

# **Determining Customer Value: Evaluating How Your Customer Compares You to Your Competitors**

*Gail Bundy, MarketPower Inc., Lakewood, CO*

## **ABSTRACT**

In competitive markets, companies develop competitive advantage through delivering products and services which customers perceive as providing superior value relative to the offerings of other vendors. This perspective differs from regulated markets where companies are rewarded through regulatory incentives for providing value to the widest number of customers possible. Marketing professionals in energy companies moving from monopoly to competitive markets face unique analytic challenges: (1) how to understand evolving customer needs in new ways, (2) how to evaluate the impact of competitive offerings, (3) how to create new or augmented products and services, and (4) how to recommend value-producing operational adjustments.

Customer Value Analysis is a set of methodological tools, which help marketers:

- Evaluate primary market research about customer needs.
- Assess information about customers' perceptions of competitors' offerings.
- Integrate the primary customer research with competitive information to evaluate relative competitive advantage among the marketers' company and its competitors.
- Apply that knowledge to market strategy and to product and service development.
- Focus operations on business activities that make sense to the customer.

Customer Value Analysis methodology concentrates on three principles: keeping customer needs and the relative perception of value at the center of all analysis and decisions, integrating customer and competitor data, and maintaining perspective on operational impacts of marketing decisions. During the presentation, participants will walk through an actual Customer Value Analysis of a typical energy services marketing situation to see how the tools can be used for either strategic or tactical decision-making.

## **Introduction**

In deregulated markets, companies develop competitive advantage through delivering products and services which customers perceive as providing superior value relative to the offerings of other vendors. Market researchers and market planners are challenged to create strategic information that not only understands how customers perceive the value (or worth) of a particular product, but also to evaluate how the customers perceive the product or service relative to competitors.<sup>1</sup> This can present problems, as energy companies typically have small market research budgets compared to other industries, market research initiatives serve many internal objectives, and competitive information is

---

<sup>1</sup> "Customer Value" in the context of this study focuses on the customers' perception of the worth (tangible or intangible) of a particular product or service. Customer Value, as used here, does not refer to a business' financial assessment of the worth or net market contribution related to serving specific customers. That is a different field of study and analysis.

limited to anecdotal, incidental information. This approach to customer value analysis takes those research limitations and presents a method for the examination of customers and competitors that can assist planners in making both strategic and tactical decisions. Using an example from the lighting industry, we will walk through illustrative customer research and competitive information to show how customer value data can be used to make decisions or create new hypotheses about the market. The main body of the paper presents: an overview of the methodology, a brief discussion of the customer value concept, a description of the illustrative competitive scenario, a walk-through of the use of the Customer Value Analysis Tools, and examples of how the outputs of the analysis can be used.

## **Methodology**

The Customer Value Analysis Tools provide a process for integrating customer research and competitive intelligence in a way that allows a company to compare its customers' perception of value with the customers' assessment of competitors' performance in delivering to those values. This methodology section provides a brief overview of the information requirements and analysis approach needed to use the tools.

### **Information Requirements**

Customer Value Analysis requires the development of six kinds of information:

- Competitive scenario description and relevant marketing questions.
- Core customer values related to the target product or service.
- Customers' assessment of the relative importance of the core values.
- Delivery attributes related to how suppliers address those core customer values.
- Customers' perception of the relative importance of delivery attributes.
- Customers' assessments of competitors' performance.

To illustrate use of the tools in this presentation, we use hypothetical data based on general industry knowledge to make educated estimates for specific values. In practice, actual customer and competitive value data collected through primary market research should be used.

### **Analysis Approach**

Customer Value Analysis helps market analysts uncover points of competitive advantage and evaluate a company's potential to improve on specific points of competitive advantage. The analysis can be used as inputs into marketing and operations decisions. Steps in the analysis include:

1. Review of customer value data from primary market research.
2. Selection of the values, attributes, and importance ratings.
3. Development of weights for values and attributes based on customer perception.
4. Comparison of competitors' performance to the company's performance.
5. Evaluation of a specific company's competitive advantage.
6. Recommendation of changes in tactics and/or need for additional research or testing.

