. Actually, the food company sells sometimes to the dealer, and it becomes B2B, and she sells to the retailer (B2B) who sells to the Customer (B2C). Who *Who is your Customer?* is the food company's Customer? All of these or just the final Customer or just the dealer? All are Customers, though the primary Customer is the dealer. Should this stop the food company in reaching out or advertising to the final Customer? These are all issues businesses have to manage.

C2C is Customers talking to other customers, sometimes selling to each other, sometimes helping each other to buy, or recommending what to buy. Using C2C is a powerful way to reach anonymous Customers or at least in trying to understand them better (see my article on C2C¹). Often, the C2C medium is digital or word of mouth.

¹G.Mahajan.2016:<https://customervaluefoundation.wordpress.com/2016/02/24/c2c-its-importance/>

Is Value Created by Processes and Systems or by Mindset and Culture?

Value is created just as much by a focus on processes and systems as much as it is by mindset (and attitude) and culture. Actually, the mindset, attitude, and culture come first because they can influence the processes and the systems! Mindset and culture are much more difficult to change, and also difficult to emulate. It is easier to copy products, processes, and systems than to copy mindsets and culture. Therefore, for long-term success, a value creation mindset and an enduring Customer culture are important. These, along with properly Customer Value designed and applied systems, create great experience and value.

Are processes and systems more important than attitudes and mindset?

The perception of Customer Value changes during the use of a product or during the Customer journey and the dealings with the company's Customer touch points. The Customer journey starts from the time the Customer has a need or thinks of purchasing through the actual purchase and finally the use experience. Value is perceived during the purchase intent, the shopping, the actual purchase or buying, the installation or start-up, the use, and even the resale. We sometimes call this the Waterfall of Needs. Needs change during the Customer journey.

Many companies focus on the Customer journey, which we want to minimize. If we study the Customer habits and journeys, we may sell differently. An example is for farmers, the best time to buy crop insurance is in the late evening after returning from the field. Savvy companies have sales people and products/services available at this time to coincide with the Customer's lifestyle (and journey).

Selling in context is important. It is easier to sell me a chocolate bar when I am hungry or craving it, rather

Context is important. Digital marketing helps in selling contextually

than when I am full. The Internet of Things and digital marketing can help you sell contextually more effectively. You should look at these platforms to add Customer Value. Irene Ng's book *Creating New Markets in the Digital Economy*² gives you great insights. In addition, if you can empower others

²I.C.L. Ng. 2014. *Creating New Markets in the Digital Economy* (Cambridge University Press).

to deal with you, and use your offerings, you will be on the way to be a winner.

Any product or service has only latent or potential value when a Customer is unaware of it. So having a great new product has little value, till the Customer becomes aware of it and perceives value from the product. The value perception starts with awareness and information. How to create this awareness is important.

What Does Creating Customer Value Do?

Customer Value includes Customer satisfaction and Customer experience. Good Customer experience will create value for the Customer. Thus to improve Customer Value, we must strive to improve those attributes important to the Customer, and these include benefits and cost improvement. Customer Value measurements described later will tell us which attributes are truly important to the Customer and which ones to work on.

Creating Customer Value (better benefits vs. cost) increases loyalty, market share, price, and profits, reduces errors, and increases efficiency of your company, thereby lowering costs. This means improved Customer Value results in higher market share and revenues and along with better efficiency leads to higher profits. Often companies measure this with a term called Customer Life Time Value which tells them the value they get from the Customer during their relationship with him.

*Increasing Customer Value
increases profits*

How to Create Value

In order to create Customer Value, you first have to understand the Customer Value concept: what a Customer perceives as value, how a Customer's Value needs change over time, and how to get Customer feedback. You must realize that people buy a product or a service that creates the most value over competing options.

To create real value, you must understand how the Customer views your and the competition's product or service. What is important to the Customer in her buying decision? Is price more important or are benefits?

And, are you good at delivering what the Customer believes is important? Are you able to deliver more than your competition on these factors?

I understand these are general terms, but they will help you to create value as you understand your Customer's need and perceptions. These will all be discussed in detail later.

So let us take some examples on how to create Customer Value:

1. Giving the Customer a price that makes her believe she is getting more benefits she gets versus competitive offers
2. Reducing the price, or keeping the same price and giving something extra over competition (this could be ease of purchase and delivery, improved service, better attention, or an add on to the product)
3. Making it convenient for the Customer to buy and how she wants to buy and pay. Sell contextually. Be there when the Customer wants to buy
4. Providing a proper price justification, not just a price. (How often are you swayed by proper price justification?) Many people call price justification value propositions (what are you providing that justifies a price)
5. For dealers, the feeling that the company will grow and offer new products for them to sell. These are things that the dealer may not have an experience of, but does view as a benefit and therefore value
6. The image of the company, including the brand and the trust in the company or when the Customer appreciates the values of the company (or what the company stands for) including sustainability. These create value for the Customer
7. Giving the Customer a product that works as it is meant to (as perceived by the Customer) and easy for her to understand and use (so that no unnecessary time or energy has to be expended)
8. Emotional and psychological factors can create/destroy value. Making a Customer feel inadequate is a value destroyer

9. Ensuring that the Customer journey is minimized and is convenient. Likewise, restrict unnecessary experiences for the Customer (even though experience is important)
10. Making the Customer feel valued. Examples are:
 - a. Smiling at and being attentive to a Customer creates value for her. Making her feel welcome creates value, whereas ignoring her destroys value for the Customer
 - b. Making it easy for the Customer to contact the company, and an assurance that an answer will be given when and how promised (how many times do you have to wait to talk to someone and how often does the company promise to call back and how often do you get a call?)
 - c. Not making you repeat questions or answers, and keep stating the problem to different people in a company
 - d. Receiving a call from a service person confirming her visit (the Customer is not kept wondering whether the service visit will take place)
 - e. Not answering queries destroys value. In short do not annoy (DNA) the Customer

Summary

We have learned what value means and what Customer value is, and how simple actions can create or destroy value. Customer Value requires systems and processes, and a mindset. Most people focus on the processes and not the mindset, and it is crucial to get a Customer Value mindset or culture in your company.

Actually, the mindset, attitude, and culture come first because they can influence the processes and the systems! Mindset and culture are much more difficult to copy. Products and processes are easier to copy. Know the Customer's DNA (Do Not Annoy)

Contextual and digital marketing is important. Creating more Customer Value creates more profits.

We have discussed who a Customer is, and why one has to focus on non-Customers also.

Do It Yourself

All readers have real-life examples of value creators and value destroyers and can add many more examples. Do add yours.

Answer the following:

How many Customers do you have? How many are anonymous?

If you know your market share, how many Customers do not buy from you? Or what percent do not buy from you? Why?

Does increasing cost reduce the value to the Customer?

Can you charge a higher price for higher benefits?

What can I do to create value for my Customer and non-Customers?

What value are my competitors creating? Can I learn from them?

What can destroy value for my Customer? Give examples.

Does experience create value?

List things that you do not experience that can create value for you.

Ask how you can improve Customer Value?

What annoys Customers? Know their DNA (Do Not Annoy)

CHAPTER 2

Components of Customer Value

How to Build a Waterfall of Needs and Attribute Trees

An easy way to understand Customer Value is to build an attribute tree to identify the components of Customer Value. Customer Value normally breaks up into Benefits (or utility) and the Cost. Usually, we build the Waterfall of Needs first, which is an outline of the Customer journey.

All of you have been through such journeys and formulate attributes in your minds (without calling them attributes). We are only formalizing what you already know and what you go through in your buying or purchase decisions.

Customer Value Attribute Tree and Relative Importance of Attributes

Value breaks up into Benefits and Costs in an attribute tree shown below. The relative importance of Benefits is $X\%$ and that of Costs is $Y\%$. $X + Y$ (the relative importance of Benefits and Cost) adds to 100 percent. Sometimes readers get confused, because we said $\text{Value} = \text{Benefits} - \text{Cost}$. Benefits are what the Customer perceives as benefits, whereas X is the relative importance in percentage of Benefits in the value importance equation. Likewise for Cost, its relative importance in value is $Y\%$. So, the relative importance of cost and benefit adds up to 100 percent (not the actual

perception of cost and benefit. The Customer still uses $B - C$ to determine whether she got value or not!

The benefits of the Customer derive from the product, the service, the image of the product, emotional and psychological factors in the purchase, or from the people (or employees, dealers, service agencies) of the company or the retailer. Benefits could include other items such as convenience, relationship or association with the company, and so on. Experience is built into each of these items, and the perception of the Customer is based on many factors, including experience, emotions, trust, and so on.

*Value has Benefits and Cost as its main components.
Their relative importance adds up to 100%.*

Why do I call emotions a benefit? For example, your emotional connect to a product or brand is a benefit you derive (familiarity, liking, experience), and if the com-

pany selling the product knew about this, they could influence it. And how you are emotionally feeling, and feeling toward the purchase influences the value you perceive.

The Cost is the other parameter that the Customer looks at. Cost is also a perception and breaks up into price and non-price terms. Price terms include the price itself, discounts, interest costs, maintenance or running costs, and so on.

Very often, you do not know the precise price of a product or a service. Take a bundled telephone service; you may not know the price of the individual components of the offering, or when a phone is part of the deal, or how do you price the service?

The non-price terms include price justification, ease of purchase, emotions, time and energy expended to buy or use the product, and so forth. Many times, the non-price terms are more important in the buying decision than the price terms. An example is the purchase of greeting cards. Many of us do not buy greeting cards, as the non-price cost of buying (planning to buy, going to the store, parking, buying, mailing, and returning home) is too high. As an aside, if your greeting card's competitor is a net-based offering, it may attract you to use the service contextually, when you suddenly feel like sending a card. The value created may be so much higher than buying a physical card at that point in time.

You will notice also that the relative importance of the benefits and the cost adds up to 100 percent. In Figure 2.1, the benefits have an importance of X% and the cost an importance of Y%. X + Y adds up to 100 percent.

Customer Value: X + Y = 100%	Benefits: X%	Product
		Service
		Image including brand
		Emotional and psychological factors
		People
	Cost: Y%	Price
		Non-price

Figure 2.1 *Customer Value importance breaks up into benefits importance and cost importance*

So benefits could be 20 percent and cost 80 percent. Or, benefits could be 70 percent and cost 30 percent. These numbers are derived from the market research and are not importances given by the Customer. These percentage numbers are extrapolated from the research data through statistical analysis which will be described later.

Sub-attributes

Likewise in Figure 2.2, we can see that sub-attributes of benefits, each one having an importance percentage shown as A%, B%, and so on.

Sub-attributes of Benefits

Benefits: A + B + C + D + E = 100%	Product: A%
	Service: B%
	Image: C%
	Emotional and psychological factors: D%
	People: E%

Figure 2.2 *Sub-attributes importance of benefits*

Very often, when there is not much to choose from between competing products, the product importance (A% in this case) could be as low as

The relative importance of all the sub-attributes benefits adds up to 100%

5 percent (This is often the case with commodities such as fertiliser, cement, and so

on). On the other hand, if your product is well differentiated, this number could be 50 percent or higher. It is important to note that having a great brand may not mean your product itself is well differentiated. Note that if there is no interaction with the people of the company or the retailer, the people could be of little importance and could be left out of the attribute tree.

Components of Sub-attributes

The product could break up into sub-attributes such as the product itself, the product features, the ease of use, the instructions, the packaging, and the looks. You could add other attributes while removing the ones not of consequence.

The service could include the ease of service, the service response, the speed of service, proper and complete servicing, and the service people and their behavior.

An example of how the subattributes break out into their components is shown in Figure 2.3. We could have drawn similar trees for product, service, and so on.

Sometimes, the brand of a product such as cheese could be Philadelphia Cream Cheese and the company name Kraft. Both have an importance to the Customer.

	Brand of the product: G%
	Company name or brand: H%
	Trust in the company: I%
Image: G + H + I + J + K + L = 100%	Association/relationship with the company: J%
	The product enhances my image: K%
	Sustainability/environmental focus of the company: L%
	Efforts of the company to reduce prices: M%

Figure 2.3 Sub-attributes of image

I tend to use the attribute image rather than using brand as the primary attribute, because image is all inclusive. Sometimes the company brand is more important and sometimes the product brand is significant, or the company and the product brand can be similar. Note the attribute: The product enhances my image. This could include wearing a branded shirt with the brand name or logo on it, or driving a car like a BMW or Mercedes versus a Honda.

Image includes brand and other factors

You can see many factors make up the image. In a study on a power company, we found that the image was 50 percent of the benefits in Figure 2.2 (shown as C%) and the product (in this case electricity), A% was only 20 percent in importance.

In one study with a power company, the trust in the company, its efforts on sustainability, and containing costs were about 75 percent of the benefits (I% + L% + M%), as shown in Figure 2.3.

Cost = Price and Non-price

As mentioned earlier, Cost is a perception and breaks up into price and non-price terms. Price terms include the price itself, discounts, interest, monthly payments, costs, maintenance or running costs, and so on.

The non-price terms include price justification, ease of purchase, emotions, time, energy (the energy we have to expend), and so forth.

For commodities, the cost is more important than the benefits. Generally, commodities sell on price, unless you can find ways to commoditize them. Adding value to the Customer or differentiating yourself are ways of decommo-ditizing. Some ways of differentiating are branding, relationship, or providing an association to the buyer with the product.

Cost is Price and non-Price. Price Justification is sometimes more important than Price. Non-Price could be higher than Price in importance!

We found in a lubricant company, cost importance was 70 percent of the total value.

The importance of price itself in the cost equation was 15 percent, and price justification importance was 65 percent of the cost. You can then see the importance of non-price factors such as price justification.

In a fertiliser company, the image had 43 percent in importance, and of this trust in the company, the relationship with the company and the product that enhances my image (see Fig. 2.3) were the main components.

How to Build Attribute Trees?

The attribute trees are relatively simple to devise. Sometimes, we find that the company people building the attribute trees leave out attributes important to the Customer, or add attributes not important to the Customer. In a subsequent Customer Value market research such items can be removed if not important or added if the Customer shows this is important. Figure 2.4 shows an attribute tree in the Fertilizer industry.

As an example in a commoditized packaged good, we found that the product itself was of 5 percent importance. For me, there is no value in looking at the subcomponents or the product, which could be packaging, package integrity, and the package looks. On the other hand, if for some reason you are looking for a design change, these factors come into play, and could be useful in a satisfaction study.

Sometimes in satisfaction studies, the company may ask comments on hygiene factors (factors not important to the Customer or taken for granted). Thus, in developed countries, courtesy or grooming of sales people are taken for granted (these become hygiene factors). In developing countries, courtesy or grooming of sales people may still be differentiators. If these are important to Customers, then we must ask questions on these in the Customer Value study. If not, we ignore them in the Customer Value study, but might include them in a satisfaction study. Later, we will show that satisfaction studies can be shortened by focusing on items important to the Customer.

Waterfall of Needs

A Customer's waterfall of needs defines his or her journey

Another method to understand the Customer is to build a Customer's Waterfall of Needs and derive the attributes from

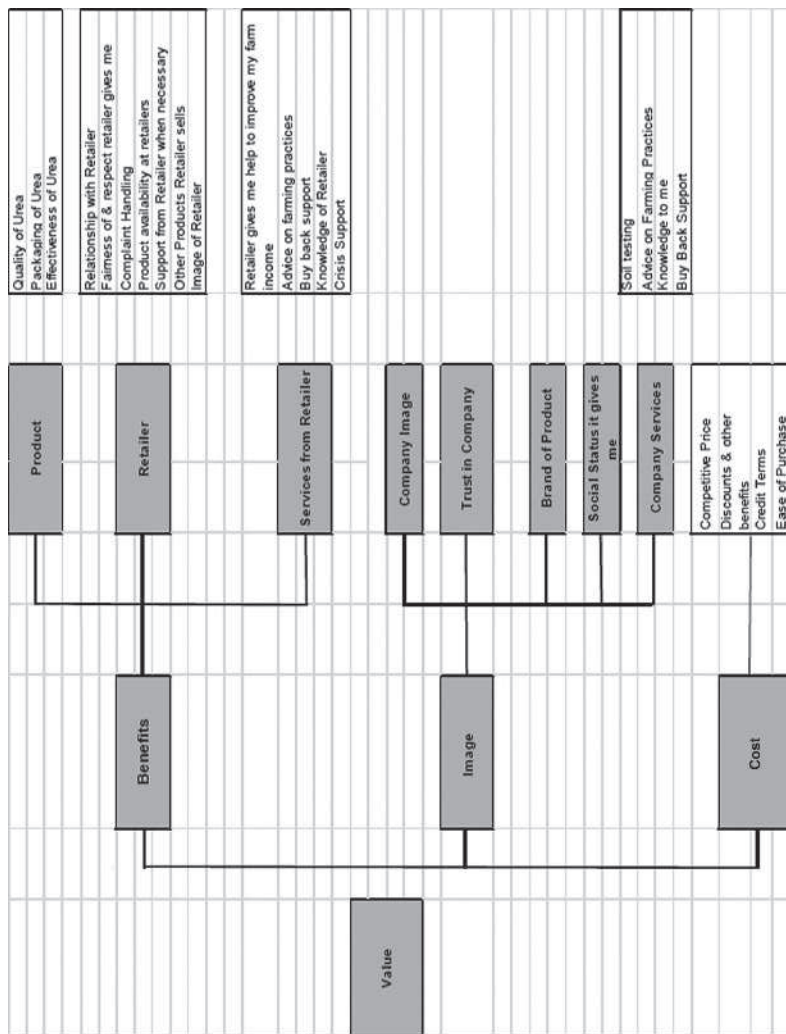


Figure 2.4 Attribute tree (Fertilizer industry)

this. The Waterfall of Needs is really a Customer Journey from the time she becomes aware of a need or thinks of purchase through the purchasing process, and finally the use experience. This is shown in Figure 2.5. Some people think of it as the Customer decision and use journey which can lead to loyalty and repurchase.

I built this Waterfall of Needs after I made the attribute trees (I should have actually built the waterfall first). Even so, I notice that benefits should have included information, the retailer, the availability of the product, some non-price terms, and so on that could be important enough to put on the attribute tree. Note that we have also mapped out the Customer journey.

You can see how we move from a perceived need to prospecting, shopping, and buying, and then into postpurchase including delivery and setup, use, and after-use (repurchase). It covers the entire journey of the Customer and what her needs are in the various steps or what she is looking for.

So you can see now there are many factors or attributes in buying. The relative importance of these to the Customer is the key to what value you need to be selling. And, as we will show later, you must be better than competition in those factors that are important to improve your Customer Value to the Customer. We will discuss this and Customer Value Added in the next chapter.

In the next chapter, we will learn how to measure the Customer's perception of our company, and what our competitors will get as scores from their Customers.

Summary

You have been able to see now how we can build a Customer's Waterfall of Needs and attribute trees, and what items to put on the attribute trees. We have also learned that each item has a relative importance and that the true importance comes from market research with Customers through statistical analysis. The main attributes making up value are Benefits and Cost (and sometimes Image). Each of these can break up into subattributes, some of which are transactional.

The Waterfall of Needs helps you ensure that the important attributes are put on the attribute trees. Market information, Customer data, and the like can help you add attributes you have missed or remove not so important attributes.

The attributes' relative importance or weighting is shown as percentages.

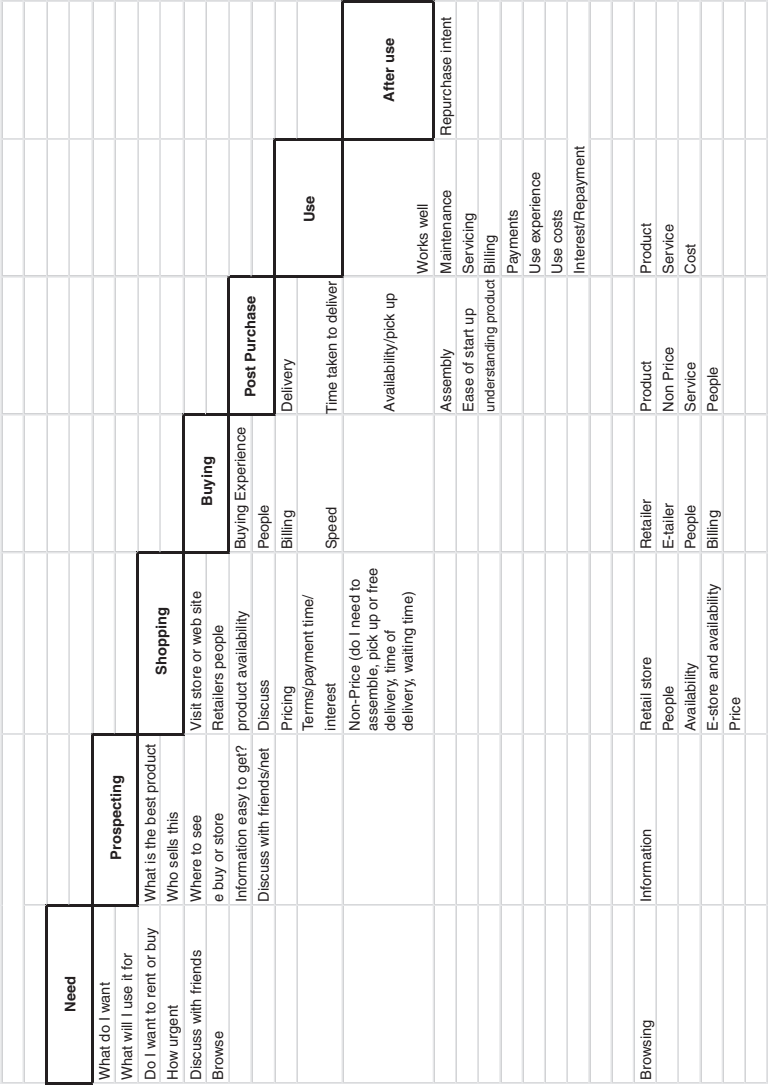


Figure 2.5 Waterfall of Needs

Do It Yourself

All readers have real-life examples of what the attribute trees and Waterfall of Needs should be, depending on the product or industry. The attribute tree for insurance will be different from buying a car or a mobile phone. Do add yours. Answer the following:

Create a Waterfall of Needs for a product or a service you want to buy or just bought

Create an attribute tree for a specific industry or product or service that you use or buy

Put the relative importance of each attribute or subattribute as you see it

Did you think of needs outside those shown in this chapter?

