

Customer Value Analysis

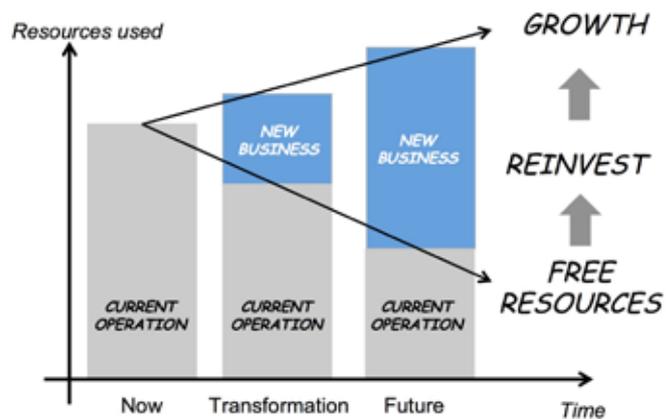
CVA

Using

Customer Value Analysis – CVA

to measure and manage how your customers perceive your offering

Ohde & Co is perhaps best known for the Lean Growth™ programme – a model that helps our clients free up resources that are not adding value for the customer, and use these resources to create new, value adding, business.



So, measuring and understanding what does – and does not – add value for the customer is a key component in our model – one of the Lean Revenue Generation components.



The Ohde solution for measuring and managing the value perception of available offerings in the market, both in our Lean Growth™ projects and in stand-alone customer value management projects, is generally known by its acronym CVA – Customer Value Analysis.

To cite a CMO in a global capital goods client: “CVA tells you where you really are, and what you need to do, not where you wish you were”.

CVA helps you understand

- What customers value most – each part of the value offering of product, service and image – and price
- How well customers think you – and your competitors – are performing on each part of your offering
- Your **strengths** – where you are performing **better** than your competitors on the parts of your offering that customers consider most important
- Your **weaknesses** – where you are performing **below** your competitors on the parts of your offering that customers consider most important
- Areas where you might need to **question** the **cost** of upholding a superior performance – on something that the customer does not consider important
- Areas that you might “put on hold” for the time being – where you are not performing very well compared to the competition, but which the customer does not consider important

CVA has, however, not been created by us.

CVA – Customer Value Analysis – is one of the most robust and researched models in existence and was developed as part of the PIMS¹⁾ programme. PIMS started its life at General Electric and Customer Value Analysis and Customer Value Management were developed as a discipline for strategy development, pricing decisions, market segmentation, and process improvement. Today, PIMS and CVA are part of Malik St Gallen and we have the privilege of being able to use this powerful concept under our license agreement.

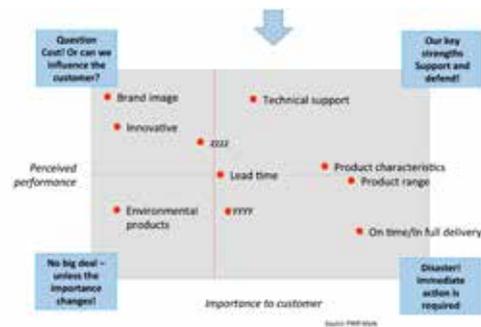
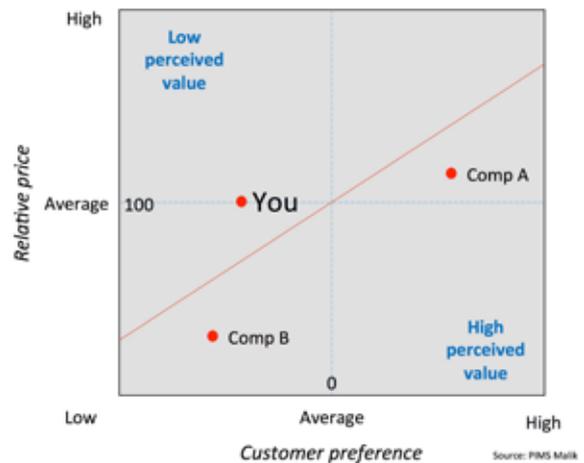
¹⁾ Profit Impact of Market Strategy

The outcome of a CVA project provides you with a unique analysis of your own – and your competitors’ – position in the market – as perceived by customers – and competitors’ customers.