Care needs to be taken throughout this analysis to maintain focus on customers' perception of value.

# **A Customer Value Analysis Process**

## **Customer Value Concept**

The goal of any market research is to better understand the relationship between what the customers needs and values and what it takes for a supplier to deliver on those needs and values. Customer value is a complex concept, which describes the “customers’ perception of what they want to have happen...in a specific use situation...to accomplish a desired purpose or goal” (Woodruff & Gardial 1998). This overall perception of value has three components: the desired end state (or goal), the perceived consequences (benefits and costs) of actually using the product, and specific attributes related to how a specific product or service is delivered (includes specific product features, as well as vendor characteristics).

$$\text{Customer Value} = (\text{Desired End State}) + (\text{Consequences of Use}) + (\text{Product Delivery Attributes})$$

Customers have choices on how to reach their goals. They can do nothing. They can change internal processes. They can hire a vendor or supplier to provide a solution for reaching their goal. When customers choose to buy products and services that they perceive will help them reach those desired end states or goals, they actively compare, weigh and trade-off what they perceive as the consequences (benefits vs. costs) of use of the product or service. They also compare, weigh, and trade-off their perceived value of different competitive offerings, as well as their perception of the consequences of doing nothing or making internal solutions.

Relativity is a critical concept for analysis of customer value. “Relative value” describes the customer’s perception of how one supplier provides service as compared to another supplier. These customers will judge a company’s performance “relative to” or “in comparison” with other experiences -- with that company, its competitors, or other types of businesses. A company needs to know whether a customer perceives a competitors’ ability to provide service as better than, equal to, or less than its own ability to provide service. Customer value is, also, intrinsically related to what a buyer is willing to pay relative to suppliers’ costs to provide the product (Porter 1985).<sup>2</sup>

Customer value is extremely important to marketing and business planners. Marketers spend their time arraying the relative value of their product attributes and continually shifting components of their market mix (product features, price, promotion, delivery) to reflect their perception of addressing customer values. Additionally, understanding these values helps a business focus its efforts on creating business activities that are important to the customer. For a supplier, “value-added” activities are those business activities that directly provide customers with values they seek.

## **General Customer Values in the Lighting Industry**

The lighting industry provides excellent examples of differences in customer value (see Table 1). In the lighting arena, customers have many values: reduce costs, improve lighting quality, improve safety of work environment, improve the look of their product (restaurant), improve customers’ appearance (clothing store), reduce time for bulb replacement, etc.

---

<sup>2</sup> Porter’s book is the classic text for describing the relationship between customer perception of relative value and the development of activity-based strategies to sustain that perception.

**Table 1.** Examples of Customer Value from the Lighting Industry

<b>Customer Value Component</b>	<b>Value for Lighting Customer</b>
Desired End State or Goal	Reduce Costs Improve Productivity Improve Profits Reduce Errors
Consequences of Use	Improve Customers' Appearance Increase Worker Health Improve Energy Efficiency
Value Delivery Attributes (Product or Vendor)	Provides Custom Audits Understands Work Processes Has Good Reputation Replaces Bulbs Quickly

The best customer value analysis process would use market research to probe customers for their values at all three levels—goals, consequences, and value delivery attributes.<sup>3</sup> This research would identify customer values using words and language the customer uses. It would, also, have customers weight the importance of each goal relative to each other. Different customers will have different perceptions whether a value is a desired end state or is a consequence of use. A large textile manufacturer may be more interested in saving costs of lighting large, cavernous space. A restaurant is more interested in how lighting impacts the look of prepared food. To some, energy efficiency is the end goal; to others, it is a consequence of use. Analysts must understand not only customers' different perceptions of what the values are, but also what kind of relative importance ratings those customers attach to the values. Those ratings will help the marketer understand which product features will be of value to specific customers. The combination of the stated value with its importance rating constitutes the notion of "basic customer value" in this analysis. Market analysts are challenged to examine the relationships of these variables in a systematic way.

