

CHAPTER FIVE

CREATING CUSTOMER VALUE: DEVELOPING A VALUE PROPOSITION AND POSITIONING

There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.

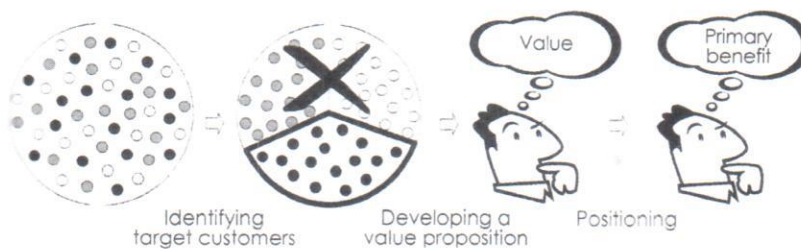
— Sam Walton, founder of Walmart

Creating customer value is a central component of a company's strategy. Because customers are the ultimate source of value for the company and its collaborators, customer value is the key to creating market value. The two key aspects of creating customer value—value proposition and positioning—are the focus of this chapter.

The Big Picture

The development of a customer value proposition and positioning follows the identification of customers that the company will serve with its offering (discussed in more detail in Chapter 4). An offering's value proposition delineates the value—defined by the specific benefits and costs—that target customers will receive from the offering. Building on the value proposition, the positioning identifies the primary benefit(s) of the offering that will serve as the main reason for customers to choose it. The processes of identifying target customers, developing a value proposition, and positioning are illustrated in Figure 1.

Figure 1: Identifying Target Customers, Developing a Value Proposition, and Positioning



The development of a customer value proposition and positioning is intricately related to the process of identifying target customers. Indeed, even though they are presented in Figure 1 as a progression, in reality these processes are iterative, whereby the development of a value proposition and positioning both determines and follows from the choice of target customers. The development of a value proposition precedes the identification of target customers because the company's ability to create superior customer value is a key targeting criterion. At the same time, the development of a value proposition follows from the selection of target customers because a meaningful value proposition necessitates knowing the needs and preferences of target customers. Recognizing the iterative nature of the processes of identifying target customers and developing a value proposition and positioning, this chapter focuses on the key aspects of developing a value proposition and positioning on the assumption that target customers have already been identified.

Developing a Value Proposition

The customer value proposition defines the value that an offering aims to create for its target customers. The key aspects of the concept of customer value, the value function, and creating a competitive value advantage are outlined below.

Customer Value as a Marketing Concept

The concept of customer value is central to defining the value exchange in any market. Accordingly, understanding the essence of customer value and identifying its key domains is essential for the development of a viable marketing strategy.

The Essence of Customer Value

Customer value reflects the worth of an offering; it is a customer's assessment of the company's offering with respect to its ability to fulfill certain needs. From a company's perspective, the value-creation process involves defining the key aspects (attributes) of the company's offering that are aligned with customer needs (Figure 2). In this context, an offering's value is determined by the fit between its attributes and the needs of the target customers: The better the offering's attributes fit the needs of its target customers, the greater the value created by this offering.

Figure 2: Value as a Function of Customer Needs and Offering Attributes



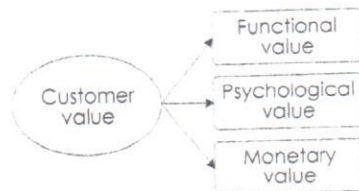
Two aspects of value merit attention: it is intangible and idiosyncratic. Because it is a customer's subjective evaluation of the worth (utility) of the company's offering, value is *intangible*; it does not physically exist in the marketplace. Value is not an attribute of a company's offering; it is created when a customer interacts with

the company's offering. Furthermore, because value reflects a customer's assessment of the offering, it is *idiosyncratic*, whereby the same offering can have different value for different customers. Thus, an offering that is appealing to one customer might be of little or no value to another customer. For example, a lower priced, lower quality offering is likely to be attractive to price-conscious customers and unattractive to those customers seeking high performance and exclusivity.

The Domains of Customer Value

Depending on the underlying customer needs, an offering can create value across three domains: functional, psychological, and monetary. These three domains of customer value are depicted in Figure 3 and briefly outlined below.

