

# MODULE 3

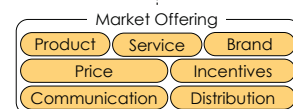
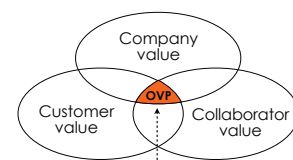
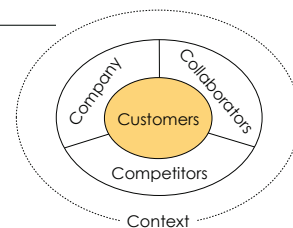
# CREATING CUSTOMER VALUE

PROFESSOR ALEXANDER CHERNEV  
KELLOGG SCHOOL OF MANAGEMENT



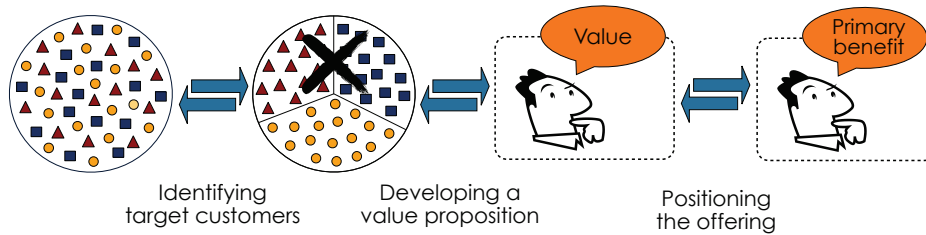
## Creating Market Value: The Big Picture

- The **target market** defines the environment in which a company aims to create value
- The **value proposition** defines the benefits and costs for the company, its customers, and its collaborators
- The **market offering** is the actual good that creates value in the target market
- Creating a relevant **value proposition** is the ultimate driver of success for the company's offering



## Creating Customer Value

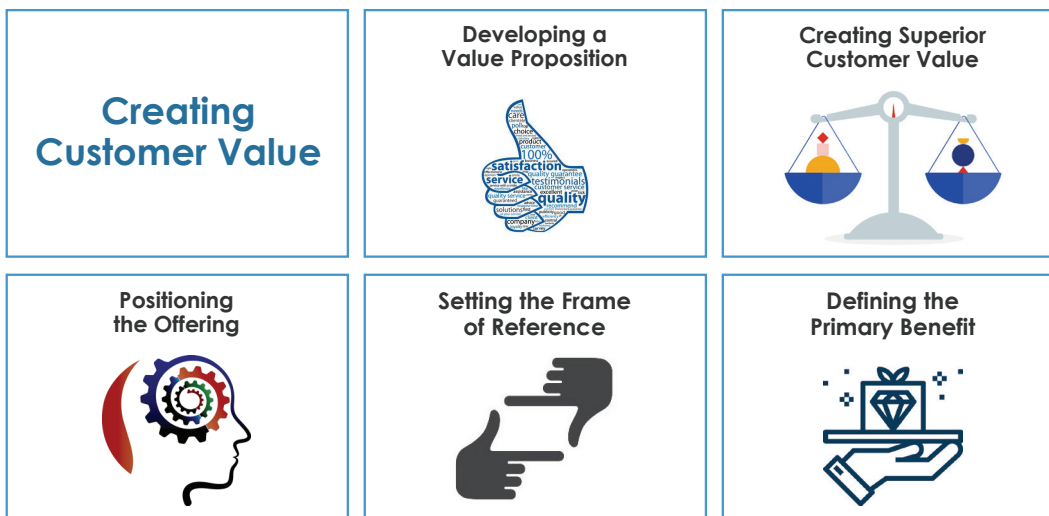
- **Targeting** identifies customers for whom the company will optimize its offering(s)
- The **value proposition** defines the benefits and costs of the offering for target customers
- **Positioning** identifies the primary benefit of the offering



- Identifying target customers, developing a value proposition, and positioning is an **iterative process**

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## Module Overview



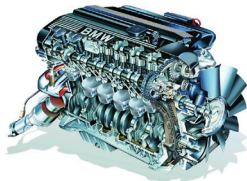
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## From Offering Attributes to Customer Value



An engineer's perspective



### Attributes

8 cylinders  
5,300 lbs  
14/18 mpg  
Bore 3.33"  
Stroke 3.66"