### **Description of Illustrative Competitive Scenario and Marketing Questions**

The Customer Value Analysis tools described here provide a systematic process for working with customer value information. To understand the use of this methodology, we'll look at the hypothetical case of ABC Energy, a medium sized, midwestern electric utility that is deciding whether or not it will expand a lighting efficiency program to large industrial and commercial customers (Bundy & Johnson 1998). Over time, ABC has done some lighting work in connection with its demand side management program. However, with recent cost cutting measures, it has done little to promote the program. Now ABC is assessing the potential for expanding the program. While ABC estimates there is still a market for this service, it's concerned about its ability to compete against the three main lighting efficiency competitors in its region: a national shared savings company, a new ESCO subsidiary of a neighboring utility, and a branch office of a regional engineering consulting firm.

---

<sup>3</sup> While the customer value market research should probe for the three types of values, the Customer Value Analysis Tools used in this paper focus on two types: "End State" and "Value Delivery Attribute".

ABC Energy has several questions. Does ABC have potential for improving its competitive position in offering service to the market? What are critical business activities ABC must develop to maintain its advantage? In examining its options, ABC must understand how customers value lighting services and how customers might compare ABC's performance against the competitors in the field.

### Customer End-State Values and Importance Assessment

ABC Energy must select the core customer values that will lay the foundation for the analysis. Core customer end-states values focus on results related to time, resource use, or quality (see Table 2).

**Table 2.** Typical Customer End-State Values

Reduce costs	Increase profits	Improve response time
Improve productivity	Make me look good	Reduce errors
Gain peace of mind	Improve safety	Reduce hassle

Core end-state values may vary by customer. One customer may be focused on reducing costs, another on improving productivity. It is critical that this value data be collected from actual customer research.

Importance of "Forced Choice". In directing research on customer value, it is important to ask questions calling for "forced choice" rather than "scaled" ratings of discrete values. Rating discrete variables obtains discrete results – not relative. Forced choice requires customer to weight importance of variables against each other – and gets a sense of relative importance of variables. A typical forced choice question is: "You have \$100 to spend on these attributes. How will you allocate the money?" Table 3 uses ABC Energy's core values to compare the use of the fixed choice and scaled rating methods. In this example, ABC Energy has picked three core values from existing customer research: "Save Costs", "Improve Productivity", and "Reduce [Bulb] Replacement Hassle". In ABC's markets the importance of this third value came as a surprise. Research revealed that the market exit of one vendor had left customers with problems in finding and replaced that firm's recommended bulbs.

**Table 3.** Comparison of Two Methods for Evaluating Perceived Customer Value

<b>Core Customer Values for ABC Energy Lighting Efficiency Customers</b>	<b>Col 1 Rating on 1 to 5 Scale</b>	<b>Col 2 Forced Choice</b>
Save Costs	3	40%
Improve Productivity	4	40%
Reduce Replacement Hassle	3	20%
		100%

In Column 1, using a 1 to 5 rating scale, "Save Costs" and "Reduce [Bulb] Replacement Hassle" look equivalent. In Column 2, "Save Costs" and "Improvement Productivity" are equal and higher than "Reduce Replacement Hassle". Column 2 provides a better estimate of what customers would look for in competing vendors and for what values they might be willing to pay. The selection of values and the importance weights would vary within market segments. The ratings in Column 2 are used for the remainder of this paper.