Figure 3: Dimensions of Customer Value



- **Functional value** is defined by the benefits and costs directly related to an offering's performance. Attributes that create functional value include performance, reliability, durability, compatibility, ease of use, design, customization, form, style, and packaging. For offerings that serve primarily utilitarian functions, such as office and industrial equipment, functionality is often the paramount consideration.
- **Psychological value** is defined by the psychological benefits and costs associated with the offering. Psychological value goes beyond the functional benefits of the offering to create psychological benefits for target customers. For example, customers might value the emotional benefits provided by a car, such as the joy of driving a high-performance vehicle as well as the social status and lifestyle conveyed by the car. In categories such as luxury and fashion, where customers seek emotional and self-expressive benefits, the psychological value conveyed by the offering is often of primary importance.
- **Monetary value** is defined by the monetary benefits and costs associated with the offering. Attributes that create monetary value include the offering's price, fees, discounts, and rebates, as well as the various monetary costs associated with using and disposing of the offering. Even though monetary value is typically associated with costs, an offering can also carry monetary benefits, such as cash-back offers, monetary bonuses, cash prizes, financial rewards, and low-interest financing. In commoditized categories with undifferentiated offerings, the monetary aspect of the offerings is often the dominant criterion for choice.

Even though they represent different dimensions of customer value, these domains are not mutually exclusive. An offering can create value in all three domains. Consider Starbucks, the Seattle-based global coffeehouse chain. Every week Starbucks serves millions of customers around the world, providing them with fresh-brewed coffee and in the process delivering value in these three domains. From a functional perspective, Starbucks coffee provides its customers with energy, helping them to wake up, rejuvenate in the afternoon, and stay up late at night. Starbucks delivers psychological benefits by becoming part of the daily routine for customers, giving them a sense of belonging and a means to express their identity by creating their "own" beverages. Finally, from a monetary perspective, Starbucks creates disutility (negative value) associated with the price customers pay at the register, which in turn can be attenuated by the available price promotions and loyalty programs.

The Value Function

A company creates customer value by designing market offerings that can fulfill a particular customer need better than the competition. To create customer value, a manager must ensure that the key aspects (attributes) of the offering are aligned with customer needs—a decision that calls for understanding the value consumers place on different aspects of the company's offering. Therefore, identifying customers' value function—that is, how customers evaluate the performance of the market offerings on different attributes and how they combine these valuations to form an overall assessment of each option—is of utmost importance because it enables the company to identify and prioritize which aspects of the offering must be improved based on their potential to create customer value.

Customer Value as a Function of Offering Attributes

Customers do not evaluate market offerings based on their objective attribute characteristics but based on the expected subjective value (utility) of these attributes. The customer value function reflects the way in which attributes of the offering translate to subjective benefits and costs for target customers.

An offering's ability to create value is determined by three key factors: (1) the attributes defining the company's offering, (2) the relative importance of these attributes for target customers, and (3) the offering's performance on these attributes. For example, when choosing a mobile phone, a customer might consider several attributes, including battery life, operating system, brand reputation, form factor, camera resolution, and price. Furthermore, different attributes might vary in importance for this customer, such that battery life, operating system, and brand reputation are of utmost importance, and price of least importance. Finally, this customer is likely to assess how well each of the available phones performs on the above attributes. Combining these different aspects of the valuation process will yield this customer's assessment of the value of each of the available decision alternatives and drive the ultimate choice. Customers' valuation of a market offering can be represented with the following value equation:

$$V_A = f(w_i, a_i)$$

Here V_A is the value of offering A , i is an index that specifies the particular attribute being evaluated, w_i is the importance of that attribute, and a_i is the offering's performance on that attribute. The index i ranges from 1 (in the case of offerings defined by a single attribute) to the total number of attributes describing a given offering (n). The symbol f means that the value is a function of attribute importance (w_i) and offering performance (a_i), without implying a specific relationship (e.g., a linear function) between these factors. To choose among multiple offerings, consumers typically compare their valuations of each of the available options (e.g., V_A versus V_B versus V_C) and select the one with the highest value.

