# From brand values to customer value

Martin Christopher

Recently there has been a growing tide of articles, papers and even conferences devoted to the question of the future of marketing (see, for example Brady and Davis, 1993; Coopers & Lybrand, 1993; Mitchell, 1994). Essentially, the point at issue is whether "traditional" marketing is appropriate for the conditions that now prevail in the late twentieth century. The basic principle of marketing still applies, that is the focus of the business on the satisfaction of customer needs, but, it is argued, the way in which marketing is practised may need to change fundamentally.

It has to be recognized that there have been some radical changes in the marketing environment since marketing first came to prominence in the early 1960s. Organizations which had even the most rudimentary understanding of the marketing concept were able to reap the harvest of fast-growing markets comprising customers who had money to spend. In such conditions it was easy to believe that the company's marketing effort was the main driver of this success. In reality that success was due as much to the fact that the business was being carried along with the tidal wave of market growth.

The most significant change to impact western companies has been the maturing of the markets in which they compete. Mature markets have certain characteristics which mark them out as being significantly different from growth markets. Chief among the characteristics of mature markets are:

- *Customer sophistication*. In the majority of western economies, today's customer and consumer has seen it all, they have been there and "bought the T-shirt". In industrial markets, as well as fast-moving consumer goods markets, the supplier is now faced with a buyer who is much more demanding and less easily persuaded by marketing "hype". One consequence of this change is the gradual decline in brand loyalty in many markets (*Industry Week*, 1993).
- *Decline in the impact of advertising*. It has been suggested by some industry commentators (Maddox, 1995) that, with the decline of the mass market and the consequent fragmentation of markets into smaller segments, conventional media-based advertising, particularly TV, is costing more and more to deliver the requisite ratings. This is causing a rethink in many organizations as to how they allocate their marketing budget. For example, it is reported that in the UK, Heinz is planning to divert most of its marketing communications budget from TV and apply it instead to direct marketing.

Journal of Marketing Practice: Applied Marketing Science, Vol. 2 No. 1, 1996, pp. 55-66. © MCB University Press, 1355-2538

- *Perceived product equality*. Mature markets exhibit similar characteristics to commodity markets in that customers perceive little difference between competing offers. In such conditions, while customers might have brand preferences they have less brand loyalty – meaning that if the preferred brand is not available, they will willingly accept a substitute. Even product/markets with high rates of innovation do not seem immune from this tendency to "commoditization"; take, for example, the personal computer market, where clones and "me-toos" now account for significant market shares.
- *Price competition*. Almost by definition the combined effect of the previous three factors is a downward pressure on price. As a result, there is a temptation to seek to achieve tactical gains in sales volume through discounting in one form or another which is compounded by the continuing demands for price reductions by powerful customers. Paradoxically, the more that organizations compete on price, the more they reinforce the customers' view that they are indeed commodity suppliers.

## Concentration of buying power

A further significant difference in today's marketing environment, compared to the past, is the continuing concentration of buying power in many markets. Concentration has occurred as organizations merge or grow through take-overs, and as the inevitable result of a competitive process that leads to the "survival of the fittest" (*The Economist*, 1993). This process of concentration seems to be present in just about every industry. The grocery retail market is a very visible example. Figure 1 shows the percentage of the total market in western European economies accounted for by the top five retailers in those countries. In that same market, there are beginning to emerge pan-European buying groups which will add to the concentration effect. These groups seek to use their combined buying power to gain better prices than they might be able to achieve by acting alone (Thornhill, 1990).

The process of concentration in other industries in western Europe has been further accelerated through the process of European economic integration. Previously, countries had tended to develop their own industrial base independently from their neighbours, but now that the barriers to trade have mostly been removed there exists significant over-capacity in many industries. If a comparison were to be made between the USA and the countries of the European Union – in total the size of their populations are roughly similar – then it will be found that in many comparable industries there tend to be more players in Europe than in the USA. A good example is provided by the turbine generator industry where there are ten companies competing in that market compared to only two in the USA (Cooper *et al.*, 1991).

