Customer Analysis

Marketing Analytics

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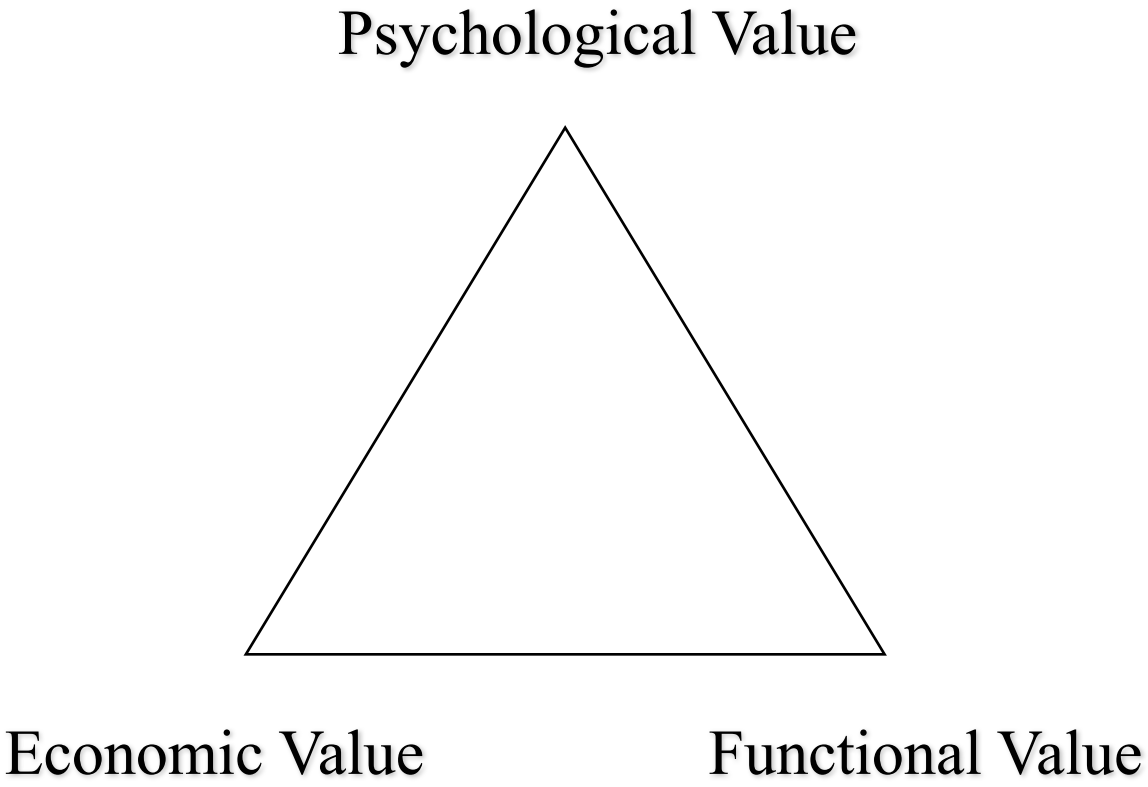
Agenda

- Customer Analysis
  - Sources of value to consumers
  - Measuring value
  - Using value for marketing decisions

Understanding Customers

- Who are your customers?
  - Buyers vs. users
  - Whoever influences their decisions
- What do they want/need? How do they buy?
  - What do they value when buying products and services?

Sources of Value to Consumers



Economic Value to Customers (EVC)

- The total (life-cycle) cost savings from using a new product in place of a current product

- EVC = (Total ownership cost of existing product) – (Total ownership cost of new product)

EVC Example

The chart below shows how compact fluorescent bulbs can save you money:

(Based on 10,000 hours of usage)

	One 18-watt fluorescent bulb	Ten ordinary 75-watt bulbs
Purchase Price	$8*	$8
Electricity cost for 10,000 hours (at 14.7¢ per kilowatt-hour)	$26	$110
Total cost	$34	$118
Over the life of the compact fluorescent bulb, you could save $84.	TOTAL SAVINGS: $84	

*Price with Con Edison discount.