How important was the experience in the attribute tree?

Think of non-price terms that you have paid for a product in addition to price.

Why is $\text{Value} = B - C$ whereas the importance of Benefit + the importance of Price is 100 percent?

CHAPTER 3

Measuring Value (Customer Value Added)

In the previous chapter, we learned that to understand Customer Value, we have to build a Customer's Waterfall of Needs and attribute trees to display the components of Customer Value that are important to the Customer. We also found that each value item has a relative importance, and we can show the importance on the attribute trees.

To move ahead, we must also get the Customer's perception on whether we are creating less or more value on each of the attributes versus our competition. This is called Customer Value Added. Sometimes, I refer to it as the CVA score.

Customer Value Added

We ask our Customers to score our company on each of the attributes. This is our score. We then ask our competition's Customers to rate the competitor. We call this the competitor's score. We then develop a relationship between our score and the competitors' score.

Customer Value Added (CVA) is our Customer's perceived rating or score of the value we deliver divided by the perceived rating or score competition gets on the value they deliver to their Customers.

To measure Relative Value Added, we need to

- measure market perceptions of value our company adds
- measure market perceptions of value added by competitors
- define a relationship between the two

$$\text{CVA} = \frac{\text{Perceived worth of your offer}}{\text{Perceived worth of competitive offers}}$$

Measuring Customer Value Added

The best way to measure CVA is to ask our Customers and our competition's Customers to rate each of the attributes that are important to the Customer. (We showed how this can be done by building attribute trees in the previous chapter.)

Thus for our Customer, we ask her to rate us, in generally an anonymous market study. For a competitor's (let's say company A) Customer, we ask her to rate company A (her supplier).

The typical way is to rate the attributes from a company on a 10-point scale. We anchor the lowest point on the scale (in this case 1) and the highest point on the scale (in this case 10). So we tell the Customer that 1 is very poor or ineffective (based on the question) and 10 is excellent or very effective (again depends on the question). We do not tell them what a score of 5 or 6, and so on means.

The way we ask the question, as an example, is:

Rate the service of company A on a 10-point scale, where 1 is very poor service and 10 is excellent service

And so on.

Segment the Customers to get meaningful CVA results

We start asking questions of the sub-attributes, and then the main attribute. Once we have the sub-attribute scores, we ask about the main attribute. Let me give you an example. Let's say the main attribute is the Product. And the sub-attributes are ease of setup, ease of understanding, ease of use, and features of Product. I show this in the following table.

Attribute	Sub-attribute
Product	Ease of setup
	Ease of understanding
	Ease of use
	Features of Product

So we ask and rate the ease of setup of the product on a 10-point scale, where 1 means very difficult to set up and 10 means extremely easy to set up.

And likewise for the other sub-attributes.

When we come to asking about the main attribute, the product we ask:

Based on the ratings you have given for the ease of setup, the ease of understanding, the ease of use, and the features of the product, overall rate the product on a 10-point scale, where 1 is extremely poor and 10 is excellent.

Once we have the perceptions of our Customers and the competition's Customers, we can divide one by the other to get the Customer Value Added.

Typically, the CVA score after you have divided your score by the competitor's score can be as follows:

Greater than 1: This means you are better than competition (we normally say better than 1-1.02 to take into account precision errors in the research).

Equal or 1: This means you are equal to your competition (generally between 0.98 and 1.02).

Less than 1: This means you are worse than your competition (usually below 1-0.98).

Once we have these scores, we can calculate the relative importance of each of the attributes. (We showed the importance in the previous chapter.)

Note that we do not generally ask one Customer to rate two companies. We ask the Customer to tell us whom she generally buys from. Let's say she drinks Pepsi 70percent of the time and Coke 30 percent of the time. We ask her to rate only Pepsi (and internally we view her as a Pepsi Customer). Let's say the next Customer says she buys Coke 75 percent of the time, and then we ask her questions only about Coke.

Why do the scores have ranges? This is because statistically it may be difficult to differentiate between 0.98 and 1.02 if we are looking at a sample size which gives data to within ± 2 percent accuracy.

How Do We Get the Customers Scores?

There are many ways of getting the Customer's perception of a company.

1. Our perception of the Customer's perception, or a desk study.
Here executives who are or think they are knowledgeable of the marketplace or of the Customers build the Waterfall of Needs and the attribute trees shown in Chapter 2. They can then put their perception

of how Customers would score these attributes for their company and for competition's.

We find that the first time executives do this, they will all have different perceptions (their perceptions are based on their own thinking). Thus, one executive might say that cost is 30 percent and the next executive might say cost is 70 percent in importance.

You can conduct a desk study, or do some field studies or focus studies, use industry data or conduct a market study to measure CVA

With practice, and by becoming more aware of the marketplace and the Customers, we find the ratings made by the executives come closer and closer to what Customers

might say. We found this at GE Capital, where their perception of the Customer allowed them to predict scores well.

2. Talking to Customers, and our intermediaries (or even a focus study) or qualitative research: Here we find that we are closer to the marketplace. But the way we ask questions can influence the marketplace. So if we ask do you like Coca-Cola and Pepsi, the answer could be both. But if we asked which one do you like better, the answer could be different; and different from which one would you buy; and different from which one will you buy if both are priced the same or one is on sale. Note which one you say you like maybe different from which one you buy!

The qualitative research can be used to derive the value attributes and Waterfall of Needs.

3. Using documented studies, multient studies, or public data: These are often done by research groups or the government, or reported by them.
4. Conducting a market research on your Customers and competition's Customers.

First, you must remember how we define our Customers and the competition's Customers. We discussed this toward the end of the section entitled "Measuring Customer Value Added" in this chapter. Second, you must segment the marketplace. Let's take Pepsi and Coke. We can segment the market as the United States, United Kingdom, or Canada (this is geographic segmentation). We could segment by city. We could segment by gender, or age group. Or we could segment in a city by age group.

Third, you must have an idea of the marketplace size and the number of Customers in the segment we wish to study.

Fourth, you know from experience you cannot measure everyone if the marketplace is large. What you do is to sample the marketplace in the segment you wish to study. The sample has to be representative of the segment.

Thus if you had 50 Customers, and you measured all 50, then

You must make your CVA study statistically significant

your measurement accuracy will be 100 percent.

But if you had 50,000 Customers, you cannot interview all of them and you need to sample them. Your sample size depends on the confidence level you want to have on the data. Let's say, you want to have 95 percent confidence in your data. You will also have to decide on the precision of the data. So if the average is 900 for a particular question and the precision of the answer you are willing to accept is ± 2 percent, then the number 900 could be 882 (900 - 2 percent (or 18) or + 2 percent) or 918. We have 95 percent confidence that the number (900) is actually between 882 and 918.

The sample size is shown below. Thus for 95 percent confidence interval and plus or minus 5 percent precision interval, we should interview 380 people. And for 90 percent confidence interval and plus or minus 5 percent precision interval, we should interview 300 people.

Sample Size versus Confidence Interval

Population (N)	Sample (n)			
	95% Plus or Minus		90% Plus or Minus	
	5%	10%	5%	10%
300000	380	95	300	75
100000	380	95	300	75
30000	379	95	300	75
10000	369	95	293	75
3000	340	93	275	74
1000	277	88	232	70
300	168	73	151	60
100	79	49	75	43
30	27	22	26	21
10	9	8	9	8

Satisfaction Study

This data is divided into scales, and each scale is called a box, and is reported in different boxes. There could be five boxes if the measurement scale is 1 to 5. Normally, we report the data in the top two boxes or the bottom two boxes. This kind of data and reporting is common in satisfaction study.

We could have a numerical score, or a qualitative score. The numerical scores are put into boxes. So, a score 5 could mean strongly agree.

Bottom Two Boxes			Top Two Boxes	
Strongly Disagree	Disagree	Undecided/ Neutral	Agree	Strongly Agree
1	2	3	4	5

Sample Size for a CVA Study

In a CVA study, we are reporting comparative data. Because of this our sample size is usually one-third to one-fourth of the ones required for only studying the top boxes. Thus, for 95 percent confidence interval and ± 5 percent precision interval instead of 380 sample size for a satisfaction study, we only have to measure 95 to 130 people for our company, and the same number for our competitors for a value study. For a satisfaction study, we would need 380 respondents.

If in a value study, we are studying ourselves versus 5 competitors, we will need 600 to 750 samples (100 to 125 samples for each of 6 companies, that is, ourselves and 5 competitors).

Value Study versus Transaction Study

The bulk of the satisfaction studies are conducted right after or very close to the transaction. The questions are asked of the transactor or the one buying or consuming. Such a study will require for very large Customer bases a sample size of 380 for 95 percent confidence with a precision of ± 5 percent.

In a value study, we are looking for ratios and have one-third (sample size 126) or one-fourth (sample size 95) of the sample size for each company.

The other important differences are explained in the following:

A Value Study is different from and goes beyond a satisfaction study and correlates to business results.

The Value Study is a Decision Maker study

1. The value study is not conducted on the user or the buyer per se.

In a satisfaction study, assuming your mother buys the Coca-Cola and you consume it, we would ask you about the drink, and how satisfying it was. We would ask your mother about her buying experience and why she buys Coke.

In a value study, we would ask your mother (the decision maker about the value of the Coca-Cola). Assuming she does not drink Coca-Cola, she has a perception of who consumes it in the family and how it was consumed, and whether she should buy or not.

The value study is a decision maker study. The satisfaction study is a transactional study and conducted on the end user or consumer.

2. The value study is done some time (days or months) after the transaction so that we are looking at the memory of the experience, not at the experience. In a satisfaction study, we want to capture the satisfaction of the transaction as close as possible to the event.

As an example, let's view an in-house travel department. Many of you stay in hotels, which the CxO in charge of deciding where you stay may not stay. She makes a value decision on which hotels to choose for middle-level executives. This is based on her impression of how her executives view the hotels, and her perception of the benefit of the hotels, and the cost and what the value of the hotel group is to the company (our people are happy, they find the hotels convenient, and the costs to the company are reasonable: The value, i.e., benefits/cost of this hotel group is higher than the ones we did not elect to do business with).

Customer Satisfaction versus Customer Value Added

Customer Satisfaction Studies	Customer Value Management Studies
<ul style="list-style-type: none"> ○ Rate you against yourself. Absolute scores <ul style="list-style-type: none"> • How good is good? 	<ul style="list-style-type: none"> ○ There is a direct linkage between perceived value received and long-term loyalty ○ Customers rate you against entire marketplace
<ul style="list-style-type: none"> ○ Primarily measures satisfaction with transactions <ul style="list-style-type: none"> • Done immediately after contact 	<ul style="list-style-type: none"> ○ Measures perceived value of products/services/relationship/price vs. competition <ul style="list-style-type: none"> • Measures embedded feelings
<p><i>Satisfaction relates to the results of a process</i></p>	<ul style="list-style-type: none"> ○ Assigns weights to attributes which enables prioritization of actionable items
<ul style="list-style-type: none"> ○ Limited ratings vs. competition and these are against <ul style="list-style-type: none"> • Transactions • Features ○ Comparisons are against industry averages 	<ul style="list-style-type: none"> ○ Enables quantification via its working tools
<ul style="list-style-type: none"> ○ Customer satisfaction (C-Sat) results are not directly linked with Business results ○ Satisfied customers are not necessarily loyal Customers 	<ul style="list-style-type: none"> ○ Scores correlate with Business results ○ Tells you why people buy from you and why others buy from your competitors

Before we go further, the market study has to be planned carefully. It has to have in built quality. It must ask the right questions of the right people in the right segment at the right time.

Also by using ratios we can compare the results between disparate classes of scoring Customers. For example, Japanese may be reluctant to give high scores versus someone in Canada. So absolute scores would make us think ratings from Canada are higher than those in Japan. But a ratio such as the CVA would eliminate such issues. In fact companies such as Castrol are able to compare how well they do in various countries by using CVA scores.

In the next chapters, we will learn how to interpret the scores we get from a survey. Before that we will discuss how data is viewed and then discuss the data itself.

Summary

You have seen how we measure the CVA score. It is a comparative score. We have also discussed different ways of collecting market data, and that the best way is to conduct a CVA study. We are asking Customers to rate attributes based on their perceptions. We relearn what you already knew about sample sizes and why the value study requires one-third to one-fourth the sample size of those required for a normal satisfaction study. We also see the essential differences between a value study and a satisfaction study or a transaction study. The transaction study is done close in time to the transaction and is conducted on the buyer or end user. The value study captures the memory of the experience through the decision maker and not the actual user. The value study is conducted much after the transaction.

Do It Yourself

Think of a product or a service you use that is provided or mandated to you by your company, even though you are the end user (easy examples are laptops or cell phones of a particular brand. Think beyond these). Ask why they might have been chosen by the higher-ups. Could it only be cost? Or only benefits? Or the value perceived by the higher-ups?

Think of your current satisfaction study? Does it capture value? Does satisfaction relate to loyalty?

Build a set of different segments for the marketplace or your Customers. What is the size and importance of each segment?

Guess the Customer size for these segments, and how many competitors. Ask how much confidence and precision you want in the data, and what your sample size be for a normal study and for a value study.

When do you use a value study and when do you use a satisfaction study?

Why are you able to compare various segments of Customers and remove scoring biases in these segments by using CVA scores?

CHAPTER 4

Meaning of Data and How to Use It

So far, we have learned how to build attribute trees, how to design market research, and how the market research data or desk study data gives us scores. We studied the difference between satisfaction and value studies, and the limitation of satisfaction studies. Further, we know this data is shown as a ratio, and the Customer Value ratio (the ratio of the worth of your products and services or your value score divided by the worth of your competitor's products and services) is called Customer Value Added. Likewise, each item has a relative importance, and we have shown these items on the attribute trees.

The scores tell us what we should do, improve, hold, or communicate to the Customer on how good we are. The relative importance and the scores determine the priorities. Here is a road map for follow-up work (action plans) after the value study results are in.

- Measure and diagnose the perceived value in comparison with market competitors. The metrics can be used for building **Action Plans** that will impact market share and profitability—where Customer Value Foundation or Customer Value experts like yourself can facilitate this process.
- A “Value Tree” is developed based on inputs from interviews with end users and stakeholders. From the Value Tree (Perceived Cost–Benefit Tree), a list of major attributes is generated in order of impact, where attributes with competitive advantage can be used for “communication” and attributes that need to be improved can be used for improvement action plans.

- With a list of perceived attributes to improve, Customer Value experts with client's executives will study internal metrics that best correlate with the attributes and set objectives for improvement, timing, and leaders. This is the baseline for the action plan phase.
- The increase of perceived value generates improvement in market share and profitability, according to our experience with more than 3,800 cases in the last 14 years.

To understand this best, we will start again from basics:

You can see that Customer Value Management is the result of management evolution from quality control (QC) to Customer Satisfaction to Customer Value (Fig. 4.1). So becoming a Customer Value expert gets you to be on the cutting edge of management and among the select elite experts in Customer Value. Later, we will suggest to you how to use your quality resources, techniques, and processes to impact on the Customer.

Customer Value Added has a host of important tools to attract new Customers, increase business with existing Customers. This is shown in Figure 4.2.

You have already learned what Customer Value Added means (the measure of Customer Value).

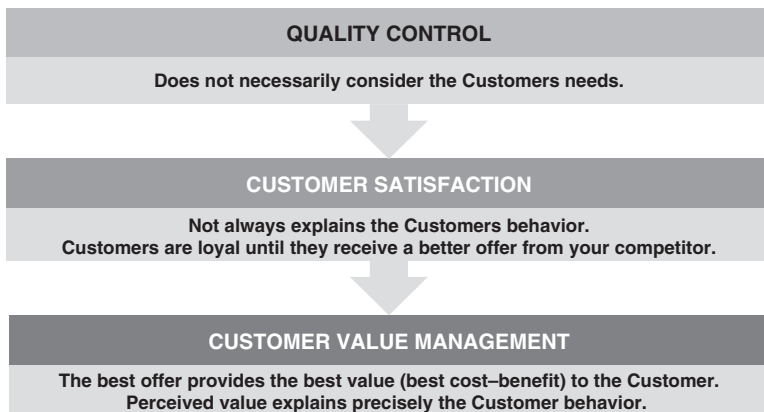


Figure 4.1 Evolution of management concepts

Many of the figures in this chapter are courtesy of CVA Solutions, Brazil

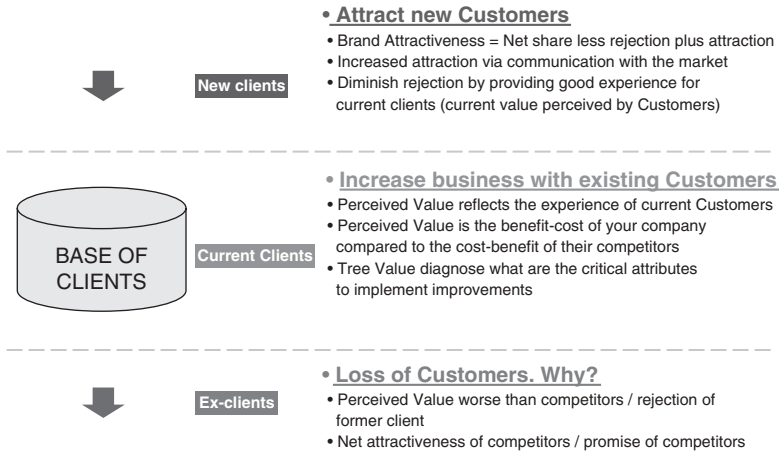


Figure 4.2 How to get sustainable and profitable growth

CVA Calculation

Competitive position compared to competitors

$$CVA = \frac{\text{COMPETITIVE DIFFERENTIAL}}{\text{YOUR VALUE SCORE}} = \frac{\text{YOUR VALUE SCORE}}{\text{COMPETITOR'S VALUE SCORE}}$$

CVA > 1 Better than Competition

CVA = 1 Parity to Competition

CVA < 1 Worse than Competition

We had also learned to make attribute trees in the previous chapters. In this chapter, we show how the Customer Value scores can be put on an attribute tree. The relative importance of each of the attributes are also shown on the tree. Remember, how you got the relative importance or weights of each of the attributes? We get these through statistical analysis of the data. The weights are derived through analysis (and are not stated by the Customer) (see Fig. 4.3).

So, in this example, cost is 60 percent and our company is worse on costs than competition (lower than 1). That means, the Customer thinks we are more expensive! (Note that we may not be more expensive, or we may be. But it is the Customer's perception which is important and

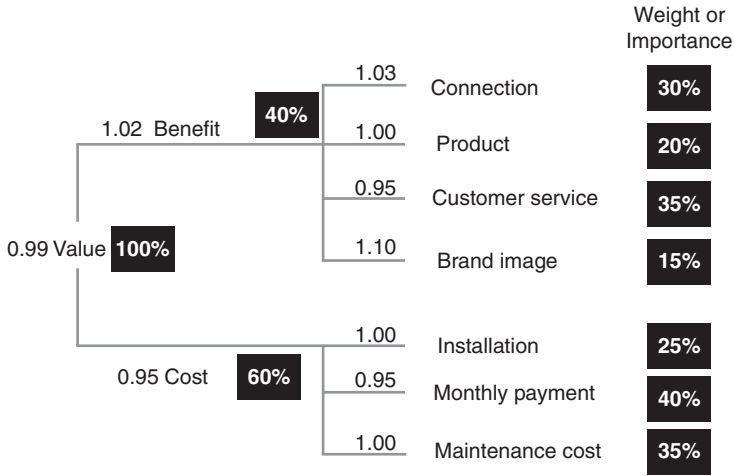


Figure 4.3 CVA of attributes (Internet provider example)

Your price may be perceived to be high because of some factor that Customers do not like, even though your actual price maybe lower than competitors

according to his perception we are more expensive!). We have to understand the reason. In a power company, we found that the perception of price was poor, even though the

price was among the lowest in the 10 US major metros. We found that the service was poor, causing people to rate the price as high!

In the benefits, we see that Customer Service is very important at 35 percent and we are worse than competition. An obvious place to improve ourselves is in Customer Service. And we are good at connection, and therefore we should communicate this to the world.

In Figure 4.4, we show that very often a stated response may not be as good as a derived response. But when a stated and a derived response coincide, that response is very strong and important.

We had also discussed about the items to be communicated to the Customer and areas to work on. Wherever we are better and that item is important to the Customer, it becomes a Value Priority for Communication (VPC). Where we are worse, and that attribute is important to the Customer, it becomes a Value Priority for Improvement (VPI) (Fig. 4.5).

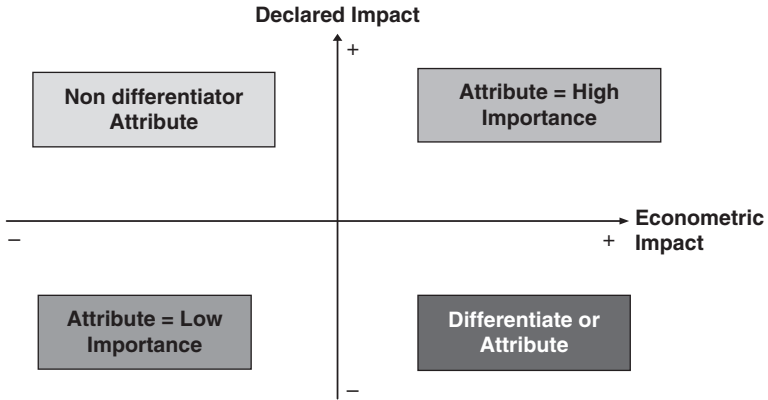


Figure 4.4 Impact weight: declared versus econometric

VPC – Value Priority for Communication: Prioritize the attributes which good performance most leverage the Communication effort = attributes with high impact weight and high CVA

VPI – Value Priority for Improvement: Prioritize the attributes which improvement most leverage the Perceived Value = attributes with high impact weight and low CVA

Figure 4.5 VPC and VPI

Once we have all this information, we can conduct a workshop on VPI and VPC and put action steps together to move forward (see Fig. 4.6).

