

# UNDERSTANDING CUSTOMER VALUE CONCEPT: KEY TO SUCCESS

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## **Key Words**

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## **Abstract**

Recently there has been growing tide of articles, papers and even conferences devoted to the question of the future of business. As we approach through the new millennium, we are living in a world that is the most unstable, dynamic, exciting and frustrating for the last decades. Not only change itself but also the rate of change is accelerating. Operating in an uncertain, highly competitive and highly complex business environment brings so many questions to the businesses. Business insights often fail to recognize that their marketplace/market space changes every few years. Leading edge companies increasingly seek ways to measure customer satisfaction, loyalty and value as mean of setting strategies of the companies.

Essentially the point at the issue is whether traditional business approaches for the conditions that now prevail in the beginning of the new millennium, basic principles still apply but with this contribution I will try to clarify the concept of customer value and how the importance for the markets and difference between customer satisfaction and customer value. Because the focus on the business is to satisfy of the customer needs and wants so the practise may need to be changed fundamentally.

This study also describes a customer-value hierarchy linking product or service attributes, product or service consequences and customer goals or purposes. It outlines, and discusses, the value hierarchies established for customers. At the same time it deals with the concept of net present value of customers, with the emphasize the importance of attracting and retaining customers by providing high customer value which, in turn, leads to long-term profitability and growth.

Complex business environment brings so many questions to the companies. Their profitability and viability will depend on the efforts of an increasingly diverse customer value. Looking more closely at the question of customer value could help for the challenges for the new millennium.

## Introduction

“Customer Focus” and “Customer Value” became lovely terms for the marketers and the managers. People generally use it more and more; indeed, who could argue against such a concept? But what does it actually mean? More important, what does it imply for the organization which seeks to be genuinely “customer focused” and what does it mean to understand “customer value”?

Customer value is defined in the marketplace not in the factory or an agency. A small but growing number of companies in the markets draw on their knowledge of what customers value or they value to gain marketplace advantages over their less knowledgeable competitors (Anderson, 1998). There is a market for offering as two elemental characteristics: its value and its practice.

Companies have to look at the changing basis for competition in today’s environment and for the future. This paper argues for being more customer-focused, not as a nicer, more socially acceptable way of life but because customer value is becoming a commercial imperative. We live in a world which is more dynamic than ever. Businesses have always had to face competition, but at least in the past companies knew who their competitors were; they knew the competitors products and their strengths and weaknesses. All of the competition lay within established market sectors, and they were mostly, if not entirely, domestic. Indeed, it is not so far back when most were regional. Today, companies faced that has changed. Competitors cross sector boundaries with increasing ease. For example, the distinction between banks, insurance companies, fast food companies becomes increasingly blurred, as does the distinction between such organizations and anyone else who has a large customer base and a strong financial position. In today’s world, music stars start airlines, or launch fast-food businesses or soft-drinks companies.

The products, competitors and markets are becoming increasingly globalized. However basis for the competition is changing. It looks like an iceberg, on the surface, the features on which we compete are the same as ever: products, quality, price, service, customer base and market access. But if you look beneath the surface you see that these features are now dependent on other issues – they are the product of culture, processes and systems, and the structure of our business. Products /services are obviously at the heart of competition. The problem is that they keep changing: our competitors will not stand still. For example product innovation is much more rapid than in the past. Product cycles are getting shorter, and products, even when delivered by global corporations, are getting more customized. New production and distribution even decision support systems make this possible, but systems alone are not enough. It is necessary to be customer-focused to keep an organization close to its market, so that its product development is closely aligned to what the market needs. Generally companies have to understand their customers better; not just to listen to their requirements but often to anticipate them (Fox, 1997).

If the companies anticipate these requirements the brand “values” may not be as strong in the eyes of the consumer as they once were. The concept of brand values implies that what makes a brand is its “personality” which distinguishes it from others and that the presence of this personality imparts some utility – however tangible – to the consumer. There is a strong body of research supporting the idea of brand personality as a source of value to the consumer (Christopher, 1996). However, what seems to be happening is that the changes in the marketing environment are tending to influence the strength of that value. The thrust of this paper is that the original concept of brand value is in need of extension, and needs to be embodied within a wider concept of customer value. The customer value concept recognizes that marketplace success in the new competitive environment described above will require not only continued investment in the brand but also investment in customers. The underlying

philosophy is that customers, not just consumers, have goals that they seek to achieve and that the role of the supplier is to help customers achieve those goals. It is becoming a commitment for the companies to define the customer value to help to achieve the goals, which the company and the customer have.

## **Defining customer value**

There have been many difficulties for many authors involved in defining value. In an attempt to consolidate these diverse definitions, Woodruff (1997, p. 142) proposes: "Customer value is a customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations". Although the multiple contexts, tasks and criteria in the upper definition reflect the richness and complexity of the concept. This definition has more related to the customer but there is also the other side for the businesses.