For simplicity, the value function (f) is commonly assumed to be the sum of the offering's performance on individual attributes a_i , weighted (multiplied) by the relative importance of these attributes w_i . Assuming such a weighted-additive relationship between the different aspects of the offering, the value function can be represented as follows:

$$V_A = w_1*a_1 + w_2*a_2 + w_3*a_3 + \dots + w_n*a_n$$

Let's say that the consumer in the above example is using a 10-point scale to rate the importance of each attribute of the mobile phone, rating battery life, operating system, and brand reputation as 9; the form factor and camera resolution as 5; and price as 1. Furthermore, let's say that this consumer is using a 10-point scale to rate the performance of each camera on each attribute, rating the battery life of the first phone (A) as 4, the operating system as 8, the brand reputation as 6, the form factor as 5, the camera resolution as 7, and the price as 9. Accordingly, the valuation of camera A can be calculated as: $V_A = 9*4 + 9*8 + 9*6 + 5*5 + 5*7 + 1*9 = 231$. Following the same logic, the consumer can evaluate the other options (e.g., V_B and V_C) and choose the one with the highest value.

Despite its popularity, the weighted-additive value function is subject to important limitations that stem from its four key assumptions. Specifically, it assumes that (1) customers have well-articulated valuations of the offerings' performance on different attributes, (2) an increase in an offering's performance on a given attribute will result in a proportional increase in value, (3) the valuation of an offering is symmetric with respect to improving or diminishing its performance, and (4) buyers consider all available information about an offering in a systematic fashion. The research in the area of psychology and behavioral economics, however, has shown that these assumptions often do not hold. In this context, four aspects of the value function merit attention: *reference-point dependence*, *loss aversion*, *diminishing marginal value*, and *effort optimization*. These properties of the value function are outlined in more detail below.

Reference-Point Dependence

The reference-point dependence aspect of the value function reflects the fact that consumers often do not have well-articulated preferences and that their evaluations of market offerings depend on the decision context. Specifically, the reference-point

dependence principle means that the value of an offering is determined in terms of changes from a reference point, such that its disadvantages are framed as losses and its advantages as gains (Figure 4). To illustrate, when considering the processing power of a computer, customers are likely to evaluate it relative to the power of their current computer, which will serve as a reference point. As a result, the same computer is likely to be evaluated as an improvement (gain) by customers used to a less powerful computer and as a downgrade (loss) by customers used to a more powerful computer.

Figure 4: Reference-Point Dependence



The principle of reference-point dependence is frequently used in pricing, whereby buyers are given two prices—the “regular” price that aims to serve as a reference point and the “sale” price that reflects a discount from the regular price. This practice tends to be more effective when consumers do not have sufficient expertise to objectively assess the value of the offering as well as when actual product quality is not readily observable. In such cases, buyers tend to focus their attention on the difference between the “regular” and the “sale” price and rely on this difference—rather than on the actual benefits provided by the offering—to make a choice. Accordingly, the reference-point dependence principle is an important aspect of the pricing model of many retailers, including J^oS. A. Bank, JCPenney, and Kohl’s. Likewise, the “new and improved” product development strategy builds on the principle of reference dependence to focus buyers’ attention on the marginal improvement of the offering vis-à-vis its predecessor.

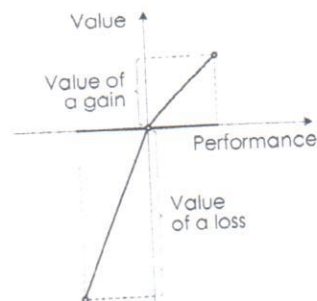
Loss Aversion

The loss-aversion aspect of the value function extends the principle of reference-point dependence to assert that people value the positive (gains) and negative (losses) deviations from the reference point in a different fashion, placing more weight on losses than gains. This asymmetric valuation pattern is reflected in the fact that the value function is steeper for losses than gains, such that the subjective experience of losses are exaggerated relative to that of corresponding gains.

The effect of loss aversion can readily be seen if one compares the differences in the subjective valuation of a change in the performance of the offering (reflected on the horizontal axis in Figure 5) that is of the same magnitude in terms of its absolute value but occurs in opposite directions—an improvement in one case and a detraction in the other. The subjective experience and evaluation of this change

... depending on the nature of the change (advancement vs. detraction), such as losses loom larger than corresponding gains. Thus, the loss-aversion principle implies that people place higher value on something they need to give up compared with something they stand to gain.