Selected attributes

Attribute		Objective CVA		Objective KPI			Project team		Next steps	
		From..	To..	Metric	From	To...	Leader	Participants		
#1	Deliver according to agreement	0.97	1.03	% invoices delayed	25%	8%	Peter	Joey, Carla and Sandra	Meeting to define next steps	May 18
#2	Information about deliveries	0.96	1.05	% of customers informed	50%	90%	Paul	Phyllis, David and John		May 20
#3	Quickness to solve devolutions problems	0.95	1.00	# Days	?	8 days	Mary	Edward and Joanie	Measure our current # days	Jun 7

Next Steps	Deadline
Action Plan	<u>June 14</u>
Aprove Action	<u>June 28</u>
Follow-up KPI	<u>July 15</u>

Figure 4.6 Workshop action plan Customer Value

To put into context, what CVA scores mean in simple terms (see Fig. 4.7).

DEFINITION	VALUE	COST	BENEFIT	DESCRIPTION
Below average	<0.98	<0.98	<0.98	Products and services are perceived inferior to competitors
Parity (average)	0.98 – 1.02	0.98 – 1.02	0.98 – 1.02	Products and services are perceived in parity with competition
Above average	1.03 – 1.10	1.03 – 1.08	1.03 – 1.15	Products and services are perceived as being superior to competitors
World Class	> 1.10	> 1.08	> 1.15	Products and services are perceived as offering exceptional superiority vs competition

Figure 4.7 Global definition of CVA scores

Lastly, we discuss that such CVA data exists in many industries, and is very practical. You can see the relative importance of Cost and Benefit for many industries in Figure 4.8 shows results of various studies, the scores,

Industry	Value Score	Benefits Impact (%)	Costs Impact (%)
1 Appliances	9.28	59	41
2 Technical service	8.68	53	47
3 Commercial relationship with retailers	8.48	48	52
4 Clinicas analysis labs (user)	8.48	35	65
5 Heavy vehicles (trucks)	8.38	48	52
6 Cosmetics - direct sales	8.22	40	60
7 Televisions 2010	8.21	40	60
8 Beer (the consumer at the bar)	8.15	62	38
9 Computers 2010	8.04	39	61
10 Hotels	8.03	43	57
11 Business magazine	7.98	42	58
12 Mobiles phones 2010	7.75	45	55
13 Insurances (insurance brokers)	7.65	40	60
14 Auto executives	7.62	50	50
15 Banks premium 2010	7.39	34	66
16 Auto insurance 2010 (users)	7.39	24	76
17 Supermarkets	7.30	47	53
18 Credit card 2010	7.21	46	54
19 Oral hygiene products (dentists)	6.98	68	32
20 Retail bank 2010 std	6.73	31	69
21 Mobile operators 2010	6.65	40	60
22 Dentals plans (users)	6.56	40	60
23 Health plans (users)	6.19	40	60

Figure 4.8 Value for industry econometrics impacts. Source: Database CVA solutions

and the relative importance of price and benefits for various segments and sectors. You will note that the price importance varies from 32 percent for oral hygiene to 76 percent for auto insurance. This means the Customers have less to differentiate in auto insurance offerings on benefits.

Discussion

In this chapter, you have seen how the Customer Value Added data can be used.

First, we see that the Customer Value Added data is the start to Customer Value Management. The evolution from quality to Customer satisfaction to Customer Value is also explained. Customer Value Management is defined to be the route to sustainable and profitable growth. CVA and Customer Value Management (CVM) tell you why some Customers buy from you, and why others buy from your competition. This can help you attract new Customers. The study also shows you why you lose Customers and the tendency to lose Customers. If you know this, you can find ways to reduce churn of Customers.

The output of the CVA study is shown on an attribute tree, and it shows what is truly important to the Customer (Customer weighting), where you must improve, and where (if you are better) you must communicate to the world. The value you create is only worthwhile if the Customer perceives it. So, if we are good in some attribute, we must communicate it.

We then have a Value Priority for Improvement, VPI, and a Value Priority for Communications, VPC, in our plans.

Select items for Value Priority for Improvement and for Communication

Next, for improvement, you must set a priority, and for each item you want to improve on, you must have a plan. The plan should tell you how much improvement you want, in what time frame and how, and who is going to do this. Now you have a Customer Value Improvement program in place.

We have also discussed the difference between a stated and an implied Customer response, and when the two coincide, we truly have an important response.

Next we showed what the scores mean on a global scale for value, for cost, and for benefits. Note that cost and price are not the same. The total cost of a product or a service may be far greater than the price you pay. Remember that cost consists of price and non-price terms.

Finally, we exhibited some comparative data for various industries on value and the ratio of benefits and cost.

Do It Yourself

Draw an attribute tree as shown in this chapter for your company's product or services. Add to the attribute tree, the importance or weightage of various items. See where you are better or worse than competition. Set up VPI and VPC for this.

Check if your cost-benefit ratio is in line with the one shown in Figure 4.8.

Check whether you are world class or also rans.

Build a Value Improvement plan and a Value Communication plan. Which items will you prioritize for either one of these plans? What will be your improvement plan and timetable?

CHAPTER 5

Using Customer Value Data Usefully

When we get data back from the Customer and the marketplace, we conduct the analysis and then put it into a format that is easy to see. This format

is called a competitive profile. The attribute tree was shown in Figure 2.5.

Below are a study and a competitive profile from rural India on a fertilizer called urea. CO1 is your company, and the other companies are named as CO2, CO3, and CO5. We can compare CO1 (ourselves) to the industry. We usually prefer not to. Why? Because the industry includes us (and we do not need to, nor want to compare ourselves to ourselves as we are represented in the industry data). So we compare ourselves to the other competitors (or others, which is the industry data without us). The ratio of CO1/competitors or CO1/others tells us how we rate versus competition. The competition's

score is the weighted average of the scores of CO2, CO3, and CO5. (Weighted average means the scores are weighted based on market share).

But even more important, we can see how one of our competitors CO2 compares to its competition (which is the weighted average of ourselves [CO1], CO3, and CO5). This tells us more about CO2. This expresses how CO2 would look at the data had they commissioned the study, and so we know as much about them as they would, had they carried out a CVA study. This makes us understand their thinking (or if they

Always compare your company with other companies, not just with yourself

If you have data on your competition, you can pre-empt their strategy

do not have the data, how they should be thinking on what to do or what their strategy should be).

Next we can compare ourselves versus any of the competitors such as ourselves (CO1) versus CO2, or CO1 versus CO5. This is a one-on-one comparison.

The darkest highlighted data in Table 5.1 in the ratio . . . / competitors for CO1, means CO1 is worse. Under the column CO2, the darkest highlights mean CO2 is worse.

Table 5.1 Competitive Profile

	Impact Weight (%)	Ratio . . . /Competitors				Ratio CO1/ . . .		
		CO1	CO2	CO3	CO5	CO2	CO3	CO5
Value								
Overall benefits	20	0.98	1.01	1.05	0.96	0.97	0.96	1.01
Overall product image	43	0.95	1.02	1.03	0.98	0.94	0.94	0.97
Overall price	36	0.94	0.98	1.02	1.01	0.96	0.93	0.94
Overall value	100	0.97	0.98	1.05	0.98	0.99	0.94	0.98
Price								
Competitive price	30	0.87	1.02	1.07	0.99	0.87	0.97	1.05
Discounts and other benefits	11	0.95	1.02	1.01	1.00	0.95	1.01	1.01
Credit terms	25	0.95	0.99	1.04	1.00	0.96	0.97	1.03
Ease of purchase	34	0.99	1.00	1.06	0.96	0.99	0.95	1.07
Overall price	100	0.94	0.99	1.02	1.01	0.96	0.97	1.01
Benefits								
Overall urea	3	1.00	1.03	0.97	1.00	0.97	1.05	0.98
Overall retailer	27	1.00	1.04	1.04	0.95	0.97	1.00	1.06
Retailer's services	71	1.00	1.08	0.98	0.97	0.94	1.08	1.00
Overall benefits	100	0.98	1.02	1.05	0.96	0.97	0.97	1.07

And in the last columns, it shows CO1 versus CO2, CO3, or CO5, and highlights mean we are worse. The highlighted data means we are about the same, and the highlighted data means we are better.

Price is not always the most important reason to buy

Next you should notice that price is only 36 percent in importance, and image is 43 percent. Benefits are 20 percent and in the benefits, the product itself has very little importance (3 percent in the Benefits table). Remember that most product-centric companies focus on the product even if it has low importance in the eyes of the Customer. Why is the importance of the product low in our example? This is because the Customer sees very little difference between the competing products available to her.

Table 5.2 presents how the image breaks up into the company image, trust in the company, and the brand of the urea. The social status the brand gives the farmer also builds the image. You can readily see that the company image and trust together make up 43 percent of the total image and the brand makes up only 25 percent of the image. CO1 (ourselves) are worse than industry (we do not want to compare ourselves to industry but to competition). We are also worse than competition in image; CO3 and CO5 being superior to us.

Discussion

You can see how powerful a Customer Value Added study can be. By using competitive profiles, you can study yourself against competition and against each of your competitors, or versus an individual competitor. You can see how a competitor would view itself if it had this data. Moreover, you can see what a competitor would opt to do or what strategy the competitor would adopt to improve, and you can pre-empt its moves. You can discover and decide what you would want to do. You will also note that what you might think is important may not be important to the Customer or vice versa. This will change your thinking radically.

Table 5.2 Competitive profile: Overall product image.

	Impact Weight (%)	Scores					Industry Average	CO1 vs. Industry	Ratio ... /Competitors					Ratio CO1/...	
		CO1	CO2	CO3	CO5	CO1			CO2	CO3	CO5	CO2	CO3	CO5	
Company image	33	8.6	9	9	8.9	8.89	0.97	0.97	1.02	1.01	0.99	0.96	1.01	1.01	
Trust in company	10	8.6	9	9.1	8.9	8.91	0.96	0.96	1.02	1.02	0.99	0.95	1.00	1.02	
Brand of urea	25	8.8	8.8	8.8	8.9	8.84	0.99	0.99	1.00	0.99	1.01	0.99	1.00	0.99	
Social status brand gives I	21	8.4	8.6	8.8	8.5	8.57	0.98	0.98	1.00	1.04	0.98	0.98	0.98	1.04	
Company services	10	5.7	6.4	6.9	6.4	6.47	0.88	0.87	0.99	1.10	0.99	0.89	0.92	1.08	
Overall urea brand image	100	7.9	8.3	8.4	8.1	8.19	0.96	0.95	1.02	1.03	0.98	0.94	0.99	1.03	

Company's Services	Impact Weight (%)	Scores					Industry Average	CO1 vs. Industry	Ratio ... /Competitors					Ratio CO1/...	
		CO1	CO2	CO3	CO5	CO1			CO2	CO3	CO5	CO2	CO3	CO5	
Buy back support	18	4.93	6.12	6.32	6.13	6.04	0.82	0.80	1.02	1.06	1.03	0.81	0.97	1.03	
Soil testing	32	5.69	6.31	6.65	6.16	6.27	0.91	0.90	1.01	1.09	0.97	0.90	0.95	1.08	
Knowledge to me	18	5.90	6.31	7.04	6.25	6.43	0.92	0.91	0.98	1.13	0.95	0.94	0.90	1.13	
Advice on farming practices	32	5.09	6.22	6.67	6.09	6.15	0.83	0.81	1.01	1.12	0.98	0.82	0.93	1.10	
Overall company's services	100	5.69	6.4	6.9	6.4	6.47	0.88	0.87	0.99	1.10	0.99	0.89	0.92	1.08	

Do It Yourself

Build a competitive profile for your product or service. See where you stand and what is important to the Customer.

Can you do this in different segments?

What would you do to improve? Whom do you want to compete with?

Is your thinking different from the Customers?

Can you chart out competitive strategic options?

What do you learn from the competitor's profile?

CHAPTER 6

Customer Value Data and Business Results

In the previous chapters, we learned how to use data for improvement of the Customer Value we create and for communicating our value. We also discussed how to put together a Customer Value Improvement plan. We looked at what the data meant on a global scale (i.e., how you can rate your CVA score with global companies) and the data that exist for various industries. Much of this was shown in Chapter 4.

In Chapter 5, we showed you how to make competitive profiles and interpret them.

CVA can predict market share to within 1% accuracy

In this chapter, we show how the Customer Value data (CVA) relates to business results.

The Vodafone Managing Director for Australia, David Maher, said that the Customer Value Added scores predicted

CVA data has a one-to-one correlation with market share

market share to within 1% accuracy and that it predicted Customer churn accurately. Maher's Financial Director stated that the Customer Value score was more accurate than the financial scores.

As Maher suggested, the Customer Value Added data has a one-on-one correlation with the market share. The results are seen (in this example, 4 months later) sometime after the value addition has been made by the company because it takes time for the new value to roll out into the market place. Such data is shown in Figure 6.1.

As stated earlier, Customer Value studies correlate with business results. Figure 6.2 shows how Customer retention increases as Customer Value increases

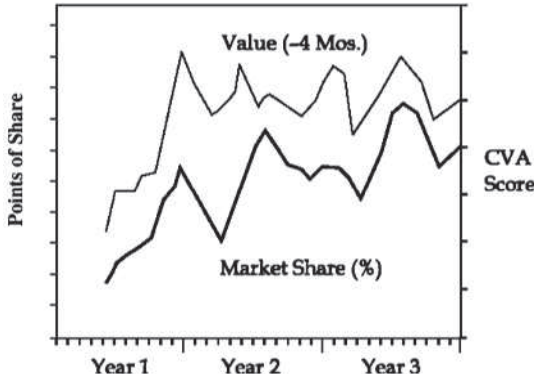


Figure 6.1 Market Share Versus Value (Example from Telecom Percentage Installs)

Source: Ray Kordupleski.¹

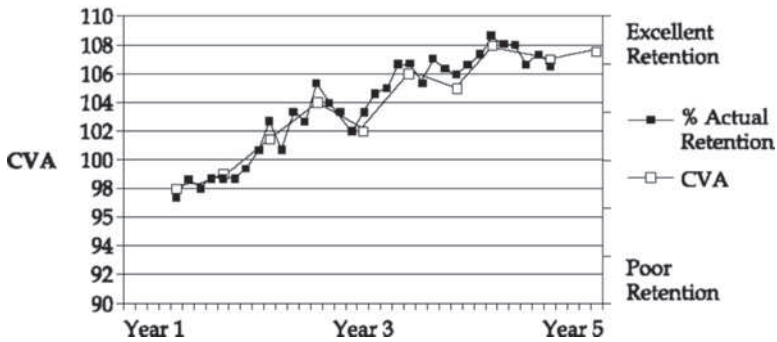


Figure 6.2 Increases in Customer Value Added Followed by Improvements in Loyalty and Retention

Source: Customer Value Foundation Australia, <http://www.cvm.com.au/> (accessed on June 21, 2010)

As it can be seen, loyalty and retention increase as the Customer Value score increases. Figure 6.3 shows that the profit increases as retention increases. Specifically, in this example, a 5% increase in retention translates into 25%, 50%, and even 100% increase in profit.

¹R. Kordupleski, 2003, *Mastering Customer Value Management, Customer Value Management*, New Jersey, Pinnaflex, with permission of Ray Kordupleski

Part of the profit increase comes because as the Customer Value Added increases, the prices you can charge can also increase. Further, your market share increases. Thus, your profit increases.

Wallet share increases with CVA

Figure 6.4 shows that share of wallet increases as CVA increases.

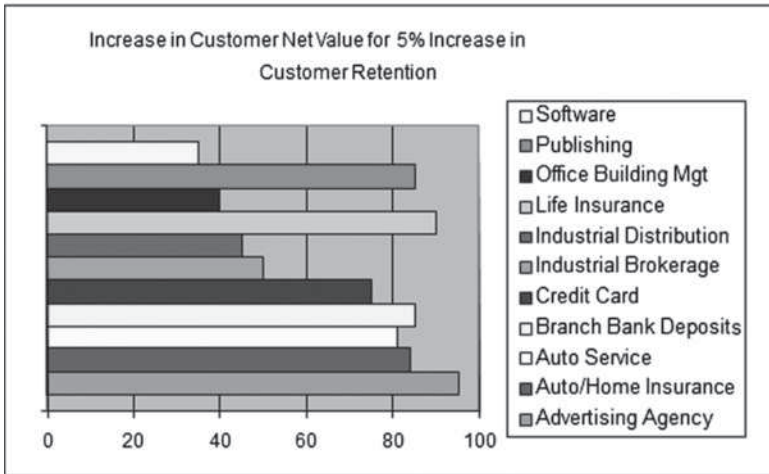


Figure 6.3

Share Of Wallet vs Relative Customer Value

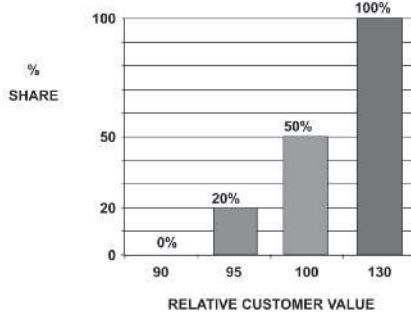


Figure 6.4

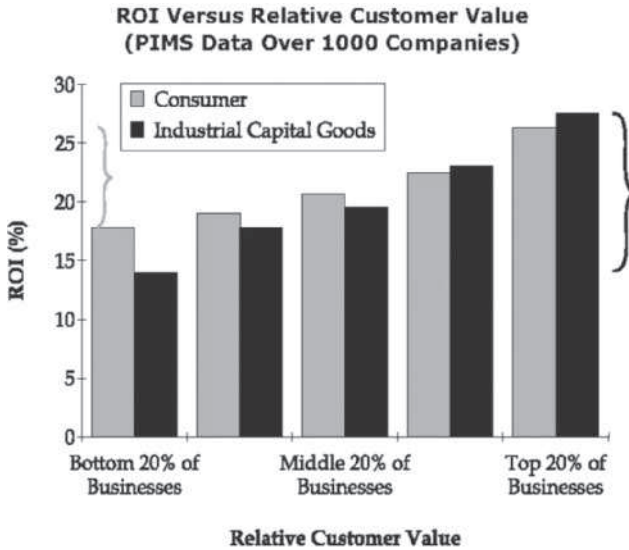


Figure 6.5

It obviously follows that if market share, retention, and wallet share are increasing, the top line and ROI should increase as shown in Figure 6.5.

Obviously, if Customer Value goes up and ROI goes up, share prices should also go up. A 10-year study by Claes Fornell² of the University of Michigan showed a 1% increase in satisfaction increased share price by 4.6%.

Finally, if we take a large Customer base, the CVAs for each industry will follow a bell curve or a Gaussian distribution as shown in Figure 6.6.

Discussion

So you can see the value of Customer Value Added. You had intuitively always bought a product based on its value relative to competition. Now you can see the business results:

Market share increases on a one-on-one basis with CVA.

Loyalty and retention goes up.

Wallet share increases.

²C. Fornell, S. Mithas, F. Morgeson III, M. S. Krishnan, 2006, Customer Satisfaction and Stock Prices: High Returns, Low Risk, *Journal of Marketing*, Vol. 70, pp. 3–14

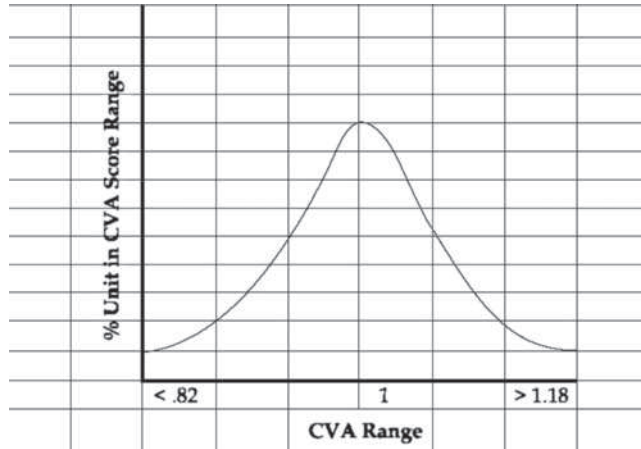


Figure 6.6 Benchmarking of CVA³

Customers are willing to give a higher price to products that they believe to give them increased Customer Value Added. Because you are closer to the Customer, you will make fewer errors and become more efficient; hence, costs should go down. Profits and ROI will increase. Consequently, share prices will go up. Retention of Customers increases profits.

In the next chapter, we shall look at loyalty curves and also Value Maps, all derived from the Customer Value Added studies.

Do It Yourself

Ask yourself whether you buy based on value? Think of times you have bought or made your purchasing decisions based on value and when you have not.

Have you noticed you are willing to give a higher price for something that gives you higher perceived value? For example, for an Apple phone versus a similar phone from another brand?

³R. Kordupleski, 2003, *Mastering Customer Value Management*, Customer Value Management, New Jersey, *Pinnaflex*, With permission of Ray Kordupleski

Do you tend to use the same credit card most of the time? That means that card has a greater share of your wallet. Can you think of other items or companies that have a higher share of wallet? You have two cars, you tend to use one more often. Why? Is this related to value?

If you look at products you buy, think of those you buy on impulse, those you must buy right away, and those you have time to buy. Where does Customer Value perception come into your purchase? How important are emotions in buying?

Take a product you are selling or buying. How could Customer Value be improved?

Do you always buy the cheapest product or the most expensive one? Why?

CHAPTER 7

Loyalty Curves and Value Maps

In the previous chapter, we have learned how Customer Value data correlates with business results. We saw how much of a connection the Customer Value Added (CVA) score has with market share, loyalty, retention, share of wallet, profits, and so on.

In this chapter, we will go further to study how we can measure loyalty or retention of Customers, and how we can build Value Maps.

Customer Value and Loyalty

To measure loyalty, we ask two more questions in our CVA study. These are as follows:

1. Would you buy this product or service again from this company?
and
2. Are you likely to recommend this product, service or company

These are the same two questions used to measure net promoter score (NPS). If you asked this question on a 10-point scale, people answering 9 or 10 are called promoters, and those scoring 6 or less are called detractors. Promoters minus detractors give you net promoters. NPS has been called as net recommender score (NRS).