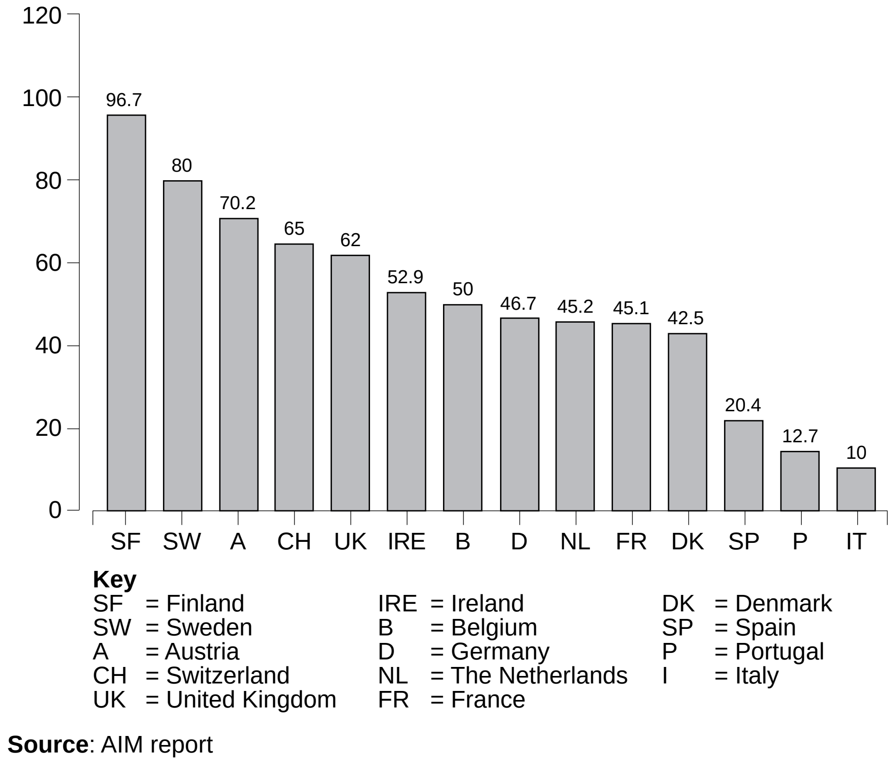



**Figure 1.**
Market share of top five retailers

### The fragmentation of consumer markets

Paradoxically, while buying power in business-to-business markets is tending to concentrate, in consumer markets the trend has been to fragmentation. By fragmentation is meant a transition from the old idea of a uniform, homogeneous, "mass market" to much smaller segments where consumers seek individual solutions to their buying needs. The emerging idea of "micro-marketing" (Kotler, 1994) is an attempt to focus marketing strategies on ever smaller groupings of customers.

In the fragmented marketplace the conventional tools of mass marketing no longer have the same effect. National advertising campaigns through the mass media, for example, may no longer be the most cost effective way of communicating with these micro-markets. At the same time there is evidence that the more sophisticated consumer is influenced less by traditional advertising and that more purchase decisions are actually made at the point of sale (Dickson and Sawyer, 1990).

### The transition from brand value to customer value

Much has been written about the changed nature of brand loyalty (Aaker, 1991), how the continued rise of private label products is further challenging conventional brands (Glémet and Mira, 1993) and how the "company" brand may be taking over from the individual brand (Barwise, 1992).

Underlying these discussions is the view that brand "values" may not be as strong in the eyes of the consumer as they once were. The concept of brand values implies that what makes a brand a brand is its "personality" which distinguishes it from others and that the presence of this personality imparts some utility – however tangible – to the consumer. There is a strong body of research supporting the idea of brand personality as a source of value to the consumer (King, 1973). However, what seems to be happening is that the changes in the marketing environment summarized earlier are tending to diminish the strength of that value.

The thrust of this article is that the original concept of brand value is in need of extension, and needs to be embodied within a wider concept of customer value. The customer value concept recognizes that marketplace success in the new competitive environment described above will require not only continued investment in the brand but also investment in customers. The underlying philosophy is that customers, not just consumers, have goals that they seek to achieve and that the role of the supplier is to help customers achieve those goals.