Figure 5: Loss Aversion



Consider, for example, buyers' reactions to fluctuations in the stock market: A loss of \$1,000 hurts proportionally more than the satisfaction derived from a gain of \$1,000. In the same vein, customers are likely to vary in their reactions to adding and deleting product features, whereby the disutility of having to give up a feature is likely to be greater than the utility of gaining the same feature. Loss aversion is also one of the building blocks of the no-questions-asked return policy of many retailers. Once customers take possession of the offering their reference point changes, such that the status quo of having the offering becomes the reference point for the subsequent decision regarding the disposition of this offering. As a result, returning the offering is no longer considered as a non-gain (i.e., the inverse equivalent of a gain) but as a loss, decreasing the likelihood that the buyer will return the offering. The shift in the reference point following the purchase process leads to a decrease in the initial probability of a purchase resulting in a return.

Diminishing Marginal Value

The principle of diminishing marginal value implies that the utility from improving an offering's performance on the same dimension does not increase in a monotonic fashion, and that after a certain point improving the offering's performance will produce marginally diminishing increases in the subjective valuation of the offering. The diminishing marginal value principle states that the value function is not linear, whereby increasing an offering's performance produces equivalent increases in customer utility. Rather, value function is concave, such that improving the offering's performance will have greater impact on its subjective value at a lower level of performance; as the offering's overall performance improves, further improvements will have progressively decreasing impact.

The effect of diminishing marginal value can readily be seen if one compares the differences in the subjective valuations of the same changes in the offering's performance (reflected on the horizontal axis in Figure 6) that occur at different

effort, albeit at the expense of choice accuracy. The likelihood of using heuristics is greater in the case of relatively less important decisions, when buyers are more willing to sacrifice accuracy in order to simplify choice.

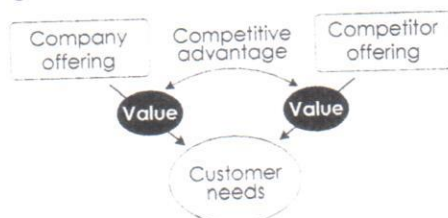
One popular decision heuristic—referred to as satisficing—involves selecting the first option that meets the buyers' criteria without necessarily considering all of the available options. Satisficing is perhaps the least effortful and at the same time the least accurate heuristic. Thus, buyers relying on the satisficing heuristic might end up choosing different options depending on the order in which they evaluate the options. In addition to satisficing, buyers might also simplify their decision by reducing the number of attributes on which they evaluate the available options. Thus, buyers might evaluate only the most important attributes, without taking into account the performance of the options on all attributes (referred to as the equal-weight heuristic). In an extreme case, buyers might consider only the most important attribute describing the choice options and select the option with the highest value on that attribute (referred to as the lexicographic heuristic). Alternatively, buyers might use a heuristic that implies a cut-off rule, thereby excluding options that do not meet a certain threshold value on key attributes. The goal of this heuristic (also referred to as an elimination-by-aspects heuristic) is to make the decision set more manageable by trimming options that are unlikely to be chosen.

Decision heuristics vary in the degree to which high levels of an offering on one dimension can compensate for low levels on another. Thus, the satisficing and elimination-by-aspects heuristics are noncompensatory in nature, meaning that a low level on one attribute cannot be offset by a high level on another attribute, whereas the equal-weight and the lexicographic heuristics and the weighted-additive model are compensatory, meaning that an option can be chosen despite extremely low values on some attributes, as long as its deficiencies can be compensated for by strong performance on other attributes.

Developing a Competitive Advantage

An offering's ability to create value for target customers is necessary but not sufficient to ensure its market success. In addition to fulfilling customer needs, an offering should be able to fulfill these needs better than the competition. Therefore, an offering's ability to create customer value must be considered in a competitive context and take into account the offering's competitive advantage (Figure 7).