Determining the EVC: An Example

- The XYZ pipe Co. is about to introduce a new kind of pipe made of synthetic materials
  - The primary use of the pipes is in underground irrigation and drainage systems
  - The new pipe is better than the currently available substitute, made by ABC Co.
  - It reduces the chance of leakage from 5% to 1%
- XYZ's pipe costs the company $40 per 100 ft.
  - All pipes are sold in 100 feet sections

Life-Cycle Cost of Using ABC Pipes during their 3 Year Life Span

- ABC pipes sell for $60 per 100 ft. section
- ABC's pipes have a 5% chance of leakage
- The labor and equipment rental cost for removing/replacing a leaked pipe is $200
- 20% of leaks cause flood damage
- Cost of flood damage varies by user:
  - a leak in an orange grove causes damage of $200
  - a leak in an avocado plantation causes damage of $400
  - A leak in a chemical factory can cost more than $5000

Summary of Information

	Substitute (ABC)	New Product (XYZ)
Price ($/100ft)	60	P
Life Span (years)	3	3
Leakage Probability	5%	1%
Flood Damage Probability (per leak	20%	20%

What is the maximum amount P that an orange grower would be willing to pay for a 100 ft section of the XYZ pipe?

Life Cycle Cost for an Orange Farm that Requires 100 ABC Pipes

	Substitute (ABC)
Cost of Pipes	100 (pipes) x $60 per pipe=$6000
Expected Replacement Costs	5 (failed pipes) x $60 per failed pipe=$300
Expected Labor and Equipment Costs for Failed pipes	5 (failed pipes) x 200 $ per failed pipe
Expected Flood Damage Costs	5 (pipes) x 20/100 x $200 = $200
Expected Life Cycle Costs	$7,500

Life Cycle Costs for an Orange Farm that Requires 100 XYZ Pipes

	New Pipe (XYZ)
Cost of Pipes	100 (pipes) x $P per pipe=$100P
Expected Replacement Costs	1 (failed pipes) x $P per failed pipe=$P
Expected Labor and Equipment Costs for Failed pipes	1 (failed pipe) x 200 $ per failed pipe
Expected Flood Damage Costs	1 (pipe) x 20/100 x $200 = $40
Expected Life Cycle Costs	101P+$240

101 P + $240 = $7500 ➔ P=$71.88

Issues in Using EVC

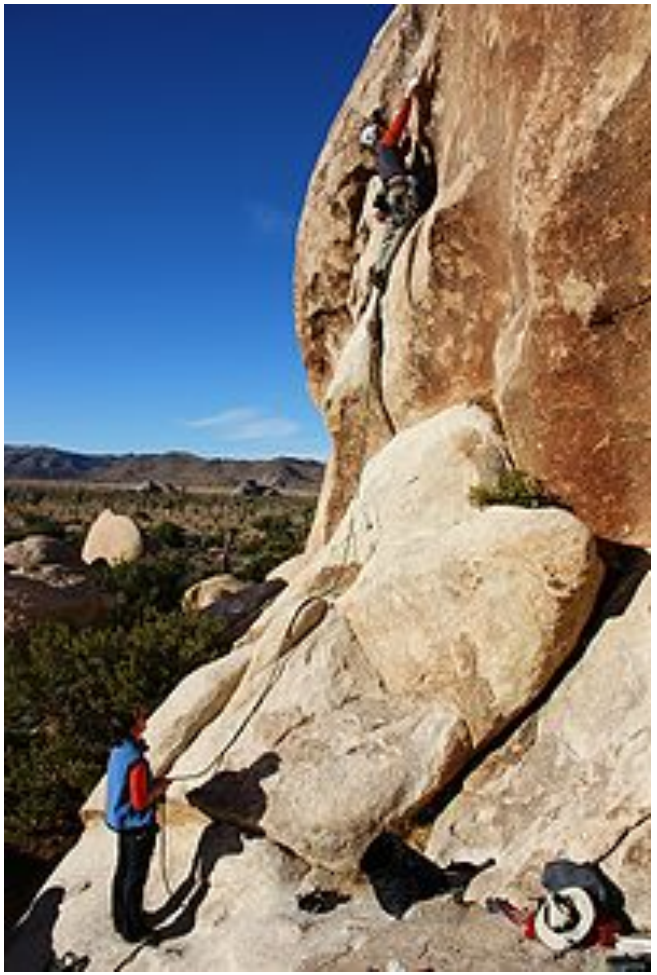
- Customer differences
- Convincing customers
- Other (fuzzy, qualitative) benefits ignored
- BUT, EVC can be useful in
  - Pricing
  - Segmentation
  - New product introduction

Perceived Value

- The value customers attach to different offers based on what they believe they are getting for what they are giving up

- How can you measure perceived value?

Mini-Case: Designing a Rock Climbing Harness



Design Task

The Rock Climbing harness redesign team of Camp USA has been asked to design an improved Rock Climbing Harness made of webbing with buckles and gear loops that will successfully compete with Mammat's and Black Diamond's Harnesses at a price point that represents value to customers.