## Defining customer value

Put very simply, customer value is created when the perceptions of benefits received from a transaction exceed the costs of ownership. The same idea can be expressed as a ratio:

$$\text{Customer value} = \frac{\text{Perceptions of benefits}}{\text{Total cost of ownership}}$$

The marketing task is to find ways to enhance customer value by improving the perceived benefits and/or reducing the total costs of ownership. Both the numerator and the denominator of this ratio should be measured relative to competitive offers.

Total cost of ownership rather than price is used here because in most transactions there will be costs other than price involved. For example, inventory carrying costs, maintenance costs, running costs, disposal costs and so on. In business-to-business markets, as buyers become increasingly sophisticated, the total cost of ownership can be a critical element in the purchase decision (Ellram, 1993). Life cycle costs, as they are referred to in the military and defence industries, have long been a critical issue in procurement decisions in those markets.

The concept of customer value is of equal importance in consumer marketing as it is in business-to-business environments. In 1993, 2 April was termed "Black Friday" on Wall Street, New York because of major falls in the share prices of most branded goods companies. The trigger for this collapse had been the decision by Philip Morris to cut the price of its Marlboro cigarettes by 20 per cent or 40 cents a pack in order to counter competition from low price own-label products. The reason suggested by commentators for the fall in the share price of branded goods companies was that the Marlboro episode signalled the beginning of a revolt by customers who were starting to question the worth of paying significantly more for branded products which were no longer seen as delivering a commensurate amount of added value (*The Economist*, 1994a). Lowering the price (which had been increased ahead of inflation year after year) enabled Marlboro to restore the customer value it had been progressively eroding. Since taking this action its market share in the USA has increased dramatically.

In seeking to deliver significantly superior customer value the marketer must clearly define, communicate and deliver a "value proposition" which is recognized by the target market as a better proposition than that presented by competitors. It should also be recognized that in most markets there will be different value segments but that to be successful in any one of them the customer value ratio must be seen to be superior to competitive offers. Figure 2 highlights how this idea might be applied to parts of the UK car market.

Focusing on the value proposition forces the marketer to define clearly the two dimensions of cost and value shown in Figure 2 in terms of "what you give" and "what you get". It must also be recognized that these dimensions are perceptual, meaning that continuing customer communication will be important if the value proposition is to be understood clearly by the target market.

The sources of superior customer value are many. Treacy and Wiersema (1993) identify three value disciplines which can provide competitive

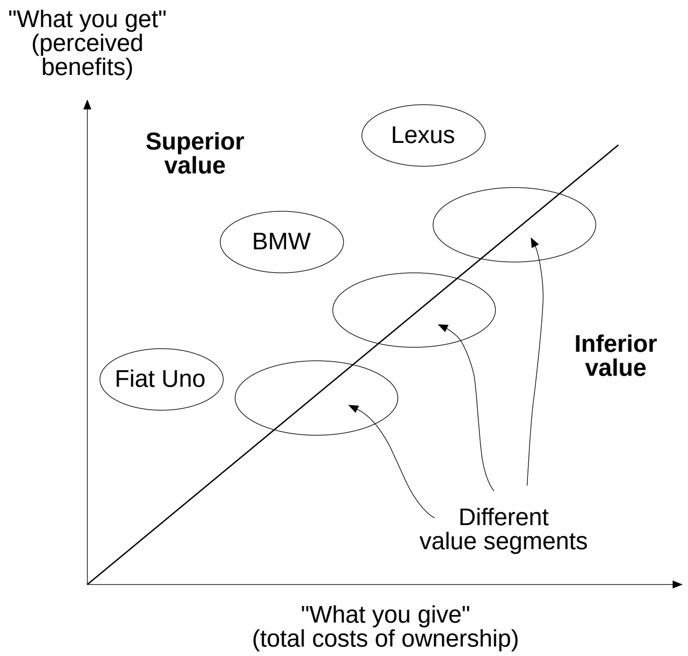



**Figure 2.**
Value segmentation

advantage: operational excellence, product leadership and customer intimacy. Operational excellence is achieved through a focus on systems, cost-effectiveness and speed so that customers are provided with the service they require, but at less cost. Product leadership as a strategy requires a commitment to continuous innovation, high levels of research and development, and a willingness to take risks. Customer-intimate companies are those that focus on building long-term relationships with customers particularly through a focus on service. While these strategies are not mutually exclusive, successful companies tend to follow predominantly one or other of these value disciplines.

