

Bringing Greater Financial Accountability to Marketing Decisions

Using Customer Value Analysis to Prioritise Business Improvement Initiatives

Presentation by: David Shieff
Incisive Consultancy Group Ltd
davids@shieff.co.nz
021 738 635

February 2009



This presentation contains material developed by and copyright to Rodger Gallagher, Customer Value Management New Zealand Ray Kordupleski, Customer Value Management Incorporated, U.S.A., David Shieff and Associates Ltd and Incisive Consultancy Group Ltd. CVA and the CVM logo are registered trademarks of Customer Value Management NZ Ltd

INCISIVE

in association with



The structure of today's discussion

Bringing Greater Financial Accountability to Marketing Decisions

**1. Setting the
scene**

**2. Customer
Value
Analysis**

3. Case studies

4. Summary

Experience in past recessions may provide some guide as to what to expect in the current downturn but we are in uncharted waters

Buyer reactions in a recession

Restrict and re-prioritise spending



Switch brand

Shop around for a deal

Change buying habits

Change buying criteria with greater focus on value for money

Case study examples

Drop off in traffic from the petrol pump to the store

***Increased use of public transport
Search for 'value retailers' e.g. Home Depot, Staples***

In NZ, swing to Korean cars offering superior diesel, low carbon emission technology at lower prices; also switch from premium bands like Meadow Lea to budget brands

Companies' responses in tough times

Company responses in tough times

Reduce advertising and brand investment



Cut costs

Downsize

Plan ahead for the downturn

Case study examples

2008 Starbucks Australia cut 1000 jobs and closed 61 stores

Retailers H&M and Forever 21 offering 'fun, trendy almost disposable clothing'

"Cheap is the new black"

Consumers switching to trusted house brands e.g. M&S

Return to home cooking

Marketing in a recession calls for fresh thinking but is not a time to stop spending on marketing

A view from Harvard

- Understand changing needs of customers and partners and adapt strategies to the new reality
- Research the customer... know more than ever about how customers are redefining value
- Focus on family values as consumers stay connected to friends and family driven by uncertainty
- Maintain marketing spending as consumers seek the reassurance of trusted brands
- Re-forecast demand and creatively manage product/service failure
- Support distributors... motivate them with tools to create value for the end customer
- Adjust pricing, tactics as customers shop around for the best deal
- Focus on market share and cost cuts that don't erode value added to customers
- Emphasise core values... adopt marketing strategies, don't abandon them



Case examples of companies competing by adding value to win market share and/or to protect against price and margin erosion



Apple computers

*Invested in the brand
Conceived a promise
of value for
consumers e.g. 'easy
to use' and ensured
promise is kept*

*Considered what
drives value for a
local Apple customer*



Home Depot

*Forced into delivering what
consumers wanted... sustainably
felled timber... by consumer
campaigning*

*This activism spread to home
Depot's closed competitors*

Found new benefits that drive volume

*Company found they could charge
a very small premium for rainforest
Alliance timber; when sold at the
same price, attracted competitors'
customers*



Resene

*Offered what consumers wanted –
less toxic paint, low odour paint
that meant customers could use
repainted area sooner*

*Introduced waterborne products
that could be used in place of the
solvent-based delivering easier
wash up, and lower toxicity*

*Launched Resene Paint wise for
sustainable handling of paint and
paint packaging*

*In recession, may induce switch to
brand offering enhanced value*

Management consultancy McKinsey recently summarised the downturn's new rules for marketers thus

Extreme uncertainty demands constant attention, frequent re-prioritising and strategies that anticipate and respond to the changing landscape

- ***Reprioritise geographic markets, reprioritise customer segments ... and look for profitable niches within segments***
- ***Reprioritise business to business opportunities ... re-examine opportunities and risks customer by customer***
- ***Reprioritise advertising vehicles for reach and impact on ROI through both cost and ability to influence customers***
- ***Reprioritise sales functions e.g. by analysing customer profitability and strategic potential***

Adapting competitive strategy elements

- ***Where to compete***
- ***How to compete***
- ***Who to compete against***

▪ ***Source: Day 1984***

The structure of today's discussion

Bringing Greater Financial Accountability to Marketing Decisions

1. Setting the
scene

2. Customer
Value
Analysis

3. Case studies

4. Summary

A number of issues need to be considered in order to pinpoint current and future actions that will strengthen current customer loyalty, accelerate acquisition of customers from competitors and win increased share of new to market customers

In order to address the overriding issue . . .

Arresting sales decline in a recession

What actions and strategies will increase customer value thereby increasing market share and financial performance?

. . . companies need answers to three key questions

What should the company focus on to strengthen the loyalty of existing customers?



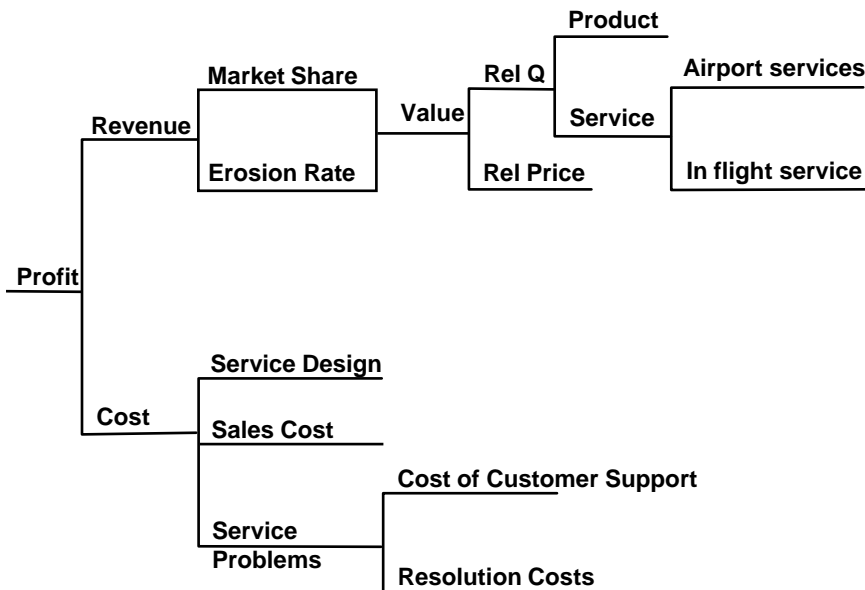
What should the company do to win customers from competitors?



What should the company do to increase share of new to market customers?

There is a proven methodology known as Customer Value Analysis (CVA) which delivers the critical insights needed to test the impact on customer choice of the current “offer” and to find additional ways to protect current revenues and drive up profits

Profit Tree ...



Illustrative example:



How can the airline reduce cost to serve without reducing customer value?

- What activities can the airline reduce or eliminate without reducing customer perceptions of value?

... and Information Needed to Drive Profit

What should the airline focus on to strengthen the loyalty of existing customers?

- Knowing what customers value
- Knowing how to cement their loyalty
 - process improvement priorities
 - communicating competitive strengths

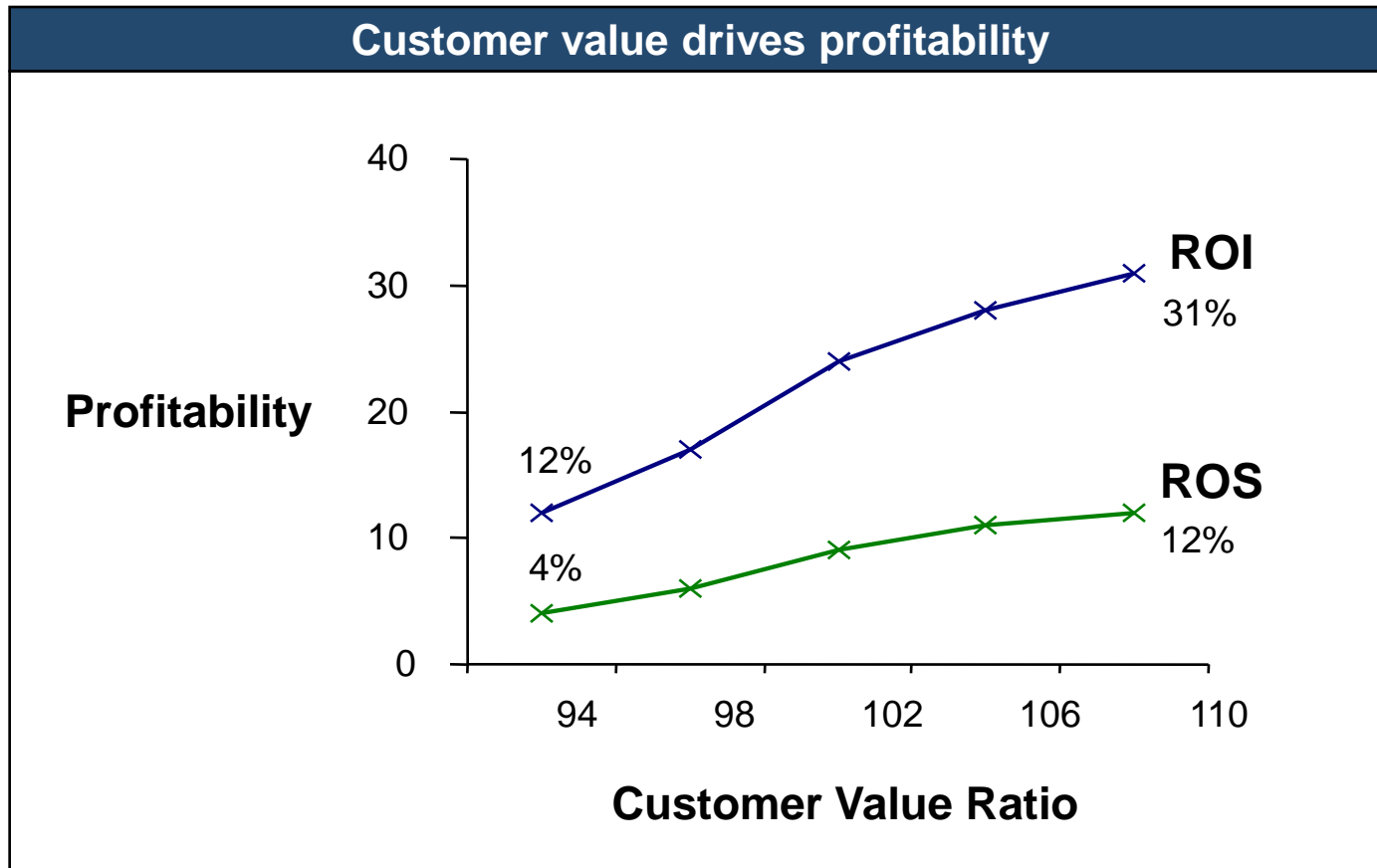
What can the airline do to exploit the vulnerabilities of competitors?