## Value Delivery Attributes and Rating

For each general end-state or goal, the customer has identified several attributes that are perceived to deliver the value. These attributes related to how the value is actually delivered can be manifested as: attributes of the physical product or service, attributes of communication between the vendor and customer, or attributes of the business delivering the product. Product attributes, such as timely delivery or special financing may be more important in delivering cost savings. Communication attributes play a major role in establishing the relationship between the parties. Business attributes play a role in determining level of service (see Table 4).

$$\text{Value Delivery Attributes} = (\text{Product Attributes}) + (\text{Communication}) + (\text{Business Attributes})$$

Control over the provision of these attributes is key for establishing competitive advantage (Slywosky 1996; Stalk et al. 1992).<sup>4</sup>

**Table 4.** Typical Value Delivery Attributes

<b>Product/Service</b>	<b>Communication Attributes</b>	<b>General Business Attributes</b>
Reliability	Understands us	Company reputation
Ease of set up	Enthusiastic	Years in operation
Ease of use	No pressure tactics	Management strength
Custom engineering	Shares information	Financial strength
Off-the-shelf	Treats me well	Sales force knowledge
Spare parts availability		Local service staff
Training		Sales policies
Timely delivery		Production capacity
Pricing flexibility		Technical competence
Special financing		R&D funding
Product warranties		Local presence
Features of specific product (e.g. Audit Analysis)		

ABC Energy now needs to select the value delivery attributes that are most important to the customer in achieving its core goals (identified in Table 3). Again, the best approach for obtaining this data is through actual customer research. However, if the selection is based on educated estimates, make sure that customer perspective is at the center of the choice. Table 5 shows the relationship between those core customer values and the value delivery attributes. In Table 5, "Audit Analysis" and "Special Financing" are two value delivery attributes that are important to customers' perception of how suppliers help them reach the goal of "Save Costs." The importance ratings must be adapted to this model, so that the total % for Value Delivery attributes related to one customer value must equal the % for that value's importance rating. (e.g., if "Save Costs" has an importance weighting of 40%, the importance weights for the related value delivery attributes must equal 40%).

<sup>4</sup> Slywosky provides a general discussion of how business design contributes to a company's creation of customer value/ Stalk et al. assess the strategic management of delivery attributes.

**Table 5.** ABC Energy Value Delivery Weighting

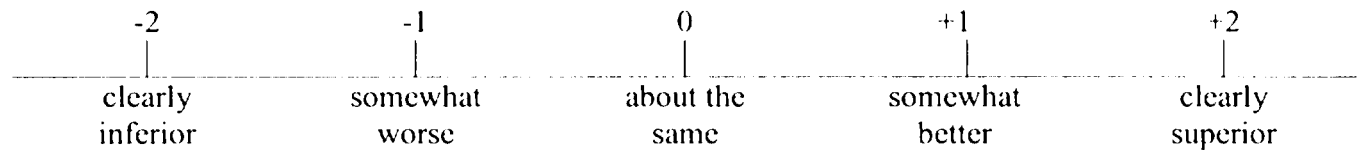
<b>Customer Value</b> (Goal or Desired End State)	<b>Importance Weighting</b> %	<b>Value Delivery Attributes</b> (Product/Vendor Features)	<b>Importance Weighting</b> %
Save Costs	40%	Audit Analysis	30%
		Special Financing	10%
Improve Productivity	40%	Custom Engineering	25%
		Understands Work Process	15%
Reduce Replacement Hassle	20%	Supplier Longevity	10%
		Service Response Time	10%
	100%		100%

These attributes and weightings will vary by customer segment and by individual customers. An actual example will likely have more than two value delivery attributes for each goal. It will be critical to understand the significant differences, as they can impact product positioning, selection of key features, and investment in support activities.

**Comparing Competitors’ Ability to Deliver Value with your Own Capability**

When customers look at a company’s offering, they compare that vendor with other vendors on an array of variables that are important to them. This is the critical stage for assessing relative competitiveness. Table 6 illustrates a rating scale of -2 to +2 that can be used to evaluate how customers would evaluate each competitor’s performance on each attribute as compared to your own performance. Using this scale, your own company (or in this example, ABC Energy) is always “0”. If a competitor’s performance on providing audits is “somewhat better” than your own, that competitor’s rating for that attribute will be +1.