The emerging philosophy of relationship marketing (Christopher *et al*., 1991) is a reflection of the growing recognition that long-term competitive advantage is gained by creating superior perceived value for customers. The argument is that customers are more likely to stay with suppliers if they believe that the relative customer value received from a current supplier is higher than that on offer elsewhere. Furthermore, there will often be considerable switching costs which would make a change of supplier unattractive. There are a growing number of examples of organizations that are establishing market leadership positions through a focus on customer value. Companies as diverse as Procter & Gamble, British Steel, DHL and Milliken have all demonstrated that enduring customer relationships can be created through an understanding of the importance of operational excellence, product leadership and customer intimacy.

## The sources of marketing advantage

In the new competitive environment, it is increasingly evident that successful marketing strategies are based on an amalgam of three critical elements: the creation of a consumer franchise whereby end-users are attracted to the product/service in question because they perceive a superior offer; a strong customer franchise where intermediaries want to do business with us because of a tangible economic benefit and, third, an under-pinning supply chain effectiveness that delivers superior service at less cost. Figure 3 summarizes the three sources of competitive advantage. Each of the three dimensions requires a clearly defined strategy, but developed as part of an integrative package to deliver superior value to customers and consumers alike.

### *The consumer franchise*

While brand loyalty may no longer be as strong as it once was, the need to build a contract with the end-user is still a vital prerequisite for marketing advantage. Brand value is still a critical element in many purchase decisions although it seems that there has been a return to a concept of value based on traditional tangible or core benefits rather than the more emotionally-based, intangible benefits that seem to have fixated many marketers in the last quarter century. Now it seems that consumer loyalty more often is based on "hard" rather than "soft" dimensions. So, value for money, convenience, reliability, safety and functionality become the drivers of product or service choice. We buy a TV set

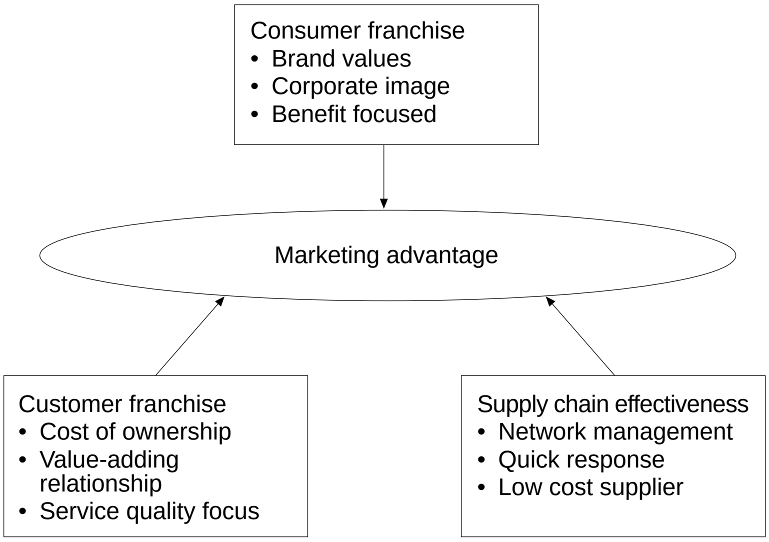
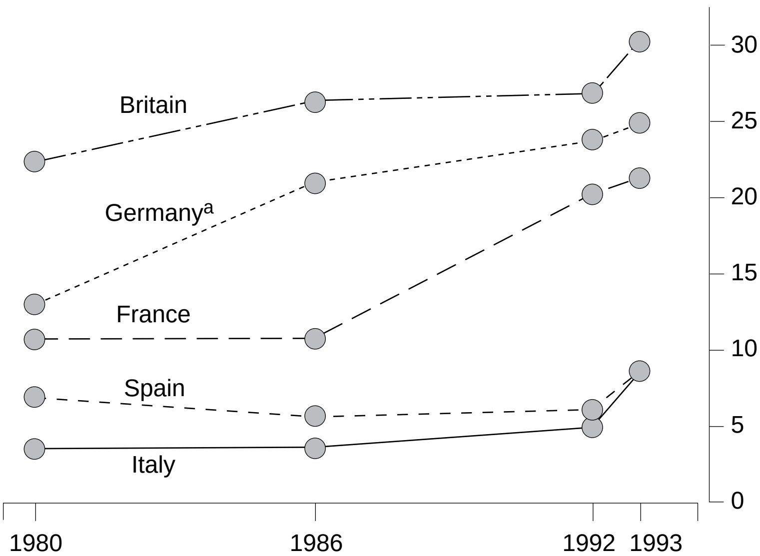