NPS or NRS

You can see NPS is nothing more than what we set out to do to measure loyalty or Customer retention. We take the answers to either of our two

questions above and plot them against CVA or the actual value score on a 10-point scale. NPS gives us no more information than the loyalty information. Worse still, NPS compares yourself to yourself and not to competition. We know this is flawed. Take an example of grades. Which is better? A score of 60 when the class average is 50 or a score of 70 when the class average is 80. In the first, you were 20 percent better than the average. In the second, you were 12.5 percent worse than the class average even though you had better scores. Satisfaction studies generally have this defect.

CVA is a much more extensive study and gives additional information on what to do and your competitive position. Banking on NPS alone is

Note, small changes in value can have a large impact on loyalty

a poor substitute for CVA. (In any event, CVA gives you the NRS or NPS score also.)

Loyalty Curve or the Slippery Slope

The loyalty curve predicts Customer behaviour. When we plot the data, we get a typical S-shaped curve. One such curve is shown as the Customer Loyalty Predictor in Figure 7.1. At very high scores of Customer Value, slight changes in value do not make much difference in the loyalty. However, in midrange Customer Value ratings, we can see small changes in



Figure 7.1 What Is Improvement Impact?

Customer Value can have a huge impact. Thus, if we move from 7 to 8 in value (a 14 percent improvement), loyalty moves from 50 to 67 percent or a 34 percent improvement in retention. Therefore, you must pay attention to improving the Customer Value score. The dramatic midrange drop in retention due to lowering of Customer Value makes us call this curve the **slippery slope**.

Value Maps

The Value Map is generally a plot of benefits versus costs. What it tells you is how a unit of cost impacts benefits or vice versa. It allows you to visually see your competitive position in the marketplace versus your competitors. With this kind of a map, we are able to track or predict your strategic moves to improve your competitive position. A typical Value Map is shown in Figure 7.2.

In the Value Map in Figure 7.2, you are shown three segments of the business: an economy product or service, like a low end or economy car; an average one; or a high end or premium product or service. Irrespective of what type of product you are selling (economy, average, or premium) to win, you must always create more value than competition.

The Value Map is plotted from the competitive profiles we discussed in the previous chapter. A key line is the benefit (quality) for price line (or

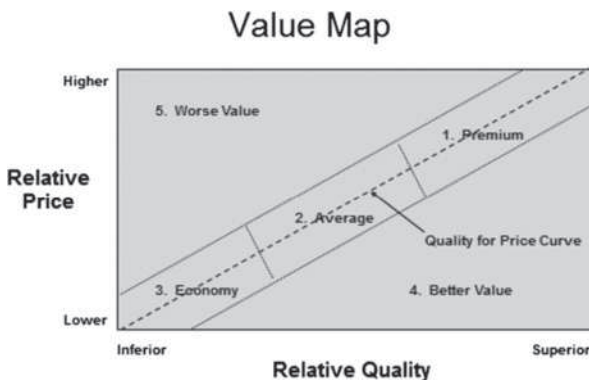


Figure 7.2 Value Map

Source: Used with permission from Ray Kordupleski.

Value Maps show your competitive positioning with the fair value line

the fair value line). Any product or service close to this line is fairly priced. The farther you move from this line and

below it, you will create value. When you move above the line, you will be reducing or destroying the value you create versus fair value.

This is best shown in Figure 7.3 based on the competitive profiles we showed in Chapter 5.

Here the company AA is creating high value for its Customers. They are creating even more value for AA (members). AA (members) are AA Customers who are enrolled in a membership program. Huge value is being created for them. You can see this from seeing their position on the Value Map and the distance from the fair value line. None of you is in the business of giving away value and reducing profits. So we move AA (members) value upward into a higher price zone or find ways to reduce our costs (by giving lower benefits by moving them toward the left).

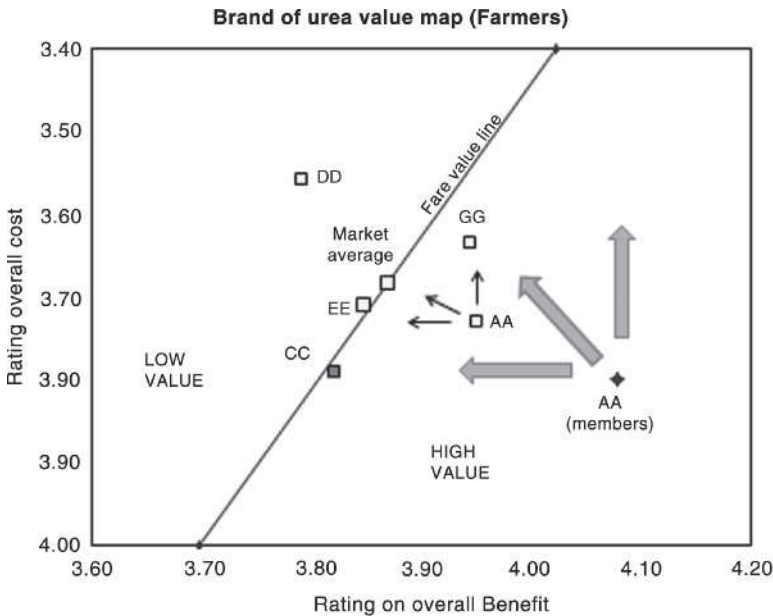


Figure 7.3 Brand Urea Value Map (farmers)

Figure 7.3 focuses on increasing the value to the Company or the profit. Starting with AA members, we notice an immense Customer Value is being created for them (see the distance from the fair value line [the only line on the chart]). We can increase the price (shown by the vertical arrow going up), reduce the benefits (arrow going to the left), or both (arrow going diagonally toward the fair value line). One could increase revenues by charging a membership fee (increasing price). A very low price would also attract more members or Customers.

A better way is to increase price for AA's Customers (members and non-members) or reduce the benefits (such as sales credit or free delivery). You can see the position of AA (members) with reduced benefits and higher prices. Yet, AA members are receiving more value than competitors are creating, albeit less than before prices were increased or benefits were reduced.

All these will increase the revenue to the Company and its profit. It is better to ensure we continue to be in the high value zone and add somewhat more value than competitors.

These strategies have worked to increase value to the Company.

Note also that in the two curves (Figs. 7.2 and 7.3), there is a different slope to the fair value line.

How to Plot the Fair Value Line

The fair value line is based on the relative importance of the benefits and the costs. If both benefits and costs are 50 percent in importance, the slope of the fair value line will be 50 percent of 90 or 45 degrees. You can plot the Value Maps for different relative cost and benefit ratios.

Discussion

Finally, you can see the value of Customer Value Added study and scores. It tells you about your Customer loyalty and retention, and what you have to do to improve loyalty. With the Value Maps, you can plot your competitive position versus competition using the fair value line, and you can then build a strategy to provide optimum value (not too much, not too little), and increase/decrease value to the Customer or profits.

Do It Yourself

Answer the question on how many people will remain loyal to your company based on the value you create for them. In a given sample, you will know what the individual Customers are stating as the value they perceive, and simultaneously how many will buy again. This will allow you to plot the slippery slope of the loyalty curve.

Next, plot the Value Map. You can then see where you are and what strategy to adopt to improve your competitive position. Draw the fair value line if cost is 30, 45, or 60 percent.

Draw a Value Map for your product or service. Pay attention to the slope of the fair value line. Mark the value you add and the value your competitors add. Comment on what the Value Map tells you about your business, and what to do next as a strategy.

CHAPTER 8

Customer Value and Loyalty

What Is Loyalty?

To add Customer Value to Customers, one must be very clear about terminology. Loyalty is often used as a goal. What you should understand is that loyalty is not the same as love. Loyalty is not constant (sometimes companies think Customers are fickle). In the Customer context, it really means we are likely to retain the Customer on her next purchase or her next recommendation. A loyal Customer is only loyal at a point in time. If you create more value, chances of retaining the Customer are higher; and if you continue to create value, your Customer will continue to remain loyal (vs. the term be loyal). You also have to get employee loyalty, and we will talk about this later.

Customer Value Management tells you that you have to earn the Customer's loyalty at every transaction and every

Customer loyalty is based on creating Customer Value

point in time. So you need to understand what causes loyalty at a point in time. It is the value you are adding to the Customer. But more importantly, we need to understand what the Customer Values, and what is important to a Customer in the Value she perceives. This means trying to customize to the extent you can your offering to the Customer. The customization may only be possible in some aspects of your offering (let's say on a one-on-one interaction, or on the service, or choosing the right time to contact the Customer).

Why do I choose to start a discussion on loyalty in a Customer Value Management book? Because we want to retain the Customer and want them to rebuy. We want our existing Customers to help us get more Customers.

Thus, we have to win our loyalty spurs at every instance of the Customer journey. We have to understand that Customer Value Creation is an ongoing and necessary process in keeping the Customer loyal. And we have to work on this. This means that we cannot take loyalty and the Customer for granted.

What Do We Have to Do?

1. We have to build a Customer culture and a Customer Value creating culture.
2. We have to put the Customer first. That means the company comes second (what this means is that the Customer priority has to be higher than the company priority in the eyes of the executives).
3. The convenience of the Customer must take precedence over the convenience of the company.
 - a. Executives have to wear a Customer hat and not just the company hat.
4. Executives have to understand what the Customer considers value and to create it.
 - a. Customer Value Creation goes beyond not just doing your functional job but into consciously figuring out how to create value and how to prevent destruction of value.
5. The company has to understand that for the executive or employee to create value, the company has to create value for the employees, the partners, the ecosystem, sustainability, and the society, and that this will create incomparable value for the company: read profits.
6. That an understanding will come that the purpose of a company is not to create profit, but a higher purpose such as serving society or improving lifestyle, and that profits are only a measure of the success of a company.
7. That to create Customer Value and to have an incessant focus on the Customer, everyone in the company has to have a Customer role and

Wear your Customer hat in the company and put his convenience over that of the company's

understand, irrespective of the department she is in, the Customer is priority one.

- a. This means breaking of silos and no internal walls.
 - b. Even selling has to be conscious (conscious selling).
8. That for Customers to be loyal, the company has to be loyal.

Should a Company Be Loyal?

I came across a cartoon at *Economic Times*, which showed two executives speaking and one saying:

It's no more about employee loyalty . . . try winning company's loyalty . . .

It got me thinking. Should a company be loyal? Can a company be loyal? To whom? I quickly googled, and there was hardly anything on a company's loyalty.

The first question is an easy one, a company can be loyal.

Should a company be loyal is more complex until we answer the question to whom.

I guess we have to scroll through the stakeholders: Employees, Customers, partners, shareholders, and society. The easy answer is that a company should be loyal to all of these. If this is true, then we have to ask are most companies you know loyal, and to whom? Are companies you buy from loyal to you? I have found that whenever we as Customers have been good and fair to our suppliers, they tend to be more loyal to us than to other Customers who are not as fair or good to them.

I would imagine most companies tend to be loyal to their major shareholders. They generally show their loyalty to the shareholder by offering her what she wants most: dividends, stock price, long-term growth (though nowadays most shareholders demand short-term results), and market leadership. I suspect most shareholders want either dividends or stock price growth. Thus, loyal management works on these aspects.

Create value for employees to create value for Customers

Are companies loyal to their employees? Is this loyalty secondary to the loyalty to shareholders? This makes us think of the Japanese lifetime employment system (only 8.8 percent of Japanese companies have this now). There were three models¹: Stationary (governed by a set of rigid rules and the expectation that some non-performing employees would voluntarily leave), Growth (depends on organizational growth and all grow with the organization), and Stagnant (where the company when in bad shape let's employees go). . . . Assuming employees were given lifetime employment, what value was this loyalty? Apart from a somewhat guaranteed employment, this system did not allow employees to easily switch and they became captive employees. Was company loyalty good for employees?

Outside of Japan, I am sure there are examples of companies being loyal to employees. I cannot think of many. We also notice that companies work on making employees loyal. One way is to make the employee feel indispensable. Or by giving golden handcuffs. . . . If you leave, you will be worse off or lose bonuses or stock options.

The less said about true loyalty to Customers the better. As long as the Customer can be milked (can buy), she is worthwhile. In this instant gratification society, even this is short lived. Also, as I mentioned earlier, there is some loyalty to Customers who are good to or for companies.

I had written about company loyalty to suppliers and that too is minimal and based on the benefit to the company (sometimes called mutual benefit). This loyalty is generally led by the purchasing department led, though it is true mutual bonds between the supplier and the end user in the company do form.

The company's loyalty to society and to sustainability has yet to be proved. There are examples of Unilever and others who are trying to be loyal to the environment and sustainability.

So, the company is loyal to the Owners . . . in reality!

How can they change or be otherwise. Others have written that the company has to think of itself first. I think this is true for survival (first put the oxygen mask on yourself, and then on the kids . . . but not put the oxygen mask on yourself and abandon the kids). So instead of abandoning

¹ From a personal communication from Yaz Ishitika, Toyo Seikan, Japan.

the other stakeholders, companies try to sustain them to the extent their loyalty to the owner will let them.

Many Customer consultants would want the company to be Customer-centric. Does that include company loyalty?

I think company loyalty and Customer-centricity is a thought process and requires enlightened owners and enlightened managers who look beyond profit being the purpose of a company and in creating value for Customers.

Discussion

You have been able to see how you must look at loyalty differently. Customers are not constant; they cannot be taken for granted. You have to earn your loyalty spurs every day. You also have to create employee loyalty. To do this, the company also has to be loyal.

Do It yourself

Ask yourself, is there true loyalty. Are you loyal to a company or a product? Could you change your loyalty?

Think of times you have switched brands you were supposedly loyal to. Are loyalty and love the same?

How could you get someone who is loyal to your competitor to become loyal to you? Give a generic answer and an answer specific to the context.

Are companies loyal to Customers? To employees? Should they be?

How many meetings have you attended where Customer Value was discussed?

If they are, what are the benefits and the downside?

Ask if you think you give your company higher priority than you give Customers. Is there anything wrong in giving the Customer a higher priority? Does this help the company or hurt it?

Think of the times that the convenience of the company is higher than the convenience of the Customer. Cite some examples.

Do you wear a Customer hat at work or an executive hat? How about outside work?

How many meetings have you attended where the company discussed improving value to the Customer, apart from reducing price?

How do you create employee value and loyalty?

Should the company be loyal?

CHAPTER 9

Total Customer Value Management and Customer Culture

So far, we have focused on the tools of Customer Value Management; what Customer Value is; how it is measured; and how it relates to business results such as loyalty, market share, profits, and stock price. We have learned all these increase as Customer Value Added increases.

The CEO cannot say: I have a Marketing Manager or a Manager of Customer Service and so my Customer is taken care of. Neither can all other departments hide behind these. They are all responsible for the Customer. Total Customer Value Management teaches you how to make everyone feel responsible for the Customer.

In this chapter, we discuss how the company can impact mind-sets of its employees and partners and increase Customer Value.

To do so, first the company has to recognize that the Customer belongs to everyone in the company. That is, everyone has a responsibility to (not necessarily for) the Customer. No one can turn around and say I have nothing to do with the Customer, whether you are directly involved with the Customer in selling, in delivering, in servicing, in understanding her needs, in answering her queries, or solving her problems. (People directly involved can see the connection to the Customer.) Those indirectly involved like the receptionist, marketing people, the secretaries, the manufacturing people, finance people, IT people, technology staff, HRD staff, and back end people also have a responsibility to the Customer. They may not think so nor may they be taught to do so. Total Customer Value Management ensures that all members of the company and our partners

understand the importance of the Customer and that it is the value for the Customer that we wish to increase. This is shown through the learnings of Total Customer Value Management as taught in my book, *Total Customer Value Management, Transforming Business Thinking*. This book assigns Customer tasks to everyone in the company. We suggest and help companies change the mind-set of all employees to become Customer-centric.

If you are in a department facing the Customer, you may be taught how to handle the Customer. Certain processes are discussed and used, and so too, certain systems.

What Differentiates a Company in the Eyes of a Customer?

Generally, Customers can tell from the attitude and demeanor of the people whether the company has a Customer culture or a Customer mind-set. Most companies do not have a 360 degree or complete Customer culture. Often it (the Customer culture) is patchy. We want the culture to be uniformly good. A great Customer mind-set set in a company is an unparalleled competitive advantage and one very difficult to emulate. Training cannot build a good mind-set (it can build skills). A Customer mind-set set has to come from self-introspection and is self-directed. Education can help this process. A Customer Strategy and Customer Circles can help also (discussed in Chapter 11).

What Prevents a Customer Culture?

- Short-term results overtake all other considerations, such as changing the culture.
- The executive feels she works for the owners and not for the Customers.
- Executives are company-centric and not Customer-centric
- The convenience of the company is more important than the convenience of the Customer.
- Executives forget what it is to be a Customer. All executives are Customers and have varied Customer experiences, but they forget this. Just think of yourself. You are a Customer, but you become

an executive when you walk into your office. You exchange your Customer hat for the executive or company hat when at work.

- It is easier to work on processes and systems and to be functional managers than to work on the mind-set. Creating value requires going beyond their functional thinking.
- There is no process or Total Customer Value Management system in place with Customer tasks for all departments and their executives.

What Promotes a Customer Culture?

A belief that the Customer comes first, whatever happens.

Building a Customer Strategy to bring key executives into the Customer thinking and for them to take charge of the Customer work. This is discussed in detail in Chapter 10. Companies such as Tata Power have done this. An example is that of the Head of Corporate Communications put in charge of the Customer First strategy

A Customer culture means the Customer comes first.

or the head of accounting put in charge of the Customer outreach strategy.

Breaking silos. A key aspect of Total Customer Value Management is that all departments must work together to make the Customers happy. Each department must have Customer goals and support each other to keep the Customer happy. There should be a circle of promises between departments, such that the frontline people (whom the Customer sees and considers the company) can make keepable promises to the Customer. To do so, departmental silos must be broken.

Customer-Centric Circles. This is also discussed in detail in the next chapters. These circles consist of frontline people and some staff executives from HRD, IT, Finance, and so on, to build a self-directed approach to become Customer-centric. Many companies, such as Tata Chemicals, Tata Power, Coromandel International, and Godrej, have set up such Customer Circles. The results have been a great reduction in complaints and increase in sales and Customer Value. The changes happen very fast.

Continuous Customer Improvement Program (CCIPs). As a result of the Customer Strategy and the Customer-Centric Circles, a Continuous Customer Improvement Program is put into place.

Customer's Bill of Rights and the Circle of Promises. These are incorporated in a company to ensure the Customer's rights are published,

Learn how to keep promises. Use the Circle of Promises.

understood, and upheld. The Circle of Promises is an internal methodology to ensure everyone in the chain of deliv-

ering the Customer's rights has promised to do her bit in keeping the promise to the Customer. This is discussed in detail in Chapter 12. Companies are recognizing these and in their Customer Strategy session, are building the Circle of Promises, where each department promises what they will do for specific Customer-related tasks and in what time.

Incorporating systemic changes. When you see a problem and solve it for one Customer, ask how the system can be changed to prevent similar problems in future for other Customers. This is the start of a Zero Complaints Program

A focus on creating value for employees and other stakeholders. This creates value-added stakeholders who can more readily add value to Customers. Executive time. Executives must spend at least 15 percent of their time on Customers.

Total Company Involvement

Once we have understood that all departments have to be involved, and we have set up the process of the Customer Strategy, the Circle of Promises, and the Customer-centric Circles, we can embark to give great service to the Customer. Great service comes from the heart (and should be part of the culture). Each one of us can make a difference and should try to do so. Each one of us is important in making the Customer happy.

If you think of what you can do to make a difference, you will come up with great ideas and thoughts you can implement.

Everyone in the company is responsible to and for the Customer.

Some of these steps are discussed in the next few chapters.

Discussion

Total Customer Value Management brings all departments and executives to have a Customer focus. It is the foundation of building a Customer culture. Customer strategy and Customer-Centric Circles are all building blocks of the Customer culture and a Customer mind-set. This gives the company a great competitive advantage.

Do It Yourself

How much work is done on processes and systems in your company versus changing mind-sets?

Does your management believe training can change mind-sets or is it a self-directed change in people?

Rate the mind-set of the frontline people, of the executives, and the top staff on the Customer.

How could you get someone who is loyal to your competitor to become loyal to you? Give a generic answer and another answer specific to the context.

How do you build a Circle of Promises?

How do you ensure that the need for systemic changes is seen and such changes are indeed made?

Think of starting a Zero Complaint program. How?

CHAPTER 10

Customer Strategy

So far, we have focused on the tools of Total Customer Value Management; what Customer Value is; how it is measured; and how it relates to business results such as loyalty, market share, profits, and stock price. We have discovered all these increase as Customer Value Added increases. We have learned generally how Customer Value can be created by incorporating Total Customer Value Management and Customer culture, and what prevents it from taking root.

In the next two chapters, we will discuss two important means to make the company Customer-centric or to incorporate a Customer culture. These are:

1. Incorporating a Customer Strategy
2. Building Customer-Centric Circles

In this chapter, we look at the importance of Customer Strategy, its relationship to business strategy, and Customer culture.

Customer Strategy

The starting point of a good business strategy is a Customer Strategy. The Customer Strategy and the shareholder strategy should then be used to build a business strategy/business tactics. And in today's age, both the business and the Customer Strategy should be adaptive to the changing future.

Is Customer Strategy Different from Business Strategy?

Many can ask if a Customer Strategy is redundant. But it isn't. It is crucial if organizations want to change and become truly Customer-centric. The

A Customer Strategy is Customer focussed and different from a business strategy

Customer Strategy focuses on the Customer, what the company can do to improve the Customer parameters and become more

Customer-centric and to inculcate a Customer-centric culture. It looks at the Customer's needs, and how to increase Customer Value for her.

A Business strategy focuses on the market place and the market potential and how to take advantage of it.

This example illustrates the difference between a Customer Strategy and a business strategy. Take the mortgage meltdown in 2008. The Customer Strategy would have revealed that the Customer wanted mortgage products that would be Customer-friendly when interest rates went up or home prices dropped. The market or business strategy showed an opportunity to bundle mortgages and sell them to a larger financial institution, getting back the money the mortgage company had loaned as mortgages, thereby allowing the mortgage company to sell more mortgages. The name of the game was to sell more mortgages, bundle them and sell more, and recycle one's funds. So instead of getting \$5 on a \$100 mortgage for each of the next 30 years, the mortgage company would get the money back, and say \$1 in fees. If they could do this 10 times in a year, their \$100 would fetch \$10 instead of \$5 in the original strategy.

