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The Strategic Importance of Customer Value

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Cover Page Footnote
The author would like to dedicate this paper to Dr. Art Weinstein, Professor and Chair of Marketing at the H. Wayne Huizenga School of Business and Entrepreneurship, Nova Southeastern University.

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Abstract - This paper examines the importance of customer value as a strategic approach to doing business in the 21st century hypercompetitive marketplace and marketspace. It explores the customer value theory of Professor Art Weinstein as a valid conceptual framework for strategically positioning an organization through market orientation to design and deliver superior customer value for competitive advantage. Citing examples, the author argues that customers are not simply just buyers of goods and services, but must be seen as strategic business partners. Furthermore, the author examines the role that customer service and value creation play in the development of competitive advantage and market positions by examining the differences between market driving and market driven companies relative to the customer value concept and theory. Two important frameworks proposed by Weinstein are used to communicate the strategic importance of customer value: the CVF and the SQIP models.

Key Words - customer value (CV), delivering superior customer value, SQIP approach, service, quality, image, price, customer value funnel (CVF), key success factors (KSFs), customercentric, value driven management (VDM), value over time (VOT).

Relevance to Marketing Educators/Researchers, and/or Practitioners - This paper is important for educators, researchers, and practitioners because it underscores a need for a shift in perspective, focus, and practice in value theory in the 21st century where competitive advantage is no longer based simply having or possessing the factors of production. This shift is one where customers are seen as co-creators of value and where meeting and exceeding customer demands create market driving and market driven opportunities for success!

Introduction

In today's economy businesses are playing on a leveled field where technology, product uniqueness, special features, and the ability to secure exclusive contracts are no longer barriers to competition. The birth of the information-based and service-led economy (Johnson and Weinstein, 2004; Laudon and Laudon, 2004) has created equality on many levels where most companies are now able to access and disseminate knowledge and information across their functional departments and platforms as key resources to level competition. Business intelligence is no longer a unique possession that companies can use to stay ahead of their competitors because trends analyses concerning markets and economies are widely available to any company so desiring to conduct a macroenvironmental analysis in understanding their value drivers. Today's companies, both small and large, private and public, understand fully that they are operating in a global environment where their practices and strategies must respond and react to both controllable and uncontrollable changes shaping their survival and success. As a result, business and corporate level functions have become wholly integrated across companies and departments are no longer separated by functional activities, but organizations act as integrated systems in an endeavor to survive change and maximize both people and physical resources in an effort to increase efficiency and improve effectiveness at all levels. Thus, companies are no longer unique in their strategic approaches and plans for increasing the distribution, purchasing, and consumption of their products and services.

According to McFarlane and Britt (2007), the marketing environment of today has changed dramatically, and companies must effectively devise strategies for responding to, and dealing with this change, while ensuring maximum customer value and satisfaction. Key success factors (KSFs) are no longer unique to any company. All businesses today must have a certain and minimum degree of financial well-being, innovation, quality, value, image, customer knowledge, technology, and understanding of their products and markets. What remains unique and becomes an ultimate competitive advantage or factor for market leadership is how companies deliver on their value propositions (Weinstein, 2012). That is, how companies design and deliver customer value (Johnson and Weinstein, 2004; Weinstein, 2012). The design and delivery of customer value must be superior to that of their competitors, and this is not easily achieved without developing a customercentric philosophy and culture within the organization. This entails engendering a market orientation with customers as the focus of all organizational activities, decisions, and processes – meeting customer needs and wants must essentially become the major value driver within the organization and each member of the organization must understand this and become a value adding knowledge worker with a passion for customer service and satisfaction.

Components of Customer Value: The S-Q-I-P Approach

Customer value can be summarized in one important question that all organizations must ask themselves: "What do customers really want and how do we meet their demands"? or in other words, "What do customers really value?" These might seem like very simple questions, especially if they are supplied with answers such as, "Customers want value!" or "Customers want quality products and services!" These are correct responses. However, Professor Art Weinstein, in his customer value theory, or what he calls "superior customer value", would say that customers want more than just simple value; they want businesses to overwhelm and surprise them by going above and beyond the ordinary to meet their needs and wants (Weinstein, 2012). This means delivering above and beyond on every value-point of the customer value spectrum in terms of four components: service, quality, image, and price. Weinstein (2012) calls these the "The Essence of Customer Value" (p. 6).

