

Value Propositions

**By Emeritus Professor Malcolm McDonald
2012**

THREE ROUTES TO PROFIT GROWTH

Reduce costs (done to death)

Buy profitable or sell unprofitable businesses (limited possibilities)

Create long-term demand from customers
(the only sustainable future)

Differentiation is at the heart of successful marketing

“For marketers, differentiation today is more challenging than at any time in history – yet it remains at the heart of successful marketing. More importantly, it remains the key to a company’s survival.”

Investopedia Definition of Value Proposition

'A business or marketing statement that summarizes why a consumer should buy a product or use a service. This statement should convince a potential consumer that one particular product or service will add more value or better solve a problem than other similar offerings'

Definition of Value Proposition

“ Relative value = perceived benefits minus costs “

(McDonald and Dunbar, Market Segmentation,
Wiley 2012)

The value proposition concept

- “A clear simple statement of the benefits, both tangible and intangible – the company will provide along with the approximate price which a customer in that segment will pay for those benefits”

The McKinsey approach involves:

1. Identifying the target customer
2. Stating the benefits offered
3. Determining price relative to competition
4. Providing a concise statement of the value proposition

Value customisation – the missing step

Value propositions have a bad reputation in selling because

they are usually too generic and theoretical.

Sales and marketing should jointly customise value propositions so they:

- Communicate a specific message for each opportunity
- Show impact in excess of costs

Value proposition usage

- 60 – 70% of UK companies use the term within their companies
- Only 5% of UK companies have got clearly articulated written value propositions.

McKinsey

CAN YOU SAY WHAT YOUR STRATEGY IS?

“Any strategy statement that cannot explain why customers should buy your product or service is doomed to failure”

(Collis D, Rukstad M. “Can you say what your strategy is?” HBR
April 2008 pp 82-91)

The value chain



Supply-side think

Every morning I wake up thinking about...

- **My product**
- **My skills**
- **My assets**
- **My revenues**
- **My profit**
- **My people**
- **My politics**



Demand think

Every morning I wake up thinking about...

- **My customer's problems**
- **My customer's pressures**
- **My customer's economics**
- **My customer's decision making**
- **My customer's growth**
- **My customer's people**
- **My customer's politics**

Problem Map=

**The discipline of seeing
reality through the eyes and
emotions of the customer**

Customer Value

- added value (functional)
- cost reduction
- cost avoidance
- emotional contribution (eg “feelgood factor”, trust, confidence, self esteem, risk reduction, reduced “hassle” etc)