Figure 7. Creating Superior Customer Value

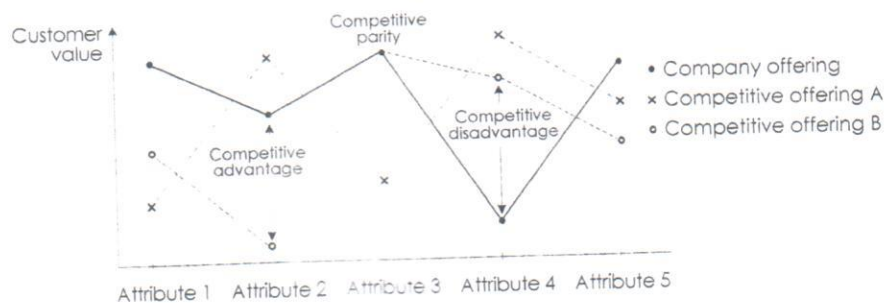


Competition is not just about differentiation; it is about differentiation that creates greater customer value. Because competitive advantage is determined by an offering's ability to create superior customer value, only attributes that are relevant to customer needs can create a competitive advantage. Differentiating on attributes that are irrelevant and do not add value for customers does not lead to a competitive advantage. In fact, differentiation on irrelevant attributes might even decrease the perceived value of the offering if customers believe that the irrelevant attributes come at the expense of other more important benefits.

In an ideal world, a company's offering should aim to dominate the competitive offering on all attributes. In reality, however, this is rarely the case. Because companies vary in resources, their offerings vary in the benefits they deliver to target customers. In this context, an offering's competitive advantage is defined by two factors: points of difference and points of parity. *Points of difference* involve attributes that are important for target customers and on which the company's offering is perceived to be different from that of its competitors. Specifically, there are two types of differences: *competitive advantage*, which reflects important attributes on which an offering dominates the competition, and *competitive disadvantage*, which describes attributes on which an offering is inferior to the competition. *Points of parity*, on the other hand, refer to attributes on which an offering's performance matches that of the competition.

The concepts of competitive differentiation, points of parity, and points of difference are illustrated in Figure 8, which reflects customer evaluations of the attribute performance of the offerings in a given market. Here, the horizontal axis identifies the attributes that have the potential to create value for target customers, and the vertical axis reflects customers' valuation of the benefits derived from the corresponding attributes of the offering. To account for the fact that some benefits are more important than others, individual attributes are usually ordered in terms of their importance, starting with the most important one. In this context, attributes on which the company's offering can create superior customer value relative to competitive offerings define its competitive advantage, attributes on which it is inferior define its competitive disadvantage, and attributes on which offerings are equivalent define the points of competitive parity.

Figure 8: Competitive Value Map



Note that competitive differentiation is not about actual differences among competitive offerings; it is about differences that are noticeable and perceived as relevant by target customers. Minor differences in market offerings that are not noticed by target customers or are deemed to be irrelevant do not constitute a competitive advantage. For example, if target customers cannot tell the difference in the performance of a 250 and a 260 horsepower car or if they find this difference meaningless, these offerings will be considered at competitive parity. By the same logic, an offering might be viewed as having a competitive advantage even when its attributes are identical to that of competitive offerings, as long as the offerings are differentiated in the mind of the customer. For example, two offerings might be at parity in their objective characteristics, but the stronger brand name associated with one of these offerings might make customers believe that this offering is, in fact, superior, giving it a competitive edge.

Strategies for Creating Superior Customer Value

The above discussion implies that to succeed an offering should aim to maximize its advantage on the attributes that are most important to target customers, while maintaining parity on the less relevant attributes. This raises the question of identifying actionable strategies a manager can use to create a competitive advantage. The three core strategies to achieve competitive advantage stem from the customer value equation $V_A = f(w_i, a_i)$ discussed earlier in this chapter. Recall that customer value is defined as a function of the importance of each of the relevant attributes (w_i) and the offering's perceived performance on each of these attributes (a_i). Accordingly, a manager can adopt one or more of the following three strategies for increasing the offering's value and creating a competitive advantage:

- **Improve the offering's performance on a given attribute.** In the context of the customer-value equation, this involves improving a_i , with i identifying the specific attribute to be improved. For example, to make a software program more attractive to customers who care most about performance, a company might consider improving its speed.
- **Add a new attribute on which the offering has an advantage.** In the context of the customer-value equation, this involves increasing the number of attributes (i) on which customers evaluate the offering. For example, a software company might differentiate its offering from the competition by introducing a novel feature that is perceived as valuable by target customers.
- **Increase the perceived importance of an attribute on which the offering has an advantage.** An alternative approach to make an offering more attractive is to change the perceived importance of some of its attributes in a way that bolsters an attribute on which it is superior to competitive offerings. For example, a company with software that is relatively slow but is compatible with most other existing software products might promote the importance of compatibility. In the context of the customer-value equation, this involves improving w_i , where i is compatibility. Note that unlike the first two strate-

gies, which involve improving the company's offerings, here the company aims to change buyers' beliefs about the relative importance of the different attributes defining the offering.