**Table 6.** Rating Scale



Ideally, you would have customer research in which customers perform the ranking. However, for a new product concept, you might not have customer response data, and you may need to do some “back-of-the envelope” estimates using “best-guess” judgment. However, be wary of your built-in biases. You will want to eventually test any assumptions you make with customers.

In Table 7, ABC Energy uses the rating scale from Table 6 to determine the raw scores for its Competitive Performance Assessment. Competitor 1, the shared savings company, can outperform the ABC on several points - especially its experience in providing audits and financing options. However, it is known that the local office is advertising for a new engineer (as its local expert is retiring), and it

has had service response problems with bulb replacement, so the relative rankings in those areas are lower. Competitor 2, the new neighboring IOU ESCO, scores the same or below the local ABC. It, also, has a very short track record, which gives it a disadvantage in reputation and service. Competitor 3, the engineering firm, scores better than ABC on all attributes.

**Table 7.** ABC's Relative Competitive Performance Raw Scores

Core Value/Goal	Delivery Attribute	Competitor 1 Shared Savings	Competitor 2 New IOU ESCO	Competitor 3 Engineering Services
Save Costs	Audit Analysis	+1	-1	+2
	Special Financing	+2	0	+2
Improve Productivity	Custom Engineer	-1	-1	+2
	Understands Work Process	0	0	+1
Reduce Replacement Hassle	Supplier Longevity	+1	-2	+1
	Service Response Time	-1	-2	+1

However these raw scores need to be weighted by the customer's importance ratings to ensure that the relationship between the customer's perception of importance of an attribute is taken into account in evaluating the competitor's performance (see Table 8). Adding the weighted scores for the values for each attribute shows that Competitor 3, the engineering company, is the best performer compared to ABC Energy. Competitor 1, the shared savings company, is second, performing slightly better than ABC Energy. The new ESCO has a slightly negative performance rating. In looking at the weighted scores for the best performer, audits and custom engineering are the attributes, which appear to make the greatest difference in the overall ranking.

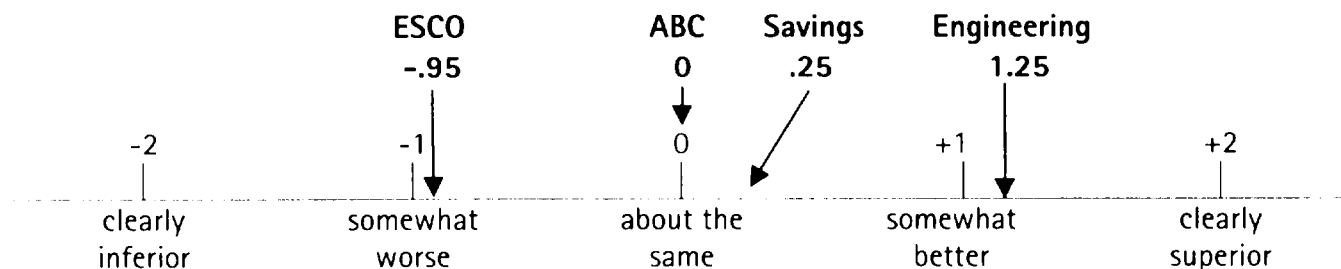
**Table 8.** ABC's Relative Competitive Performance Weighted Scores

Delivery Attribute	Import. %	Raw Scores			Weighted Scores		
		1	2	3	1	2	3
Audit Analysis	30%	+1	-1	+2	+3	-3	+6
Special Financing	10%	+2	0	-2	+2	0	-2
Custom Engineer	25%	-1	-1	+2	-.25	-.25	+5
Understands Work Process	15%	0	0	+1	0	0	+1.5
Supplier Longevity	10%	+1	-2	+1	+1	-2	+1
Service Response Time	10%	-1	-2	+1	-.1	-.2	+1
<b>Totals</b>					<b>+.25</b>	<b>-.95</b>	<b>+1.25</b>



Table 9 visually shows the relative competitive performance for the four companies under study. In this analysis, no company is clearly superior or clearly inferior. The engineering company with a 1.25 rating has the best position with customers. ABC Energy and the shared savings company are positioned closely together, forming a pivotal cluster. The ESCO has a “somewhat worse” position than ABC Energy.

