

# The Customer Value Equation

**Some people represent complex relationships with mathematical equations; how does this work with customers and what they value?**

We previously [wrote](#) that customers buy value, not products, services, and experiences as such. What we left out of the buying *scenario* was that in addition to the monetary price that customers pay, there are non-monetary factors such as *Access Costs*, examples of which include waiting in a queue or driving across town.

There is a tendency to create models of the world to help us to understand how things work. One type of model is the mathematical formula. Creating models with real-world variables can be helpful to understand the outcome or end result if one or other variable is increased or decreased, but a few points need to be made:

- Expressing certain phenomena, such as human activities or commercial interactions, in mathematical formulas is imprecise. The benefit is mostly in the modelling, not the absolute value of the result.
- A mathematical formula is a model, for the purpose of understanding relationships between variables. The thing to remember is that "all models are wrong but some are useful," George Box, 1978.

Before we reveal the Customer Value Equation, for those in need of a little maths refresher, here's a simple equation:

$$\text{Result} = \frac{\text{numerator}}{\text{denominator}}$$

What the equation means in words is, the Result equals the numerator divided by the denominator. With real examples:

As the numerator increases holding the denominator constant, the result increases:

$$3 = \frac{6}{2} \quad 4 = \frac{8}{2} \quad 5 = \frac{10}{2}$$

As the numerator decreases holding the denominator constant, the result decreases:

$$5 = \frac{10}{2} \quad 4 = \frac{8}{2} \quad 3 = \frac{6}{2}$$

As the denominator increases holding the numerator constant, the result decreases:

$$6 = \frac{12}{2} \quad 3 = \frac{12}{4} \quad 2 = \frac{12}{6}$$

As the denominator decreases holding the numerator constant, the result increases:

$$2 = \frac{12}{6} \quad 3 = \frac{12}{4} \quad 6 = \frac{12}{2}$$

Now for the big reveal, ... the Customer Value Equation is:

$$\text{Value for Customer} = \frac{\text{Benefits received}}{\text{All the costs}}$$

Or in words, *Value for Customers* equals the *Benefits received* divided by *All the costs*.

# The Customer Value Equation

Interpreting this formula:

- If all the costs remain constant, and the benefits received increase, then the value for the Customer increases.
- If the benefits received remain constant, and all the costs reduce, then the value for the Customer increases.

**The Customer Value Equation in full:**

$$\text{Value for Customer} = \frac{\text{Bundle of (Products + Services + Experience)}}{\text{Price + Access Costs}}$$

Where:

Term	Definition
Product	The result of a process
Service	Service is the result of the activity between a supplier and a Customer
Experience	The inevitable experiences that Customers have at every touchpoint, that is, every point of interaction
Price	The monetary value, that is, the sticker price
Access Costs	The non-monetary costs such as waiting in line to be served, or driving across town to either pick up a product or return a product for repair

**In summary:**

- Although we're sure you could turn the terms in the equation into numbers if you tried hard enough, especially easy are Price and Access Costs, the value of the equation is that it represents a model of what comprises value for a customer.
- It is doubtful that many people have the customer value equation anywhere in their minds when they seek solutions; we don't. The value in the equation is in providing a model and a holistic understanding of the impact of changing the variables that affect the customer.
- If, holding everything else constant you can increase the features the customers **want** in your products and services, then the Value for customers will increase.
- If, holding everything else constant you can increase positive experiences that customers have obtaining, using, and maintaining your products and services, then the Value for customers will increase.
- If, holding everything else constant you increase the price of your products and services, then the value for customers will decrease.
- If, holding everything else constant you increase the access costs, i.e., you make it more difficult to obtain, use, or maintain your products and services, then the value for customers will decrease.