The above three strategies outline the key approaches a manager can take to enhance the value of an offering. When choosing which particular strategy to pursue, a manager must consider three factors: which strategy is likely to have the greatest increase in customer value, which strategy is likely to have the greatest value (e.g., lowest cost) for the company, and which strategy is the most difficult to copy by the competition. Selecting the strategy that optimizes these three factors is likely to contribute to the offering's market success.

Positioning the Offering

Positioning builds on the offering's value proposition to define the key reason for customers to choose the offering. The essence of positioning and its key components—frame of reference and primary benefit—are the focus of this section.

Positioning as a Marketing Concept

Positioning reflects the company's view of how its offering should be thought of by customers; it is the process of creating a distinct image of the company's offering in a customer's mind. For example, Volvo positions its cars as the safest vehicles on the road, Toyota emphasizes reliability, and BMW focuses on the driving experience.

The concept of positioning can be better understood when compared with the concept of the value proposition. Unlike the value proposition, which captures *all* the benefits and costs of an offering, positioning focuses customers' attention only on the *most important aspect(s)* of the offering's value proposition. Positioning aims to present the advantages of the offering in a way that accentuates its primary benefit(s) and provides customers with a compelling reason to choose the company's offering.

Because positioning typically highlights the most important benefit of the offering, it often can be summarized in a single phrase that is subsequently used to develop a tagline in the company's communications. For example, Domino's focus on speed led to the tagline *Fresh, hot pizza delivered in 30 minutes or less, guaranteed*. Papa John's focus on quality resulted in the tagline *Better Ingredients. Better Pizza*. Tide's focus on performance generated the tagline *If it's got to be clean...it's got to be Tide*. Avis's focus on service resulted in the tagline *We try harder*. Visa's focus on worldwide acceptance spawned the tagline *It's everywhere you want to be*.

The development of a positioning strategy involves two key decisions: (1) defining the frame of reference that customers should use when thinking about the company's offering and (2) identifying the offering's primary benefit. These two decisions are discussed in more detail below.

Defining the Frame of Reference

Customer valuation of market offerings is influenced by the reference points used to assess the attributes of the individual offerings. In this context, defining a frame of reference aims to provide customers with a benchmark that will underscore the value of the offering. Such benchmarks help customers categorize the offering in their minds and define the benefits and costs associated with the offering. Based on the choice of a reference point, five types of frames of reference can be distinguished.

- **Need-based framing** directly links the benefits of the offering to a particular customer need. For example, Coca-Cola's (1929) positioning as "*the pause that refreshes*" appealed directly to customers' need for a refreshment. Disneyland's (1955) positioning as *The Happiest Place on Earth*, Miller Lite's positioning *Great Taste . . . Less Filling!* and Walmart's positioning *Save Money. Live Better* are other examples of need-based framing.
- **User-based framing** defines the offering by associating it to a particular type of buyer. For example, brands such as Rolls-Royce, Louis Vuitton, and Patek Philippe are often associated with the upper social class and used to convey the image of high status and exclusivity. Honda's (1963) campaign *You Meet The Nicest People on a Honda* and Pepsi's (1963) campaign *Pepsi Generation* are other examples of user-based framing.
- **Category-based framing** defines the offering by relating it to an already established product category. For example, Coca-Cola's (1906) positioning as *The great national temperance beverage* defined Coke through its category membership and BMW's positioning as *The ultimate driving machine* defines its offerings relative to the car (driving machines) category.
- **Competitive framing** defines the offering by explicitly contrasting it to competitors' offerings and typically highlighting those aspects of the offering that differentiate it from the competition. The referent offering can be explicitly identified, or it can be broadly described without identifying a particular brand. DiGiorno's positioning *It's not delivery. It's DiGiorno*, and 7-Up's positioning as the *Un-cola* are examples of a competitive framing.
- **Product-line framing** defines the offering by comparing it to other offerings in the company's product line. Product-line framing highlights the differences between the generations of the same offering, and typically involves contrasting the benefits of the newly released product with those of the product it aims to replace. For example, Procter & Gamble used the tagline *Five Is Better than Three* to differentiate its five-blade Gillette Fusion razor from its three-blade predecessor, Mach3; and Microsoft highlighted the advantages of its Windows 7 operating system by comparing it to Vista, its predecessor.

