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CUSTOMER VALUE IS A KEY CATEGORY IN VALUE MANAGEMENT OF INNOVATIONS

1. Universal approach to customer value

Value analysis as a base of today's value management need not be introduced to professionals. This type of analysis was launched sixty years ago (Lawrence D. Miles, year 1947, firm GE, USA) when the functional and value approach was used in planning and innovations implementation by the means of value management or of value management of innovations. The principle of the functional and value approach to the value management of innovations is plain and simple. It rests in finding the answers to the following questions: «How to improve the provision of a set of functions which are utility carriers of an innovated object; and how much will it cost us?» The objective of such business and innovative acts of producers is: «to do good things well». In other words to produce and offer exactly what our customers need and what can be produced at the lowest costs in means under very high production circumstances. «The optimum of joys (utility) with minimum of sorrows (prices, costs)» is what customers request. Only such a product is the most valuable and has the biggest value for every customer. Yes, we are talking about the biggest therefore the maximum customer value. Value management of innovations is therefore an authentic and exclusive methodical instrument, which in accordance with economic interest of producers (to do good things well) maximizes customer value («optimum of joys» with «minimum of sorrows»). Maximum customer value becomes a meeting point of producers' economic interests and customers′ economic interests, as the following equalities show:

A. Customers will earn «optimum of joys» if producers produce and sell only «good things» that is products and services in requested volume of utility. Therefore: [«optimum of joys» = «good things»].

B. Customers will have to exert only «minimum of sorrows» to get requested utility if producers «do well» their products and services, it means under highly productive and efficient circumstances. Therefore: [«minimum of sorrows» = «do well»].

C. In summary, the role of maximum customer value as a meeting point of mutual producers′ and customers′ economic interests can be defined as: «optimum of joys with minimum of sorrows» = «good things do well».

Customer value is quantified as a rate of utility to total costs, or acquisition costs to the application of a given utility and rises in the following five cases:

1. Required faster utility growth is achieved at a slower growth of total costs.
2. Required utility growth is achieved at unchanged total costs.
3. Required utility growth is achieved at total costs reduction.
4. Same utility level is achieved at total costs reduction.
5. Required slower utility reduction is achieved at faster total costs reduction.

Customer value is not only a marketing category determining and evaluating products exchange. It is a standard for wider, practically universal effect. Technical-economic reality is accurately shown in a process approach that allows to perceive economic subjects and their activities as processes. Products are clearly logical outputs of these processes aimed at some receivers who are customers. These customers are not only external (e.g. production firms, dealers, final consumers and users) but also internal (e.g. owners of just-in-time processes, various internal customers of internal processes products, internal stakeholders, etc.). From this realistic point of view the economic subjects of a multiple net are interconnected and linked with the internal products for internal customers. All this, along with the products exchange to external customers creates an objective factual space for the total application of customer value as a universal instrument of efficiency evaluation, including the evaluation of the processes themselves and the elements of their structures.

2. Role of customer value in competitive corporate strategy

The theory and the practice identically confirm the positive impact of the increase in customer value on commercial success of products. The methods of price forecasting by value approach explicitly confirm the direct proportion between the customer value growth and the growth of potential commercial success of products and services. The commercial success and the competitiveness are closely connected. The growth of one is followed by the growth of the other.

To do better than a competition and win on the same or substitute products markets can be achieved by more favorable prices and delivery conditions, or by utility differentiation as far as the offered utility growth is concerned; or by both concepts at the same time. In any case the competitive battle is tough, uncompromising which is often and rightly called «bloody». In accordance with the five above mentioned cases of the customer value growth, a chance to succeed have only those who will be able to implement one of the acceptable options of the maximization of current customer value. This competitive strategy which is focused on defeating and destroying a competitor was and has been a prevailing style of competitors′ fight. The escalation of competitors′ methods hardness into a behavior that could be expressed by an imperative of the law of jungle: «Eat up or you will be eaten up!»

Experts who study competition strategies and tactics have been lately more and more concerned with such strategies that bring the victory without a fierce fight with competitors. As W. Chan Kim and Reneé Mauborgne the authors of the «Blue Ocean Strategy» report mentioned in the subtitle the art is «to create uncontested market space and make the competition irrelevant». The above mentioned authors show us how to win over our competition by avoiding it. It does not mean that we withdraw. It means that we will find the highest common purpose and sense of the product and service utility. The product that is an object of our fight with the competition, and for different fulfillment of the highest common purpose and sense we will totally differ new product. Let us abandon our traditional values which our competitors count on, on the contrary, let us concentrate on the elements that the competitors do not pay attention to or underestimate them. By this we will create new products and services as new alternatives for new customers (they were not customers before), we will form new markets without competition, so called blue oceans. We will win by leaving «red (bloody) oceans» of harsh competition fights and get rid of our competition, by smart innovations which are by the authors of the «blue oceans strategy», called «value innovations». The customer value itself distinguishes «blue oceans» innovations from other innovations which help winning in «red oceans». If products innovations winning competitors in «red oceans» will therefore increase the «current maximum customer value», then the new products innovations created in «blue oceans» mean the «new maximum customer value». The strategy of «new maximum customer value» or «blue oceans» creation is avant-garde strategy of such business units which «create new future» on those «who react on it».

At the end of my article I would like to conclude that the value management of innovations is a highly effective methodical innovation instrument which contributes to a victory in the waters of «red oceans» – that is in the environment of harsh competition – by the means of the current customer value maximization. At the same time it is methodical arsenal of winners who are entering waters of «blue oceans» as innovators creating the new maximum customer value through the value management of innovations.