- Knowing what competitors' customers value
- Knowing where competitors' vulnerabilities lie
- Knowing how to better competitors' offering
- Knowing which competitors' customers to target first

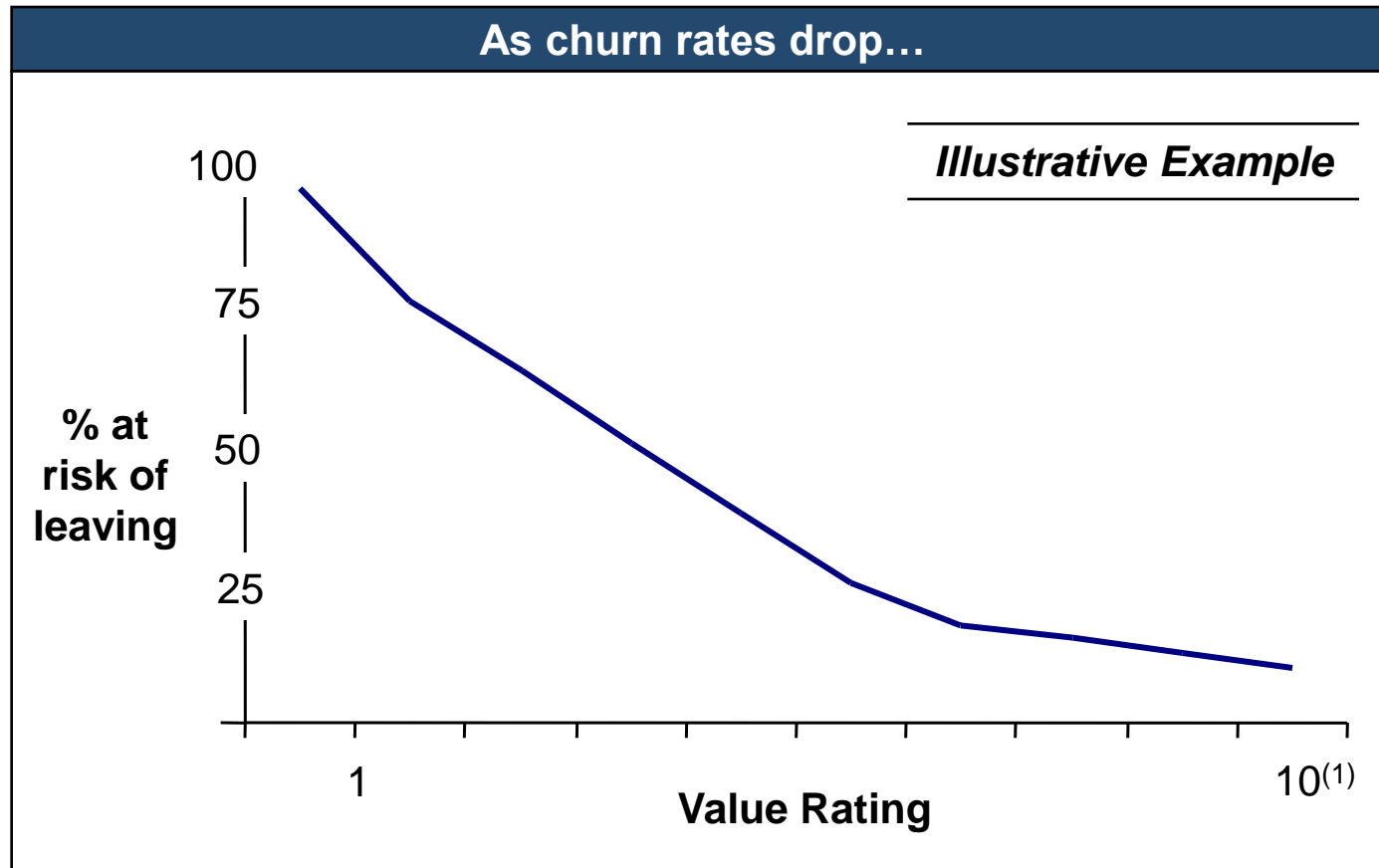
What should the airline focus on to create additional sources of value for customers?

- Identifying previously unrecognised value drivers
- Refining value propositions
- Integrating and aligning business processes and sales and marketing activities across the business to support and underpin current and future value propositions

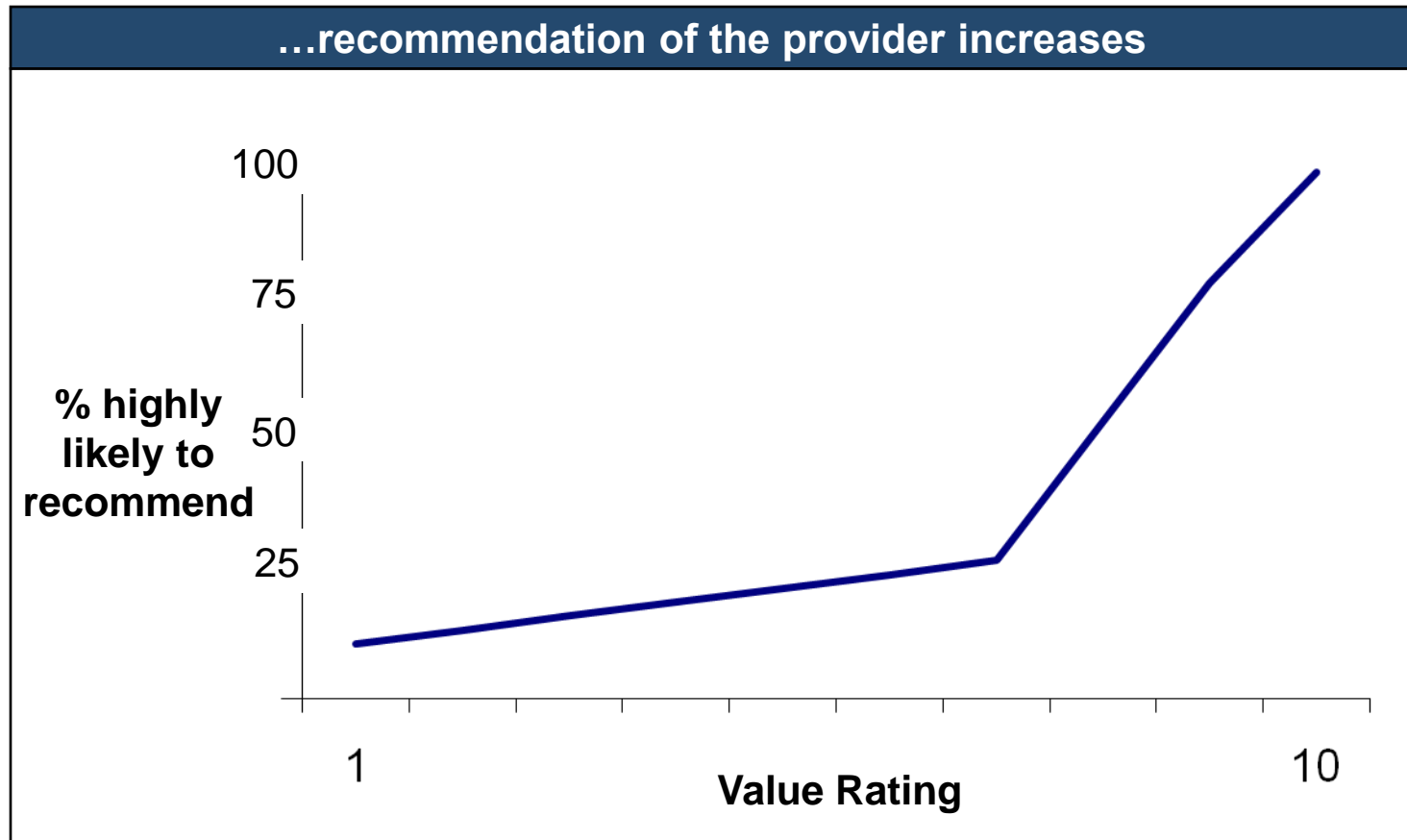
Published and proprietary studies have conclusively demonstrated that companies delivering competitively superior value achieve higher levels of profitability