The above five frames of reference can be grouped into the more general categories of noncomparative and comparative frames. *Noncomparative* framing directly

relates the value of the offering to the reference point without explicitly contrasting it to other offerings. Need-based, user-based, and category-based frames of reference tend to be noncomparative. *Comparative framing*, on the other hand, defines the offering by contrasting it to other offerings. Competitive framing and product-line framing typically involve comparative frames of reference.

As a general rule, competitive positioning is employed by niche offerings trying to gain share from the market leader. Competitive positioning is rarely used by the market leader because by comparing its offering with one with a smaller share, the market leader often ends up implicitly promoting the referent offering. For example, Microsoft's Bing search engine was introduced by (favorably) comparing itself to the market leader, Google, aiming to attract some of its customers. In contrast, Google's positioning does not involve a comparison with other search engines as it stands to gain relatively little from such comparisons. Note that this rule applies only to companies that directly compete with one another; it does not hold for companies targeting different customer segments. For example, a larger share mass-market brand could benefit by comparing itself with a smaller share upscale brand (e.g., Volkswagen comparing itself to Porsche).

Identifying the Primary Benefit

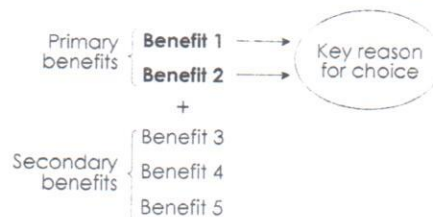
Because positioning involves prioritizing an offering's existing benefits and costs, the same offering can often be positioned in multiple ways. For example, TiVo can be positioned as a device that allows viewers to pause live television, as a one-step recording device, as a device to fast forward commercials, as a device offering instant replay, or as a device that allows viewers to record one channel while watching another. Vitamin Water can be positioned as a source of nutrition, as an energy drink, as a thirst quencher, or simply as a source of hydration.

The key to positioning is making tradeoffs—deciding not to promote certain benefits to bring the key benefit(s) into focus. Thus, positioning involves prioritizing the benefits of the offering, a process referred to as benefit laddering. Based on the domain of the primary benefit, three positioning strategies can be identified:

- **Positioning on functional benefits** aims to create functional value by emphasizing a particular aspect of an offering's performance. For example, Porsche emphasizes performance, Maytag emphasizes reliability, and Visa emphasizes its worldwide acceptance.
- **Positioning on psychological benefits** emphasizes the psychological value associated with the offering. For instance, offerings such as Montblanc, Rolls-Royce, and Dom Pérignon are positioned to instill feelings of luxury, exclusivity, and prestige. An offering's positioning may also be influenced by the company's positioning as a leader in product innovation, as in the case of Apple, Google, and Samsung, or by its image as a socially responsible organization, as in the case of Ben and Jerry's, Newman's Own, and Ecolab. An offering may also be positioned by emphasizing its risk-minimizing benefits,

it captures multiple aspects of the offering's value proposition. On the downside, multi-benefit positioning runs the risk of diluting the offering's image in the mind of the customer and failing to establish a compelling reason for choice. In general, multi-benefit positioning is not as common as single-benefit positioning and is typically limited to two attributes.

Figure 10: Dual-Benefit Positioning



- **Holistic positioning** emphasizes overall performance without highlighting individual benefits, enticing customers to choose the offering based on its performance as a whole rather than on particular benefits (Figure 11). For example, Gillette's positioning as *The best a man can get* aims to create a perception of superior overall performance. Colgate Total, as implied by its name, claims to offer the best overall package of category benefits. Similarly, Amoco's positioning as *America's number one premium gasoline*, Tylenol's positioning as *The brand most hospitals trust*, and Hertz's positioning as *the #1 car rental company in the world* emphasize market leadership to signal superior overall performance.

Figure 11: Holistic Positioning



An offering's positioning strategy is outlined in a positioning statement that identifies the offering's target customers and its value proposition for these customers. The key principles of writing a positioning statement are discussed in more detail in Chapter 20.