In contrast to many other customer research models, CVA uses relative measures, comparing customer perceived performance with your actual competition in the market – not just comparing with yourself year after year.

PIMS research²⁾ has clearly shown that the quality and value measures used in CVA are strongly correlated to profitability and growth, but, more about this later.

The **Value Map** shows your strategic and competitive position – and indicates your profitability and growth potential ...



... and the **Perceived Performance** chart tells you how important customers consider the different elements of your offering to be, and in which areas you are over or under performing your competitors

So, going into more detail ...

When and where is CVA used?

The most common use of CVA is in **ongoing programmes for measuring customer preference, and perceived value, of the whole, and the individual parts, of a client’s offering.** This helps the company **develop its product and service offerings** in line with what its customers – and its competitors’ customers – are willing to pay for. And avoid investing in things that customers are not prepared to pay for. That is a truly Lean approach!

Importantly, CVA also shows how competitors are developing. It sometimes happens that a client has, objectively, improved e.g. delivery service levels, only to find that the customers perceived that the competition had improved even more.

Other examples of where CVA adds great value to a process are:

- Performance benchmarking – establishing the profitability and growth potential of the customer preference and/or perceived value position

²⁾ https://www.malik-management.com/en/pdf/pims/further-reading/malik_pims_meaningandvalueofcustomer_eng_neu.pdf

- Acquisitions – determining the best targets and/or determining the impact that the target’s position may have on the purchase price
- Mergers – simulating the likely value position of the merged entity
- Start-ups – simulating the start-up’s position vs. existing offerings (where relevant)

We also use CVA to analyse alternative technologies, e.g. cast vs. forged vs. sintered products – before following up with a “head to head” CVA of competing companies.

What do we mean by Customer Value?

Firstly, it is the value as **perceived** by the customer.

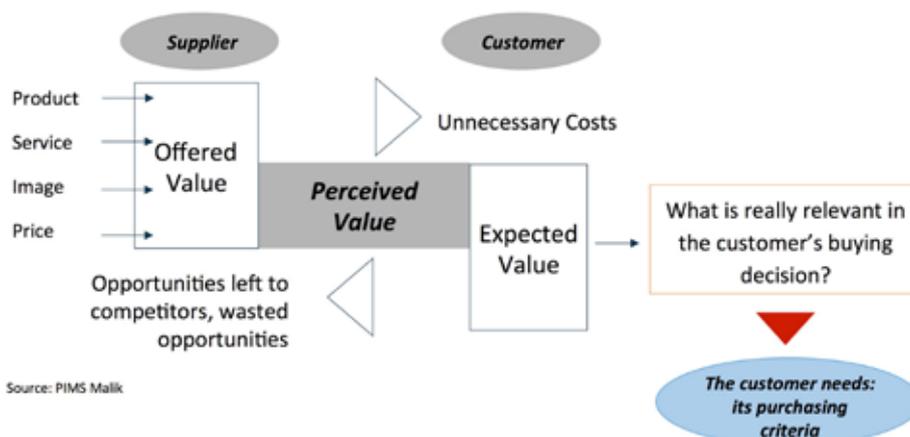
And it is always **relative** to other value offerings considered by the customer.

Customer Value is the combination of customer perceived **relative total quality** (**customer preference**) and customer perceived **relative price**.



How do we arrive at a relative, quantified, measure of value?

Customer Perceived Value is a function of what you offer and what the customer expects



If you are not supplying what the customer expects – at the right price – you are open to losing to your competitors. If, on the other hand, you are offering far too much, or at a too low price, you may have a cost and/or profitability issue.

You therefore need to understand your customer requirements and how you – and your competitors – are perceived to be performing.

Using CVA, we take our clients through a proven process to establish what their perceived position is – and where and how they need to make changes.

STEP 1 – WHAT ARE THE RELEVANT, NON-PRICE, PURCHASE CRITERIA THAT A CUSTOMER CONSIDERS?

Typically, we start by establishing our client’s own view of what it believes are the most important attributes. This is usually done in a cross disciplinary workshop and the results are used as a first input to pilot interviews, but also as a base for later gap-analysis.