What Do Mountain Climbers Value in a Harness?

Attribute	Importance
Easy to put on	2
Comfortable when hanging	5
Fits over different clothes	1
Accessible gear loops	3
Does not restrict movement	5
Lightweight	3
Safe	5
Attractive	2

How Well Does Camp USA Fare on these Attributes?

Attribute	Importance	Camp USA
Easy to put on	2	3
Comfortable when hanging	5	4
Fits over different clothes	1	1
Accessible gear loops	3	3
Does not restrict movement	5	2
Lightweight	3	3
Safe	5	4
Attractive	2	2

Quadrant Analysis—Camp USA

How Does Camp USA Compare to Competitors?

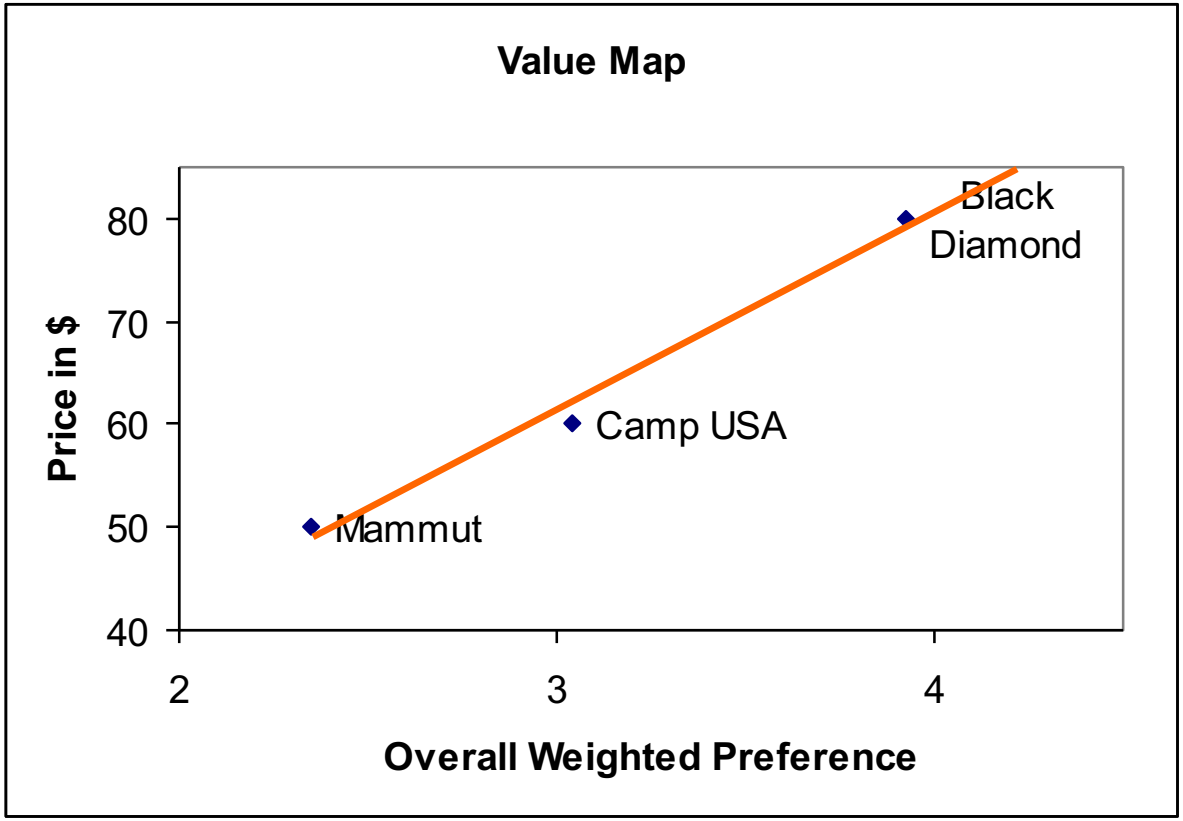
Attribute	Importance	Camp USA	Mammut	Black Diamond
Easy to put on	2	3	3	4
Comfortable when hanging	5	4	3	3
Fits over different clothes	1	1	1	5
Accessible gear loops	3	3	3	3
Does not restrict movement	5	2	2	3
Lightweight	3	3	2	5
Safe	5	4	2	5
Attractive	2	2	2	5