A customer's perspective

Value	
Benefits	Costs
Power	Price
Comfort	Fuel cost
Safety	Repairs
Reliability	Insurance



Engineers think of the company's offering in terms of attributes

← Gap →

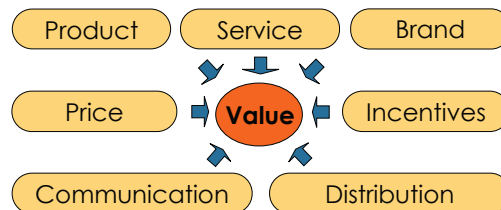
Customers evaluate offerings in terms of benefits and costs

Marketers must translate product attributes into consumer benefits

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## The Value Function

- The value function reflects the way attributes of the offering translate to customer benefits and costs

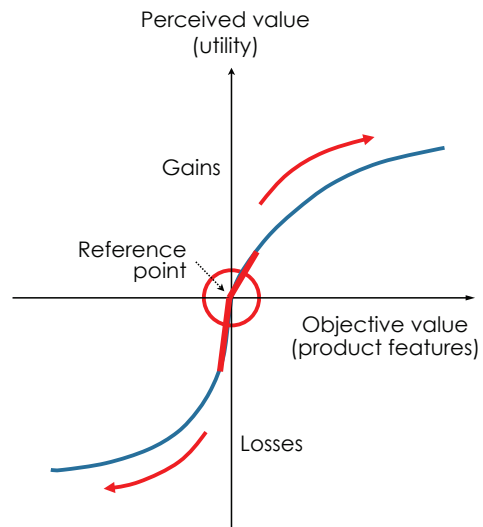


- The value function has three key properties: reference dependence, diminishing marginal value, and loss aversion

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## The Three Key Properties of the Value Function

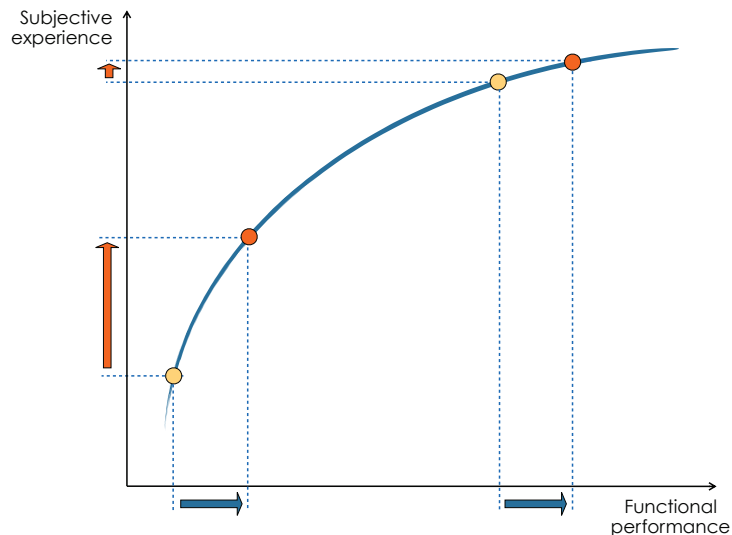
- **Reference-dependence:** Value is determined relative to a reference point
- **Diminishing marginal value:** The marginal benefit from improving an attribute decreases as the overall level of this attribute increases
- **Loss aversion:** Losses loom larger than equivalent gains: An item is valued more when viewed as a loss than as a gain



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## Diminishing Marginal Value

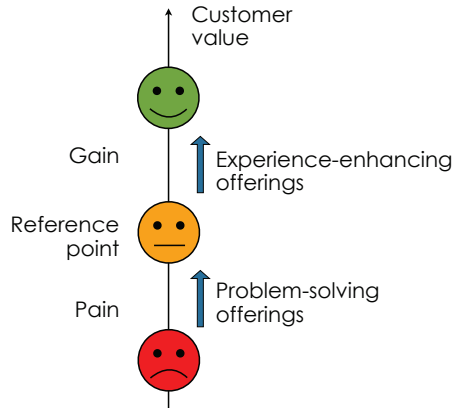
- The marginal benefit from improving an attribute decreases as the overall level of this attribute increases



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## The Value Function and Customer Pains and Gains

- Based on the reference point, there are two types of offerings: experience-enhancing and problem-solving