The quality of the mortgagee was ignored. When banks called in their loans, they found that many Customers were defaulting. The defaults cascaded to the last holder of the mortgage paper, causing a major collapse of the financial markets.

Another example is a coffee shop that looks at increasing clientele by selling reasonably priced coffee compared to other stores or to look at the Customer need of wanting to feel relaxed and enjoy the ambience, Starbucks style. Each is a result of a different Customer Strategy and requires different tactics and tasks.

A survey of 400 CEOs showed that 33 percent felt that the number one issue in preventing Customer-centricity was a lack of a clear Customer Strategy and 28 percent felt it was internal silos in their companies.

Building and using the Customer Strategy helps break silos and creates teamwork. This happens because CxOs become integral members of creating the Customer Strategy. They, therefore, are part of building the

Customer Strategy. The participants assign Customer roles for themselves and their departments. And the Customer role may not be the functional

Silos and a lack of a clear Customer strategy deter a Customer-centric culture

role of the department. For example, the head of finance may be asked to head the strategy that the Customer comes first. All department heads agree to lead certain Customer-related strategies. They become part of the Customer-focused team. And when Key Performance Indicators (KPIs) include Customer parameters, the Customer Strategy becomes a practical road map to building Customer Value.

In many companies, the Customer Value Added score and Total Customer Value Management becomes a major part of the balanced score card. CVA is also reported along with the financial results to the Board of Directors. In one company, Total Customer Value Management was the number one item in the balanced score card at 23 percent. In another, it shared first place with new businesses at 18 percent.

The Customer Strategy should become an integral part of the corporate strategy and be led by the CEO. It will help her think about how to change the organizational structure to become Customeric and drive the business with the Customer in the center. It will help the CEO implement the strategy and think through moving from selling to the Customer to helping her buy to becoming an extension of the Customer by building and co-creating an inseparable and symbiotic relationship with her. What tasks will make this happen? How will the company ready itself for disruptive markets. For adapting to changing marketing dynamics? An example is a company that strategizes that they should be the most Customer-friendly physical retailer. What happens when e-selling competition impacts their business? Should they go physi-digi (physical store with a digital program)?

What if another company's strategy is that their brand should stand out and sell for them? Suddenly, they discover that Customers are buying based on Customer scores or the Customer Value Index and not on the brand. Should not companies, therefore, try to improve their Customer scores or the Customer Value Index?

To do so, first the company has to recognize that the Customer belongs to everyone in the company. That is, everyone has a responsibility *to* and *for* the Customer.

As we said earlier, the Customer Strategy assigns Customer tasks to various CxOs including non-Customer facing departments. Thus, the Chief manufacturing officer (CMgO) may lead the strategy to communicate better with the Customers. The head of IT may lead the strategy to understand the Customer better.

Building the Customer Strategy is a top-down methodology to build a Customer culture. To build a bottom-up view of the Customer, we must build Customer-Centric Circles.

The participants formulating the Customer Strategy must understand Customer culture and how to enhance it.

Let's look at this. What Prevents a Customer culture? What Promotes a Customer culture? Both of these are discussed in detail in the previous chapter. Some points are being re-iterated here.

- A belief that the Customer comes first, whatever happens. Remember, even though the company pays your salary, the salary is really paid by the Customer,
- Building a Customer Strategy to help key executives to build Customer mind-set and for them to take charge of the Customer,
- Incorporate Customer-Centric Circles,
- Initiate Continuous Customer Improvement Programs,
- Inculcate Customer's Bill of Rights,
- Insist on systemic changes to correct problems,
- A focus on creating value for employees and other stakeholders goes beyond functional management and just a focus on efficiency and administration,
- Executives must spend at least 15 percent of their time on Customers,
- Customer centricity requires a mind-set shift rather than more systems and processes. Mind-sets are difficult to copy by your competitors, and
- The CEO and the Board must have long term thinking.

In the next chapter, we will discuss Customer-Centric Circles.

Discussion

Total Customer Value Management helps all departments and executives to have a Customer focus. It is the foundation of building a Customer culture. Customer Strategy and Customer-Centric Circles are building blocks of the Customer culture and a Customer mind-set. This gives the company a great competitive advantage. Do you find your executives talking about how to improve Customer Value? Have you attended such meetings?

Do It Yourself

How much work is done on processes and systems in your company versus mind-set changes?

Rate the mind-set of the frontline people, of the executives, and the top staff on the Customer.

How could you get someone who is loyal to your competitor to become loyal to you? Give a generic answer and another answer specific to the context.

Should companies be loyal to Customers and employees?

Does your company have a Customer Strategy?

Do different CxOs have a lead role in the design and implementation of the Customer Strategy?

Is your Customer Strategy and the business strategy different and how?

Have you looked at employees in the Customer Strategy?

Do all people understand they are responsible for the Customer? How can we make this happen?

How is your Customer culture going to be impacted by the Customer Strategy?

CHAPTER 11

Customer-Centric Circles

We studied Customer Strategy in the previous chapter. The Customer Strategy starts a Customer alignment and culture at all functions and levels as part of our Customer-centric objectives. This establishes what we call “Customer Conduits,” which are a top-down approach, driven by the CEO to make the organization Customer-centric.

Customer-Centric Circles or Customer Circles for short are a bottom-up approach to Customer centricity. The term Customer-Centric Circles is really a misnomer because it is a company-sponsored group of people generally frontline employees and some staff people. Customer Circles may not necessarily have Customers in it per se, but this group of people will focus on the Customer.

Some may ask why have Customer-Centric Circles without Customers. Ideally, we would like to have Customers in the Customer Circles. However, it is difficult to get the right type of analytical Customers who could commit the time to be in an ongoing initiative. In any event, the Customer Circle is a task force to run a Customer-focused project with targets, responsibilities, and timetables.

*Customer Circles are a bottom-led
Customer-centric technique*

Composition

First, we have to decide whom to select for the Customer-Centric-Circles. It depends on the size of the company, the number of frontline people, and where they are distributed geographically. If we have to select from a large number, we should start with frontline people who are communicative and pro-active and can later spread the circles or manage circles. As stated earlier, we should add some staff people and others from support functions mostly having regular contact with Customers, and people

from communications, IT, business development, environmental affairs, manufacturing, and product development among others. This is because we want these people to participate in and understand the proceedings of the Customer Circles and be able to implement ideas emanating from the Customer Circles.

Typically, you can have 20 people in the Customer Circle. We have worked with 60 people in the Customer Circle.

In larger companies, we have had many different Customer Circles. For example, at Tata Power, we had set up an apex Customer Circle to view the overall customer-centricity of the company and the effectiveness of the various other Customer Circles. We had a Customer Circle in the Finance, Sustainability, Customer Department, IT, HR, Administration Field Support, and so forth.

You could call the participants Customer Champions.

Administration and Periodicity

The Customer Circle should have a leader and a managerial person as a facilitator. The leader should set up the meeting, manage the meeting, take notes, and then publish what was decided and the follow-up steps. She should also set up the next meeting and follow up with the facilitator on the action taken steps or steps to be taken.

Running a Customer Circle

First and foremost, we are not to teach or train. We have to make this a self-learning and self-directed group of people.

Generally, frontline people are not used to this. They are more used to being told what to do and to follow orders and processes. They are not used to being the decision makers on how to treat the Customer.

The first step is to raise the self-esteem and awareness of employees on Customers. This is necessary so that they can have self-belief and be honest about Customer interactions (and stop saying the Customer is always wrong and we are the hurt party). We want them to feel good about themselves, to feel confident they can do positive things for the Customer, and to put up with possible poor treatment at the hands of the Customer.

The second step is to build the awareness of the people. We want them to become generally aware of what is happening around them, notice more, “see and hear” more. Are they aware of things around them? Can they perceive the inflexion or the pain in the voice of the Customer or the body language of the Customer? This will build an consciousness of the importance of the Customer.

These two steps to build the self-esteem and awareness may require help from an external expert. One will notice that when self-esteem, self-belief, and confidence is built, these Customer Circle members will start to admit that many of the reasons for Customers for getting angry were caused by them or the company. For example, a person who was promised delivery by a certain time could get aggrieved if after 2 hours of waiting the delivery had not happened. And you cannot placate her by saying these things happen. Once participants realize that being late and their casual response caused the Customer to be unhappy (often the frontline person would have said the Customer is irrational), they will then start to rectify this. Why was the person late? Is it happening often? Are promises being made which cannot be kept? How do we prevent this from happening? How do I change my response to “I am sorry”?

The frontline people develop strategies for dealing with Customers at a local level. They devise ways and means to make it easier for the Customer to do business with them. They find methods to touch the Customer and to give the Customer a great experience. Customer data, information, inputs, complaints, or plaudits should be made available to the Customer Circle, as and when it is available, or an effort should be made to collect such feedback.

What you’ll find is that the group will come up with better ways to handle a Customer. Through this process, awareness of the Customer in the company and among the employees will invariably increase. But before all this, we must understand the Voice of the Employee, her pain points, and increase her self-esteem, and awareness on the Customer. Along with this, we must capture the Voice of the Customer and the Voice of the Competitor.

We must help the group to build their ability, become agile, and to acquire a great attitude, and become ambidextrous (along with awareness and anticipation, these are called the 6As).

Basically, this is a bottom-up approach to energizing an organization to become Customer-centric.

The Customer Circles must collect data on the Customer, plan on how to track every contact and experience, and chart out future touches and experience, keeping the retailer (in a B2C case) in the forefront. They must talk to the Customer, get feedback from the marketplace, and learn what they can about the competition in both formal and informal ways. Sometimes because of the large numbers, it is not easy to get data from every contact, and so we settle for a sampling.

Customer-Centric Circles are akin to level 3 empowerment described by Jan Carlzon of SAS Airlines, where employees are self-managing and can make decisions. They will take ownership of the Customer and the Customer initiatives because these are their own ideas. This is how we make the employees the owners for Customer focus. What the employees propose is common sense. What they suggest is what the company would have wanted the frontline people to do!

The 6As for executives: Awareness, Ability, Attitude, Agility, Anticipation, and Ambidextrousness

Our people will have stopped saying these are our rules, didn't you know our rules, you should have known, and other irritating remarks.

Next, they work on the Customer's Bill of Rights and what promises are required to uphold such rights. The group examines promises kept, promises keepable and not maintainable, and suggests changes in the Bill of Rights.

They also embark on a Continuous Customer Improvement Program.

Customer Circles and Shared Visions

What we notice is that if we show the frontline people the results of their actions through Customer feedback, and if this is positive, that the frontline people get a sense of pride and a sense of achievement. The motivation level on serving Customers better goes up.

Customer Circles engender shared vision and teamwork. They are a pillar of a learning organization, where people work together for shared goals and beliefs. They allow the building of promises and working together to make things happen. They lead to creativity and making people think about mastery; and in this case, mastery of habits, responses, approaches to the Customer, and of building systems and methods for better Customer delight and Customer Value. A shared vision (on how

to treat Customers) is not necessarily an idea but a desire or a force in people's minds and hearts that drives them to achieve extraordinary goals; for example, making Customers happy, consistently!

Sharing of the vision means people work together. People have to be convinced that they want to do something good for the Customer; you cannot force them. You encourage them to have a personal vision and try to build it into a shared vision. During Customer Circle sessions, we have to ask people why Customers become happy with the frontline people and why they become unhappy. Often, they respond that the Customers' unhappiness is caused because Customers are unreasonable or have high unmet expectations. On introspection, the group often reaches the conclusion that it is their own actions or inactions that cause dissatisfaction in the Customer's mind. With this awareness, they search for solutions, including their own behavior modification.

The group builds its own (its members' or participants') self-esteem and awareness and decides on action steps, including building the Customers' delight factors and Do Not Annoy (DNA) factors. Such factors include consideration for the Customer's time, energy, respect, and so on.

The problem with a top-down approach is that top management "dictates" a vision, does not build it with buy-in of key players at all levels, nor is it built on personal and shared visions. Visions spread because of commitment, enrolment, clarity, enthusiasm, reinforcement, and communication.

Understanding current reality and accepting it, without clouding it with perceptions and blame avoidance, are important to shared visions and Customer Circles. Cynicism, being ordered or told to do things, of being taught rather than self-learning and organizational structure, all conspire against success of Customer Circles.

Customer Circles and Team Learning


Customer Circles are interdisciplinary teams. The success of Customer Circles depends on individual excellence and learning and how well the team members work together. It depends on managing individual skills and merit with team spirit. Unaligned teams waste energy. Therefore, teams have to learn to align themselves and develop the capacity of the individuals in the team effort (Box 11.1).

A Customer Culture Means the Customer Comes First

Box 11.1

Examples of Customer Circles

The Tata Power Customer Circles led to the introduction of the courtesy system (smiling and greeting at work). The Customer Circles realized that the Customers were being inconvenienced when they visited the Tata Power office. The Circles designed special signs and put them up for the Customers to get to the Customer department. Soon thereafter, an existing office was converted into a comfortable Customer


TATA
TATA POWER

WHAT DELIGHTS CUSTOMER

- **Courteous behavior and presentation**
- **Converse with customer while on service call.**
- **Senior people making courtesy call once a while.**
- **Easy bill payment facilities**
- **Education on tariff and energy conservation measures.**
- **Easy accessibility.**
- **Quick problem resolution and timely feedback.**
- **Keeping up promises and assurances.**
- **Dealing with knowledgeable and confident people.**
- **Giving him importance and treating with respect.**
- **Advance information on power shutdowns**
- **Visiting Customer facilities to understand their processes and giving valuable suggestions guidance in energy management.**

Lighting up Lives!

Figure 11.1 Customer's Delight Factors

meeting room. The Customer did not have to search for the right Tata Power representative. They just picked up the intercom as they came off the elevator. The person who responded ensured the right person came to meet them in the meeting room. Individual Customer-facing employees started to put Customer-related quotes on their desktops. They made laminated cards they carry showing Customers' Do Not Annoy (DNA). On the reverse side of the card are the Customer delight factors.

An example of the card is given in Figures 11.1 and 11.2.

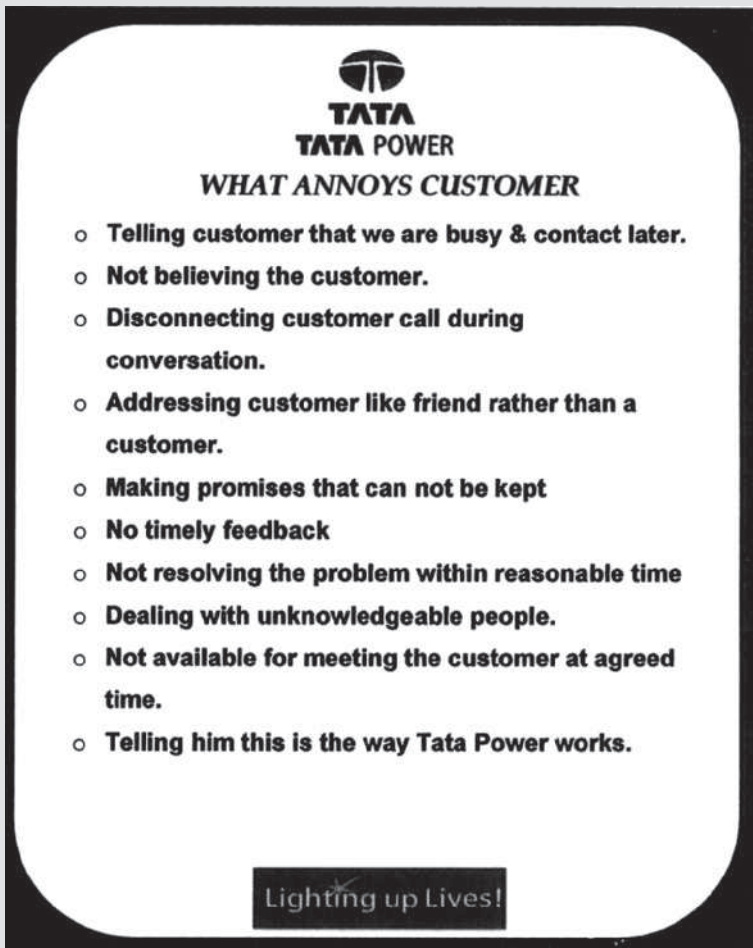


Figure 11.2 Customer's Do Not Annoy (DNA) Factors

(Continued)

Box 11.1 (Continued)

Service people who fix Customer problems have started to carry cards showing how to save energy and leave these with Customers, as shown in Figure 11.3.

Substation managers invite important Customers to the substation to show the Customers they have dedicated control panels for them with the Customer's name on them.

Call Centers have better co-ordination on answering billing-related enquiries.

Complaints fell from 9 per 1,000 to 2.7 per 1,000 in the quarter following the formation of Customer Circles.

ENERGY CONSERVATION TIPS

- Minimize/Shift usage during the 10 a.m–8 p.m peak time and avoid adding to the load.
- Switch on AC an hour after starting work and switch off an hour before closing.
- Run all ACs at 24°C.
- Switch off all electrical appliances from the plug point.
- Set computers to sleep and Hibernate mode.
- Replace incandescent bulbs with compact fluorescent lamps (CFLs) in your homes and premises to save upto 75% of electricity.

Figure 11.3 Energy Conservation Tips

Customer Circles at Godrej

Godrej frontline people are saying in the last 3 months after inception of Customer Circles that they are feeling happier about work.

The co-ordination has improved, the mistakes are reduced, and bickering in the team has decreased. Addresses and telephone numbers are properly being given to the service technicians and appointments are confirmed. The service technicians are smiling and greeting the Customers better, and briefing them better, so much so that many Customers prefer their team and ask for them by name for future services. Service calls per service person have increased from three to five a day.

Service Center personnel setting up appointments are getting 30% more referrals from existing Customers. The technicians are giving referrals they receive from Customers directly to the sales people who are able to convert these referrals into business. Previously, the referrals went into the system (and they still do), but by the time the salesperson got it and contacted the Customer the business had gone!

Salespeople tell me they are able to get better pricing for corporate clients because the service and follow-up have improved. Sales per sales person has gone up 35% in 3 months.

Customer Circles help the team to deliver more than the individual can. Teams are dependent on the members, who need each other to achieve more and deliver. It requires listening and respect, such that you let your own opinions be overridden. It teaches you to overcome conflict and use dialog to work together, and it builds discipline of team learning. Dialogue makes people observe and improve their own ideas and thinking.

Teamwork and team learning requires a facilitator or a catalyst and requires people to suspend their beliefs to listen to others and to regard each other and colleagues who are present to help us.

We have to celebrate the successes and learn from the failures.

These Customer Circles become self-learning system. With Customer Circles, the organization is bound to become creative and innovative. People want to be part of such an organization and participate in the innovation.

The principle has to be that no one should be too proud to learn. And not too proud to learn from anyone. Continuous learning and participation will lead to Customer excellence.

Frequency

Frequency of meetings can be once a month to once in 2 months.

If you want to run a Customer Circle, you can get details on participants and frequency, methodology (please see my book *Total Customer Value Management*).

In the next chapter, we will discuss the Customer's Bill of Rights.

Discussion

Total Customer Value Management helps all departments and executives to have a Customer focus. It is the foundation of building a Customer culture. Customer Strategy and Customer-Centric Circles are building blocks of the Customer culture and a Customer mind-set. This gives the company a great competitive advantage. Do you find your executives talking about how to improve Customer Value? Have you attended such meetings?

Do It Yourself

Think of where you could set up frontline Customer-Centric Circles.

Who should be in it? What should be the agenda? What are the follow-up steps and who has responsibility for it? Who will call the next meeting and review what was discussed and the results?

Think of how to set up Customer Circles in various departments like IT and HR. See how they become Customer-centric.

How much work is done on processes and systems in your company versus mind-set?

Does your management believe training can change mind-sets or is it a self-directed change in people?

Rate the mind-set of the frontline people, the executives, and the top staff on the Customer.

How could you get someone who is loyal to your competitor to become loyal to you? Give a generic answer and another answer specific to the context.

Are companies loyal to Customers? To employees? Should they be?

If they are, what are the benefits and the downside?

How will you set up Customer Circles in your company?

Do you need more than one circle?

Should there be an apex circle consisting of top managers and Customer Circle leaders of frontline Customer-Centric Circles?

Do you have a list of the Customer's DNA (Do Not Annoy)? What annoys her? What you must avoid?

CHAPTER 12

Customer's Bill of Rights

We now know how to measure Customer Value. In the previous chapters, we have also been exposed to the softer side of Customer Value Management. Tools of Total Customer Value Management include building a Customer Strategy and the Customer-Centric Circles, both of which we have studied,.

In this chapter, we discuss the Customer's Bill of Rights, and why it is important for Customer Value and for building a Customer culture.

Customer's Bill of Rights

We have all seen Customer's Bills of Rights. How often are these really honored? More importantly, how many executives/employees know about the Bill of Rights and how to uphold them?

I bet you that in most companies the executives do not know the Bill of Rights. So in one Tata company, at the Customer center, the company put the Bill of Rights on the wall behind the executive, so that the Customer could see her rights. Very soon, they put one on the wall behind the Customer's seat. . . . so that the executive could also see it. And what a difference it made.

There are a number of steps in making a Customer's Bill of Rights. Some are self-evident, like the right to get a product to work and honor the warranty. Less obvious are the rights to expect a product to work trouble free, be easy to understand and use, return a product, get it fixed, access to a knowledgeable, friendly, empathetic service person, no price gouging, no bait and sell, and so on.

Second, how do you find out whether a particular right is upholdable? Let's say the country you sell in insists on a maximum retail price on the

package. How do you prevent someone from selling at a higher price during shortages?

The Customer's Bill of Rights must be upholdable.

Third, if there is a problem how do you uphold the Bill of Rights? Let's say the Bill of Rights says a product will be

repaired in 2 days. The frontline person may say that to the Customer also, but does she know that this will happen? This requires all the people responsible for repairing the product in a timely fashion to ensure this happens. This is the Circle of Promises.

This brings together everyone into focusing on the Customers and engenders teamwork and a Customer focus.

The Circle of Promises

The Circle of Promises is the understanding by people in the company or partners that they are part of a promise to uphold the Customer's Bill of Rights. They have to be in the loop and understand the meaning of their promise. More importantly, they should form a Customer-Centric Circle to discuss improvements and where promises were not kept and how to solve problems. This will help change mind-sets. This is shown in Figure 12.1.

