

# *Are You Getting a Fair Return on Your Customer Value?*



## **Customer Value Management In Business Markets**

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# Customer Value Management

## How Do You Define Value?

Can you measure it? What are your products and services actually worth to customers? Remarkably few suppliers in business markets are able to answer these questions. And, yet, the ability to pinpoint the value of a product or service for one's customers has never been more important.

Customer value management is a progressive approach to managing business markets. In its essence, customer value management has two basic goals:

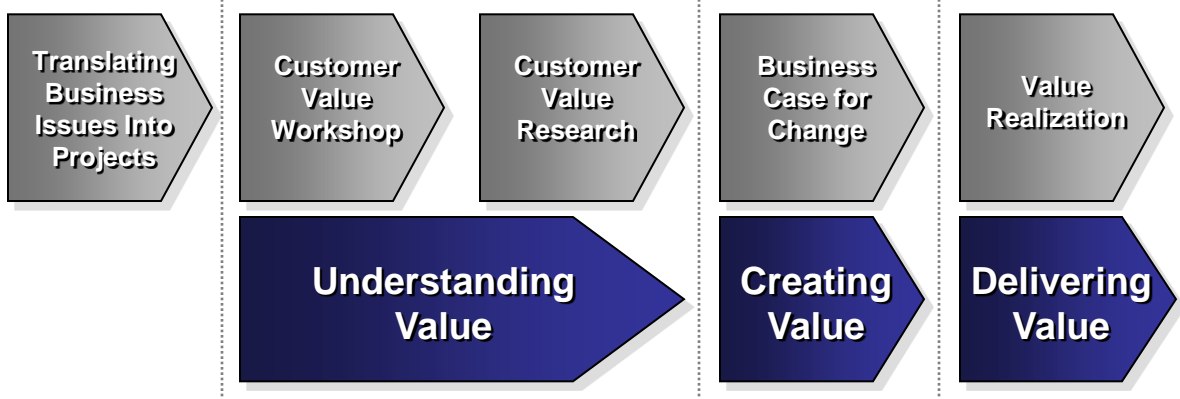
- Deliver superior value to targeted market segments and customer firms
- Get an equitable return on the value delivered

Customer value management relies upon *customer value assessment* to gain an understanding of customer requirements and preferences, and what it is worth in monetary terms to fulfill them. Although firms may be able to accomplish the first goal without any formal assessment of customer value, it is unlikely that they will be able to accomplish the second goal – getting an equitable return on the value delivered – without it. Simply put, to gain an equitable or fair return on the value their offerings deliver, suppliers must be able to persuasively **demonstrate** and **document** the value they provide customers relative to the next-best-alternative for those customers.

An essential undertaking in customer value management is building *customer value models*, which are data-driven estimates of what a present or prospective market offering is worth in monetary terms to targeted customers relative to the next-best-alternative offering. Some suppliers have built what they regard as customer value models, but these models often have the character of being “data light” and “assumption heavy.” Quite naturally, customers are skeptical of such models, claiming that they do not accurately reflect their businesses. In contrast, customer value management stresses building customer value models that are “data heavy” and “assumption light” in cooperation with the customer. Wherever possible, suppliers gather data to minimize the number of assumptions made and to ensure that the assumptions that are made are reasonable. Customer value models go beyond recycling opinions to generate new knowledge for both the supplier and its customers.

This process can be viewed as five phases: translating business issues into projects, customer value workshop, customer value research, constructing a business case for change, and value realization. To guide businesses through this process, we have developed the Customer Value Expert Toolset®, a web-based software application (more information can be found at [www.CustomerValueExpert.com](http://www.CustomerValueExpert.com)).

## Process Overview



# Typical Project Approach – Five Phases

## Translating Business Issues Into Projects

In the initial phase, senior managers think through significant issues that the business is facing, where greater knowledge of customer value would enable them to make more profitable decisions. Customer value management has been used to inform and guide a variety of management decisions, such as: which potential product developments and modifications to make; which augmenting services, programs, and systems to offer as standard or for-fee options; setting pricing strategy and tactics; and which market segment(s) to target. A project is defined for each issue, where decisions are made about the scope of the project, the definition of success, and the composition of the team that will carry out the customer value research to address the issue.