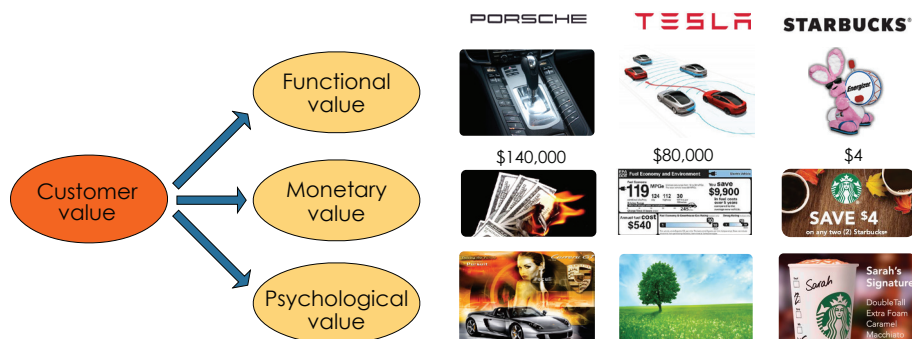


- Because of loss aversion, problem-solving offerings tend to create greater value than experience-enhancing ones

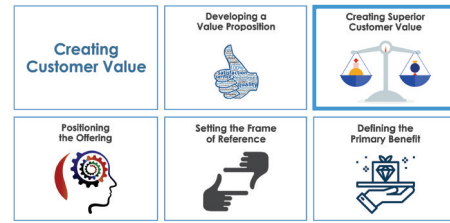
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## The Three Domains of Customer Value

- Functional value** captures the benefits and costs related to the performance of the offering
- Monetary value** captures the monetary benefits and costs of the offering
- Psychological value** captures the psychological benefits and costs of the offering



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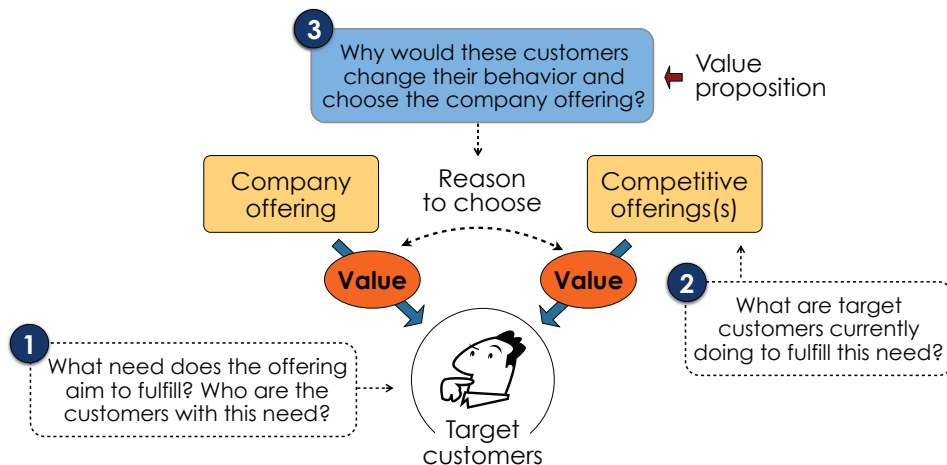


## Creating Superior Customer Value



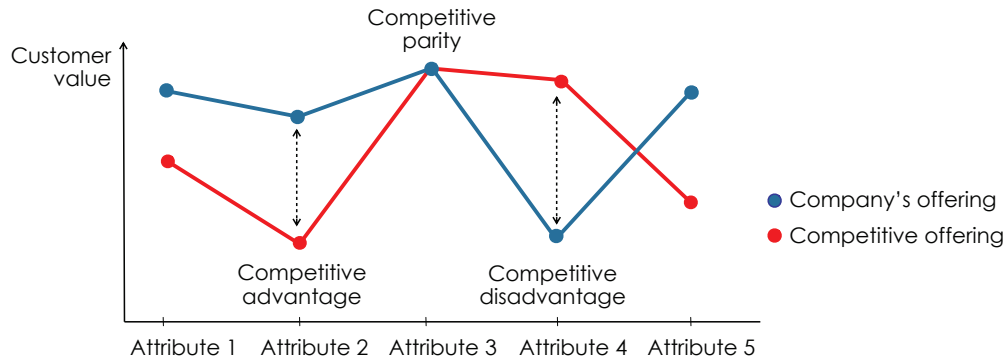
## The Value Proposition in a Competitive Context