Customer value refers to the ability of companies to create and add value to the goods and services, especially to the services they offer to customers, or the service aspects of their business (Johnson and Weinstein, 2004). Essentially, customer value entails extraordinary delivery on these four value-points or components:

a) *Service*: the intangible value offered to customers.
b) *Quality*: customers' perception of how well a company's products and services meet expectations.
c) *Image*: customer's perception of the company or business they interact with.
d) *Price*: the price you can command for your goods and services and that your customers are willing to pay.

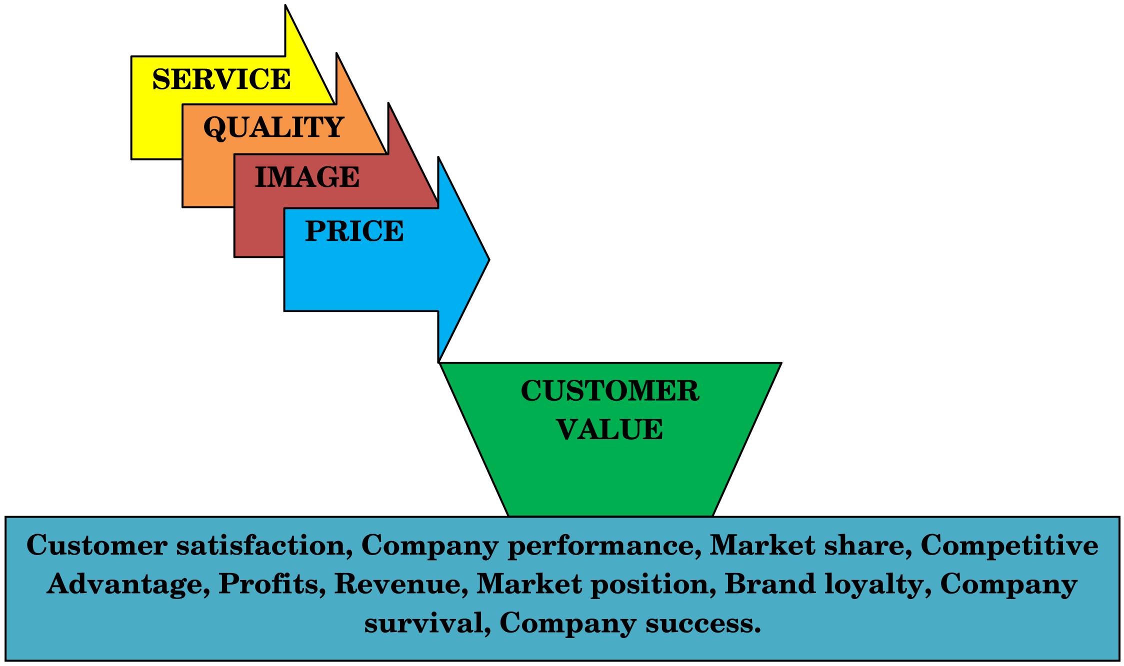


Figure 1 – The SQIP Approach to Customer Value

Together, these form what Weinstein (2012), and Johnson and Weinstein (2004) refer to as the SQIP Approach to customer value, where S stands for Service, Q for Quality, I for Image, and P for Price (SQIP). Each of these four components contributes to customers' perception of value or definition of value and affects their levels of dissatisfaction or satisfaction with a product, service, or business. Thus, in order to design and deliver superior customer value, each of these components must be treated with equal attention and importance. As Figure 1 above shows, service, quality, image, and price are what constitute customer value in terms of conferred benefits, meeting customers needs, wants, and expectations, and hence affecting and determining customer satisfaction, company performance, market share, competitive advantage, profits, revenue, market position, brand loyalty, and ultimately company success and survival. Essentially, everything that a company does ultimately funnels into customer value and this translates into the bottom line that is so important to measuring and defining business success in the globally competitive economy of the 21st century.