Emotional Value

Value, like beauty, is in the eye of the beholder

Two types of buying

Value =

Benefits

minus

Costs

Consultative Buying

Value your time

Buy expertise and trust

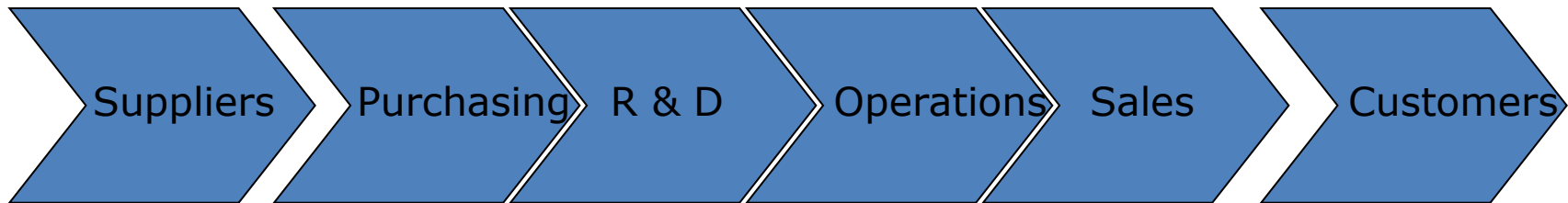
Transactional Buying

Know what they want

Treat you as a commodity

Buy on price and
convenience

Value Chain-professional buyer's interest



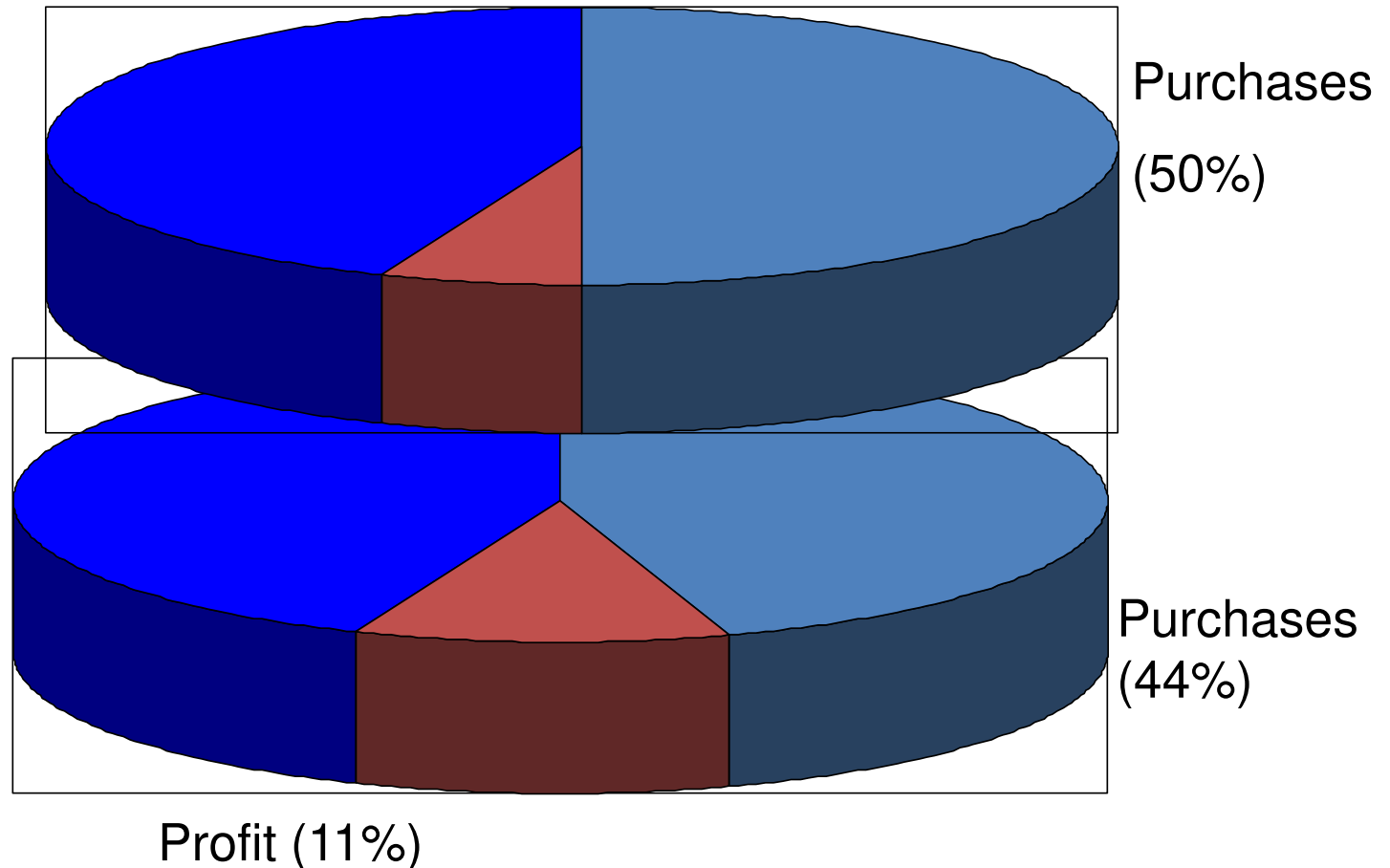
...still interested
in prices and
delivery terms...



The *new*-fashioned buyer: interested in
faster NPD, lower manufacturing costs,
higher sales values, and satisfied customers...