- The value proposition defines the benefits and costs of the company's offering relative to customer needs and competitive offerings



## Identifying the Points of Difference and Points of Parity

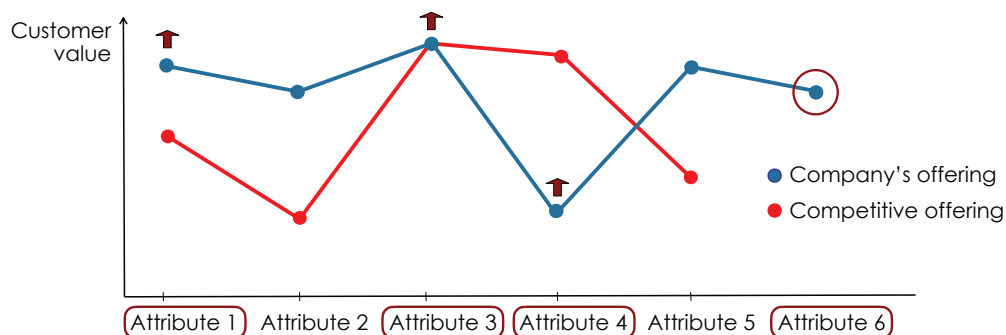
- The key to developing a meaningful value proposition is identifying the points of difference and points of parity
  - Competitive advantage
  - Competitive disadvantage
  - Competitive parity



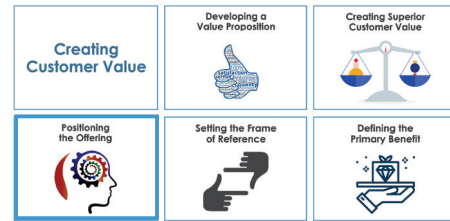
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## Five Basic Ways to Create Superior Customer Value

- Identify attributes that are most important to customers
- Maximize competitive advantages
- Minimize competitive disadvantages
- Convert points of parity into competitive advantages
- Introduce new attributes that are valued by customers



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## Developing a Positioning Strategy

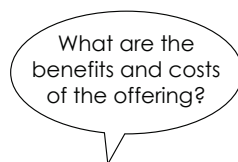
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## Customer Value Proposition and Positioning

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- Positioning identifies the primary benefit of the offering



Value proposition

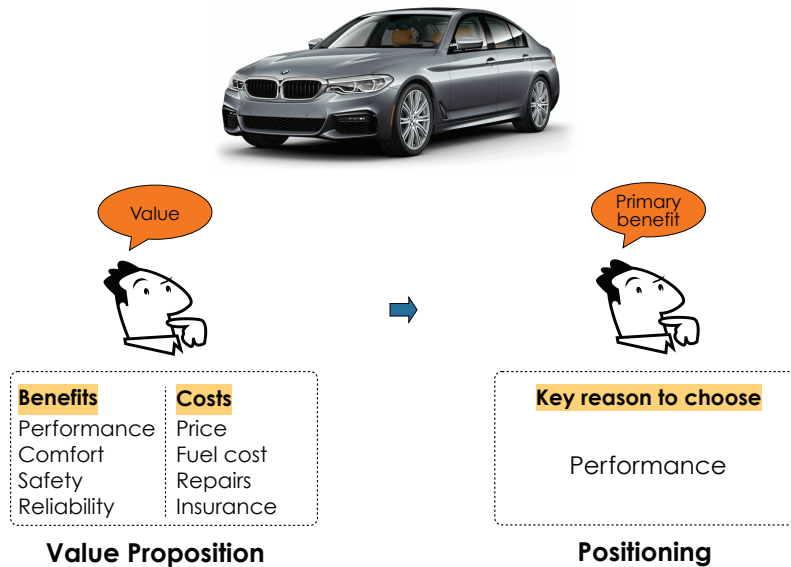


Positioning

- Positioning aims to provide customers with the key reason to choose the company's offering