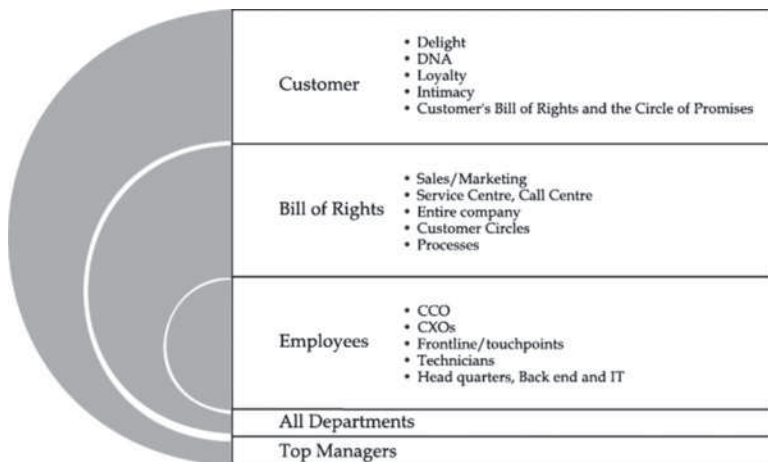


Figure 12.1 Customer's Bill of Rights and the Circle of Promises

Examining Bill of Rights

The Customer Circle examines the Bill of Rights. Can they indeed be honored? Are they being kept? When are they not being respected? Why? Can the Bill of Rights be upheld? If not, we should discard that particular right. If it is not being fulfilled due to a company or employee error, how do we prevent future occurrences?

Building a Customer's Bill of Rights

To build a meaningful Bill of Rights, we must understand what will be useful and reverberate with the Customer? Has the company understood the Customer's expectations?

What are the components that are important? Fairness, treating well, great service, repair facilities, return policy, respect for the Customer her time, and her energy?

The Bill of Rights should be vetted by the Customer Circles (and of course, the legal department to prevent legal issues). We have to build support and enthusiasm for the Bill of Rights.

As stated earlier, a good Bill of Rights should also make the Customer comfortable and wanting to do business with the company. It should also build trust and closeness to the Customer. Of course, the company should be caring and engaging.

The wording should not be ambiguous and the Bill of Rights should be upholdable.

The Bill of Rights should also lead to some idea of how to handle the Rights and some rules.

Wikipedia suggests basic and other rights.

Basic rights includes:

- The right to safety
- The right to be informed
- The right to be treated with dignity

This right states that businesses should always provide consumers with enough appropriate information to make intelligent and informed

product choices. Product information provided by a business should always be complete and truthful. Aiming to achieve protection against misleading information in the areas of financing, advertising, labeling, and packaging, the right to be informed is safeguarded by several pieces of legislation passed between 1960 and 1980.

Other rights include:

- The right to choose
- The right to be heard and redressal

This right gives the ability of consumers to voice complaints and concerns about a product in order to have the issue handled efficiently and responsively.

- The right to satisfaction of basic needs.

One can take these into account when building one's own Bill of Rights. Some will be generic and others will be specific to your company and your Customers.

Continuous Customer Improvement Program

A Continuous Customer Improvement Program (CCIP) is necessary to keep ahead of competition. The Customer-Centric Circles and the awareness through the Customer's Bill of Rights and the Circle of Promises condition the employees to seek more ways to please Customers. This becomes a Continuous Customer Improvement Program. As the program takes root, we find more and more ideas to improve Customer Value through Customer experience or the Customer journey. Ideas on Customer intimacy, Customer satisfaction, CRM, Customer delight, Customer customization, Customer success and solutions Customer experience, Customer goodwill and Customer channels can all be discussed.

Zero Complaints

As we work on the CCIP, we realize that we could actually incorporate systemic changes that could prevent a problem we have noticed from

re-occurring with other Customers. Or we could notice that Customers ask the same question . . . we cannot find your office in South Delhi. We can then check why that is the case and make it easier for the Customer to find the office and not waste their time calling us.

We have to work toward reducing complaints or getting closer to Zero Complaints. Most people believe this is not possible, but we all agree we can strive toward it.

Examples of Bill of Rights

Just Energy¹ has the following Bill of Rights:

Just Energy's Bill of Rights

As a customer, you have the right to:

- Be treated with respect and integrity.
- Choose your energy supplier without being pressured into signing a contract.
- Take advantage of our competitive rates and innovative products.
- Know what energy program you have signed up for and how it will impact your monthly bills.
- Understand what you will be paying for energy each month with no hidden fees.
- Select green energy alternatives to offset your carbon footprint and contribute to a cleaner environment.
- Request and receive a copy of your contract.
- Address any questions you may have with our knowledgeable Customer Service Representatives.
- Protect your privacy—Click here to view our Privacy Protection Policy
- Receive added value for choosing Just Energy as your preferred energy provider.

¹<https://www.justenergy.com/Customer-service/Customer-bill-of-rights/>

City of Seattle² has a wonderful way of reaching Customers with their Bill of Rights.

See the way the City of Seattle introduces the Customer Bill of Rights:

Customer Bill of Rights

Customer Bill of Rights sets standards and expectations for doing business with the City of Seattle.

Many City employees take great pride in providing excellent customer service. But over the years, our system has become bureaucratic and unresponsive. We can always do better.

In 2008, as part of our Customer Service Initiative, we adopted a Customer Bill of Rights that sets clear standards and expectations for our customers when conducting City business. Whether it's water and power, roads, or public safety, our customers are entitled to prompt efficient and easily accessible service from the City of Seattle.

Customer Bill of Rights ★ City of Seattle ★★★

When doing business with the City of Seattle, customers are entitled to prompt efficient and easily accessible services—from water and power to roads and public safety. Customers who contact any officer or employee of the City of Seattle can expect excellent service. The Customer Bill of Rights is guided by four standards.

1. Easy and understandable—City products and services should be easy to locate and access.
 - The City should reach out to its customers to inform them about City products and services.

²<https://www.seattle.gov/Customerservice/billofrights.htm>

- A customer should be able to locate any City service and initiate a request with a single phone call, visit to seattle.gov, trip to a service center, or a letter.
 - When a customer's request involves multiple City offices or departments, the City will coordinate the work.
 - A customer should receive clear and accurate information.
 - A customer should be treated with courtesy and respect.
2. Responsive—City employees should be helpful, connecting customers with others who can help if they cannot.
 - The City should provide service hours and locations that are convenient to customers.
 - The City should provide estimates of how long, and if applicable, how much it will cost to fulfill a customer's request.
 - The City should both keep the customer informed of progress and readily answer questions about the status of pending requests.
 3. Fair—There should be no economic, social, or cultural barriers to accessing City products and services.
 - The City should collaborate with its customers to ensure City services are designed and managed to meet customers' needs.
 - The City should provide interpretation services when necessary to fulfill a customer's request.
 4. Results oriented—Customers should get results, not just process.
 - The City should, in a timely manner, follow up with the customer after the request has been completed.
 - The City should regularly evaluate and report on overall performance in addressing or resolving customers' requests. For more information, contact the Customer Service Bureau at www.seattle.gov/customerservice or by calling (206)684-CITY(2489).

And here is the JetBlue Bill of Rights.³



JetBlue is dedicated to bringing humanity back to air travel. We strive to make every part of your experience as simple and pleasant as possible. Unfortunately, there are times when things do not go as planned. If you're inconvenienced as a result, we think it is important that you know exactly what you can expect from us. That's why we created our Customer Bill of Rights. These Rights will always be subject to the highest level of safety and security for our customers and crewmembers.

General Information

JetBlue will notify customers of delays, cancellations and diversions. Notification may be given in any of the following forms: via jetblue.com, telephone, flight information display system, airport announcement, onboard announcement, email or text message.

Compensation

For travel booked through jetblue.com or 1-800-JETBLUE:

- If your flight qualifies for compensation, you will receive an email from JetBlue within seven days of your flight's scheduled departure. This will happen automatically, and there is no need to contact JetBlue.

For travel not booked through jetblue.com or 1-800-JETBLUE:

- If your flight qualifies for compensation, please call 1-800-JETBLUE (538-2583) seven days or more after your flight's scheduled departure to inquire about potential compensation.

Cancellations

All customers whose flight is cancelled by JetBlue will, at the customer's option:

- Receive a full refund OR
- Receive re-accommodation on the next available JetBlue flight at no additional charge or fare.

If JetBlue cancels a flight within 4 hours of scheduled departure and the cancellation is due to a Controllable Irregularity, JetBlue will also issue the customer a \$50 Credit good for future travel on JetBlue.

Delays

Departure Delays

Customers whose flight is delayed due to a Controllable Irregularity are entitled to compensation good for future travel on JetBlue:

Delay time:	Compensation amount:
• 1:30 - 1:59 hours:	\$25 Credit
• 2 - 2:59 hours:	\$50 Credit
• 3 - 3:59 hours:	\$75 Credit
• 4 - 4:59 hours:	\$100 Credit
• 5 - 5:59 hours:	\$125 Credit
• 6 or more hours:	\$200 Credit

*JetBlue will provide free movies on flights that are greater than two hours in duration for customers whose flight is delayed more than 3 hours after scheduled departure.

Onboard ground delay on departure

Customers who experience an Onboard Ground Delay on departure are entitled to compensation good for future travel on JetBlue:

Delay time:	Compensation amount:
• 3 - 3:59 hours:	\$50 Credit
• 4 - 4:59 hours:	\$125 Credit
• 5 or more hours:	\$200 Credit

Onboard ground delay on arrival

Customers who experience an Onboard Ground Delay on arrival are entitled to compensation good for future travel on JetBlue:

Delay time:	Compensation amount:
• 1 - 1:59 hours:	\$50 Credit
• 2 - 2:59 hours:	\$125 Credit
• 3 or more hours:	\$200 Credit

Accommodation during onboard ground delays

JetBlue will provide customers experiencing an onboard ground delay with 36 or more channels of DIRECTVSM, food and drink, access to clean restrooms and, as necessary, medical treatment. JetBlue will not permit the aircraft to remain on the tarmac for more than three hours unless the pilot-in-command determines there is a safety or security-related reason for remaining on the tarmac, or Air Traffic Control advises the pilot-in-command that returning to the gate or another disembarkation point elsewhere in order to deplane would significantly disrupt airport operations.

LiveTVSM

JetBlue offers 36 or more channels of DIRECTVSM service on its flights in the continental U.S. If our LiveTVSM system is inoperable on flights in the continental U.S., customers are entitled to a \$15 Credit good for future travel on JetBlue.

Overbookings

(As defined in JetBlue's Contract of Carriage)

Customers who are involuntarily denied boarding shall receive \$1,300.

LAST UPDATED: 1/2015 (compensation amounts effective 9/15/2015)

*DIRECTV service is not available on flights outside the continental United States. However, where applicable, movies from JetBlue Passions are offered complimentary on these flights. These Rights are subject to JetBlue's Contract of Carriage and, as applicable, the operational control of the flight. See also jetblue.com/bill-of-rights. This document is representative of what is reflected in JetBlue's Contract of Carriage, the legally binding document between JetBlue and its customers.



Discussion

In this chapter, we have taken Customer centricity and Customer mind-set to the next level by allowing the Customer Circles to focus on the Customer's Bill of Rights, understand its importance, and how to ensure that the promises enshrined in the Bill of Rights are upheld.

³https://www.jetblue.com/p/about/ourcompany/promise/Bill_Of_Rights.pdf

This is through the Circle of Promises and ensuring that the people involved understand this. And to build their involvement and mind-set, a special Customer Circle including the people in the Circle of Promises is a good idea.

Customer Circles then can embark on a Continuous Customer-Improvement Program. This can eventually focus on working on all aspects of Customer Value such as the Customer Journey, the Customer Experience, CRM, customization.

The Customer Circles can examine Customer Bill of Rights. Are the rights being upheld? Are they upholdable? What Rights are being abrogated and how to correct this.

What items require systemic and procedural changes? How can we get to Zero Complaints?

Total Customer Value Management which includes the Customer Circles and the Customer's Bill of Rights help all departments and executives to have a Customer focus. It is the foundation of building a Customer culture. Customer strategy and Customer-Centric Circles are building blocks of the Customer culture and a Customer mind-set. This gives the company a great competitive advantage.

Do It Yourself

What is your Customer Bill of Rights? Can you build one?

Examine your Bill of Rights for how they are being managed. Are the rights upheld? Why? Because of a generic reason or because of a violation by an employee?

Can you embark on a Continuous Customer Improvement Program?

How will you ensure ideas are cross-fertilized?

How does the CCIP look at the Customer experience, the Customer journey, and CRM? How can you reduce the Customer journey?

When you solve a new problem or a different problem for a Customer, do you think this is possibly important for other Customers or could cause them problems? If so, what can we do to prevent these from happening?

What can we do to move toward Zero Complaints?

Do you have a Circle of Promises? How can you set up one?

CHAPTER 13

Employee Value Added

Now that you know about Total Customer Value Management, how we add value to Customers, and how we help employees manage Customer-Centric Circles and bring the top brass to focus on the Customer through the Customer Strategy and the Customer's Bill of Rights, you also have to think about adding value to the employee. Total Customer Value Management (and common sense) requires that you must also add value to the employees, your partners (supply and delivery chain), and to society if you wish to add value to the Customer. Value-added employees can and will add value to Customers. This increases Customer Value, which in turn increases loyalty, market share, wallet share, and profits as we learned earlier.

To add value to the employee, we must learn what the employee values. Ask yourself what is important to the employee?

One significant way of figuring employee value is to measure a parameter called Em-

Treat employees as assets and add value to them

ployee Value Added. We can just measure employee value with our employees, but it is always desirable to also measure the value your competition adds to its employees. We can then compare the value we add to our employees to the value competition adds to its employees.

Employee Value Added Is

$$\text{EVA} = \frac{\text{Value we add to our employees}}{\text{Value our competition adds to their employees.}}$$

We build attribute trees of Benefits and Financials as follows:

Employee value: $X + Y = 100\%$	Benefits: X%	The job content
		On-the-job learning and external learning opportunities
		Image of company
		Emotional and psychological factors
		Other people (bosses/colleagues)
		Progression/Exposure
	Financials: Y%	Salary
		Learning opportunities
		Other perks/travel
		Reward for performance/incentives
		My time required of, and pressure on me

Of course, you should modify this for your particular case and the employee segment you are looking at. For many years, the Tata Group had much lower compensation than competitors but employees hardly ever left them.

Advantages of Employee Value Added

1. It is a measure of what your employees value and what motivates them;
2. Tells you what is most important to your employees in their work life;
3. Reveals whether you are delivering what they value;
4. Helps you improve Employee Value;
5. By measuring competitive data, it tells you whether your company is adding more or less value than competition;
6. If you add less value, employees will migrate to a higher value adding company; and
7. Helps you find the causes of employee churn and to reduce it.

How to Use Employee Value Added for Your Benefit

First, employ a Chief Employee Value Creator. The Chief of HRD should be renamed the Chief Employee Value Creator. Value-added employees add value to Customers.

The **Chief Employee Value Creator** or the Head of HRD has to learn to add value to the employee and not just police the employee and be the management spy or hatchet person in the eyes of the employee.

Reducing employee churn has high financial benefits (eliminates hiring and replacement costs, training, lost time, and efficiency).

We are talking of big changes that might be out of your scope of work.

Do you have a Chief Employee Value Creator?

Discussion

You can see that employee value add helps you in your Total Customer Value journey, and the employee journey.

It helps create value for employees and thereby improved value for Customers. Customer-Centric Circles creates value for employees and for Customers.

It reduces churn and increases your company's efficiency. Lost employees and replacing them cost a considerable amount to the company.

Do It Yourself

Do you consider yourself a value-added employee? Why? How much of this has to do with you and how much is dependent on the company?

Are you adding value to your employees? How?

How could the company increase value for you?

How could you increase value for yourself, your colleagues, partners, and society? And for Customers?

How will they know that value is being increased?

Do you need to communicate value?

CHAPTER 14

Total Customer Value Management, Pricing and Preventing Commoditization

The reader has made a journey to understand Total CVM, how to measure Customer Value Added (CVA), and how to change mind-sets and incorporate various techniques such as Customer Strategy and Customer-Centric Circles. Now the reader is at a point to use Customer Value and CVA for advanced ideas.

One such idea is on pricing. If you create the value that the Customer is looking for, and if she perceives that you are creating value, what does she do? Does she choose your product first (show a preference for it) or be prepared to give you a higher price?

Her perception that you are creating value means she thinks you are creating a better benefits/cost ratio than competitive offers. That means, she is willing to consider your product and/or services over competitors'. Depending on the value you are creating, she may be willing to pay a higher price.

Let's look at what she may be willing to pay.

We start again with the Value Map that was discussed in Chapter 7. The Value Map plots all competition's data and our company data on a graph of the Customer's perception on the overall cost versus the benefits. We draw a fair value line as shown in Chapter 7, and then compare ourselves to competition. Those companies falling below the fair value line are adding value to Customers, and those above the line are depleting value.

Let us assume we are company AA. In this example, the product is a commodity. You can see we are adding value, as we fall below the fair value line. So we can increase price to reduce the value, or reduce the

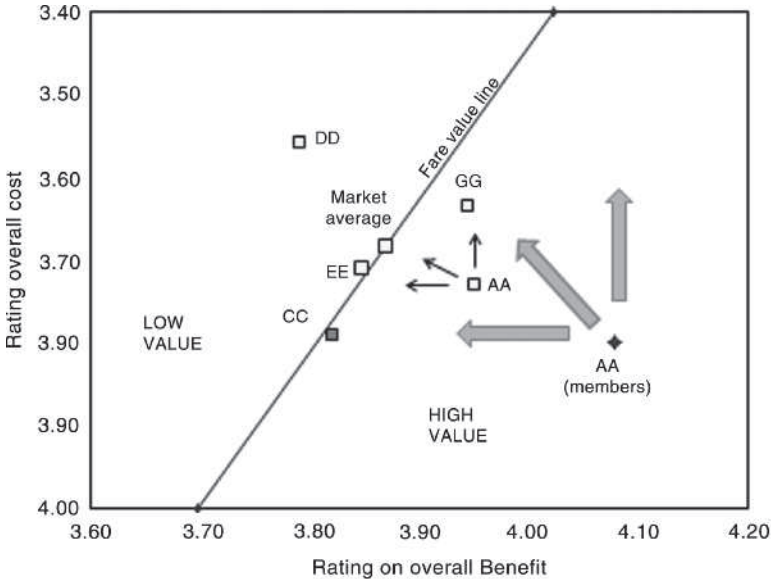


Figure 14.1 Brand of Urea Value Map (Farmers)

benefits to decrease the value. Let’s decide to increase the price to reduce the value we are giving away (Fig. 14.1).

How do you know how much to add to the price of the product? There are many ways. I will show you a simple way. Let us tabulate the price versus the benefit as shown in Table 14.1 (I have taken actual prices).

Table 14.1 Price versus Benefit

Company	Price	Benefits
AA	26.88	3.98
CC	26.32	3.83
DD	28.57	3.81
EE	26.88	3.88
GG	27.62	3.98
Total	136.27	19.48
Average	27.25	3.90
Fair price for AA	27.81	3.98

You can calculate the fair value price for DD. Notice here we are looking at ratings in the table. We could have indicated actual price as well.

BB is missing in the table. We did not include it as we did not have enough data on it.

You can see we are presenting the price for each of the competitors and their benefit as we found from the CVA study. The average of all the different prices is 27.25, and the average of the benefits is 3.90.

Thus, an average product in this category will demand a price of 27.25. Our product gives a benefit of 3.98 and so deserves a price of 3.98 divided by 3.90 and multiplied by 27.25 giving us a price of 27.81, which is an improvement of 3.4 percent over AA current price.

Remember that in this example you are in an almost commodity market, and a 3.4 percent improvement in price could improve your profits depending on your variable and fixed costs to almost 30 to 45 percent. Not bad! (How did I reach this conclusion?) Typically, a 1 percent increase in price means a profit increase of 10 to 15 percent. Did you know this?

Let's say your sales price is 100, your fixed costs are 25, and your variable cost is 67. Then your profit is 8. Now we increase price by 1 percent from 100 to 101. Our profit goes up from 8 to 9 or we increase the profit by 1/8 or 12.5 percent.

Don't live in the commodity hell. Decommoditize!

In the real world, you might wish to increase your price by 1 to 1.5 percent initially, while working on improving benefits further.

Also look at AA members, with benefits of 4.10. You can figure out a fair price to charge them.

In a non-commodity market, you might be able to get higher prices.

We can actually break down benefits into its attributes, and conduct this exercise for each benefit attribute and price that attribute based on the relative importance of the attribute as well as the ratings from the Customers.

With a proper CVA study, you can determine your fair price and what to add for improvements

Pricing Based on Subattributes of Benefits

We can get even more granular. We know that benefits have subattributes. Let's assume these are the product, the service, and the image. I am noting down hypothetical importance or weightages:

Product	20%
Service	45%
Image	35%

Then we can say for the average product in the example given in the previous section, the service has 45 percent of a bearing on the price. So the average price of 27.25 is made on the importance of the product, the service, and the image.

Decommoditization

You will note that the above example happened to be in a commodity market. It is actually for a fertilizer. Even though the competitors keep on focusing on the quality of the fertilizer, the farmer knows there is no difference in the product. If this is the case and the fertilizer is a true commodity, farmers would buy on price. However, it turns out that the farmers prefer specific companies and their fertilizers. Such companies have a reach out program, membership programs, and contact processes that align the Customer to the company. Hence, even though there might be a slight price differential, they prefer to buy the company they have an association with and trust. You can see this in Chapter 5, where the fertilizer example is explained.

Such a reach out program decommoditizes the fertilizer. You can see the relative importance of the product image (Fig. 14.2).

Also, we can see which attributes to work on to increase value and potential price.