**Figure 3.** The sources of marketing advantage

more for its features and the reputation of its manufacturer for reliability than we do for its image, for example. The impact of own-label, retailer-branded products in many categories is further testimony to this development. Coca-Cola, regarded as the world's most recognized brand, has seen its market




**Note**[a] Figures do not include Aldi
**Source**: Boston Consulting Group

**Figure 4.** Percentage of own-label market share

share in the USA and the UK (and elsewhere too) under attack by own-label products which are seen by customers to deliver better value for money. Figure 4 shows the growing penetration of own-label products in major European markets.

What this means for twenty-first century marketers is that in order to strengthen the consumer franchise, the focus of marketing effort must increasingly be on delivering solutions which can be translated into hard, tangible benefits by individual consumers. In many cases this will mean a transition to micro or one-to-one marketing whereby a greater degree of tailoring/customization of the product offer is achieved (Pine *et al.,* 1995).

### *The customer franchise*

Because the power of intermediaries has strengthened in many markets, it is of paramount importance to make the customer – not just the consumer – an integral part of marketing strategy. Whether the intermediary be a retailer, a distributor or an original equipment manufacturer, without their support it is unlikely that even the strongest brand could achieve its full potential.

Not only has the purchasing power of the customer increased as a result of concentration, but there is a growing trend towards single-sourcing by those customers. In other words, whereas in the past the practice was to spread the total purchase of an item across several suppliers, now the aim is to reduce the size of the supplier base and to seek further cost reductions as a result (Hines, 1994).

While to many suppliers such developments may be perceived as a threat, to others they present an opportunity. If the supplier can offer a superior value package with a measurable positive economic impact on the customer, then the likelihood is that they will win the business. Today's customer is a more sophisticated buyer, used to working with concepts such as total cost of ownership, life-cycle costing and cost/benefit analysis. Indeed, many customers now actively pursue a partnership sourcing concept (Lamming, 1993) whereby they seek to establish long-term relationships with preferred suppliers based on win-win philosophies.

It can be argued that a preferred supplier, continuing to deliver superior customer value, has in effect the advantage of a barrier to entry that in many respects is far more difficult to surmount than more conventional competitive defences.

### *Supply chain effectiveness*

This author has suggested elsewhere (Christopher, 1992) that individual companies no longer compete with other standalone companies, but rather that supply chain now competes against supply chain. The rationale for this viewpoint is based on the fact that when organizations work independently of their up-stream suppliers and down-stream customers, costs and inefficiencies tend to build up at the interfaces (Houlihan, 1985).

The need for co-ordination between partners in the supply chain has increased as the network organization becomes more common. The network organization comprises a complex web of linkages between focused partners each of which adds value through specialization in an activity where it can provide a differential advantage. A company like Apple Computers, for example, relies heavily on other companies to supply components, to manufacture hardware, to create software and to distribute its products around the world. Something like 90 per cent or more of the cost of an Apple computer is going to outside suppliers. It has been suggested (Webster, 1992) that marketing as a function may even disappear as the strategic focus shifts towards network management.

This progress towards the idea of supply chain integration as a source of competitive advantage will be accelerated as the growth of time-based competition (Stalk and Hout, 1990) accelerates. In markets that are increasingly volatile, responsiveness becomes a critical competitive requirement. Companies like Benetton and The Limited have gained significant advantage through their ability to respond rapidly to fashion changes in the markets they serve. Through the use of highly co-ordinated logistics and supply chain structures, driven by the real-time capture of sales data, these companies, and others like them, can adapt their product range and their volumes in weeks rather than months.

Supply chain management should not be seen as something separate from marketing. Indeed in the new competitive paradigm supply chain effectiveness becomes an essential prerequisite for marketplace success.