The prices of products and services depend highly on service quality, the quality of the products and services offered, and the image of the company and the benefits that the products and services bring to consumers. Organizations must remember that consumers are unlimited and rapturous in their need and desire for value for their money. Consumers want to experience the joy of every hard-earned dollar they spend on products and services and companies must understand this as a basic idea in their approach to meeting customer needs and wants. That is why Weinstein (2012) regards customer value as best defined from customers' perspectives as tradeoffs between benefits received from offers versus the sacrifices including money, stress, and time to obtain products and services or these offers. While the value of a dollar has experienced continuous decline over the past several decades, consumers have a "dollar-constant perception" when it comes to value; they must feel that the value of their dollar remains the same overtime with the services and products you offer in terms of service, quality, and satisfaction. This might seem unreasonable on the part of consumers. However, we must remember that our customers are value-seeking individuals, dollar maximizing spenders, and difficult-to-please clients who are seeking great service, exceptional quality, image-building, and fairly priced products and services. Describing the SQIP approach; (S-Q-I-P) approach, Weinstein (2012) states that value is expressed in many ways as a combination of service, product quality, image and price. Customer value encompasses the total experience of the customer regarding the organization, its products and services, purchase and post-purchase services and customer support, as well as the overall impact of the interaction between consumer and product, the benefits conferred and how these affect well-being and are perceived by influential others (Duncan, 2005; Kerin, Hartley and Rudelius, 2009).

Quality service is critical to corporate success in today's increasingly competitive environment (McFarlane and Britt, 2007). Delivering high quality service is closely related to profits, cost savings, and market share (Ham, 2003). Weinstein (2012) believes that the service factor must reign supreme in value-creating organizations as evident in companies such as Nordstrom, Ritz-Carlton, Lexus, American Express, UPS, and FedEx. Delivering service quality is an essential strategy for success in today's economy (Parasuraman, Zeithaml, and Berry 1985a, 1985b; Reicheld and Sasser, 1990; Zeithaml, Parasuraman, and Berry, 1990; McFarlane, Britt, Weinstein, and Johnson, 2004; McFarlane and Britt, 2007).

Product quality and innovation have become especially important to producers and consumers in the 21st century where competition and the need for change have forced both parties to search for new means and ways to create value and to satisfy needs and wants using limited resources. This entails using available and emerging technology and new methods and ideas to satisfy an increasingly sophisticated and smarter customer-base and survive in both the marketplace and marketspace characterizing the global economy. Examples of companies that are doing exceptionally well in terms of the quality element of the SQIP value components include Ben & Jerry's and Harley-Davidson (Weinstein, 2012). While this is the case, these companies are not unique in delivering exceptional quality. The automobile industry market leaders and followers have seen some exceptional increase in product quality over the last decade, and some notable companies that have improved quality significantly include Hyundai, Lexus, Kia, among others. Thus, in order to become market leaders or drivers rather than market followers or market driven, competitor companies need to deliver above and beyond consumer expectations on all four elements of the SQIP model.

Consumers are very class conscious in our materialistic society where influential others shape our attitudes toward various brands and our purchasing choices and decisions (Solomon, 2004). Therefore, organizational image matters, as well as the type of image-impact that consumption of a particular good or service will have on customers. Value is created when a product or service represents high quality in the eyes of consumers and their peers and onlookers. Customers perceive value based on how they feel about a company and its products and how other consumers feel about the same.

Price is the fourth and an equally important element of customer value as service, quality, and image. It is through price that customers and producers or providers of goods and services express the presence of the other three elements in the SQIP model. As Weinstein (2012) notes, tradeoffs exist among the S-Q-I-P elements and companies cannot expect to be market leaders or absolutely superior in all areas. The best they should strive to do therefore is to offer an effective and efficient combination of these that define the value they create and deliver to their customers. Some companies have mastered offering great prices to customers and make it their mission (value proposition) to do so. Examples include Wal-Mart and Brands-Mart. Other companies compete on the price factor of the SQIP model as a competitive differentiation customer value strategy – for example, Home Depot and Lowe's. However, Weinstein (2012) reminds these companies and entrepreneurs that customer value is a much richer concept and entails far more than just a fair price – "Superb service, top quality, and a unique image are also highly valued by target markets" (p. 6).

Why Superior Customer Value?