Overall Brand Preference

Attribute	Importance	Camp USA	Mammut	Black Diamond
Easy to put on	2	3	3	4
Comfortable when hanging	5	4	3	3
Fits over different clothes	1	1	1	5
Accessible gear loops	3	3	3	3
Does not restrict movement	5	2	2	3
Lightweight	3	3	2	5
Safe	5	4	2	5
Attractive	2	2	2	5
Weighted Average		3.04	2.35	3.92

Preference for Camp USA=(2*3 + 5*4 + 1*1 + … + 2*2)/26=3.04

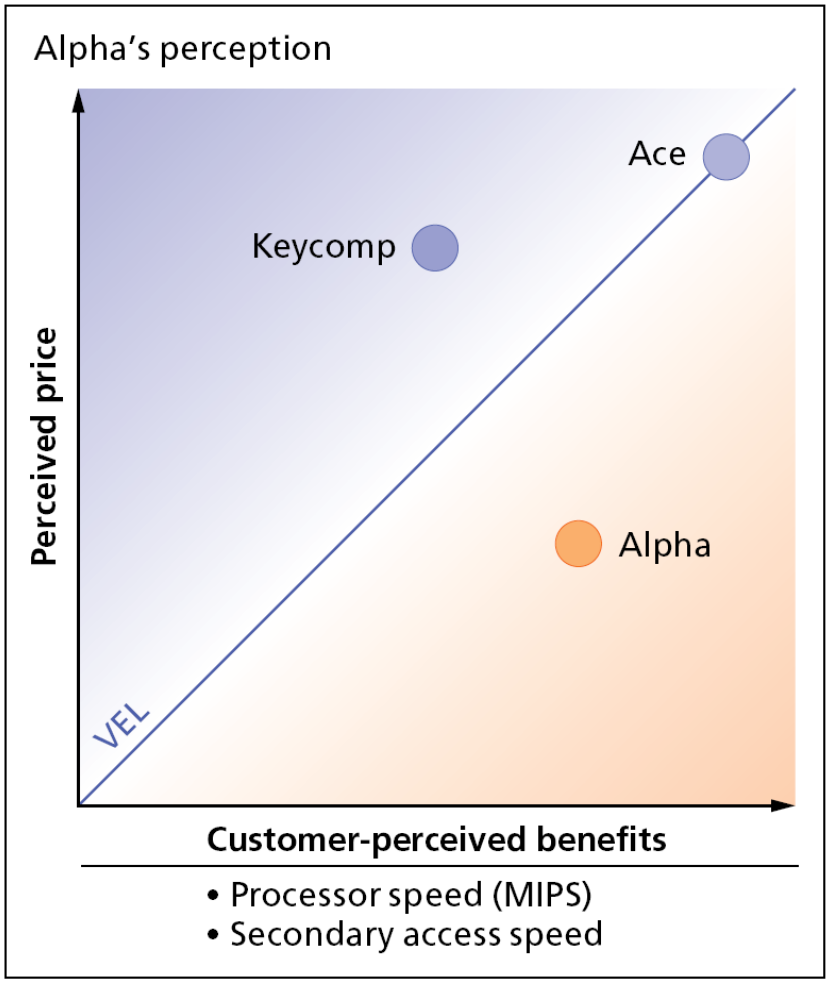
Value Map


Value Map
Price in $
80
70
60
50
40
2
3
4
Overall Weighted Preference
Black Diamond
Camp USA
Mammut