## Customer Value Proposition and Positioning

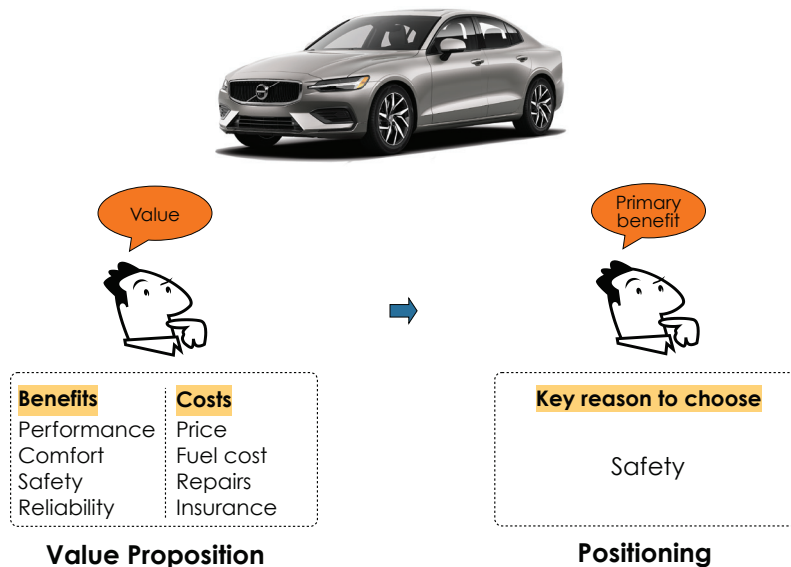
- Positioning identifies the primary benefit of the offering



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## Customer Value Proposition and Positioning

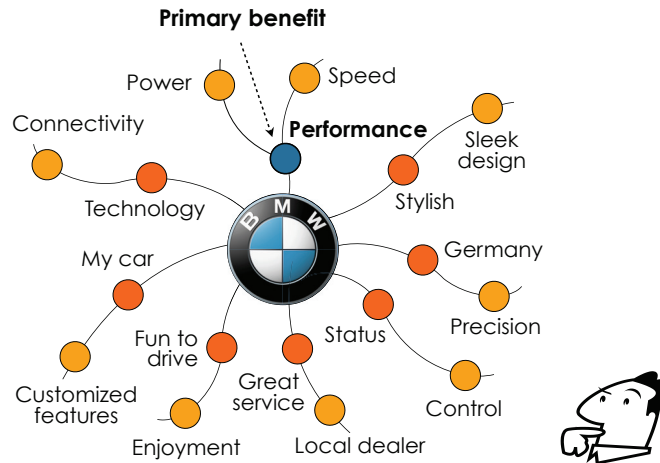
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## Customer Value Proposition and Positioning

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## Customer Value Proposition and Positioning

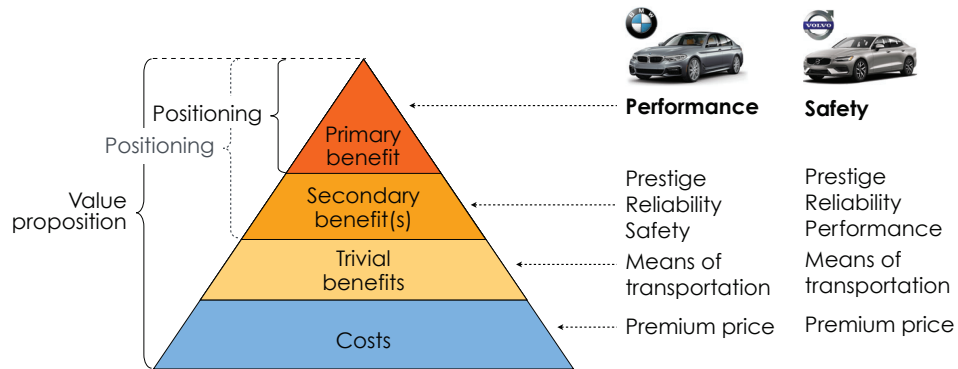
- Positioning identifies the primary benefit of the offering



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## Customer Value Proposition and Positioning

- Positioning involves **prioritizing** all benefits of the offering based on their ability to create distinct customer value

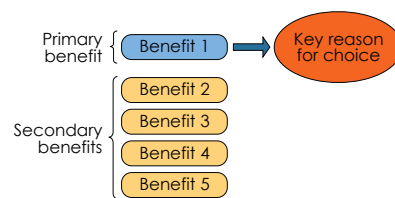


- Based on the type of offering and the company's strategy, positioning can involve one or more benefits