Customer value is the difference between the values the customer gains from owning and using a product and the cost of obtaining the product. On the other hand we may understand that the total customer value is the total sum of product value, services value, personnel value and image value. Besides these monetary, time, physic and energy costs are the total costs of a customer. Should the customer value be expressed as a formula:

$$\text{Total Customer value} = \text{Product value} + \text{services value} + \text{personnel value} + \text{image value}$$
$$\text{Total customer cost} = \text{Monetary cost} + \text{time cost} + \text{physic cost} + \text{energy cost}$$
$$\text{Customer Delivered value} = \text{Total Customer value} - \text{Total customer cost}$$

Customer value is the difference between total customer value and total customer cost. Put it very simply, customer value is created when the perceptions of benefits received from a transaction exceed the costs of ownership. The same idea can be expressed as a ratio (Christopher,1996):

$$\text{Customer value} = \text{Perceptions of benefits}$$

## **Total cost of ownership**

The marketing task is to find ways to enhance customer value by improving the perceived benefits and/or reducing the total costs of ownership. Both the numerator and the denominator of this ratio should be measured relative to competitive offers. Total cost of ownership rather than price is used here because in most transactions there will be costs other than price involved. For example, inventory carrying costs, maintenance costs, running costs, disposal costs and so on. In business-to-business markets, as purchasers become increasingly sophisticated, the total cost of ownership can be a critical element in the purchase decision (Ellram,1993). Life cycle costs, as they are referred to in the banking and industries, have long been a critical issue in procurement decisions in those markets.

Companies have to understand their customers, to know where their business sector is going as well as to anticipate what systems their customers will need in order to remain at the very forefront of competition, often to work with them both on future planning and on rapid implementation.

There is to say that the “value” of observed experience is of another nature from the “value” of philosophy fact (Weiser,1889). If we did not possess the power of providing for future wants our lives would be but poorly provided for. For the various cyber businesses of the future new products would be prepared (Kodama, 2000).

## **Philosophy of Value**

There is an importance to understand the philosophy of value for the businesses. And as it is of importance that businesses should be sensible in advance of the wants of the future which means the wants and needs of customers. There is an importance of the degree of that sensibility. It should be sufficient. Anxiety about future necessities should be as powerful as the passion with which the companies give away before the urgent feelings of the moment. If future satisfaction of want were represented in present valuation, not at their full future value but at only a small fraction probably would be occurred. Then business life must in the end fall to pieces, just as though they were not represented at all.

It is evident that customers possess the capacity of acting in consideration of future feelings of want, but observation of human nature makes it very obvious that they will act with less energy than when they are under the influence of present feelings. The future wants, wherever it comes into the domain of the present, is preceded by a psychical reflection, and this reflection is of a totally different nature from the want itself. It is far finer, more inner side, and, even in the case of purely bodily wants, is always mental. The hunger of a future day, e.g. do not act as hunger, but as anxiety for sustenance; the object of desire is the same, but the desiring is different.

At bottom there is a conflict between the needs of today and those of tomorrow is really of a moral nature for the customers; and goods of today and those for tomorrow is a kind of a special case of the struggle between impulse and reason. It is not only the foreknowledge that is wanting, but, quite as much, the previous mental excitation for the customers, the uneasiness which experiences in the consciousness of the businesses that wants are coming for which there is no provision.

The experience of customer and the experience of the environment create the value change. Value change is a developing process, which can be accelerated by;

- Technological changes
- Conflict between existing values
- Dramatic events
- Uncovering of the other culture’s values

In every society there are many different values. In international arena values affect marketing strategies much more than expected. Values are learned with imitation or by observing the process of reward. There are also some values inoculated and passed from generation to the next.

The markets are composed of consumers with different cultures, incomes, tastes, expectations, beliefs, norms and motives. These differences differentiate also the values owned and will be gained. Therefore marketing managers need to take into consideration these details and this should be used as guides in developing business strategy.

Sheth *et al.* developed and empirically tested a theory of consumption values, which was operationalized by identifying five consumption values effecting consumer choice behavior (Erdem,1999). These are;

- Functional
- Social
- Emotional
- Epistemic
- Conditional

These values are for consumer choice before buying the goods and/or services. But after the usage there is much more an importance of physical, emotional and conditional. This is very effective way to resale the goods and services.

Processes should be check out of the tasks which have to be achieved in order to create and deliver customer value. Here in any business the core processes need to be managed with cross-functional dialogues and decisions. Basic implications such as brand development (research & development, sales, marketing, production, advertising), consumer development (marketing, human resources, finance, sales, production), consumer management (logistic systems and relationships with intermediaries, human resources etc), supplier development (more concentration for up-stream relationships) and supply chain management which should be included the order fulfillment processes.

With this implications there becomes a customer value hierarchy linking the product and/or service attributes of the firms. This hierarchy begins from sales department through all departments and top management.

Total Quality Management, Business Process Reengineering, Team working, balance scorecard are some of the contemporary issues in management. It can be said that for the success of this concepts there should be customer value philosophy. Competencies should be based at the customer value thinking. This should be a common sense to reach the customer satisfaction and retention, profitability, increased market share etc.

To provide some answers to how customer value seen in the companies there are four basic questions to come a conclusion;

- How do customers see the companies? Customer Perspective.
- What must the companies excel at? Internal Perspective.
- Can the companies continue to improve and create value? Innovation and Learning Perspective.
- How do the companies look to their shareholders? Financial Perspective.
- How do companies look to their stakeholders? General Perspective.

To find some answers to these questions will make companies closer to the customer value philosophy and if companies follow this philosophy they will be successful in the future complex business life and cope with the competition and easily respond to the environment.

This study has not been completed because of the time constraints, it is still progressing.

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