We structure these non-price purchase criteria into three groups – Product (What you are providing), Service (How the product is sold – and will often include support activities) and Image.

An example could be:

Product related criteria e.g.
• Product characteristics
• Product range
•
Service related criteria e.g.
• Delivery lead time
• On time/in full delivery
• Technical support
•
Image related criteria e.g.
• Brand image
• Innovative

STEP 2 – HOW IMPORTANT IS EACH NON-PRICE PURCHASE CRITERIA?

The next step is to determine the relative importance of each of these criteria – some may be crucial, others less important (at least, at the moment).

Note that we use a % weighting. This allows a customer to really differentiate between factors, and indicate that an attribute is extremely important – or extremely unimportant.

We do this first in a CVA workshop with our client, to establish the internal perception, but when we go live with customer (and non-customer!) interviews, each customer will set its own perception of relative importance.

1. Identify non-price purchase criteria	2. Weight in order of importance
Product related criteria e.g.	
• Product characteristics	15%
• Product range	25%
•	10%
Service related criteria e.g.	
• Delivery lead time	5%
• On time/in full delivery	30%
• Technical support	10%
•	2%
Image related criteria e.g.	
• Brand image	1%
• Innovative	2%
Total non-price attributes:	100%

Source: PIMS Malik

STEP 3 – HOW WELL IS EACH SUPPLIER PERCEIVED TO BE DELIVERING THE PRODUCT/SERVICE/IMAGE OFFERING?

Here we are measuring customer preference. What would they buy if price wasn't an issue?

CVA uses a 1-10 scale; where 1 is Very poor and 10 is World class. But unlike many market research models, CVA does not only use the absolute numbers to determine performance, but also the differences. For example, the difference between a score of 9 and 7 is +/- 2, as is the difference between 7 and 5. This addresses the issue of one person rating a supplier as 7, whereas someone else would give the same supplier, in the same situation, a score of 9. Different company cultures, and country cultures, tend to influence how people set their baseline.

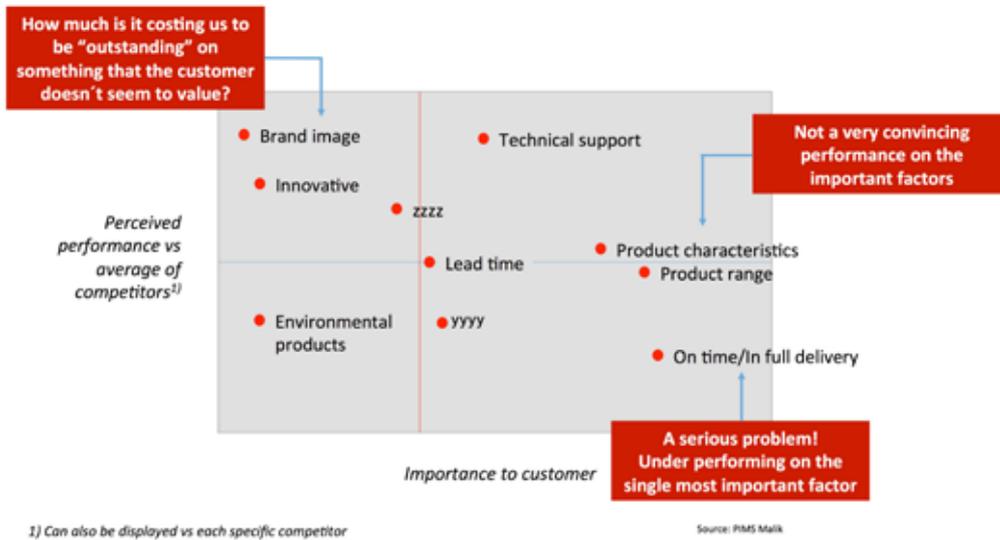
1. Identify non-price purchase criteria	2. Weight in order of importance	3. Rate performance of competing suppliers on each attribute		
		You	Comp A	Comp B
Product related criteria e.g.				
• Product characteristics	15%	7	8	5
• Product range	25%	5	8	4
•	10%	5	5	5
Service related criteria e.g.				
• Delivery lead time	5%	4	8	7
• On time/In full delivery	30%	9	5	5
• Technical support	10%	8	5	6
•	2%	6	8	5
Image related criteria e.g.				
• Brand image	1%	9	5	5
• Innovative	2%	5	7	5
Total non-price attributes:	100%			

Source: PIMS Malik

An illustration of this is that whereas the theoretical average of the rating scale is 5, in Sweden, we tend to see 6 or 7 as the average score. When I once conducted interviews with Asian car manufacturers I was being given “nines” for all suppliers! On everything. It was not until I realised that this was out of courtesy to their suppliers, that we could solve this by introducing a 9,0 to 10,0 scale (which was then rescaled).