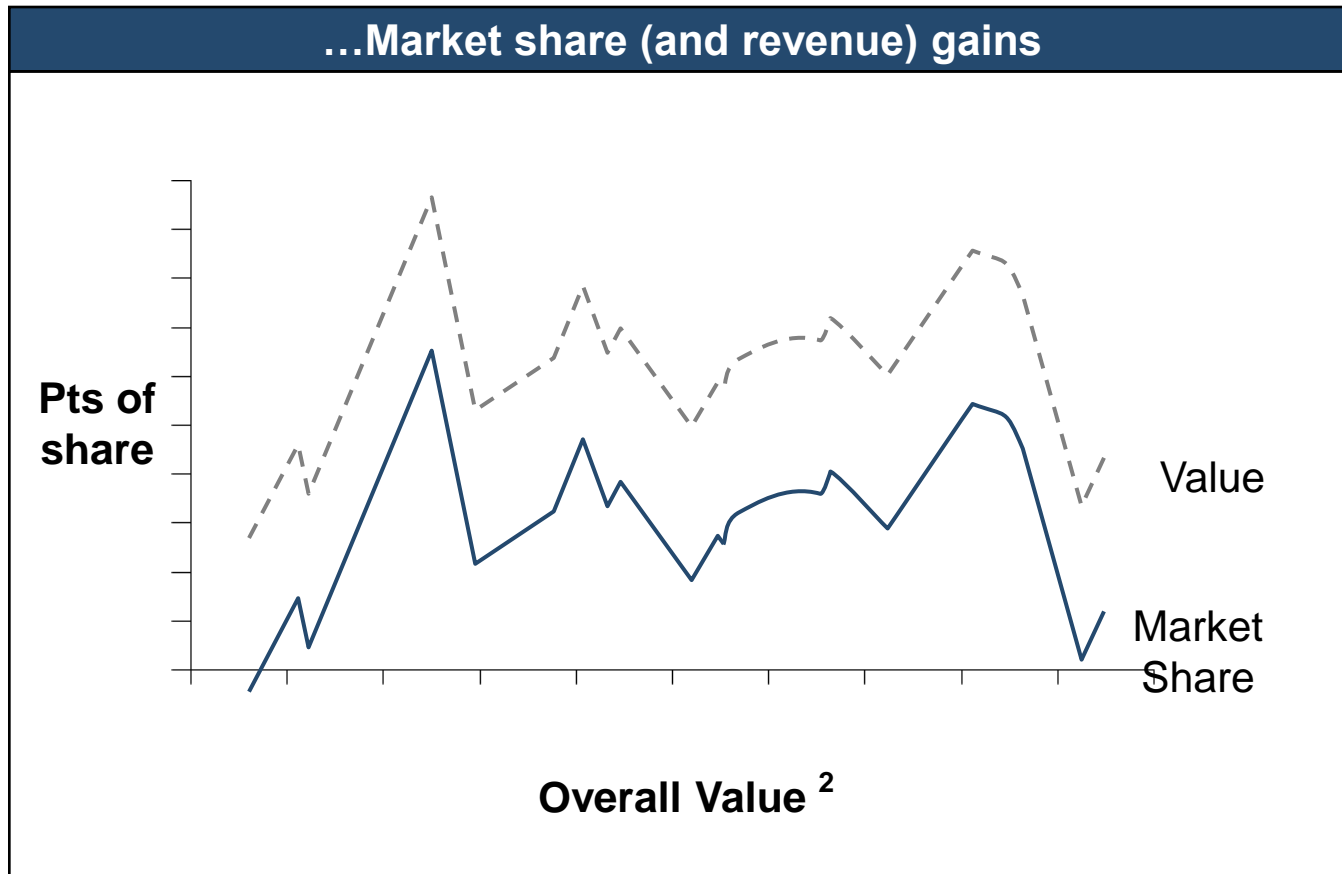
This is because market/customer perceptions of value drive purchase behaviour; increasing customer perceptions of value drives voluntary churn down...



...and favourable word of mouth up

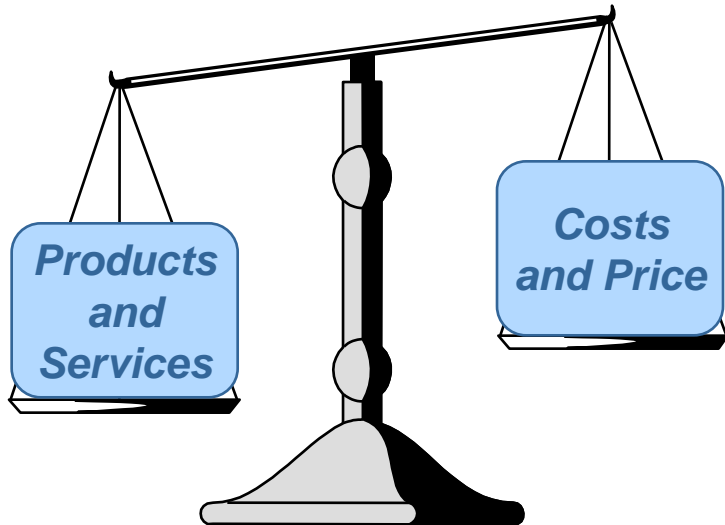


CVA studies in multiple industries, countries and cultures have conclusively proven the strong and predictive relationship between customer perceived value and market share



Let's step back for a moment and think about what value is from a customer viewpoint

What I get, for what I pay,
relative to what I can get
somewhere else



This means that, to increase market
share in a recession, companies
must deliver superior value for
money

Provide products and services
to customers that are a greater
value than they could expect
from purchases from
competitive companies in
similar markets

Value can be understood and measured, using survey research to obtain information that provides clarity and confidence to act

Value can be measured absolutely...



On a scale of
1 to 10

(where 1 means “poor”
and 10 means “excellent”)

Customer rating of value

...and relative to competitors

$$CVA = 100 \times \frac{\text{Perceived}^{(*)} \text{ Value of Your Offer}}{\text{Perceived Value of Competitive Offers}}$$

() Perceived Value
= Worth What Paid For/
Value for Money*

Analyses conducted on data supplied by 3800 business units demonstrate that companies with relative CVA scores greater than 103 also perform better financially