In today's highly competitive market environment where companies have equal or great opportunities to access the same resources including talents, technology, and information, the question, "Why superior customer value?" seems rhetorical. If not superior customer value, then what else do companies have to offer consumers? Companies today must seek more than ever before to distinguish themselves and the ability to do so using technology and widely and generally available means and resources is no longer a viable strategy for differentiation or distinction. Therefore, they must turn to customer value which makes all the difference between companies offering similar products and services. Superior customer value serves as the most unique strategic option for differentiation in an environment where most companies are market followers rather than market leaders. Companies that deliver above and beyond customers' expectations by overwhelming and surprising customers stay way ahead of their competitors and command the greatest profits and market share.

In an economy built predominantly on a growing service sector, projected to account for almost 96% of U.S. job growth between 2008 and 2018 (Weinstein 2012), it becomes obvious that designing and delivering superior customer value is no joke; it is more than a strategy, it is a necessity and those companies that have not yet recognized this, regardless of their line of business or industry, will certainly fail. The recession or "great recession" as it has come to be known and which began in or around 2007, led to massive business failure in many sectors and industries and no doubt brought to light the importance of customer value to those businesses surviving up to present. Many companies gained valuable experiences by observing how consumer purchasing decisions altered by economic and financial factors shape business performance and success, but most of all, recognized that creating, designing, and delivering customer value is an effective strategy that can lead to significant retention despite these changes. When organizations are able to deliver superior value, their customers are less constrained by economic and financial forces in their spending and purchasing decisions, as these customers are willing to spend a dollar more and save a dollar less in order to obtain that value. In other words, Weinstein (2012) is right on in his theory to say that superior customer value is a driving factor in company success and survival. The recession has phased out many businesses offering subpar or sub-marginal value to their customers as customers defect to businesses offering exceptional and perceived fair value for their money.

Customer value has become a mandate for business leaders and managers as companies lose other core and distinctive competencies in the current rapidly changing and highly competitive global economy. Customer value creation is no longer an activity or process relegated to marketing and sales departments and specialists; it is an organizational-wide philosophy like Total Quality Management (TQM) that requires each member of the organization to play an active role in adding value to the customer experience. The organization must essentially take a marketing orientation approach backed by value driven management (VDM) philosophy and attitude (Pohlman and Gardiner, 2000) in focusing strategically on the customer from the planning stage of business right to the delivery and post-purchase, post-consumption activities of customers.

There is no business that survives without creating value for customers because that is what businesses exist to do; they are driven and shaped by customer demands – needs and wants, and the degree to which they are able to meet these needs and wants through value creation. The idea is that customer value is not something that can be created within a day; it is a strategic creation that results from a combination of service, quality, developed image, and the determined prices for products and services that consumers are willing to pay to meet their existing and emerging unlimited needs and wants.

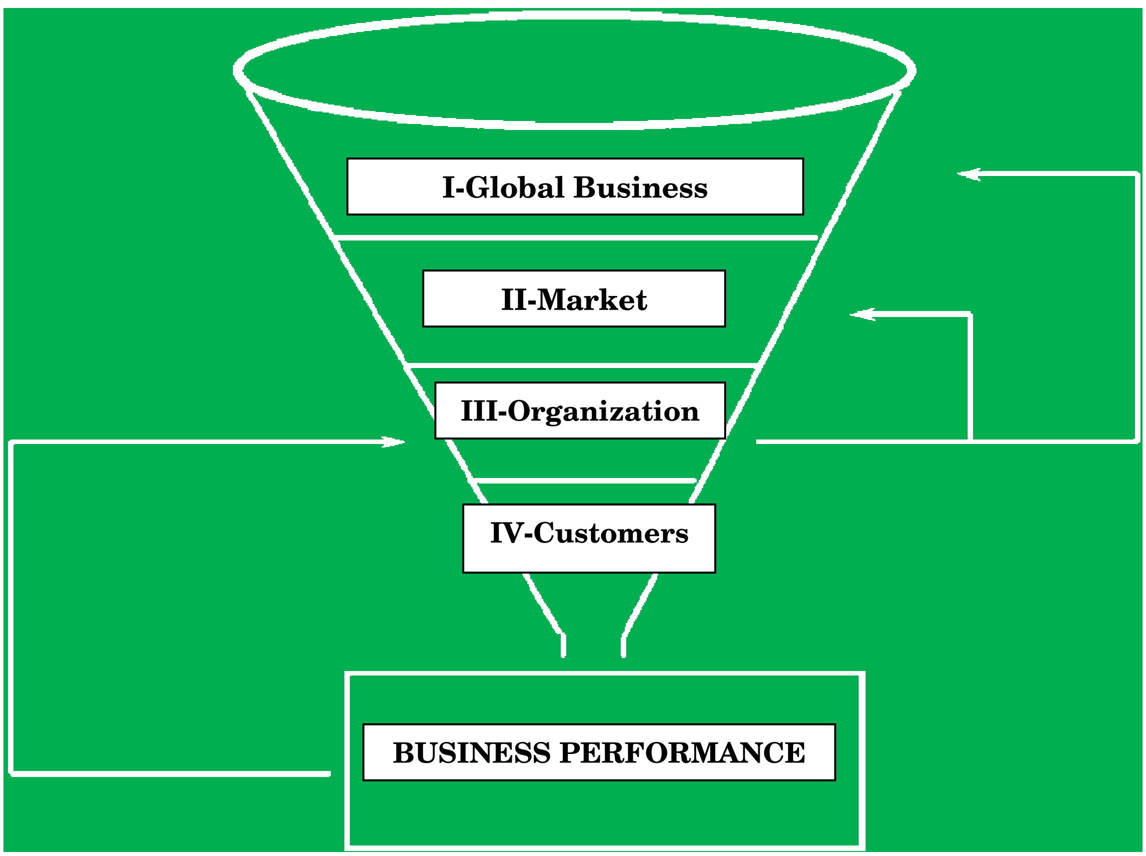
Customer Value and Competition: Market Leadership