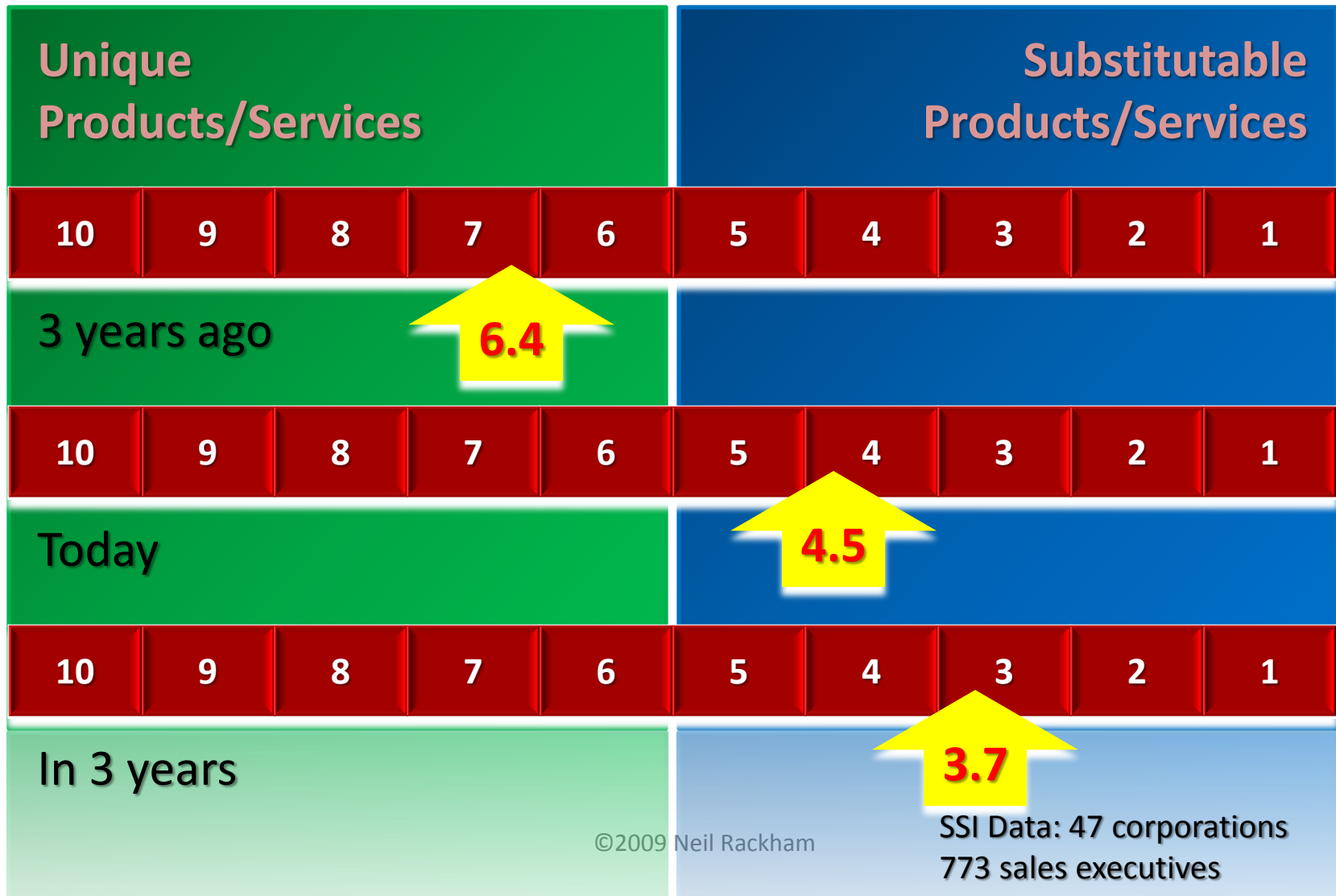
Double your money: cut spend on purchases

Other costs
(44%)