Financial Performance Level

Relative Customer Value CVA

World Class

> 110

Above Parity

103 to 110

Parity

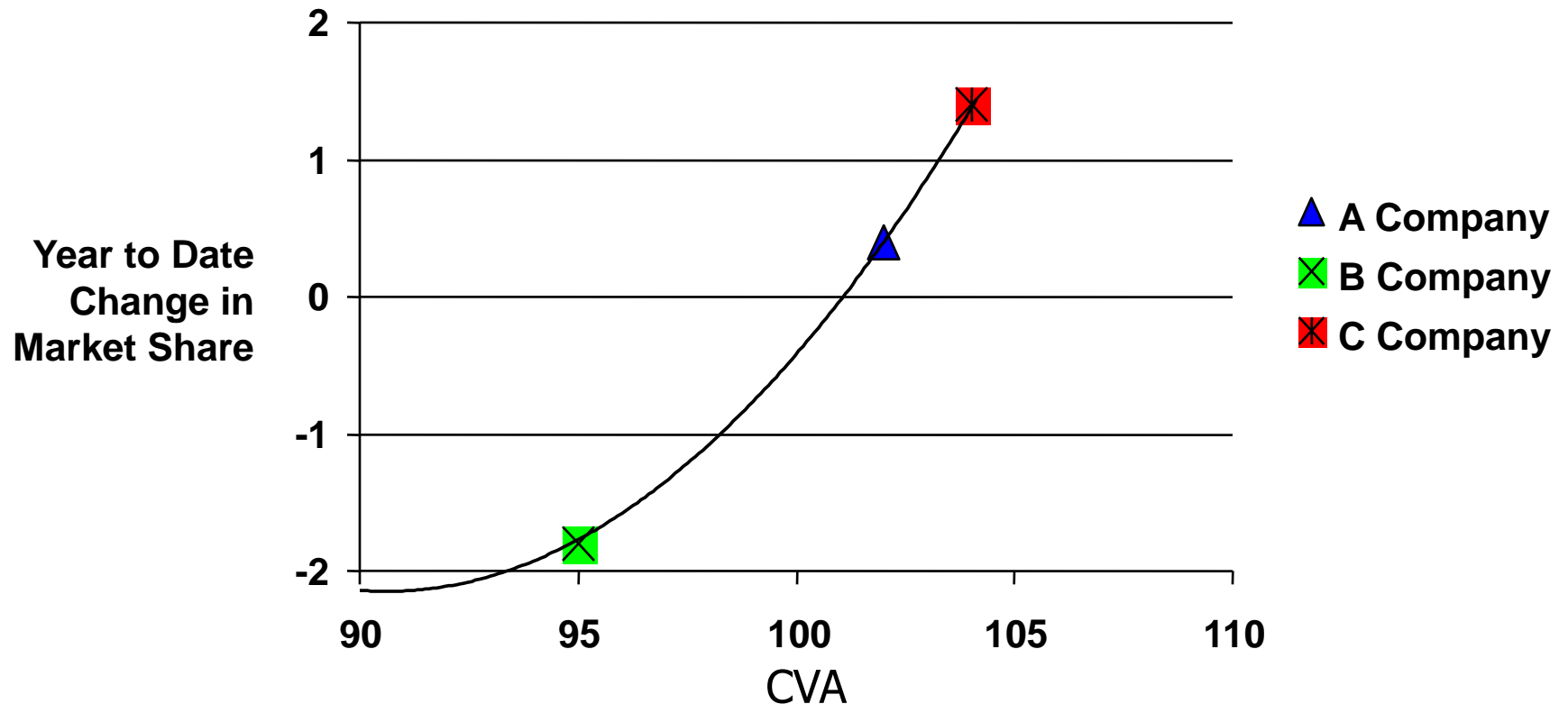
98 to 102

Below Parity

< 98

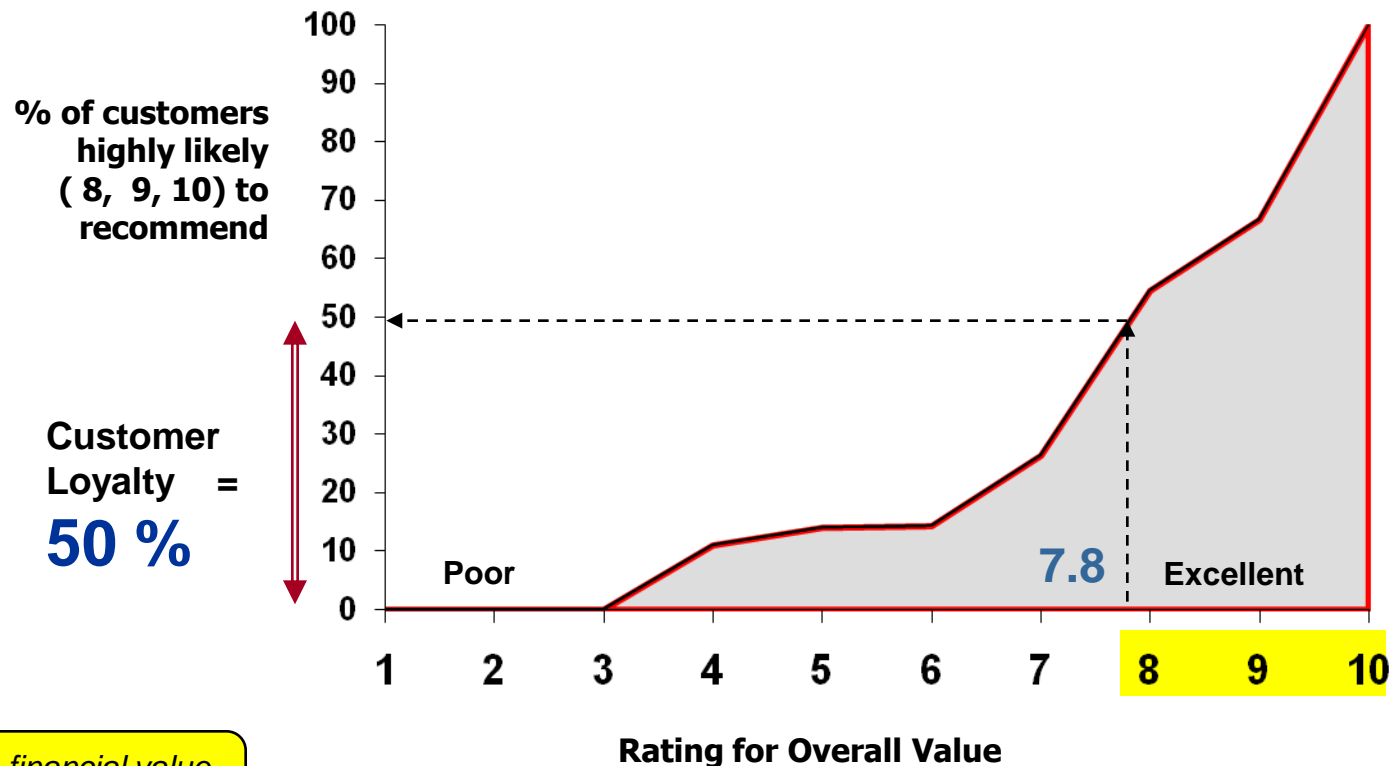
Delivering relatively superior value impacted market share growth for a competitor in a European consumer market

Illustrative Example



Performance scores are plotted on a “Slippery Slope” curve to provide an indicator of loyalty levels amongst existing customers – predicting “at risk” revenue that will be protected if value perceptions are increased

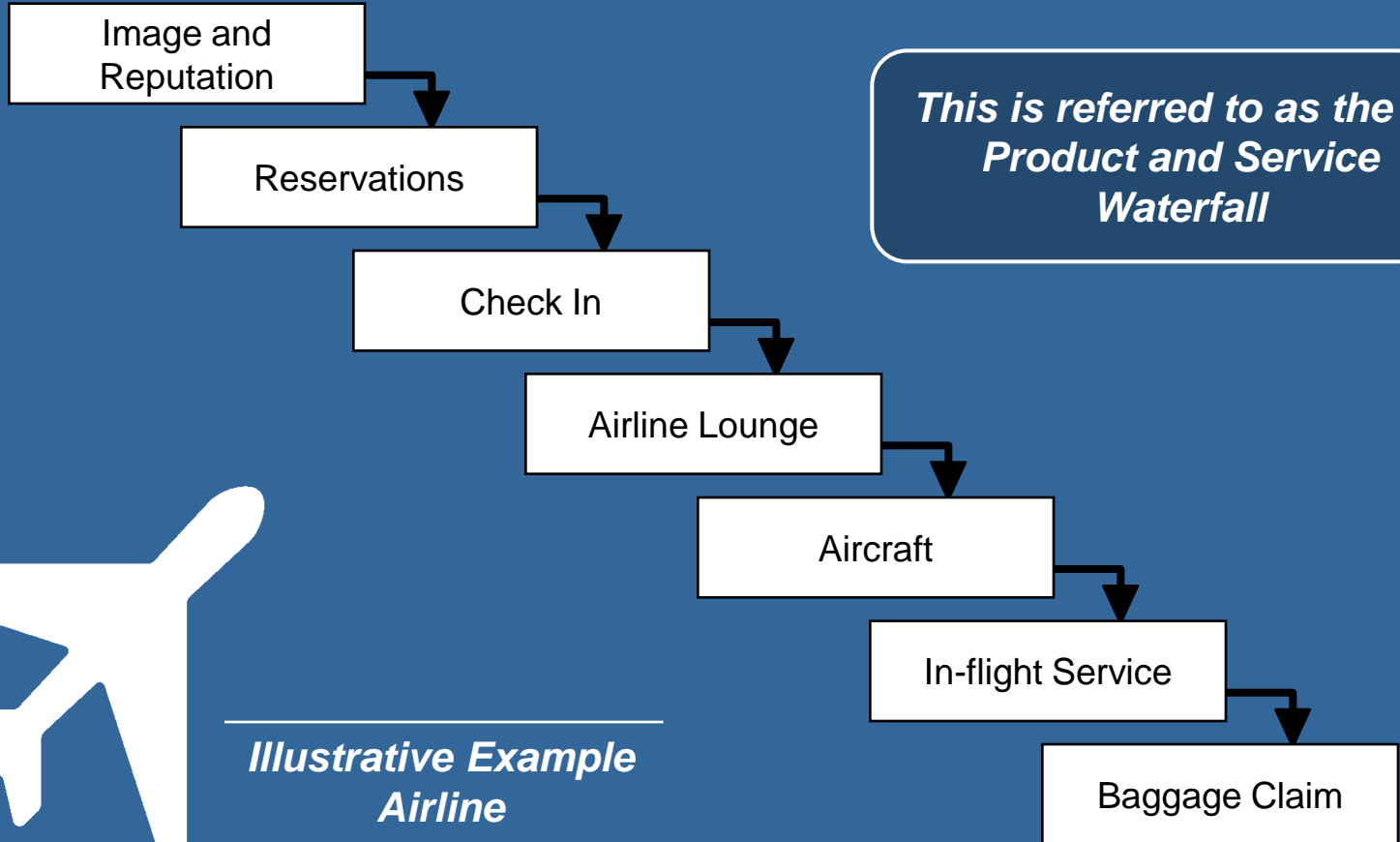
Illustrative Example



What is the financial value of the revenue at risk?

Understanding the customer view of “What I get” means understanding all the ways customers interact with the business

Customer facing business processes are levers to create value



Understanding “What I pay” means classifying and understanding both financial and non-financial costs of being a customer

