

CUSTOMER VALUE – The Unknown Fundamental

Recently while having one of those ever-interesting evening-coffee meetings with Dr. Raju Konduru – a business acquaintance and a dear friend, the topic of customer value came up. Raju, in his imitable style recounted an experience that I don't think I can hold on to any longer. In the early morning Raju went to get his bike repaired. As is usual in this part of

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the world, he was asked to wait at the bike station and he went to the nearby tea stall for his morning tea. While sipping his hot morning tea coupled with the need to kill time, he started observing a cockroach lying on its back struggling to get up on its many legs. It was obviously injured and needed some support. Some distance away, Raju observed a group of ants frantically searching for food. While he was finishing his tea, he observed that the ants were about to move to some other direction opposite to the cockroach. He said he was itching to tell the ants that the cockroach is just nearby – just go grab it. The food these ants were desperately searching for was so near to them. Yet, they couldn't see it and were

about to lose it. Raju said his role as open innovation champion in the global consumer products company where he works for is very much the same - to connect the searching ants to the cockroach, to connect various needs and their solutions so as synergy is created faster, cheaper and without failure.

To do this, he not only needs to be at a higher vantage point (from where he can see both the ants and the cockroach), but also needs a *deeper understanding of the behavior of ants – that they indeed are searching for food, and yes, the cockroach is a possible food option for the ants and an injured or dying cockroach definitely is an easily available food item*. He needs to know the customer needs – and connect them to the relevant solutions, provided of course ants are Raju's customers. Here comes the flip question – suppose Raju's customer is the cockroach. In this case, Raju needs not only to indicate to the cockroach the clear and present danger of ants eating it up, but also help the cockroach to get up on its legs and move ahead and may be further away from the ants.

What is Customer Value?

Customer value is so fundamental to businesses that it is completely ignored. It gets hidden under layers of actions and decisions that businesses have taught us over many decades. Most of us believe that we know what value we are delivering, yet it is difficult to

come out with a single crisp definition. Everybody talks about it, in the belief that it is so very well known at the fundamental level that it is implicit in our work.

What is value? How does one know whether value is being created in the work one does; is it created optimally; at what cost; and for whom? Does the customer know what is valuable? Is *value* the same as what the customer demands? Do we have any guidelines or a framework – if one may use the word, for defining and measuring value?

This *thought ignition paper (tip)* points out a need to have such a framework and delves below the surface of what such a framework may comprise.

Customer Value – Are You the Customer of Your Products/Services?

All said and done, the provider is not the customer. It is imperative to understand and empathize with your customer before defining value. Also, there will always be a tradeoff between total benefit versus total cost that the customer will keep on evaluating. A smart salesman creates an impression that the benefits perceived by the customer are the best that the cost incurred can buy. It is interesting that the salesman may not keep the relationship going if the value remains at the perception level only. This calls for an end-to-end customer value model which runs, adapts and gets refined as we get deeper into the customer relationship. A review of some of the

customer value models and methods described in literature may help.

Models of Customer Value

Prof. Mohanbir Sawhney [Ref: *Fundamentals of Customer Value, crmproject.com*] describes customer value in the following many words, “*The perceived worth of the set of benefits received by a customer in exchange for the total cost of the offering, taking into consideration available competitive offerings and pricings*”. This definition encompasses seven fundamental lessons of customer value (shown in Figure 1).

- Customers Define Value (in terms of utility not product or services)
- Value is Opaque even to the Customers
- Value is Contextual - the end user, end use situation and environment
- Value is multi-dimensional - Functional, Emotional and Economic
- Value is a trade-off between Benefits and Costs
- Value is Relative - relative to the Next Best Alternative
- Value is a Mindset - the sole purpose of the firm is to create value not products or services

Figure 1: Fundamentals of Customer Value

Tyson Browning [Ref: *On Customer Value and Improvement in Product Development Processes, Systems Engineering, Vol 6, No 1, 2003, Wiley, US*] in his very interesting paper reviews some logical and mathematical expressions for customer value described in literature. Table 1 summarizes the value models.

Table 1: Models of Customer Value

Model	Parameters (V – Value)
$V = \frac{Q.S}{SP.LT}$	Q – Quality; S- Service; SP – Sale Price, LT – Lead Time
$V = \frac{N.A.f(t)}{C}$	N – Need for the function; A – ability of the product or service to satisfy the function; f(t) – dependency for timing of the product; C – cost of ownership
$V = \frac{F}{C}$	F – Function; C - Cost
$V = \frac{PB}{PP}$	PB – Perceived Benefits; PP – Perceived Price
$V = f(P, A, T)$	P – Performance; A – Affordability; T- Timeliness

In a Harvard Business School article the authors, James Anderson et al [Ref: *Customer Value Proposition in Business Markets, HBR, March 2006*], claim, “...there is no agreement as to what constitutes a customer value proposition – or what makes one persuasive”. They have classified value propositions into three types – *all benefits*, *favorable points of difference*, and *resonating focus*.