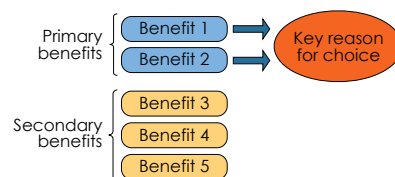
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## Positioning Strategies

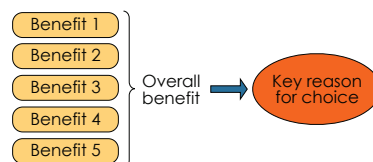
- Single-benefit positioning



- Multi-benefit positioning



- Holistic positioning

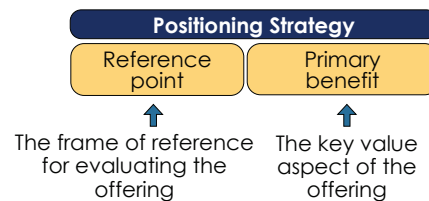


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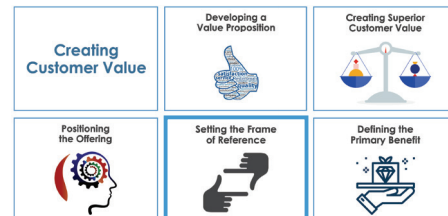
## Developing a Positioning Strategy

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- The positioning strategy involves two components: (1) the reference point and (2) the primary benefit
- The **reference point** defines the frame of reference for evaluating the offering
- The **primary benefit** identifies the most important aspect of the offering



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## Defining the Frame of Reference

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## Defining the Frame of Reference

- Value is relative: It is defined relative to a reference point
- Based on the frame of reference, positioning can be either comparative or noncomparative
  - Noncomparative positioning* defines the benefits of the offering by relating them to customer needs
    -   at&t  
Your world. Delivered.
  - Comparative positioning* defines the benefits of the offering by comparing them to other offerings
    -   T-Mobile  
THE UN-CARRIER
- Comparative positioning is typically used by lesser known offerings or those with small market share. It is rarely used by brands that have dominant mind and market share

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## Defining the Frame of Reference

AXE

- Target customers:** Teen & adolescent boys
- Product:** Shower ~~sponge~~ Detailer Shower Tool 
- Problem:** Target customers don't care about a sponge
- Solution:** Reframe the product



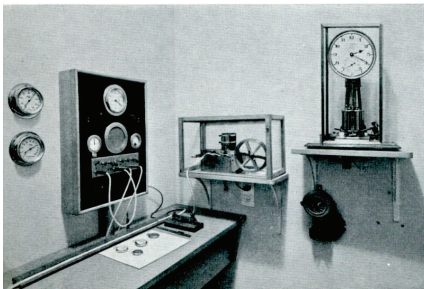
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# PATEK PHILIPPE & C° GENEVA

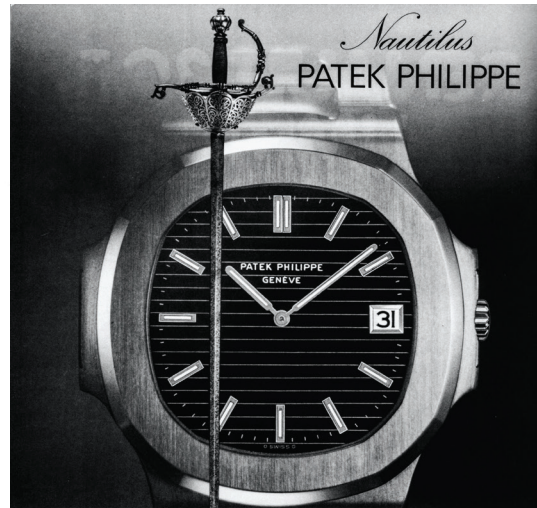
*High Precision Watch  
Manufacturers*

THE MOST ACCURATE WRIST-WATCHES

ALL RECORDS IN THIS CATEGORY  
OBTAINED AT THE  
1948 GENEVA OBSERVATORY COMPETITION



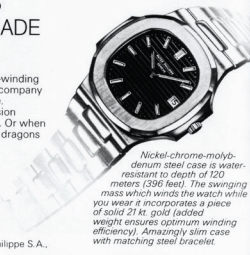
TIMING  
LABORATORY



## ONE OF THE WORLD'S COSTLIEST WATCHES IS MADE OF STEEL

Like the great swords of another age, Nautilus took shape between the skilled hands of master craftsmen. Like sword and knight, Nautilus and its owner are meant to be inseparable for life. Nautilus, with its hand-finished

Patek Philippe self-winding movement, will accompany you when you dive. Or when the occasion is formal or festive. Or when you set out to slay dragons in the boardroom.