Weinstein (2012) espouses customer value theory as a holistic and all-encompassing approach and strategy to value creation and growth in organizations. Organizations exist to meet customer needs and wants and strive to grow and prosper in doing so. As a result, they want to be ahead of the game, becoming market drivers or market driving companies (market leaders) rather than market followers or market-driven companies (Mujtaba and McFarlane, 2007). Furthermore, technology and virtual performance operations and management demand that businesses develop new understanding of customer value and new delivery methods in the face of increasing electronic interactions with customers (McFarlane 2012; Mujtaba and McFarlane, 2011; Mujtaba and McFarlane, 2005). Laudon and Laudon (2004) and Johnson and Weinstein (2004) have shown how the new economy concept and the digital firm have impacted the understanding of service, especially as millions of customers flock to the e-marketplace or the global marketspace to purchase goods and services. This means that the increasingly changing paradigm for designing and delivering superior customer value has modern organizations constantly on their feet, and only those that can anticipate and predict changing customer attitudes and needs will survive in this hypercompetitive global economy.

Market leadership has become increasingly difficult to attain in the globally competitive economy where the playing field has been leveled for companies to compete on equal factors and equal footing. Customer value remains the most salient and expansive factor upon which strategic direction and opportunities can be crafted and cultivated. One approach to accomplishing this is to use Weinstein's Customer Value Funnel (CVF) which serves as both a strategic and diagnostic tool for understanding an organizations current business environment and contexts and the important factors and actors that shape customer value design, creation, and delivery, and ultimately, organizational performance, success, and survival.

To compete successfully, organizations must evaluate all pertinent actors and factors in the market (Johnson and Weinstein, 2004; McFarlane and Britt, 2007). According to Johnson and Weinstein (2004), and Weinstein (2012), the CVF is a valuable tool for understanding and assessing business dynamics and situations. Weinstein (2012) contends that the effective application of the CVF allows an organization to maximize value over time (VOT) and this should be the mission of management where value creation means profitability and success. According to Weinstein (2012), the CVF captures and summarizes the salient attributes of customer value, illustrating that organizations must deal with macro issues as well as customer-specific concerns in order to design and deliver superior value. Weinstein's CVF (Figure 2 below) consists of four levels of factors affecting value creation for customers: the global business community or macroenvironment (Level I), the market or microenvironment (Level II), the organization (Level III), and the customers (Level IV). In understanding these forces, companies are able to seek out and know their strengths, weaknesses, opportunities and threats (SWOTs).

