

Customer Value Analysis: How Customers Make Purchase Decisions



Gelb Consulting Group, Inc.

1011 Highway 6 South
Suite 120
Houston, Texas 77077

P + 281.759.3600
F + 281.759.3607
www.gelbconsulting.com

Gelb
An Endeavor Management Company

Customer Value Analysis

Overview

In a highly competitive marketplace, managing the non-price purchase and satisfaction drivers that matter most to customers can positively impact market share. Customers make purchase decisions based on how valuable they perceive the quality of your products and services as they relate to price. Those companies that are perceived to offer “low” value are highly unlikely to attract new customers or retain the customer base they currently have. This is due to the fact that customers will migrate to companies who offer a better or “higher” value.

In a highly competitive market, a company’s competitive position is determined by the perceived value of its products and services, relative to the competition. Gelb’s adaptation of Customer Value Analysis (CVA) provides a powerful analytical technique to measure and grow relative market share. This paper will describe how CVA can help your company strategically grow its market share.

Value Predicts Loyalty

What is value? Value is the quality of a product or service relative to the price to acquire that product or service. In other words, when customers make a purchase decision, they evaluate the product/service options and assign a *value* to each one. They ask themselves, “What am I getting for the money?” In order to capitalize on this, you must first understand the value calculation and be able to influence a segment of it.



What is perceived quality? Perceived quality incorporates all the characteristics of a product or service to be considered aside from price. Non-price characteristics may include customer service, technology, sales force effectiveness, delivery, etc...

Customer Value Analysis

Rich and meaningful customer feedback is critical to understanding the needs of the market, and to assess your company's and competitor's performance on those needs. Customer value is created by:

- 1) Pinpointing the most crucial value drivers
- 2) Developing a value proposition based on those factors that matter most AND that you are capable of providing
- 3) Setting product/service pricing at a level commensurate with the level of perceived value provided

Customer Value Questions

What are the most crucial buying factors?

To answer this question, a Value Model has to be created. Often, through a qualitative phase of research, a series of key buying factors is uncovered. These factors are measured in a broader, quantitative research phase that is put into a value model. An example of a Value Model is provided below.



This model tells us that the buyers of this product value quality more than they value price. Furthermore, within the quality dimension, product quality is most important (18%) followed by technical expertise and a professional sales force. In order to be competitive in this market, a company must focus its efforts on these three areas. Determining the importance scores for attributes are derived from customer surveys by utilizing regression analysis techniques.

Customer Value Analysis

How well are we performing on key buying factors?

In Customer Value Analysis, the attributes measured are those benefits customers seek in a product or service. We call them key buying factors. The typical survey questions ask for a level of agreement corresponding to the performance on a key buying factor. This allows respondents who are aware of, but have not used the product or service to evaluate each company.

When conducting Customer Value Analysis, it is important not to include ONLY your customers, the respondent pool should represent the customer base. The competitors that should be included in your survey are:

- Top two competitors
- Fastest growing competitors
- Most innovative competitors (new technology or processes)

In addition, have customers rate your company or competitors only if they are a current customer, a recent customer, or a non-customer who is familiar with the products or services provided by the company.

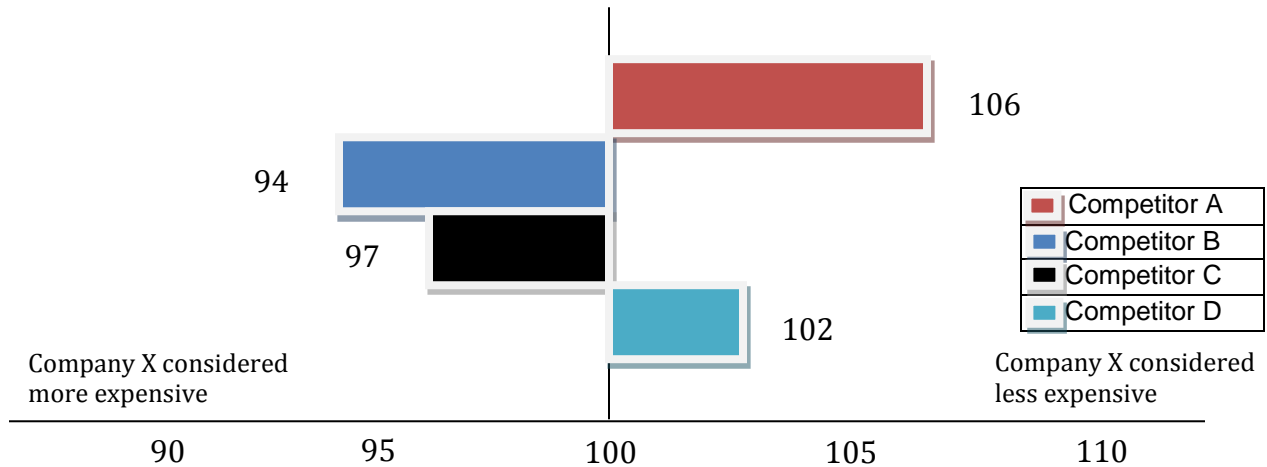
Are the prices I am charging competitive?

