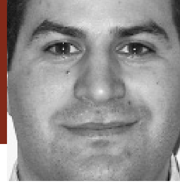

by Sam Fiorino

Using value to manage value

Last issue, we discussed the need for an organization to be client-focused and the need to create a client-focused culture. To do so, a critical success factor is the ability to manage client value. I'm left asking myself: what is client value? Is value what clients provide to an organization, or conversely, is value what the organization provides to the client? Depending on how you look at value, it can be both.

Client value measures have become a cornerstone of many organizations' segmentation processes. An increasing number of practitioners have advocated simple segmentation plans that are based on clients' value to the organization. An example is Jim Novo's book *Drilling Down — Turning Customer Data into Profits with a Spreadsheet* (self-published in 2000 and available through booklocker.com), which explains how to segment clients using client data such as purchase behaviour and a spreadsheet.

A closer look at these approaches to client value reveals that value is defined as a client's contribution to an organization's revenues. In other words, clients are segmented by their contribution to profit margins. Clients who contribute the most are considered high-value clients. You've no doubt seen and read some variations of this approach, such as RFM analysis and the 80-20 rule, where 20 percent of clients account for 80 percent of an organization's revenues. It stands to reason that high-value clients must be managed differently than low-value clients for a number of reasons, not the least of which is increased loyalty.

The question then becomes: how should an organization manage high-value clients? Do high-value clients behave differently than low-value clients? Typical, profile data that are available in client databases (i.e., demographic, firmographic) do not shed sufficient light on how to strategically manage different client segments. It is quite likely that high-value clients have different reasons for buying than low-value clients. However, without this important information, organizations are left to develop client management strategies in a vacuum.

The good news is that this information is readily available to client-focused organizations, particularly those with current client measurement systems in place such as satisfaction measurement. This information requires management to look at the value equation a little differently, to look at what clients find important and valuable. The client value measurement (CVM) paradigm dictates that a client derives value from the relationship between the quality of a product or service and the price paid for that product or service.

Many organizations are turning to CVM as an alternative to more traditional satisfaction research. Yet undertaking CVM is not an insignificant task. It requires an organization's management team to be on board, an investment into collecting the right data, typically through a comprehensive value measurement survey, and the ability to use the results to drive change.

In a recent article in *inside 1to1*, LightRiver Technologies was presented as an example of an organization that has successfully engaged in a segmentation process employing client value. The two-step process includes an initial segmentation by the amount contributed to revenues. Following that step, each segment is organized by client need to ensure that relationship management strategies are on the mark. This ultimately leads to improved ROI on investments in client service. (More on LightRiver Technologies is available in the May 5, 2003 edition of Peppers and Rogers' inside 1to1 e-newsletter.)

This is one of a number of organizations that have successfully married CVM to traditional value segmentation. They are successful because they have recognized that high-value clients generally behave differently and require strategic management. In the end, these organizations have realized that it is critical to use value to manage value. ih

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CVM vs. Satisfaction Research

Client Value Measurement (CVM)	Satisfaction Research
focuses on markets	focuses on clients
measures performance on key interactions	measures satisfaction with products/services
examines past, current and future interactions	focuses solely on past experiences
strategic in nature, focuses on an organization's core value proposition	tactical in nature, focuses on fixing errors and improving
aimed at decision-makers	aimed at front-line management