### Delivering customer value

Once it is recognized that customer value provides the basis for successful differentiation the next issue is how might that value best be delivered?

A profound change is taking place in many companies as they review the appropriateness of their organizational structures for the changed marketplace of the late twentieth century and beyond. The traditional, functional organization structure is thought by many to be unable to meet the challenge of today's volatile, time and cost-sensitive markets. Instead, the organizational imperative is to become market-facing and to break away from tightly constrained functional departments.

The horizontal organization, as it has come to be called (Ostroff and Smith, 1992), is oriented around the management of cross-functional processes. Processes are the fundamental tasks which have to be achieved in order to create and deliver customer value. In any business there are a number of core processes that should be managed on a cross-functional basis. Examples of core processes would include:

- brand development (including new product development);
- consumer development (primarily focused on building loyalty);
- customer management (creating relationships with intermediaries);

- supplier development (strengthening up-stream relationships); and
- supply chain management (including the order fulfilment process).

The transformation from a functional to a horizontal organization has major implications for the management structure of the business generally and for marketing management in particular. In effect, in the horizontal organization, marketing is no longer a series of activities performed within a marketing department. Indeed in many companies that have made the transition from vertical to horizontal organizations the marketing department has disappeared (*The Economist,* 1994b).

However, this is not to assume that marketing is dead, indeed the reverse is the case – the need for market-driven businesses is as strong now as it ever was. Rather, we are seeing the transformation of marketing from a narrow set of functional skills based on a conventional "4Ps" marketing mix, to a broader business orientation where the delivery of superior customer value becomes the key objective. However, this being said, it must be recognized that there are still important functional skills that marketing must continue to develop, for example, research to provide in-depth market understanding and knowledge of consumers' buying patterns, motivations and so forth.

Strategic marketing planning also takes on a different form in the horizontal organization. Essentially the task of marketing planning in this new organizational model is to translate strategic goals into process plans, for example one major brewing company established the strategic goal of "a perfect pint in every pub". The marketing planning task now becomes one of translating that goal into specific programmes for each process. So, for instance, what does "a perfect pint in every pub" imply for the brand development process, the customer management process and so on? Because each process in this company is now managed by a cross-functional process team a wider, more integrated perspective is brought to bear on the issue.

Some might argue that this underpinning, integrative process of strategic marketing planning might better be termed strategic business planing. This is really only semantic and, in reality, it does not matter what we call this critical process, only that we manage it and recognize its central importance. Figure 5 summarizes the radically different shape of the process organization and the central role of strategic marketing planning.

Moving to a process orientation clearly implies significant change for the business. The benefits of the transformation though can be considerable, particularly in the improvement of market responsiveness, the shortening of lead-times and the re-engineering of processes to deliver more customer value at less cost (Hammer and Champy, 1993).

## Conclusion

In a world where the customer has become ever more sophisticated and experienced, where competition comes from new global players, alternative technologies and lower priced generics and me-toos, the focus of marketing

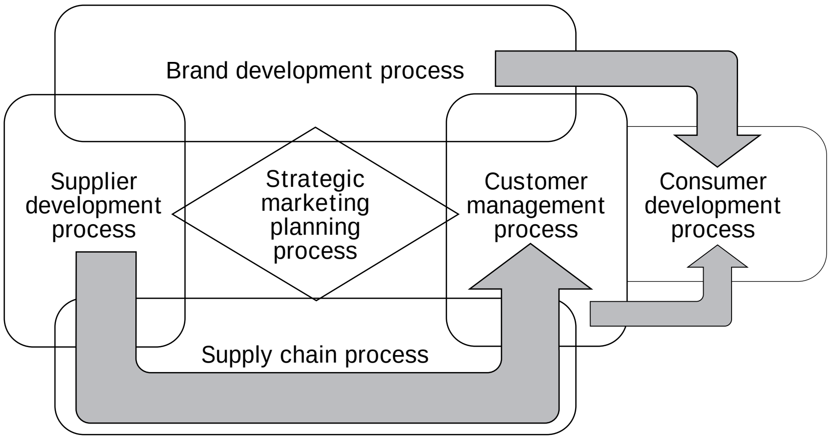



**Figure 5.**
Marketing in a process context

strategy must be on differentiation through superior customer and consumer value.