Another measure for an effective assessment is price category. This measurement allows a company the ability to better understand how changes in price impact consumer preferences. A company should consider tracking 3 price measures over time: price competitiveness, relative perceived price, and relative actual price.

The following is an example of perceived pricing information that can be attained from a quantitative survey:

Customer Value Analysis

"If \$100 is the average price of a product or service from Company X, please indicate what you would expect to pay for the same product or service from Competitors A, B, C, & D."



As indicated in the above example, it is perceived that customers would expect to pay a lower price for the products and services offered by Company X than they would expect to pay for the products and services from Competitors A and D. Conversely, in comparison to Company X, customers perceive that they would pay less for the products and services provided by Competitors B and C.

Understanding the perceived price expectations in the market allows a company to gain more insight into its ability to charge a premium price in the market. In addition, since brand equity leaders are able to charge a premium price, it is also a strong indicator of brand equity.

Head to Head Value Matrix

Customer Value Analysis allows for a head-to-head analysis of competing companies on the factors that are most important to customers. This head to head analysis incorporates importance ratings, identifies areas of strengths and weaknesses, and can serve as a guide for resource allocation.

Customer Value Analysis

The following is an example of a head to head matrix. As illustrated, Company A outperforms Company B on the factors of service and product quality. Since these two factors are of some importance to customers, Company A should continue to monitor to ensure it is satisfying customers on these two attributes.



Furthermore, Company A closely trails Company B in technical quality. This factor is also of high importance to customers. In order to impact market share, Company A could concentrate its efforts in this area to improve customer satisfaction, and in time take customers from Company B. Customer satisfaction in this area needs to remain a focus as it could easily become a competitive advantage for Company B.

Customer Value Analysis

Conclusion

CVA is a powerful tool that should be used to better define a company's products and services because it provides a better understanding of what customers value most. In addition it allows a company to view its performance relative to the competition. This information allows management to focus its quality improvement activities on areas where it will be most beneficial and pertinent to its respective customers.

Customer Value Analysis often leads to new product line extensions, the development of higher quality web content, and an optimal marketing strategy.

Customer Value Analysis

About Endeavor

Endeavor Management, is an international management consulting firm that collaboratively works with their clients to achieve greater value from their transformational business initiatives. Endeavor serves as a catalyst by providing pragmatic methodologies and industry expertise in Transformational Strategies, Operational Excellence, Organizational Effectiveness, and Transformational Leadership.

Our clients include those responsible for:

- Business Strategy
- Marketing and Brand Strategy
- Operations
- Technology Deployment
- Strategic Human Capital
- Corporate Finance

The firm's 40 year heritage has produced a substantial portfolio of proven methodologies, deep operational insight and broad industry experience. This experience enables our team to quickly understand the dynamics of client companies and markets. Endeavor's clients span the globe and are typically leaders in their industry.

Gelb Consulting Group, a wholly owned subsidiary, monitors organizational performance and designs winning marketing strategies. Gelb helps organizations focus their marketing initiatives by fully understanding customer needs through proven strategic frameworks to guide marketing strategies, build trusted brands, deliver exceptional experiences and launch new products.

Our websites:

www.endeavormgmt.com

www.gelbconsulting.com

www.gulfresearch.com