We now have the **relative importance** of each non-price purchase criteria and the **relative performance** of each supplier. This allows us to calculate the **relative, perceived, total quality** of each supplier, which I will revert to later. But this information also provides our clients with a mapping of where and how the need to focus on non-price factors – the Perceived Performance chart. And to start asking the right questions.

Perceived Performance chart



If, for instance, customers perceive that you are underperforming on one of the most important purchase criteria you have a serious problem! If, on the other hand, you are seen as being the best on an unimportant factor you may need to question the cost of reaching and maintaining that position.

When customers say that you are underperforming alternative suppliers on a criterion of low importance you probably do not need to be too concerned. However, you need to carefully monitor the customer perception of such a factor as it may grow in importance over time. Environmental issues have shown such a development over the years.

From these data, we are then able to calculate a total, weighted, **perceived quality index** for each supplier that is **relative to other suppliers** – a measure of customer preference; but still not including price.

1. Identify non-price purchase criteria	2. Weight in order of importance	3. Rate performance of competing suppliers on each attribute			Calculated Relative Quality index
		You	Comp A	Comp B	
Product related criteria e.g.					
• Product characteristics	15%	7	8	5	
• Product range	25%	5	8	4	
•	10%	5	5	5	
Service related criteria e.g.					
• Delivery lead time	5%	4	8	7	
• On time/In full delivery	30%	9	5	5	
• Technical support	10%	8	5	6	
•	2%	6	8	5	
Image related criteria e.g.					
• Brand image	1%	9	5	5	
• Innovative	2%	5	7	5	
Total non-price attributes:	100%	-3	+10	-7	
4. Capture relative price		100	105	80	
5. Rate the importance of price as a purchase criteria		<i>Price:</i>	60%		
		<i>Non-Price:</i>	40%		

Source: PIMS Malik

STEPS 4 AND 5 – HOW DO CUSTOMERS PERCEIVE YOUR PRICE COMPARED TO ALTERNATIVE SUPPLIERS? AND HOW IMPORTANT IS PRICE COMPARED TO PERCEIVED TOTAL QUALITY?

Customers are asked to compare price perception between different supplier offerings, relating competitor price to your index, which is set at 100. I.e., if a supplier is perceived to be 5% cheaper than you, then its index is 95.

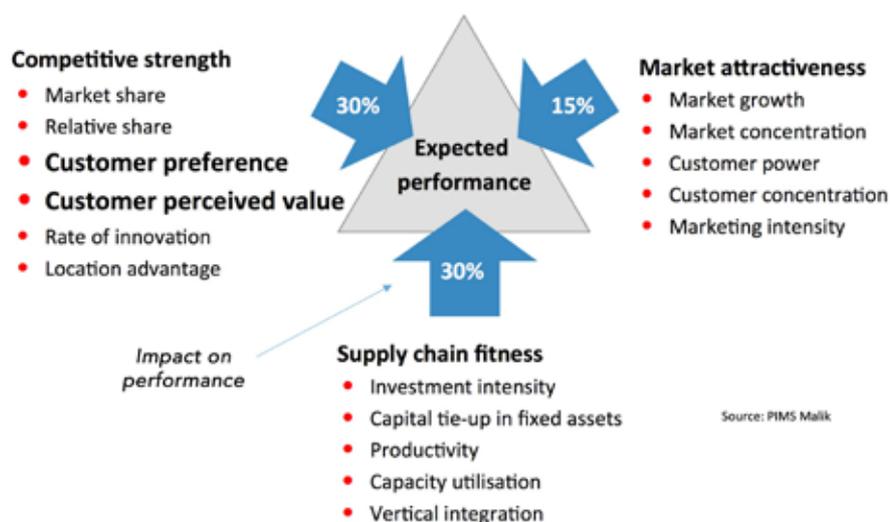
At the same time, we ask customers to indicate how important Price is compared to total Quality (i.e. all non-price purchase criteria)

What does all this mean for your strategic position and your performance?