In *all benefits* type of value propositions, the suppliers list down every perceived benefit delivered by their product or service. This method requires a standardized laundry list to be prepared and parroted with all customers in

all scenarios. This is the modus-operandi of most suppliers and requires least effort in each engagement. However, this leads to what the authors call, *benefit assertion* without any actual benefit to the target customers.

The second type of value proposition is based on the awareness of alternatives that the customer has. The authors term this as *favorable points of difference*. This requires the supplier to have knowledge of other alternatives in addition to his own offerings. The proposition is for the supplier to articulate the ways in which his offering is different (and better) as compared to the alternative offerings. This leads to what is called the *value presumption* – an assumption that points of difference articulated by the supplier are actually beneficial to the customers.

Finally, in the *resonating focus* type of customer value proposition, the suppliers need to make their offerings superior on key elements of value that are most relevant to the customers. This needs lot of effort to understand the customers and their context. It is important to demonstrate and document the value of offering’s *superior performance*. *Further it needs articulation in a way that clearly displays the supplier’s sophisticated understanding of customer business problems*.

It is clear from the brief review that the terms *value*, *customer value*, and *customer value proposition*, tend to get overused in business jargon with the assumption that the terms are easily understood by everyone. The facts however point to a diametrically opposite situation; value is probably the least understood concept in business parlance. Many ills of our businesses actually spring from this

fundamental oversight. We propose a framework for customer value based on the situation that one finds in any customer-supplier interaction.

Customer Value Framework

We propose two key dimensions of any customer-supplier scenario. First dimension is *how much the customers know what they need*. Many times we have observed that customer needs are hidden and not very well articulated. Second dimension is *how much the suppliers know what the customers need* (See Figure 2).

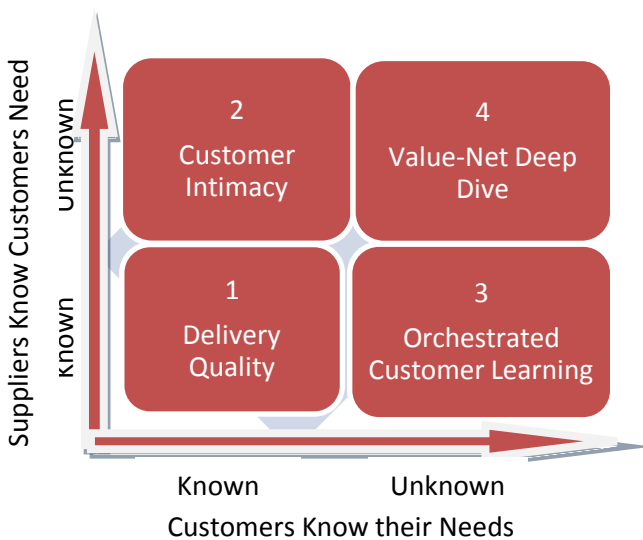


Figure 2: Elements of Customer Value Framework

These two dimensions create four quadrants or boxes – *Known-Known*, the first box represents the deterministic world - the focus is on *delivery quality*. In the second box, *Known-Unknown*, the supplier has to discover what clients need –he has to follow the path of *customer intimacy*. In *Unknown-Known*, the supplier has to let the customer

learn through a process of what we call *orchestrated customer learning*. It is really the fourth box, where maximum synergy and value can be co-created – where no player knows the needs – the *Unknown-Unknown*. In this scenario we propose *value-net deep dive* as a model for discovering and creating value.

The gold-standard in customer value propositions is to create a *resonating focus* with the key specific needs of the customers. When these needs are very clear and known to suppliers and customers (Box 1 in Figure 2), the customer value is measured and reflected in delivery quality – how efficient, how robust and how timely the service is. Parameters such as system availability, reliability and robustness become more relevant and contribute more to customer value. This is mostly the case in established, commoditized products and services, where typically, certainty of service and determinism of the product are a given. However, in this case, customer value can be enhanced by building a congenial relationship with the customer through all customer touch points. Innovation or improvement in this case is typically in the way the delivery happens or in creating a unique customer experience.

