



This Funny Thing Called Customer Value

-- and Using It to Create a Successful Product Portfolio

what is this thing called love
this funny thing
called love
just who can solve its mystery
why should it make
a fool of me?

-- Cole Porter, *"What is This Thing Called Love?"*

Luckily for the continuation of the human species, there's no requirement that you understand love before you fall into it. Unfortunately, neither is there a requirement that your company understand customer value before you begin using it -- rather than financial analysis -- as a metric for guiding product portfolio decisions.

Approaching product portfolio management in a new way, by determining what capabilities will be most valuable to customers and then using that information to figure out which products to invest in, can greatly improve your company's track record of product development success. But -- and this is a big but -- you first must understand *exactly what customer value is*. This needs clarification because, in our experience, companies often believe they're doing all the right things to uncover customer value, when in fact their actions don't really advance their understanding of customer needs.

Do you conduct regular focus groups and surveys of customers and potential customers? Do you have a well-developed customer relationship management system? Do you have a systematic way to collect feedback from service people and field sales staff? If so, you may think you have your bases covered in terms of understanding what customer value. As George and Ira Gershwin might have said, "It Ain't Necessarily So." Luckily, getting a handle on customer value isn't nearly as challenging as figuring out that funny thing called love. [Read on](#) to find out why -- and what you can do about it.

What Drives Your Customers Crazy?

Why is your company in business? There are many ways to answer this question. You can consider your company's mission: a pharmaceutical company might be on a mission to ease suffering and enhance the quality of life; a food company might want to help people eat more healthfully. But you don't need to look far -- sometimes in that very mission statement -- to find something about returning value to shareholders (read: making money). The nice thing about focusing on customer value is that, if you do it right, the money part takes care of itself. That is, if you figure out what customers value and deliver it to them, they'll pay you -- often big bucks, and almost always more than they'll pay for a competing product that doesn't offer such value.

The only way to deliver this value is to understand customers as well as you understand your best friend, your spouse, or your kids, at such a deep level that you know exactly what motivates them. What are their personal goals? What's missing in their ability to achieve those goals? What frustrates or challenges them? What seems difficult or impossible to accomplish? We define customer value as *the solution that*

removes those frustrations, difficulties, challenges, or impossibilities from the customer's life.

Once you understand what drives customers crazy, you can start exploring the opportunity to fix it -- which translates into customer value. You have found the *white space* or the *undiscovered country* in the market where nothing yet exists, enabling you to outstrip the competition by offering a solution first.

Products and Services Have no Intrinsic Value

The idea behind the old story about selling ice to an Eskimo is that a gifted salesperson can convince people they need something for which they have absolutely no use. But remove the ice from the Arctic and offer it to someone living in the desert and suddenly the equation changes. Now there's a real need. Value exists only in the extent to which a product provides the desired *results or outcome* the customer seeks. While ice may be a hard sell to an arctic dweller, beverage companies from Poland Spring to Dannon have keyed in to the results consumers are after -- not just something to drink but convenience, portability, and consistent taste -- to sell billions of liters annually of water, a product most people can get for free or for pennies in their homes. In the trucking industry, desired results for customers (truckers) might include more hours on the road and fewer in the repair bay (provided by product characteristics such as reliability, uptime, maintenance, and ease of serviceability) and fewer accidents and greater driver comfort (provided by the features of visibility from the cab, ease of entry and exit).

Communications giant Motorola has integrated the process of unearthing customer value into its innovation process. "One of the things that we've learned from a

technology standpoint is that even though customers value many things, few things really have a core value that makes customers want to buy," says Anthony Carter, senior director of business development for Motorola, Inc. "You can look at a feature list and realize there's hundreds of features, but in reality, customers only buy because two to three features meet a core need... the rest is just pull through. One of the things that we really want to understand is: what are those two to three things that are really going to be the primary decision factors for the customer?"

Value from the customer's perspective extends beyond initial economics to encompass the product or service over the total life cycle and the total experience with the company. The truck fleet owner values *uptime*. If a vehicle is not operating for any reason, the fleet owner loses revenue. Reliability and quality of design and manufacturing are the characteristics that allow fleet owners to experience more uptime. Simplicity of maintenance and parts availability, which contribute to less downtime if something does go wrong, also factor into the equation. For drinkers of bottled water, the ergonomics of the bottle and the ability to dispose of it easily in an environmentally friendly manner also figure into the buying decision.

The Role of Innovation

It may seem that to offer something truly valuable to customers you need to invent a new product category or create a service no one has ever considered offering before. On the contrary, providing customer value does not necessarily require disruptive innovation. Apple's recently introduced iPod Nano did not create a new product category or add radically new capabilities to an existing one. Rather, it offered an innovative approach to providing an existing technology. A [BusinessWeek article](#) on the new player summarized the response of well-known designer Donald A.

Norman, who said "the product sounds like the perfect compromise between the iPod Mini, which he finds to be slightly too large to be comfortable on his morning jogs, and that screenless iPod Shuffle." Apple has understood perfectly the problems of the customer in getting his or her job done -- in this case, jogging while listening to music or walking while wearing a skirt with small pockets.

Digging Deep to Understand Customer Requirements

We alluded earlier to *truly understanding customer requirements*. We must offer a more detailed explanation of what we mean, because in our experience many companies believe that they already understand exactly what customers need.

Companies may conduct surveys and focus groups. They may have a mechanism for accepting input from sales and marketing staff. They may use the phrase *customer-focused* in their mission statements. However, none of these represent the rigorous, repeatable, and fact-based process required to reveal true (and often unarticulated) customer needs. Often, the unarticulated needs yield the most fruitful solutions. Companies are coming to recognize that they can't create products simply by translating what customers *say* they want directly into products.

Even a project that aligns perfectly with corporate strategy may not provide customer value. Emotions, pet projects, exciting ideas that cannot be commercialized, and technological wonders can't substitute for the facts established with the adoption of a rigorous customer requirements process such as [Market Driven Product Definition \(MDPD^{\(R\)}\)](#). The advantage of such a rigorous system is that it provides the insight necessary to evaluate projects. Further, it provides a common unambiguous language to discuss projects with product development teams. Instead

of arguing over unreliable financials or engaging in political one-upsmanship, teams can focus on getting done what's needed to meet customer needs.

If only we could invent such a system for understanding love... but then, there would be no need for Cole Porter songs, and that would be a great loss.

Find out more about [Value Innovation Portfolio Management: Achieving Double-Digit Growth Through Customer Value](#) (J. Ross, September, 2006).

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LINKS

["What Customers Want from Your Products"](#) - article in Harvard Business School

"Working Knowledge" by Clayton Christensen

["Desire: Connecting With What Customers Want"](#) -- *Fast Company*, Issue 67, January, 2003

["The Customer Is Clueless"](#) - *BusinessWeek*, Spring 2006

["Ruthless Focus on the Customer"](#) - *BusinessWeek*, July 28, 2006