Value	Impact Weight (%)	Ratio ... /Competitors			Ratio CO1/ ...			
		CO1	CO2	CO3	CO5	CO2	CO3	CO5
Overall benefits	21	0.98	1.01	1.05	0.96	0.97	0.95	1.01
Overall product image	43	0.95	1.02	1.03	0.98	0.94	0.94	0.97
Overall price	36	0.94	0.98	1.02	1.01	0.96	0.93	0.94
Overall value	100	0.97	0.98	1.05	0.98	0.99	0.94	0.98

Darkest means worse than competition
Medium means better than competition
Light means equal to competition

Impact Weight (%)	Scores			Industry Average	CO1 vs. Industry	Ratio ... /Competitors			Ratio CO1/ ...			
	CO1	CO2	CO3			CO5	CO1	CO2	CO3	CO2	CO3	CO5
Company image	33	8.6	9	9	8.89	0.97	1.02	1.01	0.99	0.96	1.01	1.01
Trust in company	11	8.6	9	9.1	8.91	0.96	1.02	1.02	0.99	0.95	1.00	1.02
Brand of urea	25	8.8	8.8	8.8	8.84	0.99	1.00	0.99	1.01	0.99	1.00	0.99
Social status brand gives I	21	8.4	8.6	8.8	8.57	0.98	1.00	1.04	0.98	0.98	0.98	1.04
Company services	10	5.7	6.4	6.9	6.47	0.88	0.99	1.10	0.99	0.89	0.92	1.08
Overall urea brand image	100	7.9	8.3	8.4	8.19	0.96	1.02	1.03	0.98	0.94	0.99	1.03

Figure 14.2 Customer Value profile

Discussion

Total Customer Value Management helps all departments and executives to have a Customer focus. It is the foundation of building a Customer culture. Customer strategy and Customer-Centric Circles are building blocks of the Customer culture and a Customer mindset. This gives the company a great competitive advantage. Do you find your executives talking about how to improve Customer Value? Have you attended such meetings?

You can see from this chapter that price depends on the benefits you create. If you create lower benefits, you will command a lower price and vice versa. Each part of your benefits has a price associated with it based on the relative importance of that benefit. Thus price is dependent on the value you create. Value Propositions are actually benefit propositions, also called price justification

Moreover, you can decommo-ditize products by adding value such as a brand, an image, an association of the product with the Customer, a service, and so on.

Do It Yourself

See if you can create a Value Map for your product, and see where you stand versus competition.

Figure out the price for the benefits you create.

How much does 1 percent increase of price mean for your company in profit increase?

Think of value creating ideas that can decommo-ditize or add more value to your Customers. Try to put them into a priority based on the importance the Customer gives to these items

See if you can predict prices based on the attributes and the sub-attributes (see Chapter 5).

CHAPTER 15

Customer Value Ideas for You

In this chapter, we discuss some ideas that you can use for Customer Value creation.

Customers as Assets

Customers are assets because, if treated properly, they can ensure an ongoing stream of revenue. The Customer assets (similar to Customer Life Time Value) can appreciate or depreciate, depending on how they are maintained and handled. Measure the Customer assets and show them on your balance sheet, which impacts the way an investor views you. Just as you maintain your physical assets like machines, you must maintain your Customer assets. Companies need a specific strategy to grow and nurture Customer assets (as the Customer is indispensable to our business, as without her, we have no business). Someone said if you do not have a Customer you do not have a business, you have a hobby!

Empowering Customers creates value for them and they will create value for you. Remember, that if we think it is right to want to control our suppliers, we should let our Customer control us, because we are their suppliers.

Customer Life Time Value (CLTV)

This is the cumulative value of, or revenue from, a Customer in terms of the business potential she represents for you over the life of your relationship with them. This includes the revenue from potential referrals from that Customer. Customer Life Time Value relates to the profits of the company. Often, you want to segment Customers according to their CLTV. Also, remember you have the right to choose your Customers!

Value Destruction/Creation on Delivery Chain

Most companies I know set out to deliver Customer Value. They often get derailed because of other priorities. Many companies deliver the goods and services through dealers (distributors) and retailers.

Some distributors are smaller than your company. Others can be larger. We find adequate attention is not paid to the delivery chain and there is often value destruction in the chain, and the final Customer does not see the value the company was trying to deliver.

Here is an example of a major company. The distributor's loyalty to the company was 50 percent. The loyalty of the retailer to the company was 50 percent (Note that the retailer deals more with the distributor). The loyalty of the retailer to the distributor was 20 percent. The loyalty of the end Customer to the retailer was 10 percent, whereas her loyalty to the brand was 60 percent. Right away you can tell there is a disconnect and a deterioration of value in the chain.

We were able to correct this, and the loyalty and the Customer Value went up in the delivery chain.

You should watch out for this. Help your delivery chain deliver Customer Value.

Teamwork and Customer Communications to Create Customer Value

In complex projects, we find that what the salesperson sold, and what the various Customer departments thought they bought and their expectations are different. The company has many departments engaged in the project, so has the Customer. We suggest a Customer Circle to bring the key providers together, so that there is teamwork and coordination; and we suggest the company team and the Customer team have a project circle to ensure everyone is on the same page and Customer Value is created not destroyed.

Humanization of the Company

Companies are made up of humans, but pretend to be inanimate. They say these are our rules; this is the way we do things. To deliver Customer

Value, we must ensure that the company and its people have a human face and present the human face and do not hide behind the anonymous, inanimate face of the company.

Training versus Education

Training is big business, and most companies employ this. To create Customer Value, we have to impact the mind-set and attitude of the employees and the company culture.

Training is used to inculcate skills such as writing style, how to speak, and so on. Education is a self-development, introspective process to improve attitudes. The Customer Circles are an example of this.

Think of education and self-development programs to improve mind-sets to impact Customer Value.

Customer Value and Choices and Dilemmas

All executives have to decide between choices and resolve dilemmas. Customer Value Added studies of options are important. My book, *Customer Value Investment*, shows examples of resolving choices and dilemmas. This includes the story of radial tires versus bias belt tires, and how Michelin was able to become a major player using radial tires. Their analysis showed that radials were a winner in the premium segment, because they presented higher Customer Value. Goodyear and Firestone looked at the entire tire market without segmenting and found that there was no Customer Value Added for the radials. They found cost was a major item and focused on efficiency. Michelin focused on the premium segment and introduced radials, and became a winner in the tire market, leaving Goodyear and Firestone behind.

Dilemmas are also resolved through the Customer Value each choice provides.

Disruption

When we come up with disruptive ideas or are faced with them, we can look at the Value the disruptive idea brings. We can also look at the value destruction because of disruption, and how to take advantage of that.

We have shown how digital selling while initially disruptive can create value in reach, in contextual selling, and in empowering Customers.

Using the Quality Department as a Resource

Quality has developed many good people, and good processes and systems and ideas. These include quality strategy, quality circles, zero defects, and systemic mind-sets. The quality department is a great resource.

We can learn to have a Customer strategy, Customer circles, zero complaints, and systemic thinking from the quality people and quality thought processes.

Co-Create Value with Purchasing and Suppliers

Your purchasing department has many suppliers and they must learn to co-create value with them. Likewise, you must get to co-create value with your Customer's purchasing people. Create value for them and communicate this to them.¹ You must create value in your delivery and supply chain and with your partners.

Discussion

We have discussed various topics such as value destruction/creation on delivery chain, Customer Life Time Value (CLTV), Customer as Assets, disruption, humanization of the company, purchasing, teamwork, training versus education, using quality techniques for Customers, and so on, all designed to make you more effective as a Customer. Become a Customer Value Creator so as to create value for yourself, and for those around you and your company.

Do It Yourself

Measure your Customer Assets and the Customer Life Time Value.

How can you create value when disruption happens in your industry?

¹J. Anderson, N. Kumar, J. Narus, 2007, *Value Merchants* (Watertown, MA: Harvard Business Review Press).

How can you humanize your company?

What can you learn from your quality department to impact on Customers? How can you deploy the quality department to work on the Customer processes and thinking?

How can you use the quality resource for Customer Value?

Examine your delivery system. Is value being created there? Why and how?

Try using Customer Value for decision making and to prioritize competing ideas.

Check if purchasing is only looks at price or at cocreating value. Get your Customer's purchasing to co-create value with you. How?

Improve your teamwork using Customer Circles to create value in large projects and with the Customers team.

Relook your training to see if education techniques and self-learning and self-direction can be used to change attitudes and mind-set and culture.

CHAPTER 16

Discussion of What You Have Learned Earlier

You, the reader, have learned about Total Customer Value Management, how to measure CVA, and how to change mind-sets and incorporate various techniques such as Customer Strategy and Customer-Centric Circles. You have learned to use Customer Value data for pricing and decommo-ditizing. This helps you increase shareholder wealth. We could include other ideas on Total Customer Value and how they can measure and increase Customer Value.

First, convert to being a Customer Advocate. Embark on a Customer-Centricity and Customer Value journey. Really understand what each of the Customer terms mean and what their limitations are. For example, what are the limitations of Customer satisfaction, Customer journey, or Customer experience? Read books like *Value Creation: The Definitive Guide for Business Leaders*.

Once you really understand the limitations, you must create value for yourself and your company by leading them to use the best possible techniques. Do not get swayed by how we compare ourselves versus the past. We have always said comparing yourself with yourself does not tell you whether you have improved in the marketplace unless you have competitive data. Moreover, Customer satisfaction does not always relate to business results. Lastly, we know Customer experience is measured by Customer satisfaction, which does not allow us to get enough data that correlates to business results. NPS is an incomplete measure.

Why do we use also ran measures? Why not go to value endorsed by AMA, Philip Kotler, suggested by Peter Drucker, endorsed by Jag Sheth, Don Peppers and others, and its measurement, CVA.

Clearing Misconceptions on Customer Value

The first step in your using Total CVM is to get rid of misconceptions.

Avoid misconceptions

The following are some common ideas posted in blogs, and what is factually correct. The word value is often misused and misunderstood. You can relate to some of these. These may help you in business or as a buyer.

1. **Everyone has their favorite term to deal with Customers:** People hone in on one Customer term or the other, because their company uses it, or because they read about it, or because it is fashionable to use. Many users of these methods do not delve deeper to understand the real meaning, its actual usage, and whether it relates to Customer buying or business results. Some of these terms are Customer Experience, Customer Goodwill, Customer Intimacy, Customer Relationship Management (CRM), Customer Response, Customer Satisfaction, Customer Success, Customer Journey, and so on. Customer experience, CX is often used and is a good thought. It is one major aspect of Customer Value. CX is often used as the experience with your company but not as a competitive measure. It is not strong on the cost of doing business (price and non-price). It misses many points of doing business which includes items you may not experience. Retailers may do business with your company because of future business potential of which they have no experience or what you feel about the future of a company with whom they have no experience. Is it the experience or the memory of the experience that is important? Of the user or the decision maker? Use Customer experience and emotions as one important aspect of Customer Value Creation.

In the case of CRM, although a good concept, does not really work on the relationship but on the database of Customers. Not much business good has come of it. It is as important as getting good Customer data and insight, and could be a powerful tool if used properly.

Total Customer Value Management goes far beyond all these in giving you a picture of why people buy and its correlation with

business results, the competitive profiles you can build and use to better your competitive strategies, get prioritization of, and what is important in the Customer's buying motives, buying behavior and in her thinking. You can understand competition better and why some Customers buy from you and why others buy from your competitors. You can understand how to create value, which might mean better experience, better goodwill, better loyalty, better retention, higher market share and profits, better pricing, and decommo-ditization.

Next, Total CVM helps begin a top-down approach on Value Creation through a Customer strategy and mind-set changes, and we have pointed out how this happens or can be made to happen particularly by using Customer-Centric Circles. This is a bottom-up approach. Moreover, Customer Value weaves in the Bill of Rights and the Circle of Promises, and makes the frontline people more proactive by running Continuous Customer Improvement Programs.

2. **Satisfaction alone is not the reason why people buy:** People buy because a product or a service is worthwhile to them versus competitive products or services. Satisfaction is a necessary condition but not a sufficient condition for purchase. Sometimes, we buy even when very dissatisfied. An example could be a neighborhood petrol station, where we had a poor experience. The convenience or the price makes us buy there.
3. **High value products have low satisfaction is not true:** This implies value is price, and that if something is high priced, it has low satisfaction. This is confusing value for price. Sometimes, people pay "money for value," which means they buy high priced items. Thus if you buy a BMW, you can be very satisfied.
4. **Low value products have high satisfaction, is not a true statement:** This implies value is price, and that if something is low priced, it has high satisfaction. This is just not true. It has been proved that at every price point, Customers look for value. This means: If buying a pen, whether a Mont Blanc or a Bic, the Customer is looking for value, and buys on value. You may be very dissatisfied with a low cost ball pen, when it streaks while writing. You will not buy it again.

5. **Satisfaction measures Customer Value is not correct:** Customer Value and satisfaction studies are different. Satisfaction measurements are done on transactions and generally right after the transaction by the user. Customer Value studies are done a few weeks after the transaction and on the decision maker, not necessarily the end user, so as to get embedded perceptions. Customer Value studies are done versus competitive alternatives and are ratios. Thus, a Customer Value study always compares you to competition and is not based on your score alone but their score also.
6. **Value means Benefits is not always true:** Value is what the Customer gets (benefits) versus cost (price and non-price) versus competing offers. Although colloquially we use value to mean benefit or price, Customer Value is the actual worth of a product versus competing options. Value in the Customer context is not just the benefits but benefits and what you pay . . . what you pay versus competitive offers.
7. **Values and value are not the same:** Values are what someone stands for ethics, morals, and sustainability. Value is defined above. In fact, values create value.
8. **Customer Value is newer than Customer Experience:** Both are old concepts. However, the formal usage is more recent. Customer Value as a discipline started in the 1980s with Ray Kordupleski and AT&T, and CX in the 2000s. Customer experience, Customer emotions, and Brand Value are all part of and measured by Customer Value.
9. **NPS is not a great measure of what the Customer perceives:** NPS only answers a couple of questions on repurchase and recommendation. It does not portray what Customer thinks of the product and whether she has had a good or poor experience. NPS is more useful when used with other Customer metrics.

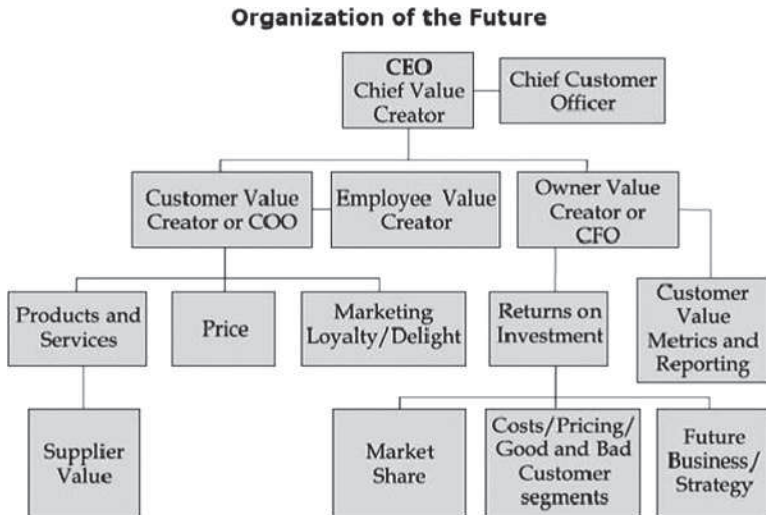
Some thoughts on making Total CVM happen in the following ways:

Change the organization

COO renamed as the Chief Customer Value Creator: Chief Operating Officer (COO) runs most departments impinging on the Customer. These include manufacturing, logistics, IT, marketing, and HR. We want the

Operations department renamed the Customer department, and COO renamed the Chief Customer Value Creator (CVCO).

CEO becomes the Chief Value Creator: When the CEO is so renamed, her focus shifts to Value Creation for the entire ecosystem. Her company starts to look different. A new organogram is shown as follows:



In conclusion, why are these misconceptions propagated and misunderstood? My take is that most people tend to follow what they are told, rather than delving deeply into the actual meaning of, and truly understand how these concepts should be used. These concepts are used and understood loosely.

My suggestion to the lay reader is to truly understand what each of these terms means, how they are used, and how they should be used. Reflection from one's own experience will show what I am saying makes sense. (Remember your favorite restaurant or airline, and if you are dissatisfied, will you stop using them?)

One reason why companies and executives are not truly becoming Customer-centric is that such loosely used and understood terms confuse companies, and do not give the company true insight into what will really help. Thus just measuring NPS and stating that it tells the company what to do is misleading, and will prevent the Customer Value from truly improving (or Customer-centricity from happening).

Executives like you and Consultants can lead this change in understanding Customer Value and Customer data. Go from being hunters to farmers and retain more Customers and cultivate them. It costs more money to acquire new Customers than retaining old ones.

Lastly, stop being a functional manager and become a Value Creator. You will need to build your self-esteem and self-belief (the knowledge from this book will help you believe you are smarter and better and a winner), and imbibe the 6As of outstanding awareness and observation, greater ability, fantastic attitude, agility, anticipation and ambidextrousness. You will soon become a Value Creator.

Further Reading

If you need to get into more details or become a real expert, please read my books, *Customer Value Investment: Formula for Sustained Business Success*; *Total Customer Value Management: Transforming Business Thinking; and Value Creation, The Definitive Guide for Business Leaders*

Discussion

Now that you know what Total Customer Value Management is, you have to see how to get CVA and Total CVM techniques into your company or among your cohorts. How do you undo years of incomplete measurements? How do you get rid of misunderstood terminology? If you are a functional executive, you will not make waves. If you are a Value Creating executive, you will make changes. Do not be motivated by the fear of failure, but the joy of success. Do not be afraid to admit you may have used outdated measures in the past, so what? We are here to improve and do better! Lead the Customer Value transformation!

Do It Yourself

Assess your current Customer program. Are you set in your ways? Do you think your current techniques are adequate?

Are you more concerned about processes and systems than mind-set changes?

Are you afraid to admit your company has been following older ideas?

Are you afraid people will think less of you for admitting there are better ways?

How can you lead a Total Customer Value Management program?

See if you can create a Value Map for your product, and see where you stand versus competition.

Figure out the price for the benefits you create.

Think of value creating ideas that can decommoitize or add more value to your Customers. Try to put them into a priority based on the importance the Customer gives to these items.

How can your company be reorganized to be more Customer-centric?

CHAPTER 17

Conclusion

Where Do You Go from Here to Become a Customer Expert

You are ready to become a Customer Expert, based on what you have learned in this book.

1. *Understand What Customers Value and Related Customer Tools.* First, understand what Customers value and why they buy. To do this, you have to understand and use principles of Customer Value, its terminology, its usage, and its advantage both for quantitative metrics such as Customer Value Added and mind-set changes and implementation of Customer Value techniques such as Customer Strategy, Customer-Centric Circles, Customer Bill of Rights and the Circle of Promises, Zero complaints, and so on. You must use Total Customer Value Management (Total CVM) effectively.

In summary, understand Customers and what they value, and have the mind-set to add value to them.

2. *Know More than Your Colleagues and Be Recognized as the Customer Expert.* With your enhanced learning, two things will happen. You will have more knowledge than your colleagues, and you can start using some of the knowledge. Using more of your knowledge will require your educating your colleagues and bosses, and slowly the Total CVM program will take hold. But certainly start where you can with what is within your control. First, change yourself and your thinking. Unlearn old ideas. Bring in the new ones. Impact those close to you before expanding further.

Remember, to be effective, you must break silos, have teamwork with all departments in offering the Customer a seamless experience and enhanced value.

3. *It's All about Mind-set and Attitude.* To be successful, you must have the right mind-set. You know that when you are in your company or your mind is focussed on your functional job, you are trained to think like an executive, and not like a Customer. Once in a while, take off your executive hat and wear your Customer hat. See and feel the difference. Inculcate a Customer mind-set. Help your front line people with a Customer attitude and mind-set. Just don't keep training them on skills. Help them into a self-education and a self-reflection way of learning. Let them tell you what they want to do for the Customer. Help them in this process.

A great feeling for the Customer and doing the right thing for her will emerge. Combine this thinking with Customer-friendly processes.

4. *Go from Being a Functional Manager to Being a Value Creator.* All this learning will move you from being a functional manager to being a Value Creator. Consciously, create value and think of ways to do this for yourself and the Customer. Destroy less value.

Once you create more value for yourself, and create value for others, who in return will create value for you, you will be a successful Customer Expert.

Recall that a Customer Expert creates Value for the ecosystem: for herself, her colleagues, her employees, her partners, supply chain and delivery chain, society, and for the shareholder.

5. *Join Associations and Learn from Others.* Join associations like Customer Value Creation International, Customer Think, and Linked in sites, such as the *Journal of Creating Value*. Interact with Customer Value Foundation and Customer Value Creation International.

Learn from others. Become leaders of next practices. Do not just seek best practices.

Do see if you are ready by using the following Executive's Customer Value scorecard.

Good luck!

For any help you can reach me at Mahajan@CustomerValueFoundation.com

The Company and the Executive's Customer Value Scorecard

		Yes	No
1	Are you a Customer Value Creator?		
2	Do you consider this your main priority?		
3	Does the Customer come first (or the boss or the company?)		
4	Do you measure Customer Value Added?		
5	Do you measure Voice of Employee and Employee Value Added?		
6	Do you understand what creates Customer Value?		
7	Do you promote respect for the Customer and her needs?		
8	Do you understand what the Customer's most important priorities are?		
9	Do you understand what is important in her buying needs?		
10	Are you looking at digital marketing, contextual selling, and empowering the customer to buy?		
11	Do you believe in education or training? Tick Yes for education and No for training		
12	Do you build an enabling environment or do you think empowerment is enough? Mark Yes for enabling and No for empowerment.		
13	Do you balance value creation for the employee and the Customer?		
14	Do you have a Customer's Bill of Rights?		
15	Do you have a circle of promises to uphold the Customer's Bill of Rights?		
16	Do you give bonuses based on Employee and Customer value creation?		
17	Do you have a Customer Value Added and a Customer reporting system that you receive at the same time as your financial and other reports?		
18	Do your executives have a well thought out Customer role in addition to their functional goals?		
19	Do your executives have one or two Customer/Employee-related goals in their key performance goals?		
20	Do you have a Customer strategy?		
21	Is the Customer DNA (Do Not Annoy) your mantra?		
22	Is the Employee DNA (Do Not Annoy) your mantra?		
23	Do you measure Customer assets and Customer Life Time Value? Are these growing?		
24	Are you setting up Customer-Centric Circles?		
25	Are you easily contactable by the Customer?		
26	Are you a Customer- and service-oriented company?		