**Table 9.** ABC’s Relative Competitive Performance



## Results

This Customer Value Analysis provides ABC Energy with comparative performance information about four companies -- three competitors and itself. This information can be used to address ABC Energy’s two core marketing questions and to provide new hypotheses about serving the marketplace.

### Question 1: Does ABC Energy have the potential for improving its competitive position?

#### Analysis of Relative Competitive Performance

In examination of Table 9, ABC Energy is now in the number 3 value position (as defined by the customers) with potential to move into the number 2 value position. Currently, ABC’s performance in serving the lighting market ranks behind the engineering company and the shared savings company, and ahead of the new ESCO company. The engineering company, with a full point lead over its closest follower, will likely retain its leading position. The critical comparison is between ABC and the shared savings company, where the shared savings company is only +.25 ahead.

#### Potential to Improve Competitive Position

The close score between ABC and the shared savings company, combined with the knowledge of that company’s weaknesses, would indicate that ABC Energy does have the potential to take over the number 2 value position – an excellent position in a competitive market that lends itself to fragmentation and multiple providers. Two unknown factors require additional analysis: (1) the direct cause of ABC’s performance ratings, and (2) the potential performance of the ESCO. Are ABC’s problems in the market related to lack of publicity, to service issues – or to emphasis of the wrong business attributes for the market? A comparison of ABC and the shared savings company from Table 8 indicates that the shared savings company does outperform ABC on three attributes: Energy Audits, Special Financing, and Supplier Longevity. While the third attribute may be related to ABC’s

lack of publicity, this analysis does not address decisions concerning which attributes to emphasize in targeting a change in market position. This issue will require additional analysis (see Question 2 below). Additionally, the ESCO's current low scores may result from the fact that it is so new in the market that customers have little comparative experience. The ESCO's future performance could present a wildcard in ABC Energy's strategy development.

## **Question 2: What are critical business activities ABC Energy must develop to achieve this advantage?**

### **Analysis of Attributes**

From Table 8, "Audit Analysis" and "Custom Engineering" have the two highest importance ratings, 30% and 25% respectively. They are, also, the two attributes with the two highest weighted scores for the number 1 competitor. Clearly, these are "must have" attributes. ABC Energy, also, outperforms both the shared savings and the ESCO on "Custom Engineering". Therefore, custom engineering is a logical area for additional development. To pursue the custom engineering attribute, ABC may need to evaluate its ability to understand the work processes of its customers. The attribute "Understands Work Processes" is ranked third in importance to customers with a 15% rating, and ABC is at parity with number 2 and number 3. Improving investment in this attribute could help move ABC ahead of the shared savings company in value ranking.

"Special Financing" is a pivotal attribute. While not absolutely essential for providing services (e.g. the engineering company does well without offering special financing), it may be the feature that determines whether ABC positions itself against the shared savings company or against the engineering company. "Special Financing" is one of the shared savings company's most valued features, along with the Energy Audits. ABC will need to understand whether offering special financing is essential for displacing the shared savings company, or whether delivery of better value on custom engineering will be sufficient to reach the number 2 value position. The decision to offer financing alternatives also depends on whether or not ABC chooses to select a strategic focus on "Saving Costs" or on "Improving Productivity" - two core customer goals, which have equal importance ratings of 40%.