*Nickel-chrome-molybdenum steel case is water-resistant to depth of 120 meters (390 feet). The swinging mass which winds the watch while you wear it incorporates a piece of solid 21 kt. gold (added weight ensures optimum winding efficiency). Amazingly slim case with matching steel bracelet.*

PATEK PHILIPPE  
GENEVE

Catalogue and list of nearest jeweler from Dept. NG, Patek Philippe S.A.,  
41 rue du Rhône, 1211 Geneva 3, Switzerland



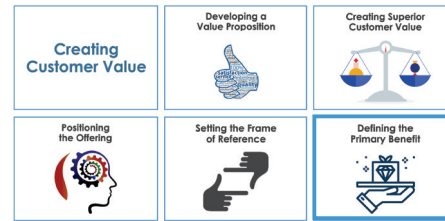
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GENEVE

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You merely look after it for  
the next generation.



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## Defining the Primary Benefit

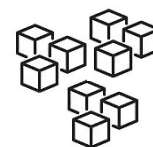
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## Identifying the Primary Benefit

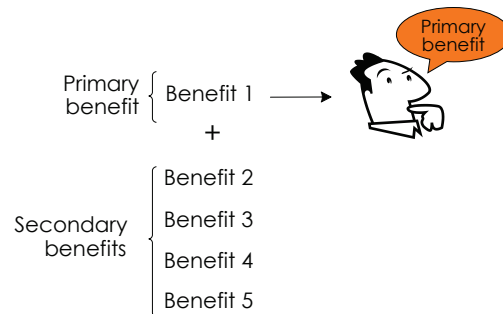
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- **The key principle:** The primary benefit should be meaningful and sustainable
- Positioning on **monetary benefits** is typically not sustainable because it requires having the lowest cost structure
- Positioning on **functional benefits** is difficult to sustain because many products and services are commoditized such that their performance is indistinguishable
- Positioning on **psychological benefits** is easier to sustain because they reflect idiosyncratic experiences and values that are more difficult to copy



## Defining the Primary Benefit: “More Is Better” Illusion

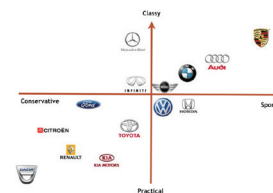
- **Myth:** Promoting more benefits leads to a superior positioning
- **Reality:** Focusing on a single benefit helps define the offering in a customer's mind



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## The Rationale for the Single-Benefit Positioning

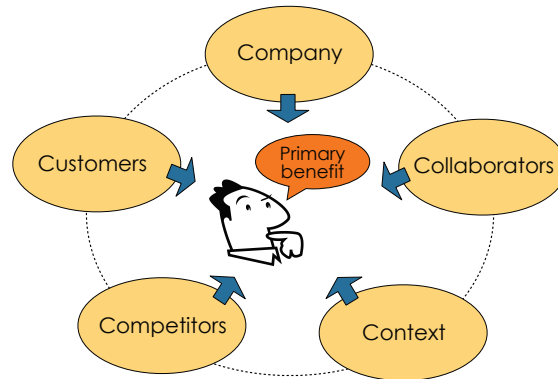
- **Information overload:** To deal with information overload, people simplify their choices, focusing on the distinctive aspects of the offerings
- **Primary attribute heuristic:** Choosing the offering that is best on the most important attribute(s) is easy to justify and is less likely to cause regret
- **Specialization:** A single-benefit offering is perceived to be superior on that dimension to a multi-benefit offering



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## Defining the Primary Benefit: The Illusion of Control

- **Myth:** The company controls the way customers perceive its offerings
- **Reality:** Positioning is a function of all 5 Cs: company, customers, competitors, collaborators, and context



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## Defining the Primary Benefit: The Advertising Fallacy

- **Myth:** Advertising is the primary positioning tool
- **Reality:** All marketing tactics contribute to the offering's positioning



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