Value is perceptual but comprises the customers' understanding of what they are getting compared to what they are giving. In other words the functionality of the product and any emotional or intangible value plus the hard, tangible benefits must be set against the total cost of ownership.

The task of marketing, therefore, has to be expressed in terms of the creation and delivery of customer value. It begins through an understanding of the value requirements of market segments or even individual customers; it then seeks through cross-functional processes to deliver that value through customer specific solutions.

As many organizations are now learning, to become a customer value focused business requires a fundamental transformation of the way we manage. This transformation requires a shift from a compartmentalized view of the business where marketing is seen as the responsibility of the marketing department to a view that recognizes that processes deliver customer value and, hence, should be managed accordingly. Those companies that understand this, and are prepared to make the change, are those that will become the leaders in the increasingly demanding markets we now confront.

**References**

Aaker, D. (1991), *Managing Brand Equity*, The Free Press, New York, NY.

Barwise, P. (1992), "Brand portfolios", *European Management Journal*, Vol. 10 No. 3.

Brady, J. and Davis, I. (1993), "Marketing's mid-life crisis", *The McKinsey Quarterly*, No. 2.

Christopher, M. (1992), *Logistics and Supply Chain Management*, Pitman, London.

Christopher, M., Payne, A. and Ballantyne, D. (1991), *Relationship Marketing*, Butterworth Heinemann, Oxford.

Cooper, J., Browne, M. and Peters, M. (1991), *European Logistics: Markets, Management and Strategy*, Blackwell, Oxford.

Coopers & Lybrand (1993), *Marketing at the Crossroads: A Survey of the Role of Marketing*, Coopers & Lybrand, London.

Dickson, P. and Sawyer, A. (1990), "Price knowledge and search of supermarket shoppers", *Journal of Marketing*, Vol. 54, July.

Ellram, L. (1993), "Total cost of ownership: elements and implications", *International Journal of Purchasing and Materials Management*, Vol. 29 No. 4.

Glémet, F. and Mira, R. (1993), "The brand leader's dilemma", *The McKinsey Quarterly*, No. 2.

Hammer, M. and Champy, J. (1993), *Re-engineering the Corporation*, HarperCollins, London.

Hines, P. (1994), *Creating World Class Suppliers*, Pitman, London.

Houlihan, J. (1985), "International supply chain management", *International Journal of Physical Distribution and Materials Management*, Vol. 15 No. 1.

*Industry Week* (1993), "Brand loyalty: can it be revived?", 5 April.

King, S. (1973), *Developing New Brands*, Pitman, London.

Kotler, P. (1994), "Reconceptualizing marketing", *European Management Journal*, Vol. 12 No. 4.

Lamming, R. (1993), *Beyond Partnership: Strategies for Innovation and Lean Supply*, Prentice-Hall, Englewood Cliffs, NJ.

Maddox, B. (1995), "Zapping the commercial break", *The Times*, 17 May.

Mitchell, A. (1994), "New generation marketing", *Marketing Business*, Chartered Institute of Marketing, Cookham, February.

Ostroff, F. and Smith, D. (1992), "The horizontal organization", *McKinsey Quarterly*, No. 1.

Pine, J.B., Peppers, D. and Rogers, M. (1995), "Do you want to keep your customers forever?", *Harvard Business Review*, March-April.

Stalk, G. and Hout, T. (1990), *Competing against time*, Free Press, New York, NY.

*The Economist* (1993), "A global game of monopoly", 27 March.

*The Economist* (1994a), "Man Friday", 25 June.

*The Economist* (1994b), "Death of the brand manager", 9 April.

Thornhill, J. (1990), "Retailers broaden their outlook", *Financial Times*, 17 December.

Treacy, M. and Wiersema, F. (1993), "Customer intimacy and other value disciplines", *Harvard Business Review*, January-February.

Webster, F. (1992), "The changing role of marketing in the organization", *Journal of Marketing*, Vol. 56, October.

(Martin Christopher is Professor of Marketing and Logistics at Cranfield School of Management, Bedford, UK.)