"Supplier Longevity" is an attribute that has some importance to the customer related to the localized bulb replacement issue. It appears to be a factor that can only be used against the ESCO - probably as a sales tactic - for a short period of time until the ESCO establishes a reputation.

"Service Response Time" related to bulb replacement is important in this particular market. Since the shared savings and ESCO both perform below ABC Energy in this attribute, ABC may be able to sustain its current position by maintaining the same level of service.

### **Implications for Marketing**

ABC Energy, which is currently in the number 3 value position, has potential to move into the number 2 value position. Such a move will require that ABC Energy improve on its core value delivery attributes of "Audit Analysis" and/or "Custom Engineering". ABC Energy will need to carefully examine its strategy for surpassing the shared savings company. ABC will need to determine whether

its product concept will focus on the end goal of “Saving Costs” (by looking like a shared savings company) or the end goal of “Improving Productivity” (which may look more like an engineering company). At this stage, ABC Energy will require additional research to quantify the actual demand for the different product concepts in order to select the product concept, which will have the best chance of improving its position in the market. These Customer Value Analysis tools work with understanding the relative importance of selected needs and values for customers; they do not address the size of the market willing to pay to have that value addressed. ABC may not want to make investments in offering financing alternatives if the actual demand in the market has a greater emphasis on solving productivity issues than on saving costs. This strategic selection of product concept will, also, impact pricing and promotion, as well as operations decisions.

## **Implications for Operations**

Strategy choices, which will focus ABC’s product concept, will also impact its operational investments. The decision about which core customer values and which value delivery attributes to emphasize will direct the choices operations planners will make concerning staffing, the purchase and deployment of resources, and creation of critical processes. For example, a decision to focus on “Custom Engineering” and to improve performance on the “Understands Work Processes” attribute might require hiring process mapping experts and developing new approaches to assessing customer requirements. A decision to address the customers’ values around “Reduce Bulb Replacement Hassle” has implications for how ABC Energy creates the processes and systems related to distributor relations, inventory management, customer service staffing, and service dispatch.

At this stage in ABC Energy’s market planning, it needs to make a product concept decision. It will need active input from Operations concerning operational impacts of its two potential choices, keeping in perspective that the company’s choices of which business attributes to emphasize, as well as its ability to deliver on those attribute choices, will impact a customer’s perception of service and value. Control over the methods by which these attributes are delivered as well as control over the costs of delivery are key means for establishing competitive advantage. Thus, the relationship between marketing and operations in selecting and developing a product concept based on customer values is critical for developing sustainable competitive advantage.

## **Conclusions**

The initial development and subsequent evaluation of any marketing program requires continual assessment of customers’ perception of value. Customer Value Analysis Tools use market research to evaluate customer needs and values in ways that allow market planners and analysts to compare information about customers and competitors with information about their own company’s performance. These comparisons help planners use customer perceptions about the relative importance of various goals and attributes, as well as customer perceptions about competitors’ performance, to assess the relative value of various product attributes within their market mix. These analyses can be useful in helping market analysts understand their customers and understand dimensions of operational issues, which impact the ability to serve customers in ways that provide value to the customer. These assessments can, also, provide directional information to assist in developing strategies for creating and sustaining competitive advantage over time.

## References

- Johnson, C. and G. Bundy. 1998. "Market Analysis: The Foundation for Competitive Success." Presented by MarketPower, Inc. at American Public Power Association, San Antonio, Tx , June 12.
- Porter, M. E. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press.
- Slywotzky, A. J. 1996. *Value Migration: How to Think Several Moves Ahead of the Competitor*. Boston: Harvard Business School Press.
- Stalk, G., P. Evans, and L. E. Shulman. 1992. "Competing on Capabilities: The New Rules of Corporate Strategy." *Harvard Business Review*, March-April, 57-69.
- Woodruff, R. B., and S. F. Gardial. 1998. *Know Your Customer: New Approaches to Understanding Customer Value and Satisfaction*. Malden, MA: Blackwell Business.