In the Customer Value Funnel (CVF), organizations need to pay attention to what Weinstein (2012) refers to as the value drivers: societal value (Level I), suppliers, partners, competitors, and regulator values (Level II), owner and employee values (Level III), and customer value (Level IV). These value drivers are also the foundation and essence of Value Driven Management (VDM) as espoused by Pohlman and Gardiner (2000) as an organization-wide philosophy or approach to creating value. The CVF is thus a tool for creating and managing customer value in order to improve business performance and increase sales, profits, market share, image, customer retention and build value over time [VOT] (Weinstein, 2012; Pohlman and Gardiner, 2000).



Source: Adopted from Weinstein (2012).

Figure 2 – Weinstein's Customer Value Funnel (CVF)

The Strategic Importance of Customer Value (CV)

Customers are the reason why businesses exist! While many individuals going into business think first and foremost in terms of profits and earnings, and are motivated by these factors, without having a good customer base or established needs and wants for their product or service ideas, operating a business would be impossible. Thus, customers should be the first starting point for developing and implementing a business idea. Starting with the customer allows the entrepreneur or business leader to set priorities straight from the beginning – understanding that businesses exist to meet and satisfy customer needs and wants, and that those that fail to do so quickly disappear.

Businesses, leaders and managers, as well as employees must think of themselves as value creators and value drivers or what Pohlman and Gardiner (2000) call value adders. They must start thinking of customer value strategically by recognizing that every point of interaction with customer affects the perception of value and the company's ability to design and deliver superior value. This means that customer value is not exclusively an upper management or strategic concern, it is everyone's business and an ongoing matter as customers come into contact with products and services and their providers daily, whether direct in terms of face-to-face interaction or indirectly via various channels and media (Solomon, 2004; Duncan, 2005). Both the S-Q-I-P approach and Customer Value Funnel (CVF) developed and presented by Johnson and Weinstein (2004), and Weinstein (2012) are effective tools that organizations can use to strategically create customer value as the basis for organizational operations, performance, growth, and success.

The strategic and overall importance of customer value can be summarized in ten (10) salient points made by Professor Art Weinstein in his book, Superior Customer Value: Strategies for Winning and Retaining Customers (Third Edition, 2012):

1. Designing and providing superior customer value are the keys to successful business strategy in the 21st century.
2. Value reigns supreme in today's marketplace and marketspace.
3. Customers will not pay more than a product is worth and will reward excellence.
4. A customercentric culture provides focus and direction for the organization, ensuring that exceptional value will be offered to customers.
5. Designing and delivering superior customer value propels organizations to market leadership positions in today's highly competitive global markets – absolute advantage.
6. Providing outstanding customer value has become a mandate for management.
7. In choice-filled arenas, the balance of power has shifted from companies to value-seeking customers.

8. Managing customer value is even more critical to organizations in the new service and information-based economy.
9. Firms not providing adequate value to customers will struggle or disappear – customer value is a key ingredient in building competitive advantage.
10. Today's customers are quite smart and sophisticated and are looking for companies that (1) create maximum value for them based on their needs and wants, and (2) demonstrate that they value their business (Weinstein, 2012).

Designing and delivering superior customer value will help organizations develop winning and retention strategies in an environment where competition has eroded other bases for differentiation and market leadership.

Conclusion and Implications

Customers are more than just avid and hard-to-please individuals patronizing your business. Businesses must come to understand that customers are their most valuable long-term strategic partners. Organizations must understand that customer value is not simply a tactic or short-term oriented endeavor; it is a way of doing business, and understanding the dynamics of business value drivers and how they interact to create profitability and success overtime. Value over time (VOT) is what builds strong and lasting businesses, as well as what creates market drivers and leaders.

According to Weinstein (2012), the key to retention is customer satisfaction and high customer satisfaction comes from delivering superior customer value. Highly satisfied customers stay loyal longer, talk favorably about the organization, pay less attention to the competition, are less price sensitive, offer service ideas to the organization, and cost less to serve than new customers (Weinstein, 2012). This should also remind organizations of the 80-20 rule; essentially that 80% of sales comes from 20% of customers, and that this 20% of customers represents repeat customers who are loyal because of the exceptional customer value they perceive in your business. Organizations must now measure themselves by their ability to please customers, meet their expectations, and retain them.

Dedication

The author would like to dedicate this paper to Dr. Art Weinstein, Chair and Professor of Marketing at the H. Wayne Huizenga School of Business and Entrepreneurship, Nova Southeastern University.

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