## Customer Value Workshop

The teams come together for a Customer Value Workshop, which is a two-day session where they gain the requisite knowledge and skills to build customer value models, and plan and launch their projects. During this workshop, they practice building customer value models using one or more proprietary case studies. In breakout sessions, each team begins to: define the value elements for their project, determine the next-best-alternative to their market offering, conceptualize and refine value word equations, decide which customers to invite to participate in the customer value research, and create their work-plans for accomplishing the project.

## Customer Value Research

The customer value research that each team conducts proceeds in three phases: gaining initial customer cooperation, gathering data, and analyzing the data. The teams construct a value summary – the *customer value model* – that expresses each value element in monetary terms.

## Business Case for Change

Based on the knowledge of value gained in the research, each team makes specific recommendations on how to do business differently and estimates the expected return on that investment. These business cases are presented to senior managers who have served as project sponsors and the top management of the business unit. Each business case should be viewed as a prospective commitment: if senior management provides the requested resources, the business will deliver the specified results, especially the estimated incremental profitability.

## Value Realization

The period following the presentations of business cases for change to senior management is a critical phase for realizing the value, and incremental profitability, identified in the business cases. Value-based sales tools, like *value calculators*, need to be created, and training devised to give the sales force practical experience using them. Successful companies understand that they must not only **demonstrate** what their offerings would deliver, but also they must **document** the cost savings and/or incremental profits their offerings actually deliver to customers purchasing them. They work with customers to define the measure on which they will track cost savings or incremental profit produced, and then after a suitable period of time, work with customer managers to document what the actual results have been. They create value case histories and use tools, called *value documenters*, to further refine their customer value models. This enhances the credibility of the demonstrated value of their offerings, because customer managers know that the supplier is willing to document the actual value.

## Anderson & Axios Exemplary Client Results:



## **Professor James C. Anderson**

James C. Anderson is Principal of James C. Anderson LLC, an international management consulting firm focusing on customer value management in business markets. He is also the William L. Ford Distinguished Professor of Marketing and Wholesale Distribution at the Kellogg School of Management, Northwestern University. He has written five articles published in the *Harvard Business Review*, including "Business Marketing: Understand What Customers Value" (Nov/Dec 1998) and "Customer Value Propositions in Business Markets" (March 2006). He has co-authored the leading business marketing textbook, *Business Market Management: Understanding, Creating and Delivering Value*, now in its third edition, published by Pearson Prentice Hall.

He has consulted and provided seminars for a number of companies in North America, Europe, Asia, and Australia, such as American Express, AT&T, bioMérieux, Elkem, ExxonMobil, FEMSA Empaque, GE, International Paper, 3M, Microsoft, PPG Industries, and SABIC.

## **Axios Partners**

Axios Partners helps clients innovate and manage their customer value for revenue and profit growth. Axios has developed and implemented highly effective differentiation strategies for clients across a variety of industries such as financial services, high-tech, energy, health care, telecommunications & industrial products and across diverse regions including Africa, Asia, Australia, Europe, & the Americas. Their creative, yet pragmatic approach consistently generates tangible client results that have been highlighted in *Harvard Business Review*, *Fortune* & other publications. Axios customer value management projects consistently generate a 10:1 payback within 12 months of implementation.

## **Gain a Fair Return on Your Customer Value...**

James Anderson and Axios Partners work together seamlessly to implement customer value management at client firms. They impart the knowledge, skills, and process of customer value management to client firm managers, enabling them to transform their company culture to one of doing business based on demonstrated and documented value, resulting in significantly enhanced profitability.

We accomplish this by providing management development, coaching, consulting support, and state-of-the-art tools to client teams that undertake defined customer value research projects aimed at improving specific business performance. While Anderson and Axios actively support these client teams throughout the process, the team members themselves have primary responsibility for doing the work and attaining the outcomes. This combination of experiential learning with knowledgeable support and best practice tools more quickly transfers the customer value management capability to the client firms and accelerates their financial returns. In today's more competitive markets, can you really afford **not to** systematically manage your customer value?



**Prof. James  
C. Anderson**

