

Chapter 7.13

Customer Value and New Product Retailing Dynamics: An Analytical Construct for Gaining Competitive Advantage

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The customer value concept is utilized to assess product performance and to determine the competitive structure of the new products. The analytical approach to the new product-market structuring based on customer value may be fitted well within the microeconomic framework. The measure of customer value as the product efficiency may be viewed from the customer's perspective towards a ratio of outputs (e.g., perceived use value, resale value, reliability, safety, comfort) that customers obtain from a product relative to inputs (price, running costs) that customers have to deliver in exchange. The efficiency value derived can be understood as the return on the customer's investment. Products offering a maximum customer value relative to all other alternatives in the market are characterized

as efficient. Different efficient products may create value in different ways using different strategies (output-input combinations). Each efficient product can be viewed as a benchmark for a distinct sub-market. Jointly, these products form the efficient frontier, which serves as a reference function for the inefficient products (Bauer *et.al*, 2004). Thus, customer value of new products is defined as a relative concept. Market partitioning is achieved endogenously by clustering products in one segment that are benchmarked by the same efficient peer(s). This ensures that only products with a similar output-input structure are partitioned into the same sub-market. As a result, a sub-market consists of highly substitutable products. The individual values of the customer may be estimated as base values and changes in such values are affected by the corresponding measures of the specific value

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drivers. The base value ties to the most important of all complements that may be determined as customers' need. Estimating value drivers for a new product can be tricky because there is no direct historical data. However, we can assume that the impact from changes in price or availability of complements will be similar to what other markets have experienced.

In recognizing the need to contribute research in the area of customer value measurement and the concept of customer satisfaction leading towards creating the customer value, the study aims at developing a methodological construct to measure the customer value for new products introduced by a firm. The following discussion attempts to critically examine the available literature on the subject, discuss a model that provides a framework for analyzing the variables associated with customer value and to identify potential research areas. A basic premise of the arguments in this chapter are that the focus should be on maximizing total customer value and customer satisfaction which are inter-dependent in the decision making process towards buying new products. This chapter, being a part of emerging literature on customer value management, extends the existing knowledge of the relationship between launch of new products in the market and creating customer value by introducing the framework of a mathematical model. The framework of the construct is based on a proposed model which integrates all aspects so as to maximize the potential of the organization and all its subsystems to create and sustain satisfied customers. The approach begins with a conceptualization phase in which the concept of customer satisfaction is explored. Attributes are then classified into services and this is then extended to integrate the internal customer into a total service model; applying gap-analysis to this model. Enterprise satisfaction provides the basis for extending the total service model; positioning is applied to the customer satisfaction strategy; and operationalizing this strategy is proposed through an implementation model.

PREVIOUS CONTRIBUTIONS

It has been observed that there is increasing number of customer goods and services offered in recent years suggest that product-line extensions have become a favored strategy of product managers. A larger assortment, it is often argued, keeps customers loyal and allows firms to charge higher prices. There also exists a disagreement about the extent to which a longer product line translates into higher profits keeping the customer value higher. The academics, consultants and business people speculated that marketing in the new century would be very different from the time when much of the pioneering work on customer loyalty was undertaken (Churchill 1942; Brown 1953; Cunningham 1956, 1961; Tucker 1964; Frank 1967). Yet there exists the scope for improving the applied concepts as there have been many changes over conventional ideologies. A study using market-level data for the yogurt category developed an econometric model derived from a game-theoretic perspective explicitly considers firms' use of product-line length as a competitive tool (Dragnska and Jain, 2005). On the demand side, the study analytically establishes the link between customer choice and the length of the product line and includes a measure of line length in the utility function to investigate customer preference for variety using a brand-level discrete-choice model. The study reveals that the supply side is characterized by price and line length competition between oligopolistic firms.

Another study explores qualitatively the understanding of the importance of intangibles as performance drivers in reference to Swedish organizations using a combination of evolutionary theory, knowledge-based theory and organizational learning. The study reveals that the customer values are created towards the new products through individual perceptions, and organizational and relational competence (Johanson *et.al.*, 2001). The firms need to ascertain a continuous organizational learning process with respect to the

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