Cost is not just about price

Prices and Charges

*This is referred to as the
Cost & Price Waterfall*

Other Financial Costs

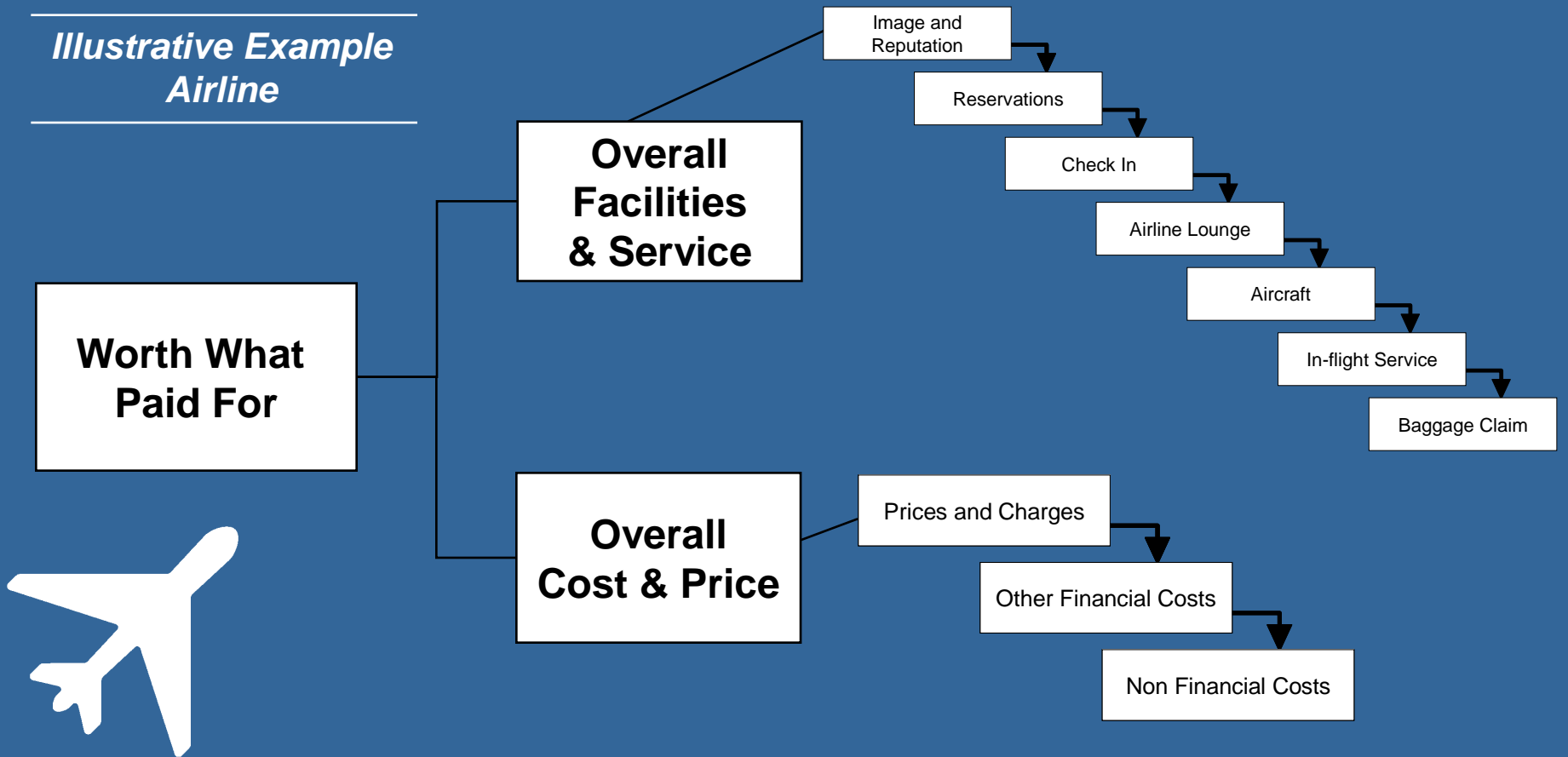
Non Financial Costs



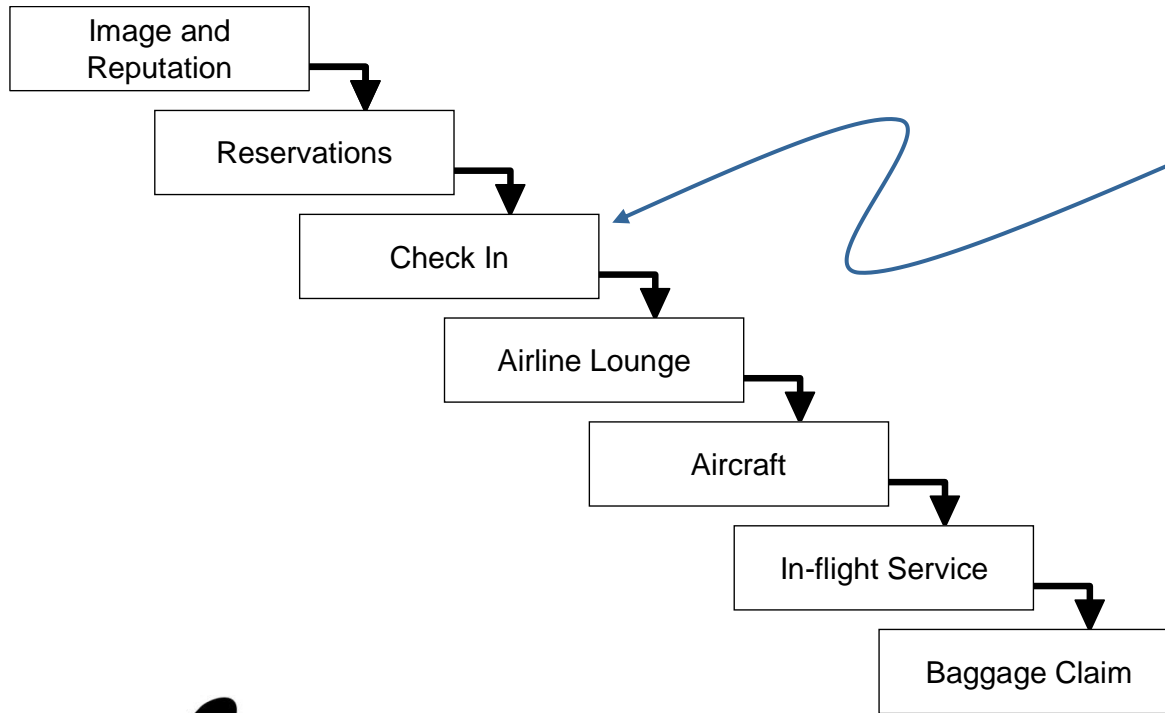
*Illustrative Example
Airline*

Creating customer value means understanding the complete value picture; this is called a customer value tree

Illustrative Example Airline



In a CVA study in an international airline, ratings were obtained across the service experiences customers have with the airline ...

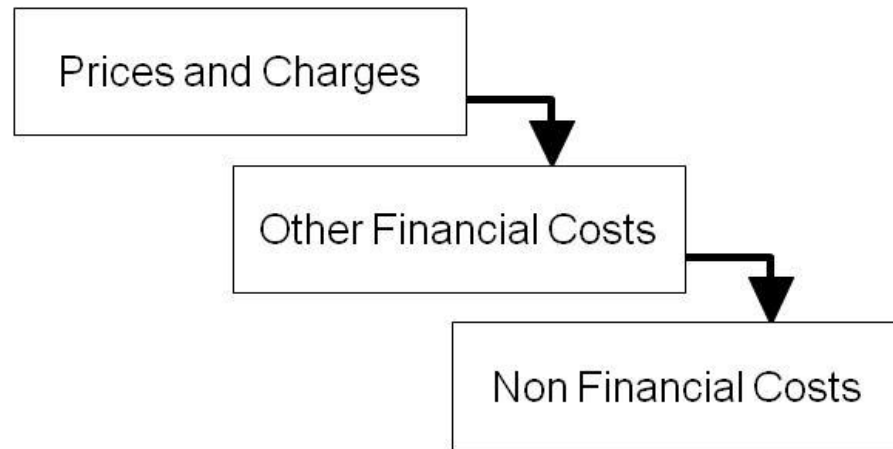


***Illustrative Example
Airline***

Customers have needs and priorities in each of these contexts, for example:

- Having check-in agents who are knowledgeable and competent
- Providing comfortable waiting environment
- Advising how long you will have to wait
- Having access to all necessary information about your flying status and booking

... and also across the issues customers thought of as they evaluated the costs they face as a customer – these can be both financial and non financial



Customers also have needs and priorities with respect to cost issues, for example:

- Minimising waiting time at check-in
- Recognising your safety concerns
- Keeping you informed about lost or misplaced baggage



***Illustrative Example
Airline***

Managers need to distinguish between importance and impact – focusing on high impact issues customer-facing business processes is the key to increasing perceptions of value

American Express

Customers stated that their most important need was immediate replacement of their card if it was lost



- But less than 3% of customers ever lose a credit card
- From econometric modelling, American Express learned that correct billing had the highest impact on value perceptions at the time of survey
- Therefore, American Express focused their process improvement behind the scenes on improving billing accuracy
- They communicated their excellence on the replacement card issue as they knew customers rated their performance highly on that issue and their communications were therefore credible

The types of numbers CVA generates help managers make better marketing decisions

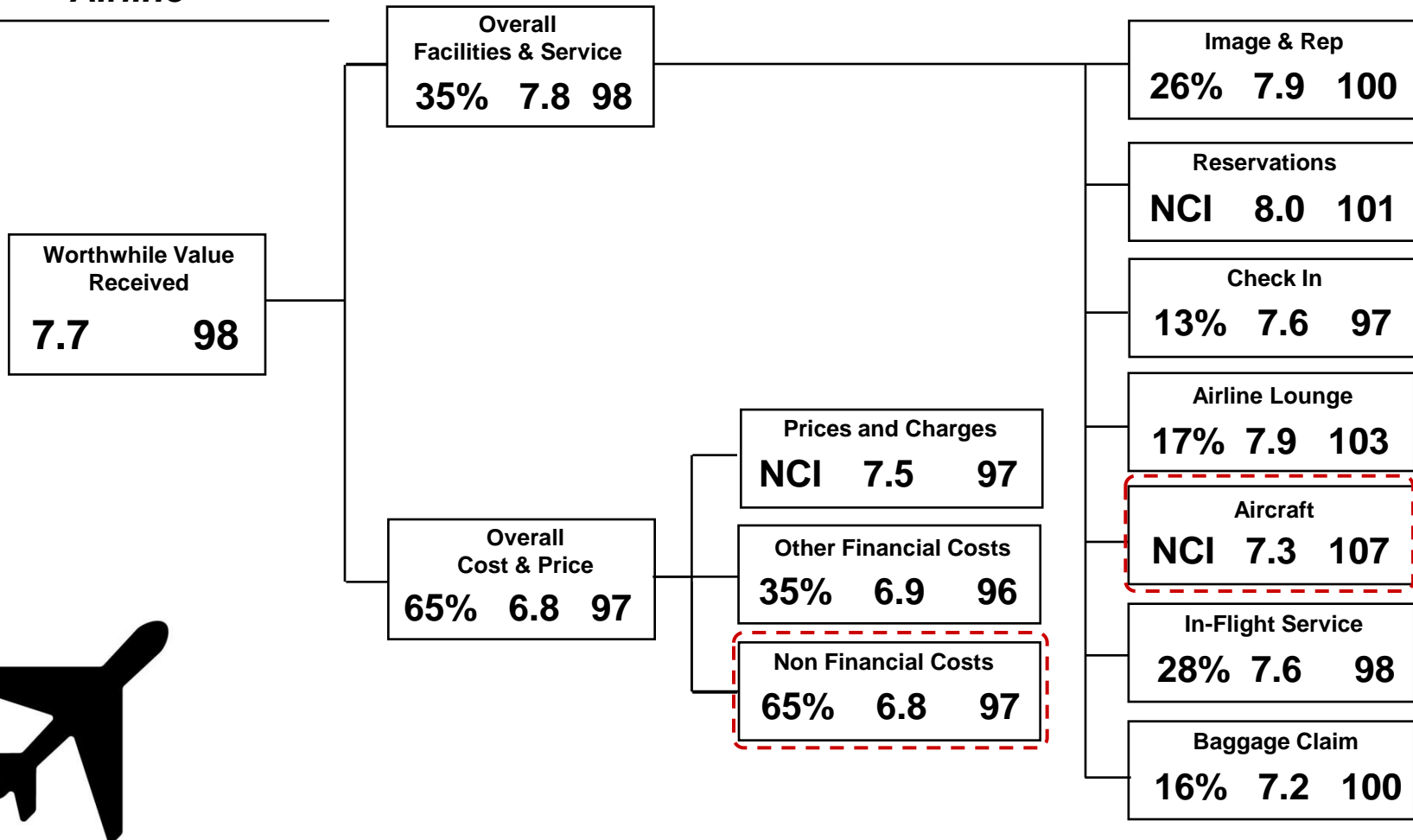
*Mean rating for each process and value driver in the waterfall
(1-10 scale) e.g. 7.6*