As mentioned earlier, CVA was developed as part of the PIMS programme, as a way of determining a quantified measure of customer perception.

The PIMS research programme identifies which strategic and structural drivers that power business performance – and, also, most of the variation in performance between businesses. The current research database of participating clients consists of around 5 000 business representing more than 20 000 years of actual business data.

In the PIMS Paradigm, perceived relative Quality (customer preference) and Value are key drivers of both profitability and growth.



If we look in more detail at how customer **perceived relative (total) Quality** drives performance we see the effect on both profitability – ROS and ROI – and on growth.

The Value Map

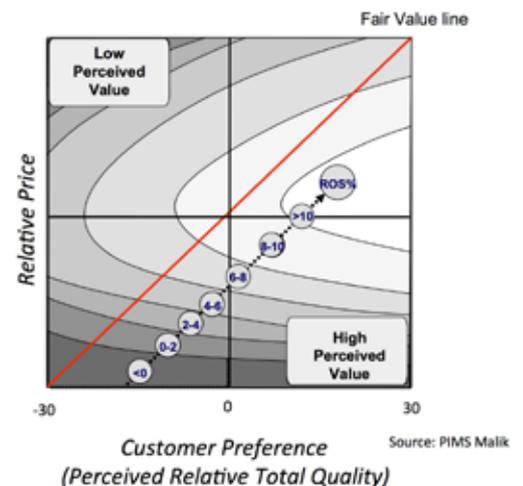
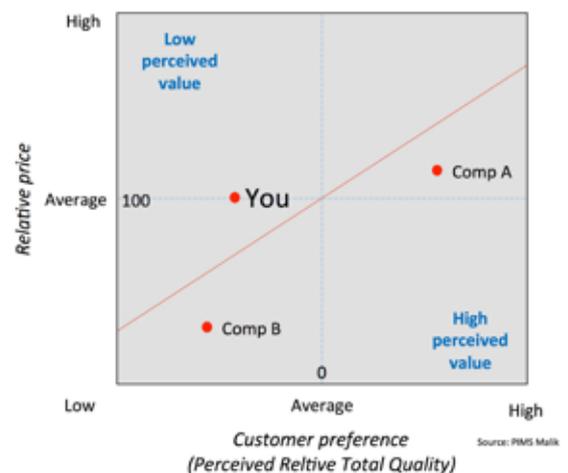
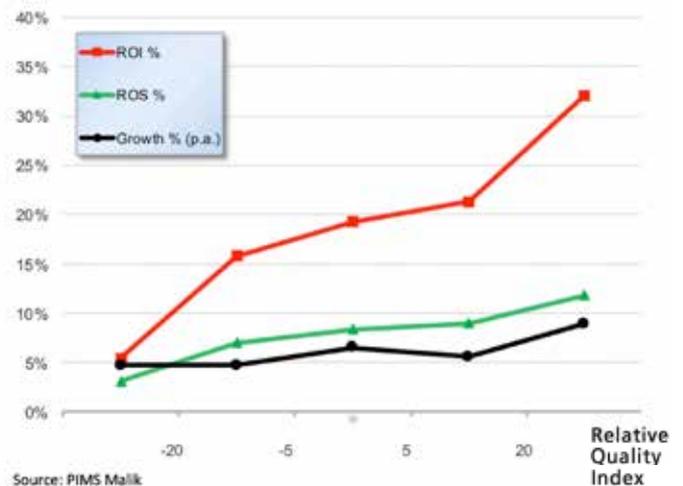
Our definition of Perceived Value is how a customer perceives the combination of what it has to pay (i.e. Price) for your offering of Product/Service/Image in comparison to alternative offers.

We show this graphically in the Value Map.