SUMMARY

Because customers ultimately create value for the company and its collaborators, managing customer value is essential for a company's success. The two key aspects of managing customer value involve developing a value proposition and developing a positioning strategy.

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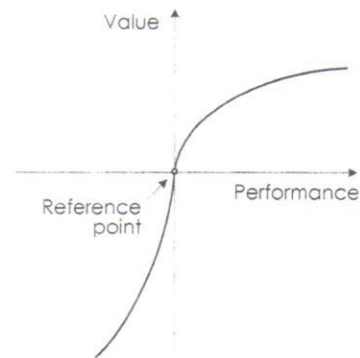
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The *primary benefit* reflects the main reason for customers to choose the offering and typically involves a functional, psychological, or monetary benefit. Based on the type and/or the number of primary benefits, there are three common positioning strategies: single-benefit positioning, multi-benefit positioning, and holistic positioning.

RELEVANT CONCEPTS: THE VALUE FUNCTION

The value function reflects the way people translate product features into subjective benefits (utility). Some of the key properties of the value function—reference-point dependence, loss aversion, diminishing marginal value, and effort optimization—were discussed in more detail earlier in this chapter. A popular representation of the value function capturing the first three properties—reference-point dependence, loss aversion, and diminishing marginal value—is shown in Figure 12.

Figure 12. The Value Function¹



Here, the value function is represented by an S-shaped curve in a two-dimensional space in which the horizontal axis represents the actual performance and the vertical axis represents the subjective value (utility) from that performance. The origin of the two axes defines the buyer's reference point and is also the point that separates gains from losses (on the vertical axis) and offering improvements from detractions (on the horizontal axis) on the value curve. The three properties of the value function—reference-point dependence, loss aversion, and diminishing marginal value—are reflected in the fact that the value curve is concave for gains, convex and steeper for losses, and originates from the reference point used to evaluate the offering.

RELEVANT CONCEPTS: POSITIONING MAPS

Positioning maps reflect buyers' perception of an offering's performance relative to that of the competition. Positioning maps are derived from customer evaluations of various aspects of the offerings available in a given market. Positioning maps can have any number of dimensions, although two-dimensional maps are the most common because they are the easiest to interpret (Figure 13).

- **Customer revenues** involve money received from customers for the right to own and/or use a company's offering. Customer revenues are influenced by a number of factors, including the size of the market and its growth rate; customers' buying power; price sensitivity; the company's pricing power; competitive intensity; as well as various context factors, such as the state of the economy, government regulations, and the physical environment.
- **Costs of serving target customers** involve expenses necessary to tailor the offering's benefits to fit target customers' needs as well as to communicate and deliver the offering to these customers. The cost of serving target customers can also include the expenses incurred in acquiring and retaining these customers (e.g., customer incentives, post-purchase support, and loyalty programs).

Strategic Value

Strategic value refers to customers' ability to create nonmonetary benefits that are of strategic importance for the company. There are four main types of strategic value: product-line value, scale value, communication value, and information value.

- **Product-line value** reflects the synergies between the focal offering and the other offerings in the company's product line. Popular examples of such synergies involve a manufacturer developing a low-priced, entry-level offering to facilitate the sales of a more profitable offering, a software company giving away a basic version of its product to encourage customers to upgrade to the premium, paid version (often referred to as the "freemium" strategy), and a retailer pricing a popular item at or below cost to drive store traffic (often referred to as the loss-leader strategy).
- **Scale value** refers to the benefits received from the scale of the company's operations. For example, a company might target low-margin or even unprofitable customers due to the economics of its business model, especially in the case of companies such as airlines, hotels, and cruise lines, which have large fixed costs and marginal variable costs. Furthermore, a company in its early stages of growth might target low-margin customers in order to build a product and/or user ecosystem that will serve as a platform for future growth. The success of Apple, Microsoft, eBay, and Facebook networks illustrates the benefits from building large-scale user networks.
- **Communication value** reflects customers' potential to influence other buyers. Thus, a company might target customers not because of their own buying power and the profits they are likely to directly generate for the company but to take advantage of their social networks and their ability to influence other buyers. For example, a company might target opinion leaders, trendsetters, and mavens because of their ability to create and/or expand the market for the company's offering.