*Relative score (vs. the competition) for each process and
value driver in the waterfall e.g. 98*

Impact weights e.g. 27%

CVA surveys highlight best return priorities for action to increase value added...

Illustrative Example Airline



... and provides information about competitor performance to the same level of detail, thereby exposing potential competitor vulnerabilities

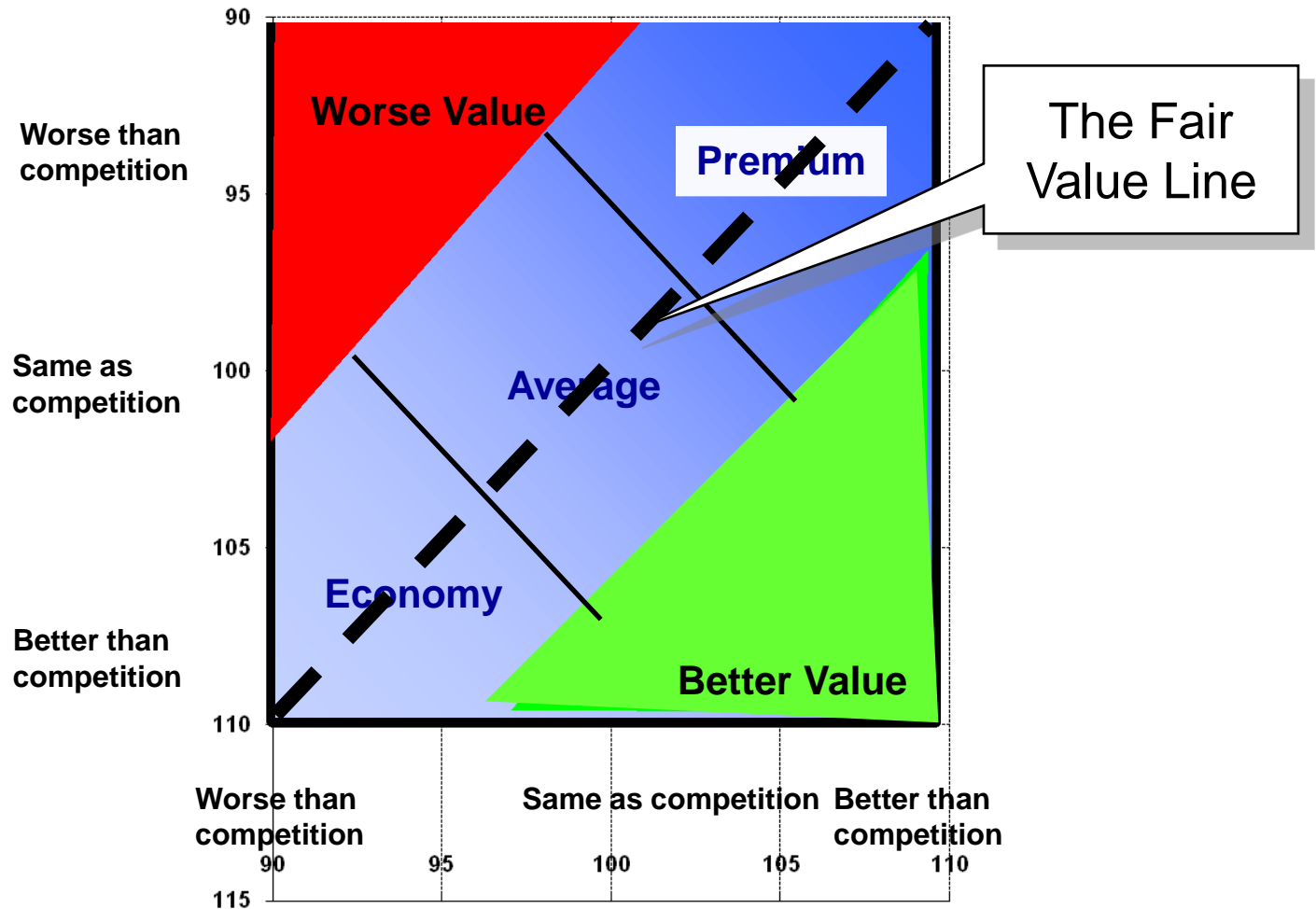
***Illustrative Example
Airline***

		Impact	Mean	Relative
<div>Check In 7.6 97</div>	Having check-in agents who are knowledgeable and competent	23%	8.1	104
	Providing comfortable waiting environment	13%	7.8	98
	Advising how long you will have to wait	28%	7.1	96
	Having access to all necessary information about your flying status and booking	36%	5.4	98

In a recession it will be even more important to eliminate service hassles

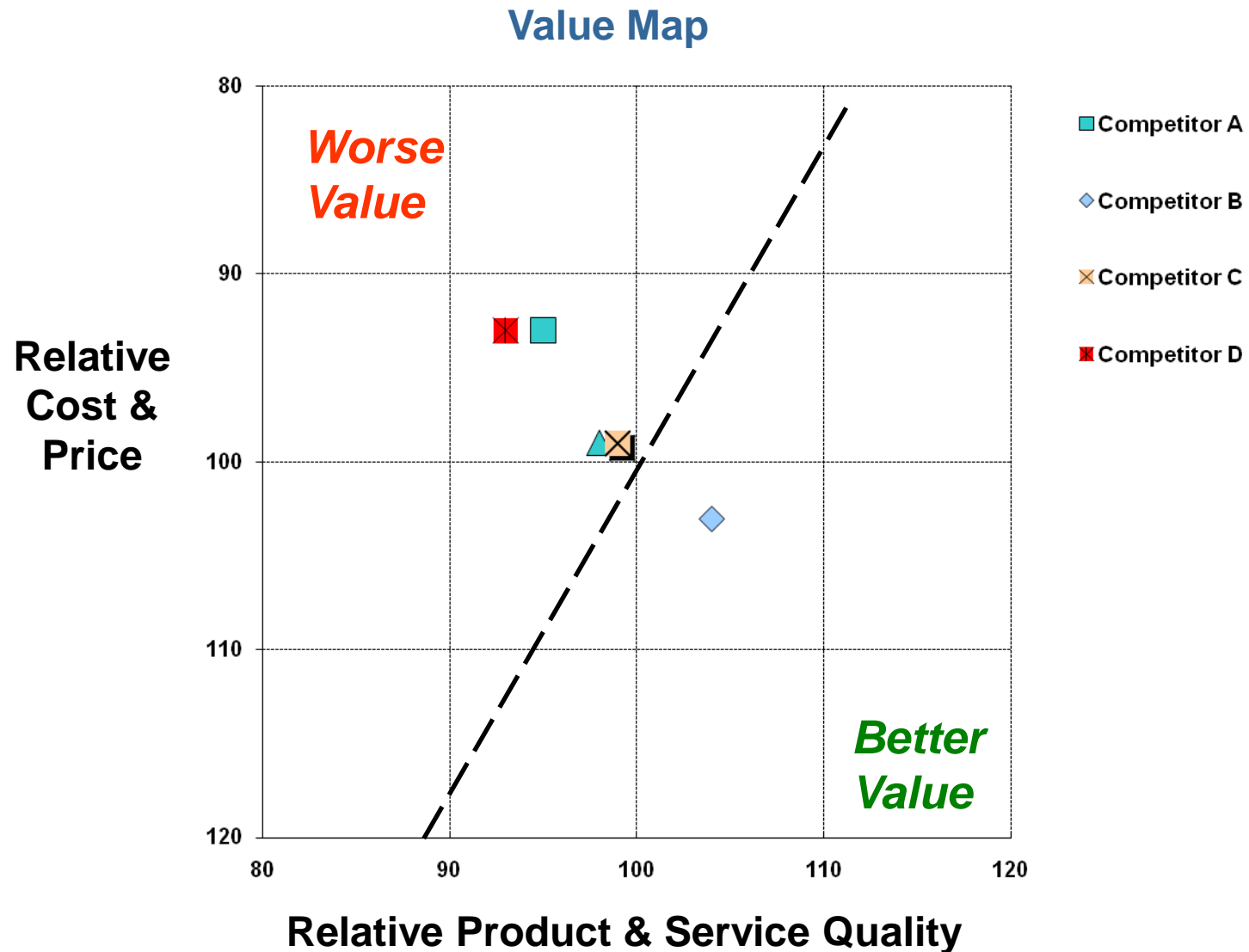


Value maps demonstrate the competitive position of competitors in a given market



Relative Rating For Product & Service Quality

In this example, the value map shows competitor B is in the strongest competitive position and will gain market share; competitor A and D will lose market share ...