Count the number of yes's. More than 13 means you are getting to be Customer-centric.

APPENDIX

Short Guide to Customer Value Management

Add Value to the Employee	Employees consider Value to be the benefits they get (such as the association with the company, what they learn, what they can contribute, and the relationship with management), as well as what they earn and what perks they get. Value-added employees tend to stay with companies and can add value to the Customers and the company.
Attribute Trees	These are developed after the Customer's Waterfall of Needs, pinpointing attributes of importance to the Customer. Attribute trees have a cost branch (actual price, cost of doing business, and cost of ownership) and a benefit branch (of goods, brands/relationship, people and services).
Avoid Commodity Hell	Understand the key drivers of Customer business success. Discover new methods and opportunities of Customer benefit. Build these into strategy and implement the strategy. In effect, increase the Value to Customers thus cocreating the Customer experience. Prevent your company from going into a commodity death spiral. Decommoditization starts with increasing Value.
Brand Equity	Brand equity is not only the advertised brand but also is impacted by the brand equity of the employees. The brand equity of employees when they do things well will improve the total brand equity.
Brand Loyalty	Initially, it meant Customers being loyal to a specific brand. Today, the brand has to be loyal to the Customer! The brand must deliver on its promise. The brand must meet the Customer's expectation and Values if the organization is to expect loyalty and repeat purchases.
Build a Relationship Which is About	Accessibility, responsiveness, knowledgeable people, promptness, promises kept, being kept informed, follow-up, no surprises, Doing it Right.

Business of a Company	Eventually, the business of any corporation is to create Value for its stakeholders, the investors, and the Customers. The Customer Value investment is the best outlay you can make for sustained business success and for increasing ROI. So, you need a Chief Customer Value Creator and a Chief Investor Value Creator reporting to the CEO so that you build a Customer-focused organization. Remember 90% of Customer Value comes from doing things right; and this costs nothing and may cut costs of mistakes.
Business Processes	Often designed from the point of view of the company and purely for their own convenience. Processes should be for the convenience of the Customer. Processes should be Customer-centric.
Chief Customer Officer	A Chief Customer officer, who is a Customer champion and should cut across all functions to make the company, its processes, and its Customer interaction custom-centric, should be a board-level person. The purpose is not to take complaints but to ensure that the entire company is working together to eliminate Customer complaints. Departmental Silos have to be broken to promote Customer-centricity.
Communication	Communication of Customer data within the organization. Communication to employees and touch points is important for making them think through Customer issues and aligning them and motivating them to focus on the Customer. Communication of data to the Customer is important, particularly where you are better than competition.
Companies Should Work On	Making Customers own the relationship. Building partnership with the Customer. Giving the Customer a worthwhile experience. Cocreating the Customer experience. Developing Customer Do Not Annoy (DNA) into design of processes and touching.
Competitive Profiles	Facilitate tabulating the Customer Value Added (CVA) scores on various attributes. Enable you to see where you are better or worse than your competition, and where you need to improve, and what the Customers consider important.
Concept of a Business	No longer business selling to consumers (B2C). Now, it is consumers buying from business (C2B). How easy is it for the Customer to interact with the Business?
Conscious Capitalism	Companies following a strategy to benefit both human beings and the environment. They believe there is a higher purpose to business than just profits
Cost of Retaining Customers	It is far less than the cost of acquiring new Customer. This cost of acquiring and retaining can be determined, and the Value for the Customer can be calculated.
Creating Value	Value Creation is a necessary step for management transformation to Customer orientation. Value Creation is executing proactive, conscious, inspired, and imaginative actions that Create better gains or Value (costs or benefits or both) for Customers and all stakeholders.

Customer Advocates	Customer advocacy is a specialized form of Customer service in which companies focus on what is best for the Customer. It is a change in a company's culture that is supported by Customer-focused Customer service and marketing techniques.
Customers as Ambassadors	A good Customer Ambassador recommends you to his or her network. A great Brand Ambassador also has a virtual social network where he or she can and does refer you.
Customer as Assets	Customers are assets because, if treated properly, they can ensure an ongoing stream of revenue. The Customer assets can appreciate or depreciate, depending on how it is maintained and handled; the Customer assets can be shown on your balance sheet, which impacts the way an investor views you. Companies need a specific strategy to grow and nurture Customer assets (as the Customer is indispensable to our business, as without him or her, we have no business).
Customer Attractiveness	How attractive a Customers are to the company
Customer's Bill of Rights	They are important for the Customer and the employees, because they set direction of what to expect. Should be visible and available to Customers. Should be implemented. A circle of promises is needed within the company to ensure that the promises in the Bill of Rights are kept.
Customer Capital	Asset Value of current Customers. Value of existing relationship (number of relationship times the average Value of each relationship + Value of potential future earnings from existing Customers + Value of referral power – cost of retention).
Customer-Circles/ Customer-Centric- Circles	Are company-sponsored group of people who have regular contact with Customers, may not necessarily include Customer in them and will focus on the Customer. Develop tactics and tasks for dealing with Customer at a local level. Devise ways and means to make it easier for the Customer to do business with the company. Find ways to touch the Customer and give them a great experience. Customer data, information, input, complaints, or plaudits should be provided to the Customer circles as and when it is available, or an effort should be made to collect such feedback. Customer Circles will come up with better ways to handle a Customer. Through this process, Customer awareness will invariably increase (and the Customer's awareness of the company will also improve). Since the initiative starts with and belongs to the members of the Customer Circles, they will take ownership of it and be more Customers focused. Members of Customer Circles are touch point, back-end managers, and other employees who can influence processes, systems, and policies. This is a bottom-led Customer initiative.
Customer Centricity	Customer-centricity is a euphemism for "creating Customer Value."
Customer-in-Center Approach	Customers should be in the center of your business strategy. Customers should drive your strategy rather than being used to fulfill your goals.

Customer Champion	Companies need a Customer champion who is a senior officer. In a perfect Customer-oriented world, you'll have a Chief Customer Officer and many Customer champions.
Customer Collaboration	Customer Collaboration is a form of loyalty as the Customer collaborates and co-creates with you.
Customer Conduits	Are generally top driven by the CEO and his or her staff, and are designed to have a common thought process in the company on the Customer. All people in the company need to be sensitized to the importance of the Customer, and be led by a Customer mission statement.
Customer's DNA	What annoys Customers? Do Not Annoy (DNA) Customers.
Customer Effort	The effort a Customer has to expend on interacting with, thinking of or working with a product* and the company.
Customer Experience	Customer experience (CX) is the sum of all experiences at various touch points a Customer has with a supplier of goods and/or services, over the duration of their relationship with that supplier. Includes conscious and subconscious and emotional feelings. An important part of Customer Value.
Customer Equity	It is similar to Customer capital.
Customer Franchise	Value of present and future Customer relationship, or Customer Capital + Customer Momentum.
Customer Hugging and Touching	Everyone in a company who comes into direct or indirect contact with a Customer is a touch point, "hug" your Customers, and care about them. Very often "touching" is outsourced to call centers or downstream in the chain to retailers and agents, whereas companies need to find a way of touching Customers directly, CEOs should spend a day a week with their Customers discovering if they are meeting Customers' expectations and how service and other offering can be improved.
Customer Journey	The journey that the Customer has to make to deal with the company. It is also the journey seen by the Customer as the company reaches out to the Customer. Company employees often have to make a journey within the company to fulfill the Customer's needs; often this journey is forced onto the Customer (e.g., telling the Customer: call so and so).
Customer Life Time Value	The Value of, or revenue from, a Customer in terms of the business potential he or she represents for you over the life of your relationship with them plus the revenue from potential referrals from that Customer.
Customer Metrics	Measure what is important to Customers. Obtain information from him or her or on him or her, and ask him or her what is important to him or her, directly or indirectly, in order to measure what he or she deems important.
Customer Momentum	The ability to attract and sustain a new Customer. The ability to increase wallet share for existing Customer.

*product includes product and service

Customer Relationship Management Program	Essentially, process-oriented, passive, and don't touch Customers. Must move ahead to CVM. Often thought of as "loyalty programs," which they aren't.
Customer Relevance	What is relevant to the Customer, when and where? Instead of selling what you have, you sell him what is relevant to him or her at a point in time and depending on his or her needs. The start of contextual selling.
Customer Responsibility	While this can mean many things, in this context it is the responsibility that the company takes for the Customer. So if the company has a Bill of Rights for the Customer, then it has a responsibility to uphold the rights. Or if they bring out a product, they have a responsibility the product will perform and be repaired if it does not. In an overall sense, the company must feel responsible to the Customer.
Customer Satisfaction	It is a necessary condition for loyalty but not a sufficient condition. Higher Value than competition will lead to loyalty. Satisfaction is a subset of Value. Normally measures transactions and is not generally compared to satisfaction our competitors' Customers get.
Customer Service	One definition of service is that it is a convenience, should build a relationship. Taking care of a Customer's need.
Customer Share	Your company's share of your Customers purchases of your products. Also referred to as "wallet share."
Customer Share Marketing	The way you increase your share of a Customer's business. Increasing your share of the Customer's wallet.
Customer Strategy	Customer strategy looks at the Customer and Customer opportunity, whereas the Business strategy looks at the marketplace opportunity. Helps align the organization to the Customer and gets top managers to be part of the Customer process. Makes the organization Customer-driven and Customer-centric.
Customer Value	The Customer's perception of the benefit he or she gets for his or her perception of the cost (price and non-price) versus competitive offers. Value for money means the Customer is price conscious. Money for Value means he or she is quality conscious. Value Measures embedded perceptions. Customer Value is an investment, and Value to firm (Value of Customer) is the return on investment.
Customer Value Added (CVA)	The ratio of the value you add to your Customer versus the value your competitors add to their Customers. Providing higher value than your competition will lead to increased Customer loyalty towards your company or products or brand. Relative Value wins market share and increases return on investment. CVA is a leading indicator of market share. If you get "heart share" of your Customer by increasing the value you provide, market share will inevitably follow. Higher CVA scores lead to increased market share, ROI, and wallet share.

Customer Value Index	This is the Customer score and ranks companies on how Customeric and attractive they are to the Customer.
Customer Value Management	Customer Value Management is a strategy to attract and retain Customer by building on the value they assign to goods and services. CVA score are comparative and are the ratio of the score you get from your Customer divided by the score your competitors get from their Customer. Proper CVM involves everyone in the organization. Product development and technology should flow from the Customer's needs and desires often through competitive studies, that is, CVA for each function in the company such as product development in necessary. Customer Value-based pricing models should be followed. Should consider putting Customer assets or Customer capital on balance sheets.
Customer Value Management Program	Integrate all Customer efforts in holistic manner. Make the initiatives more efficient and Customer-driven. Leads to a wider spectrum of competitive advantage.
Customer Waterfall of Needs	Refers to the business processes that make up the Customer's experience and journey with the product/service. Are interconnected and sequenced.
Customer Value Investment	The investment you have to make in improving Value. Value increasing ideas include doing things right (and cost nothing). Others like major product redesign could require higher investments.
Customer Touching	Wherever you touch the Customer, you have the potential to improve your scores. Scores improve not only for benefits but also for price, as the same product appears cheaper to a Customer when he or she is being touched (or is happier). Customer-focused action can be used to change the importance (or weightage) of various attributes. Customer hugging is a term that is also used.
Customer Value Added Data	Should be reported at CEO level along with financial data. Should be communicated to key personal, and selectively to Customers. Should lead to implementation of CVM. Should be used to inform measure that ensures longevity for program and Customer focus.
Customer Value Added Design	The design of the CVA study starts with segmentation: by product, by geography, by Customer segment, and so on. Your company's targeted competitors are needed along with their market share, which are used to normalize the data. The Waterfall of Needs and attribute trees have to be developed. A questionnaire is developed on this basis and then vetted by the Customer through in-depth interviews or focus group discussions. The sample size has to be selected: These are based on significance levels that one is aiming for the confidence levels. The sample includes competition's Customers. Typically, sample size of CVA is one-thirds to one-fourths of sample size required for normal surveys where the frequencies of responses are compared. In CVA score, we are comparing averages, which allow us to reduce sample size. Questions are normally based on a 10-point scale anchored at either end of the scale. Careful analysis of the data will yield usable and useful results.

Customer Value Added Follow-Up	Prioritization of action steps. “What if” analysis and an analysis of where we want to be what action steps to take and how. Who is responsible for the action and the time frame?
Customer Value Added Results	The results will yield the following: individual scores for each of the attributes. Importance weightage for each attribute. Competitive profiles: the relative score of your company versus the industry, the competition (competition is the industry minus yourself), individual competitors. You could get similar scores for your competitors. You can plot slippery slopes and Value Maps.
Customer Value Management implementation	It is important to understand the implementation of Customer Value Management. Steps for implementing CVM include data analysis, prioritization of actions, the expected score increases from the actions, and pinpointing responsibilities.
Customeric	Customeric is a word coined to show that a company has the Customer-in-Center. The Customer is the center of its strategy and its focus. The company is Customer-centric, takes Customer responsibility, measures Customer data, and lets Customer thought lead the business.
Customerized	Customized for each individual Customer. Be Customer-centric.
Dealing with Customers	Talk to Customers because you learn a great deal by doing so. Try to get known by Customers, as they often buy from anonymous people/suppliers. Make it easy for Customers to find you. Make them feel less anonymous. Companies should be loyal to Customers if they expect Customer loyalty. Take Customer complaints seriously and have a complaint resolution mechanism in place. Avoid erosion touches.
Eliminate Customer Defection	Deliver better value. Do not ignore the Customer. Improve touching by the company. React quickly to complaints. Make the process of registering a complaint easy for him or her. Make the company easy to contact. Build good knowledge of/information on Customer. Develop an emotional bond with Customer. Improve experience with company. Respect the Customer by not talking down to him or her.
Frontline Employee/ Touch Point	Generally the lowest on the totem pole but the most important to the Customer. Face of the supplier/company.
General Company Beliefs	They are doing “everything” for the Customer. They have programs underway to impact the Customer. They have insufficient bandwidth or are too busy to start a Customer Value program.
How Do We Get There?	Customer Circles, Customer conduit, Customer-in-Center philosophy, have Customer champions, reporting CVA, and Customer asset data.
How Do You Satisfy Your Customer?	Think in terms of Customer-to-Business (C2B), rather than Business-to-Customer (B2C), then think of Customer-to-Customer (C2C), where you build a community of Customers, understand the end-use experience your Customers are looking for, provide your Customers with the products and services that provide Value, and give them the experience they want.

Keep Your Promises	Exceed Customer's expectation and build trust and confidence. Remember Customer satisfaction = perceived performance/ Customer expectations.
Managing Suppliers	Suppliers should be treated like Customers; you should develop a true relationship with your suppliers.
Ombudsperson	The concept of an ombudsperson to resolve disputes will reduce complaints going outside the company. Should be easy to find, reach, and work with. Should resolve problems fast.
Path to Competitiveness	To achieve strategic management, companies and their executive have to embrace Customer Value and Customer-centricity, through a Customer strategy. These build competitive advantage.
People Value Added/Employee Value Added	This is the ratio of what your company adds to the employee versus what your competitors are adding to their employees. You want this ratio to be greater than 1 to get a competitive edge.
Processes, Services, Customer Value, and Customer Perception	As the quality of processes, services, and products improve, Customer Value increases, and perception on price improves. The price perception improvement for improved service can be studied, putting a monetary Value on service.
Put the Customer in Control	Provide him or her the ability to communicate directly and painlessly with the company. Realize that the Customer should have it his or her way. Build a community of Customers and allow them to communicate with one another and with your company, and to blog or set up a message board, thereby letting him or her get easy information on products, shipments, and specials. Giving him or her delivery his or her way (maybe he or she can call in and his or her grocery bag is ready for pick up). Remember, that if we think it is right to want to control our suppliers, we should let our Customer control us, because we are their suppliers.
Relevance of Work Effort from a Customer's Viewpoint	Divide your work into categories that the Customer would think of as: necessary and relevant, necessary and irrelevant, unnecessary and relevant, unnecessary and irrelevant. Concentrate on the necessary and relevant tasks from the Customer's viewpoint.
Reporting Customer Data	Customer data should be reported on balance sheets. This is being proposed by the Securities Exchange Commission, who wishes investors to know a company's Customer assets and how the Customer assets are growing/deteriorating.
Resistance to Embracing Customer Value and CVA	Organizations (and inertia) or executives feel they are doing enough for the Customer or they are into too many initiatives, and there will be a resource drain. Executives feel they understand the Customer and the marketplace. Executives worry about correlating Value data and satisfaction data. Value studies are not well understood or that well advertised or pushed as satisfaction studies, which are generally run by market research companies that push satisfaction over Value. Top executive are not exposed to Value as globally as they are exposed to satisfaction.

Return on Customer	It is the Value of the Customer divided by Customer capital. This is the firm's current cash flow plus change in equity divided by the equity of the firm at the start of the period.
Satisfaction versus Value	Satisfaction is measured soon after an event or transaction. Unlike Value, satisfaction does not measure embedded feelings. Satisfaction is a necessary condition for loyalty but not a sufficient one whereas Value is. Satisfaction does not equate to loyalty, unless you have competitive data. People buy because they perceive better Value from your products.
Slippery Slopes	This is the graph (generally S-shaped) of repurchase intent versus Value with price and quality. It is called slippery because once you get past the very satisfied Customers, you tend to lose Customers very rapidly even with minor Value score losses.
Stated versus Implied Weights	Stated weights are received directly by asking the Customer to rate the importance. Derived or implied weights are obtained by statistical means, and give a better idea of the importance of different attributes in the buying decision.
Tools of Customer Value Management: Where Are We?	Qualitative tools: What attributes are important to Customers? The Customer Waterfall of Needs to derive transactional attributes and Benefits and Cost Attributes Trees to derive Benefits (including the product)/price attributes. Quantitative tools: Where do we stand versus competition? Competitive profiles, Slippery slopes, Value Maps.
Total Customer Value Management	Total CVM is designed to have Value Created for Customers and managed by the total company (by everyone in the company). Total CVM shows how this is to be done ¹ (see Gautam Mahajan's book: <i>Total Customer Value Management: Transforming Business Thinking</i>).
Third-Party Touching	Often touching is outsourced through retailers, call centers, and so on. We must examine third-party touching and see if you company can touch the Customer directly, or better.
Traits of Winning Companies	Obsessive about knowing, even better than Customers themselves, what Customers want. Create and manage Customer expectation. Design their products, services, and processes to maximize Customer satisfaction. Make Customer Value everybody's business. Maintain a business philosophy to add ever-increasing Value to the Customer. Have a culture driven by a vision that creates strong Customer focus. Constantly ask whether their proposed action will benefit the Customer, or adversely impact them.
Using CVA for Business Decision: Product, Service and Technology	CVA is used for business decisions on products, services, and technology offerings. CVA scores help make business decisions using the Customer's input and point of view for pricing, for new product introduction, for resolving dilemmas, for determining priorities and so on.

Using CVA for Pricing	CVA techniques can be used for pricing of products and services and to deciding on the various features to put into products. CVA pricing looks at costs from a Customer's viewpoint, and is based on the relative benefits you create versus competition, and the importance of each benefit to the Customer. As relative benefits increase, price can be increased depending on the importance of each benefit the company provides. Brand is also a benefit.
Value	It is the balance between price and benefit. The more benefits the Customer perceives he or she gets for his or her money, the higher his or her perception of the Value. It is what a product is worth to the Customer, and how he or she perceives the benefits of the product, given what it costs him or her to buy or own it. It is also the good and well-being of an action or a person.
Values (of People, Companies)	The Values, standard, morals ethics, beliefs, ideals principles that a company has and is reflected in its culture, and its approach toward Customers and employees, to the environment safety and sustainability, and to society.
Value Creation	Executing proactive, conscious, inspired, and imaginative actions that do more good and create better gains or value for Customers and all stakeholders. The main role of an executive is to create value for himself or herself, his or her employees, and his or her Customers, and thereby for his or her investors. The role of a company is to create value for its employees and Customers; suppliers and partners; and thereby for shareholders.
Value Maps	Position of your company relative to the Customer's rating your company and the competitors on price and quality. Help you make sound strategic decision. Useful in pricing and in what if analysis on whether to improve/reduce price or benefits or both.
Value of Customer	The Value of your relationship with your Customers. Average Value of each relationship can be measured by the following: revenue per Customer, average length of Customer relationship, total number of referrals R that became Customers divided by total number of Customer plus one (the original Customer). Average spend per Customer per annum multiplied by relationship length with R (measure of referrals), Customer Value is an investment, and value to firm (Value of Customer) is the return on investment.
Voice of Customer and Voice of Competitor	CVM is akin to the voice of Customer (and voice of competitor). Many companies use CVM studies for this purpose.
What Investors Want to Know?	How many Customers do you have? What is your profitability per Customer? How well do you treat your Customers? How fast you are growing Customer franchise?

What Is a Customer?	An indispensable part of your business, without whom there is no reason for your business to exist.
What Is the Purpose of a Company?	To satisfy stakeholders (employees, Customers, suppliers and partners, unions and shareholders) and to create Value for them. There is a higher purpose of a company beyond this as stated by conscious capitalism
What to Do for Customers	Convert anonymous Customer into known ones. Add Value to Customers and incorporate Customer Do Not Annoy (DNA) into any Customer initiative. Avoid erosion touches.
Where Do We Want to Be?	Value Map prioritization and focus areas to build competitive advantage.
Who Is a Customer?	A Customer is someone who buys from you, or is a consumer, or someone who could potentially buy from you, or is someone else's Customer.
Zero Complaints	Zero complaints is a similar concept to zero defects. It should be the intention of any company to get to zero complaints by examining hygiene factors, Customer journey, Customer experience, and everything to do with product reliability, usability, and service.

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Gautam Mahajan

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Remember, if you create value for others, they will create value for you!

Gautam Mahajan is founding editor of the *Journal of Creating Value*, and chairman of the Customer Value Foundation. He ran global businesses for a Fortune 50 company and is also the author of *Customer Value Investment*, *Total Customer Value Management*, and *Value Creation*.

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