ACHIEVING MARKETING NIRVANA

Finally, there is a way to link marketing activity to financial performance

BY DONALD E. SEXTON, PhD

FOR ANY BUSINESS PROFESSIONAL, superior financial performance must be at the heart of every decision and every action taken. This is especially true for marketers. While researching my latest book, a senior executive said to me, “Marketers can always spend money to hide a flawed business strategy. When money is tougher to come by, we need to be much smarter about how we spend it.”

It seems fundamental, but my research suggests that not all companies understand how marketing drives financial performance. “All organizations need to get back to the basics of measuring, monitoring, and increasing customer value,” another executive said. “After all,” he continued, “customer value determines the net value a company creates for society.” I agree and believe that achieving superior financial returns from your marketing and sales efforts is simple to understand and best achieved by using a concept I call Customer Value Added, or CVA®.

What Is CVA®?

CVA® is the difference between perceived value — the maximum your customers will pay for your product or service — and the unit cost of providing them with the product or service. If perceived value falls below your unit cost, you are on your way to going out of business, since the inputs for your products or services cost more than your customers are willing to pay for the products or services that are your outputs. But the larger the CVA, the more contribution you can expect from them.

Successful b-to-b companies understand the components of CVA and apply them to guide their marketing actions. At The Boeing Company, perceived value is at the heart of the company’s relationship with customers. “Managing perceived value is something the entire company must support because maintaining strong customer relationships is vital to Boeing’s long-term success,” according to Steve Haro, a brand manager for the Chicago-based aerospace company.

DuPont determines pricing for some of its products by estimating the perceived value to end users. By using perceived-value estimates, the Delaware-based company was able to provide carpet manufacturers with estimates of their likely increases in revenue and contribution were they to purchase Stainmaster fiber.

How Do You Measure CVA?

To manage, you must be able to measure. In the case of CVA, that means you need to measure both perceived value and unit costs. Keep in mind that perceived value is not your price but the *ceiling* on your price. It can be determined in many ways, including value-in-use, constrained choice modeling, and judgment.

The value-in-use method, often employed in business-to-business situations, consists of finding the new product price that would make a customer indifferent between using the new product or the old product — that price would, in effect, be the perceived value of the new product. Boeing uses a form of value-in-use by utilizing models that estimate both the revenue and cost impact should an airline add a specific Boeing aircraft to its fleet. Constrained choice models consist of a family of marketing research techniques, such as conjoint analysis, that allow managers to estimate not only the perceived value of any product or service but also the value of the individual components. This is the approach DuPont used for pricing Stainmaster fiber and Marriott used for designing its Courtyard hotels.

How Do You Manage CVA?

Managing CVA is simple if you keep in mind these four principles.

1. Design your products or services with value engineering, always comparing changes in perceived value and changes in costs.
2. Increase perceived value by communicating the benefits you are providing your customers.
3. Use all kinds of media to increase perceived value while controlling costs.
4. Maintain forward control of your businesses by continually monitoring perceived value and CVA.

Gary Elliott, vice president of brand marketing at Hewlett-Packard Company, explains that the success of the H-P brand depends on “staying relevant in a world of increasing options and choice [which] requires continual insight about customers and being able to act on these in genuine collaboration with your brand.”

Conclusions

Perceived value determines the revenue a product or service generates and CVA determines the contribution a product or service generates. Theory and practice both agree: the higher the value (as perceived by customers) of what a company produces in comparison with its costs of producing it, the more successful the company will be. You do that by maximizing CVA. ■

Donald E. Sexton, PhD, is a professor of marketing at Columbia University and president of The Arrow Group, Ltd.® This article is based on ideas and examples presented in his latest book, Value Above Cost: Driving Superior Financial Performance with CVA®, the Most Important Metric You’ve Never Used *(Wharton School Publishing).*