In summary - critical differences between traditional research approaches and Customer Value Analysis

<i>Traditional Research</i>	<i>CVA</i>
Market research project focus	Process and management discipline which <i>includes</i> research
Not linked to financial outcomes	CVA models are linked to financial outcomes through measurement of strength of future intentions
Survey focuses on own customers only	Both your customers and competitors' customers are surveyed
Obtains absolute performance measures only	Obtains <i>both</i> absolute <i>and</i> relative performance measures
Uses stated importance weightings	Uses <i>derived impact</i> weightings
Measures product and service performance	Measures <i>both</i> product/service <i>and</i> price and cost performance at actionable level
Not part of a management process or discipline	Highly inclusive, collaborative process resulting in highly actionable results, sense of "ownership" and commitment to action

The structure of today's discussion

Bringing Greater Financial Accountability to Marketing Decisions

1. Setting the
scene

2. Customer
Value
Analysis

3. Case
studies

4. Summary

Case study: CVA in action in Medical Device Business - Singapore

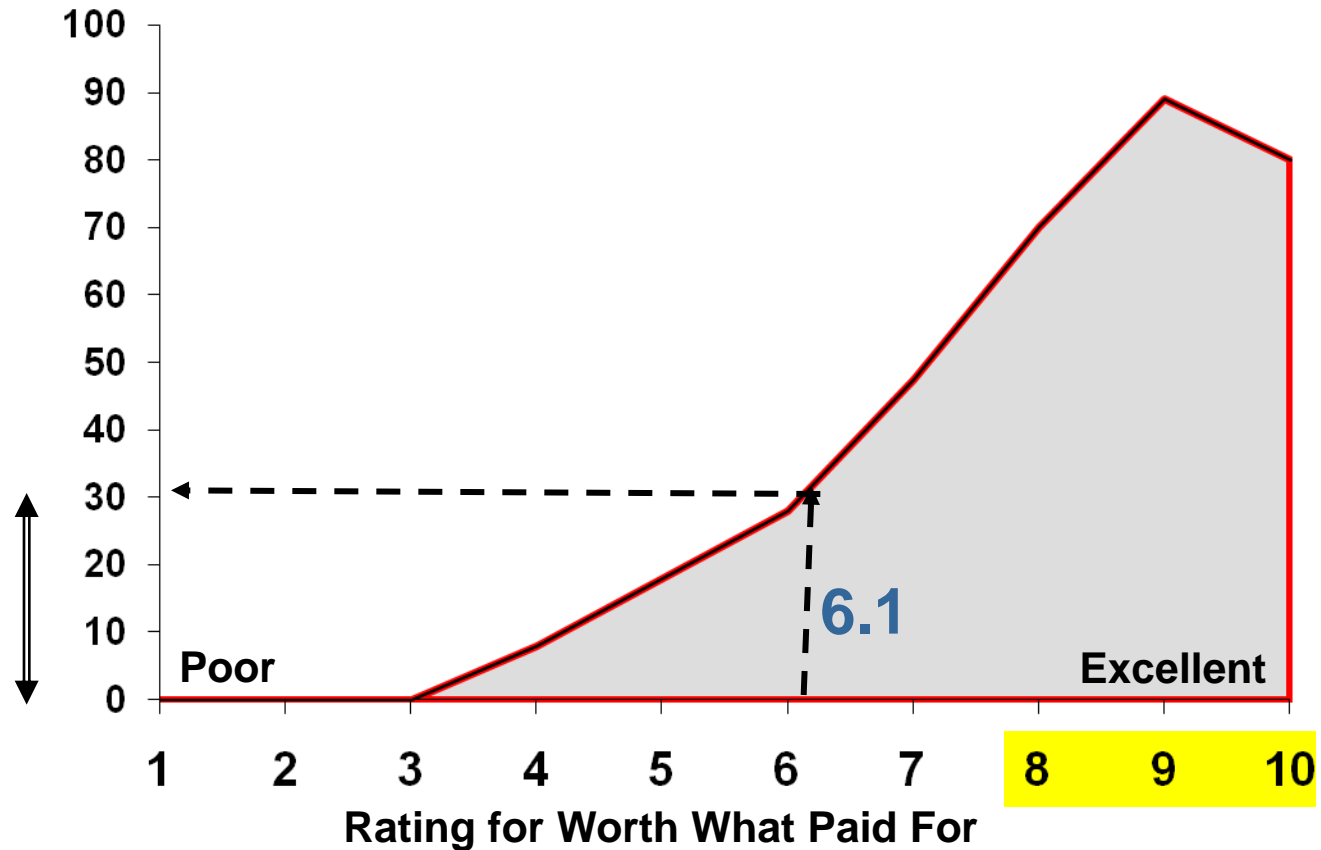
Disguised industry
and data



“Medco” Singapore CVA survey information in 2000 highlighted the risk of “business as usual”

**Medco
loyalty
level = 32%**

**% of
consumers
highly likely
(8, 9, 10) to
recommend
Medco**



Econometric modelling of the survey data identified three priority areas for focus in the business to increase market share; specific tactics were developed to increase perceptions of value by addressing key customer needs

■ Company *IMAGE* and *REPUTATION*

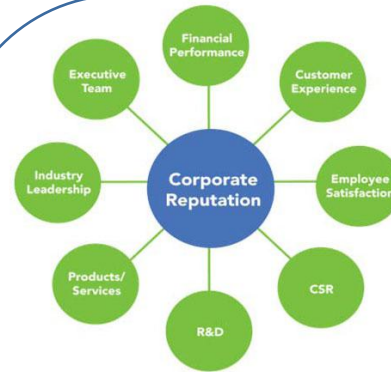
- establish regular communication via direct marketing activities
- increase in activities that will enhance company & brand image
- offer device checking service free of charge
- distribute customer Newsletters
- offer Lifetime Warranty

■ Length of *WARRANTY*

- offer Lifetime Warranty to match competition

■ *PEOPLE & AFTER SALES SERVICE*

- install dedicated phone-line for customer support and train personnel on relevant issues
- identify customers' disease management information needs, deliver & communicate



Choose
Value

Deliver
Value

Communicate
Value

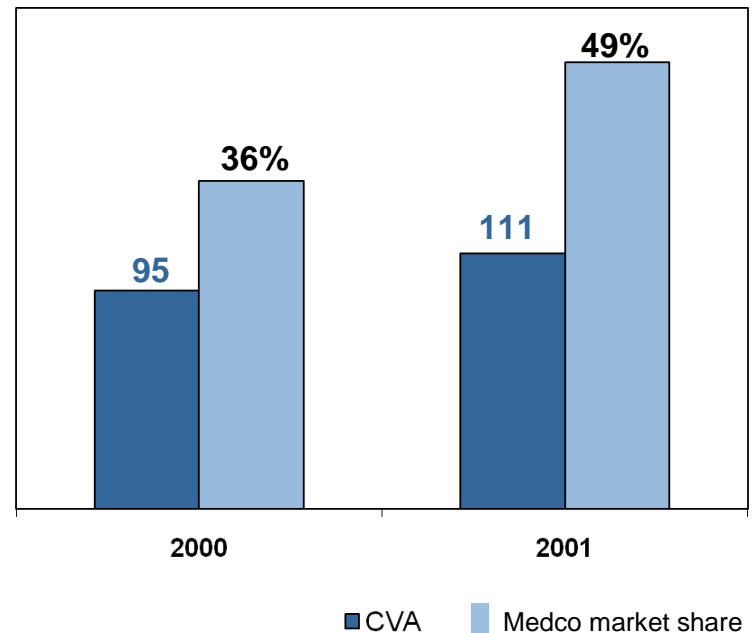


The result was improved performance in the areas of focus when we next measured customer perceptions of value... and a significant lift in market share

Medco improved perceptions of performance on key value drivers ...

Medco Singapore	2000	2001
Image	6.9	7.5
Warranty	6.0	7.0
After Sales Service	6.0	6.9
People – Attitudes & Behaviour	6.7	7.2

.. and gained significant market share



Before acting, collect predictive data that answers the question – “how will this impact customer behaviour?”