The diagonal red line is known as the “Fair Value” line and indicates the price that a customer would be prepared to pay for a given total quality offering. If you are (as in this case) positioned above the Fair Value line, you are perceived to be too expensive for what you are offering (compared to your competitors). Competitors A and B are both positioned to the right of the Fair Value line and are thus perceived to offering “good” value, i.e. a lower price than their offerings would warrant. The value positions of A and B (the distances from the Fair value line) are more or less equal, but they are positioned in two different price segments.

If you are offering low perceived value you are almost certainly going to lose market share. On the contrary, if you are offering high perceived value you will probably gain market share. However, if you are achieving extremely high perceived value by offering an extremely low price for a high total quality (i.e. bottom right hand corner of the value map), you may well sell a lot of products, but will probably not make any money.

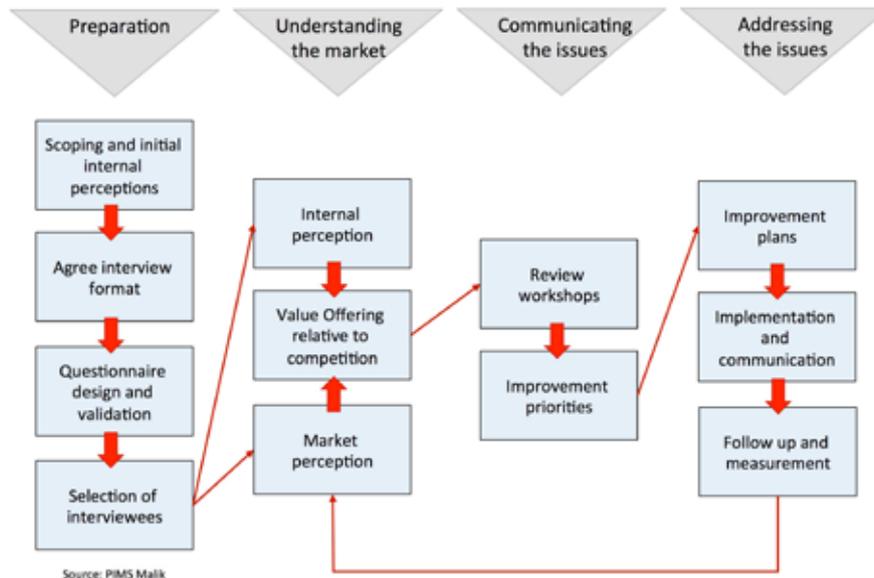
The graph to the right shows how moving your position towards good value, achieved by a superior product/service/image offering rather than price, also improves your profitability.



A business using the insights of customer value analysis to move from one point to another, can typically expect a 2 to 4 percentage point improvement in their Return on Sales (ROS).

How is a CVA project set up?

A typical CVA project will consist of four main process steps:



Every project is, however, tailored to the specific requirements of each client and its business situation.

CVA is very much a cross functional process and it is important to make sure that all relevant stake holders in the company are included both in the preparation phase as well as when reviewing results and agreeing actions.

Usually, we conduct the customer interviews ourselves, but in some cases, there may already exist good customer research that can be used.

The interview format varies. Geographic spread, number of customers/segments, time table – and client budget! – will dictate what is most suitable. This can mean face to face, telephone, web based, mailed questionnaires, focus groups etc. – and combinations.

Over the years several thousand CVA projects have been conducted in almost all industries – both manufacturing and service industries.

I have personally had the pleasure of running CVA projects in aquaculture, pulp & paper, wood products, submarines, canal traffic, white goods, food products, building components, shipping, beverages, construction, offshore services, electronics etc. etc.

There is really no limit to where CVA can be implemented – as long as we have a working, competitive, market. Even in commodity markets, where the price differences are small, CVA has proved to be a powerful tool.

We would be delighted to discuss your needs in this field and assist you in improving you value offering – and business performance.

OHDE & CO was founded in 1993 and we are today about 15 consultants. Most of us hold masters degrees, and we all have long experience from both operational management positions and management consultancy. Typical customers are mid-sized companies in manufacturing and services.

We cooperate with Malik Management, St.Gallen and PIMS Associates, London. Through this cooperation we have access to the well known and extensive database and business model simulation tool; PIMS – Profit Impact of Market Strategy.

Please contact us for further information.



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