



QDI's Market Vision

September 15, 2015

INSIGHT INTO THE CURRENT MARKET

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Relative Value

by Steve Bassill

I need a bigger SUV to “tote” around my grandkids. Am I going to buy a top of the line All-Wheel-Drive Toyota Highlander Limited Platinum Model or an All-Wheel-Drive Infinity Q60? Both are big enough, with a third row of seats for extra passengers. Both score well on safety and reliability, and although the scores are slightly different, both have the advanced safety features I am looking for.

As you can see, I am trying to decide between two very good products. The ultimate decision will come down to, “Which has the greatest value to me?”

This problem is no different than the value decision that customers face every day when looking at your product or service. To help our clients be more precise when they talk about their value versus competitive offerings, we developed QDI's Value Creation Formula.

This formula provides a framework for quantifying the total value customers perceive from your offering versus competitive offerings. As the formula shows, the value a customer perceives is a function of the perception of benefits

received and costs incurred to get those benefits.

As the formula says, benefits and costs are customer specific. What I value in the SUV purchase will differ somewhat from another customer. Marketers at Toyota and Infinity have done a lot of customer research to understand how different customer segments will value their offerings.

$$\text{Value}_P = B_P / \$C_T$$

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|--|---|---|
| <p>Benefits</p> <ul style="list-style-type: none"> - Product/ Service - Responsiveness - Relationship - Brand <p>Cost</p> <ul style="list-style-type: none"> - Purchase Price - Buying and adoption cost | } | <p>For each specific customer segment</p> |
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They know buyers like me are not particularly price sensitive, but want to stay in a price band that makes us comfortable. For me that was around \$50K which both products met.



Relative Value

To drive sales and profits, marketers need to understand their “Relative Value” and fine tune offerings so that their value is greater than competitive alternatives.



About QDI

QDI Strategies is an International consulting organization that helps clients create and execute breakthrough go-to-market strategies in commercial and industrial markets.

Cost Components: The cost components include all the cost the customer incurs to do business with you.	
Product Cost	The amount the customer pays for the product, including special terms, delivery, etc.
Purchase Cost	The cost the customer incurs to purchase, handle, store, own, and use your product.
Adoption Costs	The adoption costs include training, engineering, design, and installation that are associated with your product, particularly when they differ from other options.
Risk Cost	These costs are a function of the customer's risk tolerance and his perception of the costs and likelihood of problems related to your product.

Thus, in our cost component table above, the **Product Cost** variable was going to be about equal across the two vehicles. And because I live minutes away from both dealers, I would be able to get service quickly and would have minimal Risk Cost with either SUV. Now I need to focus on benefits.

Benefit Components: The benefits a customer perceives reflect the product(s) he receives from you, the services he gets, relationships he has with people in your organization, and even the image that your brand portrays can be a benefit to the customer.

Product/Service	Functionality, fit, and form
Service	Service quality -ease of doing business together. Service empathy – customer perception that someone cares
Relations	Personal linkages to the supplier
Brand	The fit of your brand image with the customer's perception of risk and product suitability

My perceptions of **Service** and **Relationships** were pretty equal across the two SUVs. The exception might be that the Toyota dealer felt more like a sales factory, where the Infinity dealer felt more personalized.

This led to **Relations**. Did I really feel a personal relationship with either dealership? While I connected better with the Toyota Sales Rep., this hardly gave me a feeling of a "personal relationship". Thus, **Service** and **Relationship** were not determining factors in my decision.

When considering **Brand**, there are some clear brand differences. Toyota has a reputation as a great quality brand, whereas Infinity clearly has a "status" about it that would set it apart. If I was the type of customer that placed great value on the status I get from my car, then this could be a determining factor.

The final variable, and for me the most important one left is the **Product**. In QDI's value creation model, we use the phrase "Product/Service" because many of our clients are selling services, not products, so the formula actually looks at the "service" as if it were a product.

My analysis now begins drilling down into minimal, but potentially significant product differences. So far in my shopping, I have found two that are both important to me and vary between the two brands.

- **I want easy access to the third row. In looking at both SUV's I was impressed with how easy this was with the Infinity- far better than anything else I had seen.**
- **Handling. I really like the "German feel" cars. Tight handling and almost a sports car feel. In my test drives, the handling has been dramatically different, with the Toyota demonstrating a tighter road feel.**

I haven't made a buy decision yet, but am leaning towards the Toyota. In the end, I will be driving the vehicle a lot more than squeezing people into the third row. So, if I were to weigh the importance of these two factors, handling would be much more important than third-row access.

Quantify Value

We developed QDI's Value Creation formula discussed in this newsletter to help clients look quantitatively at the drivers of customer value – the elements that define value and those that define costs. Using this formula you can calculate a Total Benefits score and a Total Costs score for your offering and competitive offerings.

You can translate these Benefits and Costs scores into a Relative Perceived Value score by comparing your score to your competitor's scores. The higher the relative perceived value of an offering to a customer or customer segment, the more likely the customer will purchase that offering.

To learn more about Relative Value and how to quantify the relative value of your offerings, [click here](#) to see QDI's Value Assessment Workbook on our website.

If you have questions about Relative Value and how to conduct research that measures relative value, contact us.

FOR MORE INFORMATION

Visit our [website](#), or call us:

Steve Bassill 847.566.2020 x229

Michael Barr 847.566.2020 x225