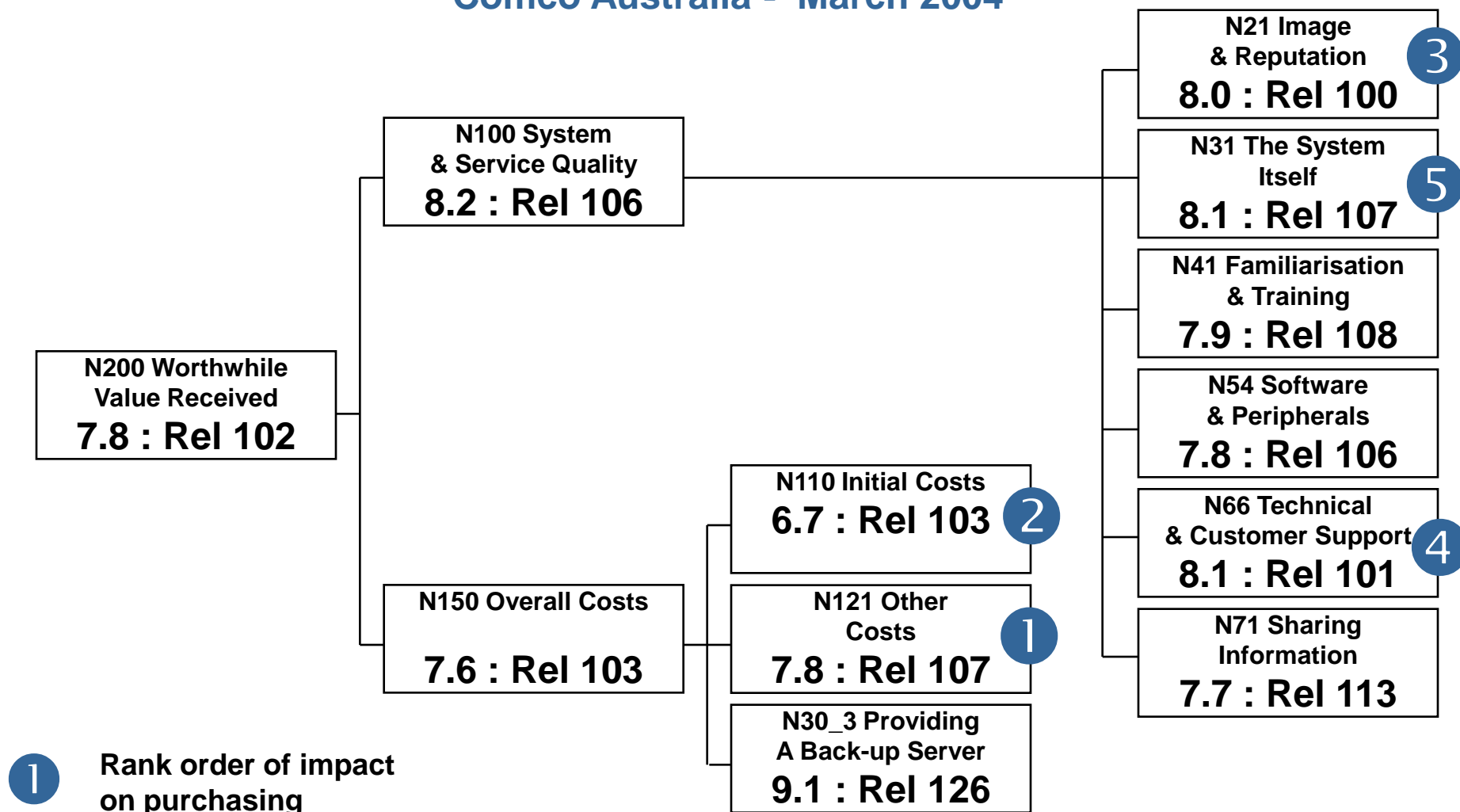
Case study: CVA in action in Computer Systems – Australia

Disguised industry
and data



Australian company implemented CVA in the Computer Systems business in 2004 – results showed that although relative performance was strong, there was still room for performance improvement on the key issues impacting value in order to protect the business against new entrants

Comco Australia - March 2004



Two issues which emerged as having a relatively high impact on the Cost side were previously unrecognised: concern about software that minimises downtime and having a range of software that meets unique business needs – critical insights for marketing and also product development

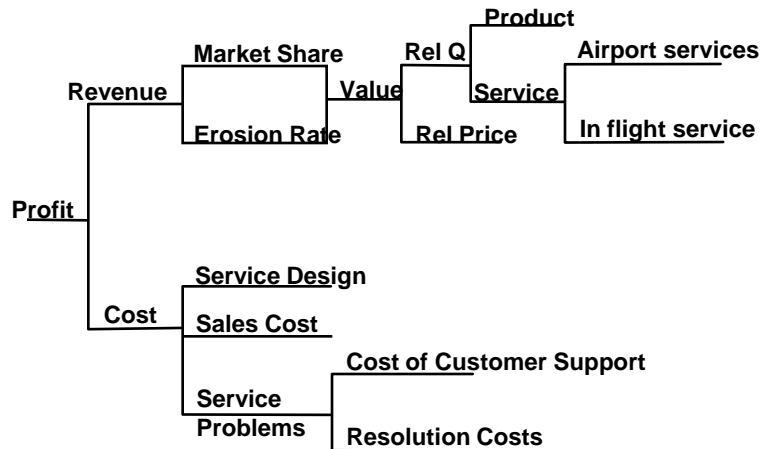
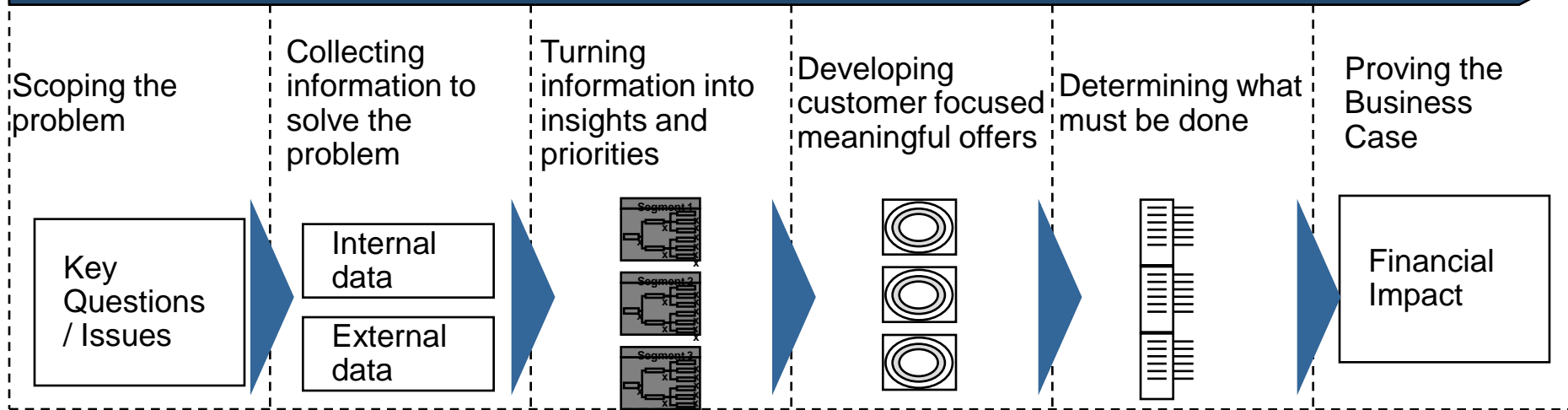
1

Profile for Comco Australia– Other Costs

	<i>Drivers</i>	Impact Weight	Comco Scale 1-10	Relative
N120_1	Having software that minimises downtime	53%	7.6	102
N120_2	Minimising concerns by making you feel the company is there for you	NCI	7.8	103
N120_3	Minimising upgrading barriers to systems with new technology during your contract	20%	7.3	103
N53_4	Having a range of software that meets your unique business needs	27%	7.7	105
<i>N121</i>	<i>Overall Other Costs</i>		<i>7.8</i>	<i>107</i>

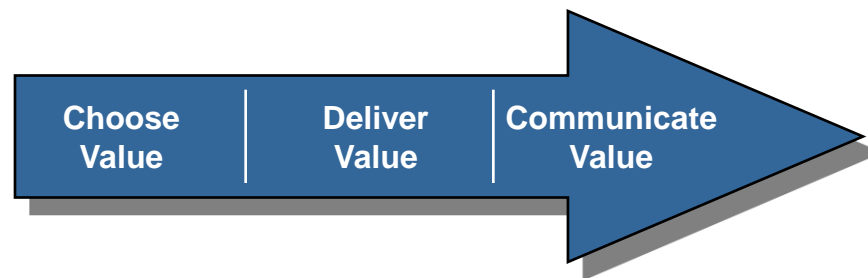
Customer value analysis provides the facts and clarity needed to prioritise performance improvement actions; it is a process and discipline that tests assumptions and grounds decisions on facts

Turning customer information into differentiated segment offerings that deliver performance gains



For companies that can't resource a full customer value survey

- Analyse the profitability and potential of your customers; develop a fact-based view on which types of customers you should try to retain and capture more of
- Discuss value with your customers – ask for their feedback
- Run a workshop with your team – break the customer experience down to develop a value tree
- Weight the processes as you think customers would do using 100 pts
- Discuss your current value proposition – where could meaningful value be added?
- Trust your best customers – run your ideas by them and involve them in your thinking



The structure of today's discussion

Bringing Greater Financial Accountability to Marketing Decisions

1. Setting the
scene

2. Customer
Value
Analysis

3. Case studies

4. Summary

Systematic and disciplined analysis and focus on the customers who create the most value for your firm and how to improve the value co-created with them matters now more than ever

In a recession, expect customers' buying habits and criteria to change

Greater focus on value

Research customers' changing needs and buying criteria while reprioritising marketing investment

Research and rethink will pay dividends

Subject marketing expenditure to the ROI discipline demanded of other investments

Insist on fact-based business case

Customer value is predictive and linked to financial outcomes

CVA provides data that allows ROI to be predicted and tested

Systematic value analysis including CVA provides data for critical business decisions

Marketing is a social process of exchange of value

*No one ever said it would be easy
Adopt value propositions to match the new reality*

CVA drives EBIT