The strategy for understanding customer value in Box 2 in Figure 2, i.e., when the supplier doesn't know the client needs but the client knows its own needs is what we call *Customer Intimacy*. The way one becomes intimate in any relationship is through knowing the customer better. This requires scanning, observing, seeing, detecting, examining and

recognizing the client needs through a deep intimate process that is typically based on trust and confidence on each other. However, one thing is sure - the delivery quality strategy of Box 1 fails in this Box completely. Here the insights that the client has need to be captured through multiple interactions and touch points. *Just like love, customer intimacy is tough – very tough.*

Box 3 in Figure 2, when suppliers know what the customer needs but the customer is blind to its own need. A direct articulation of that need to the customer may work or may not work. Typically in this scenario, suppliers have to build an *orchestrated customer learning* strategy. In this strategy, elements of known solutions or known needs are highlighted through exploration workshops, interactions and designed experiences so that the hidden needs are surfaced for the client. This requires more sophisticated handling of the client as many a time client managers may construe this to be an affront to their egos. The finesse and diplomatic skills of suppliers besides the stickiness of their solution becomes an important component of this strategy.

It is the proverbial open canvas scenario of Box 4 in Figure 2 where maximum value can be created in any supplier-consumer scenario. This is the scenario when both sides are unaware of customer needs to begin with. The first problem in this scenario is fundamentally accepting that we really don't know. Ask any business leader or manager, those who say "I don't know" belong to a rare breed. Somehow,

not knowing is perceived as a weakness that most do not want to admit. Yet, accepting ignorance is the first step towards learning and creating. The first step is for both sides to accept that they don't know, but have faith that the mutually distinct capabilities that both sides are bringing to the table will help create what in military parlance is called *common relevant operating picture (CROP)*. We propose *the value net* framework as a starting point to create the *CROP* for both sides. Typically this requires a deep dive in a workshop setting or observing the detailed business context and finding the hidden needs. Once these needs are understood, one gets into creating targeted solutions for specific needs.

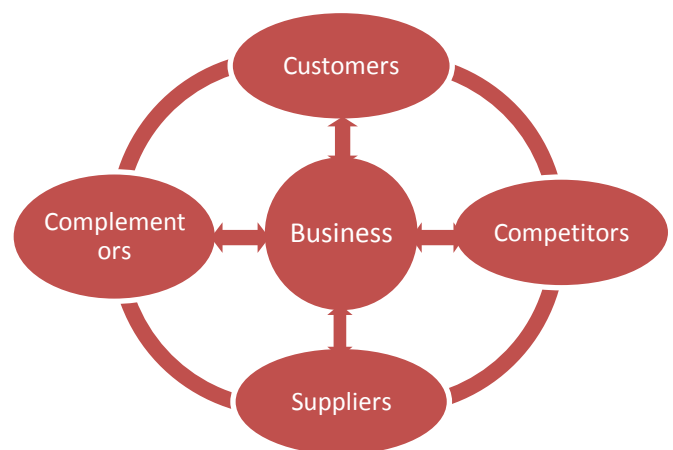


Figure 3: The Value Net – From Co-Opetition

The value net, described in the 1996 book by *Bradenberger and Nalebuff* [Ref: *Co-Opetition: A Revolution Mindset That Combines Competition and Cooperation*], is a complete map of business relationships and a shared template for discussions of strategy. The value net framework helps in understanding the connections between various stakeholders.

A deep-dive into the value-net makes dependencies, constraints, and complexities that are typically hidden in the web of everyday transactions, visible to everyone concerned.

Using the Customer Value Framework

To use this framework, it is necessary to be sure of how much the supplier knows about customer needs and how much the customer knows its own needs. Let us look at what happens if there is an asymmetry in perceptions of what the supplier and customer knows. Let us say supplier and customer think they both are in Box 1, i.e. both knows what the customer needs, but let us say they are actually in Box 4, i.e., neither of them knows the needs. In this case they will both be focused on delivery quality – the best quality solution may be developed, delivered and implemented, but it actually doesn't solve the problem – the result – blame game and rework – a major transaction failure.

Let us say actual scenario is Box 4 but the supplier think they are in Box 3, i.e. supplier knows what the customer needs, but customer doesn't know the need. The framework suggest *orchestrated customer learning*. The supplier will start crafting needs and responses based on creating orchestrated learning for the clients. The client may get influenced to implement the solution suggested by the supplier. However, the need hasn't surfaced and the result in this case will definitely be a loss of face for supplier and failure of the project.

Given the uncertainty in knowing the real need of the customer, we recommend to start in Box 4, always. Dive deep into the value net and as the need emerges for both sides, go to Box 3 (if the supplier understands the need) or to Box 2 (if the client understands the need) – ultimately reaching Box 1 where delivery quality becomes the focused strategy.

So in a nut-shell the *Customer Value Framework* suggest following four steps



Key Insights

Customer value is one of the least understood business concepts and yet fundamental to every business. It is always – always important to start with the ecosystem in the form of value net of the business, before locking on to key customer needs. The framework defined in this *Crafitti TIP* has helped our clients understand their customer's value and may be of use for businesses at large.



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