Customer loyalty and customer value - 5
Customer value analysis

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The most important thing to realize about customer value is that it is not static. Neither is it absolute. In other words, customer value is constantly changing and is meaningful only within a given context. For instance, what provided value to customers last year may just be the cost of entry this year. When value provided by a firm is matched or exceeded by the competition, it ceases to be perceived as value by customers. This simply means that customer value should be constantly measured and redefined.

Choice as the driver of value
Value is a function of available choice. When there is little choice, the customer will attribute value even to the poorest of products, as happens in many controlled economies of the world and in countries where consumer goods are at a premium. Conversely, when there is a wide choice of alternatives, the customer will attribute little value to many of the desirable features of a product or service, unless they are unique or better in some way.

With the advent of easy access to global markets, the customer has more choices now than ever before. Technology now provides choices that cut across product lines. For instance, a telephone user not only has a choice between telephone companies but also has a choice among different products such as land lines, cellular phones and PCS. A person who uses a bank has not only a number of banks to choose from but also has alternative modes of banking to choose from (such as personal, electronic, internet) . Converging technologies have made it imperative that we measure customer value. They have also made the task more complicated.

Deriving MPQ, PSR, Relative Price and Customer Value Ratios
The most basic way of measuring customer value involves a survey of your and your competitor's customers. The purpose of such a survey is to compare your performance with that of your competition. (It might be a good idea to remember that in a world of converging technologies, competition can easily cut across traditional product categories.) The data so collected can be used to assess relative value and to trade off price and quality.

Let us consider an example in which you have asked a series of questions about the performance of your firm and that of your competitor. You can derive the importance of each of these attributes using statistical methods. (For a description of the methods that can be used to derive importance of different attributes, please see my earlier articles on customer satisfaction measurement.) We need to derive two ratios from the above data: Market Perceived Quality Ratio (MPQ) and Price Satisfaction Ratio (MPR). These ratios can in turn can be used to derive Relative Price Ratio and Customer Value Ratio.

The derivation of these ratios is fairly straightforward once we have the following data:

1. Derived importance of price and quality attributes;

2. Your company ratings on quality and price attributes; and

3. Your competitor's ratings on quality and price attributes.

Once we arrange the data, as shown in the first three columns of Exhibit 1, we can derive the ratios by simple calculations. These are laid out in Exhibit 1.

Exhibit 1: Calculating value ratios

	(1) Derived Importance	(2) Performance ratings You	(3)Performance ratings Competition	(4)Ratio (2)/(3)	(5)Weighted (1) x (4)
Quality					
Product	40	8.0	7.5	1.07	.43
Billing	10	8.8	9.1	0.97	.10
Customer service	15	6.7	6.2	1.08	.16
Competence	10	8.4	8.9	0.94	.09
Flexibility	15	8.9	8.2	1.09	.16
Market Perceived Quality Ratio (MPQ)*					**.94**
Price					
Product	45	7.5	7.2	1.04	.47
Accessories	20	7.8	7.0	1.11	.22
Replacement parts	5	6.5	6.4	1.02	.05
Lease interest	30	5.0	6.0	0.83	.25
Price Satisfaction Ratio (PRQ)**					**.99**
Relative Price Ratio* **					**1.01**
Customer value ratio vs. competition ****					**0.96**

* This is the sum of weighted quality ratios as calculated in column (5)
** This is the sum of weighted price ratios as calculated in column (5)
*** This is the inverse of sum of weighted price ratios
**** (MPQ x Quality weight) + (PSR x Price weight). Customer value ratio here is calculated in this example assuming that customer attach a weight of 60 to quality and 40 to price

What do the ratios mean?

In the above exhibit, we have calculated a number of ratios: MPQ, PRQ, Relative Price Ratio, and Customer Value Ratio (CVR). A CVR of 1.00 would imply that customers derive as much value from our company as from the competing company. In our example, our Customer Value Ratio (CVR) is .94 or, in percentage terms, 94%. This implies that we provide less value to customers than does the competition.

More on this in the next article on customer value.

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