Mini-Case: The Alpha Minicomputer Company

Source:
McKinsey Quarterly 1997,
Number 1

Minicomputer value map



Value Map: The Alpha Minicomputer Company

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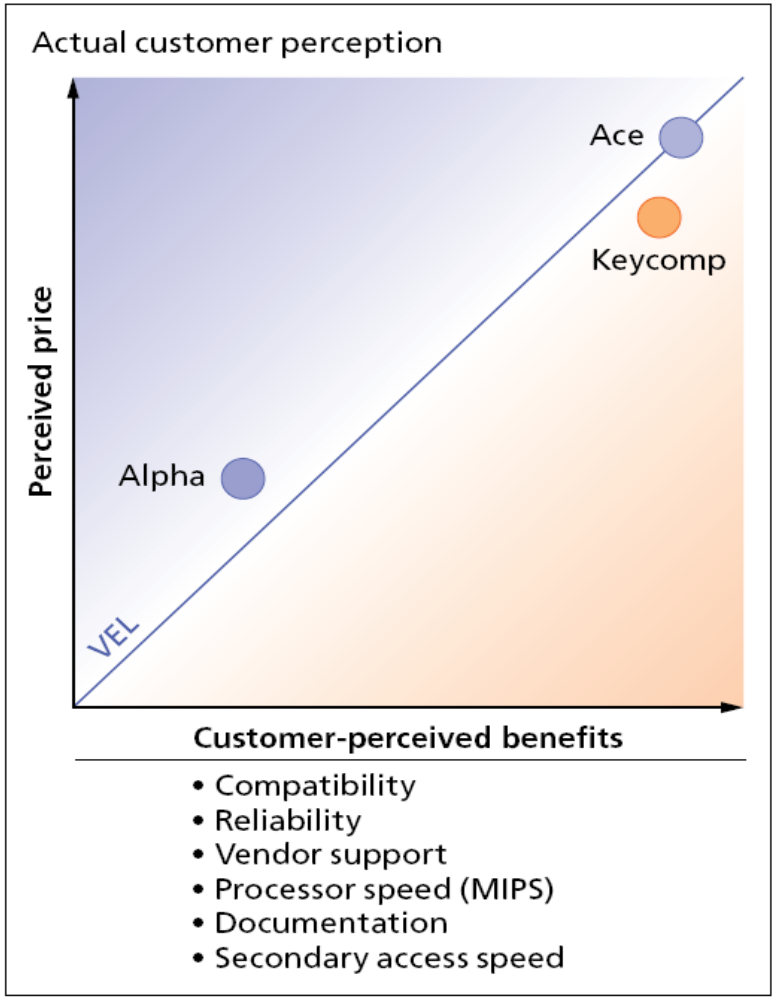
Exhibit 4

Minicomputer value map



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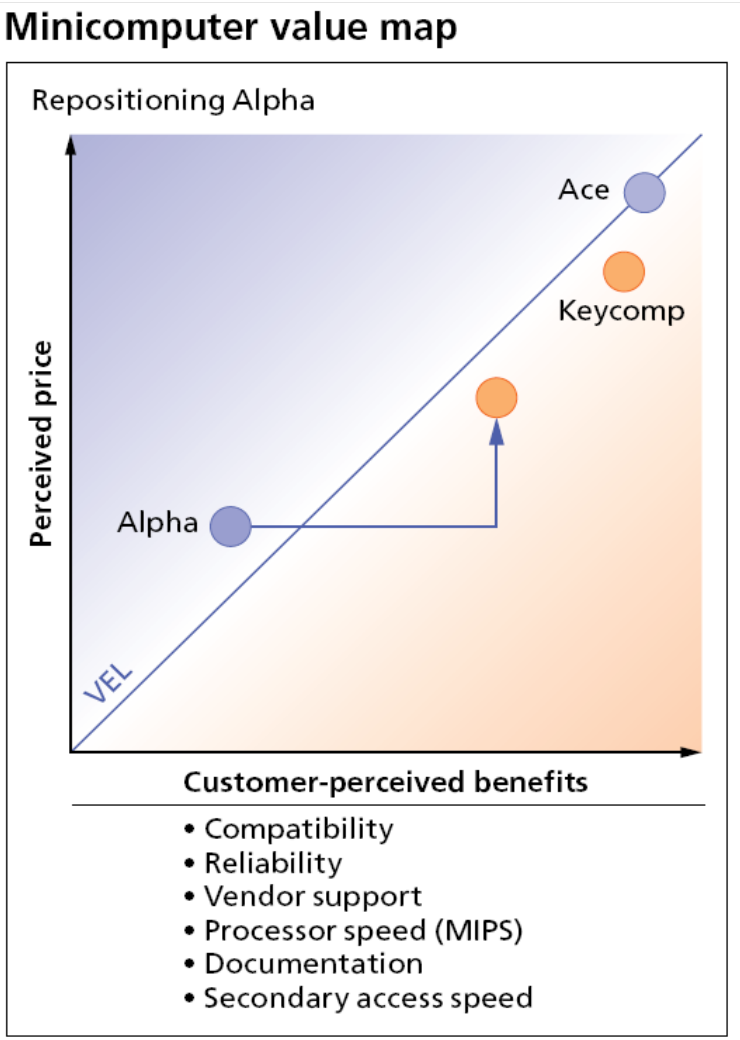

Summary

- Customer analysis involves understanding what customers want and how they value the competitive offerings
- Three sources of values:
  - Psychological
  - Functional
  - Economic
- Sustained competitive advantage is the result of creating and delivering customer value either better or more efficiently than competitors