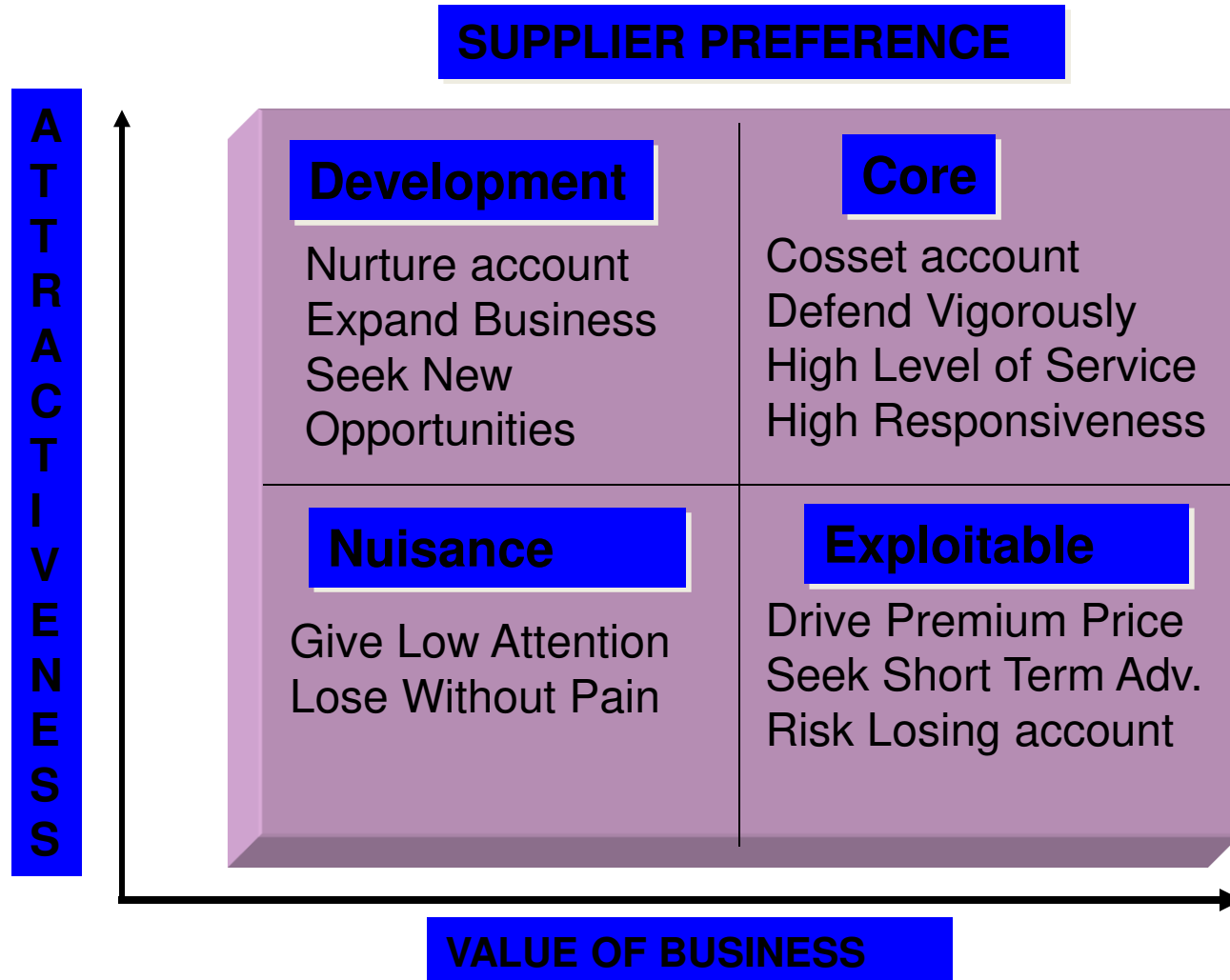


'Purchasing: adding value to your purchasing through effective supply management' Institute of Directors, September 2003

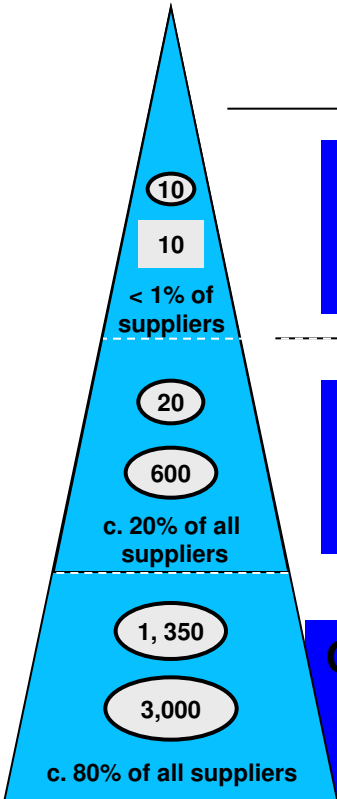
What's Happening in the USA



Strategic Purchasing

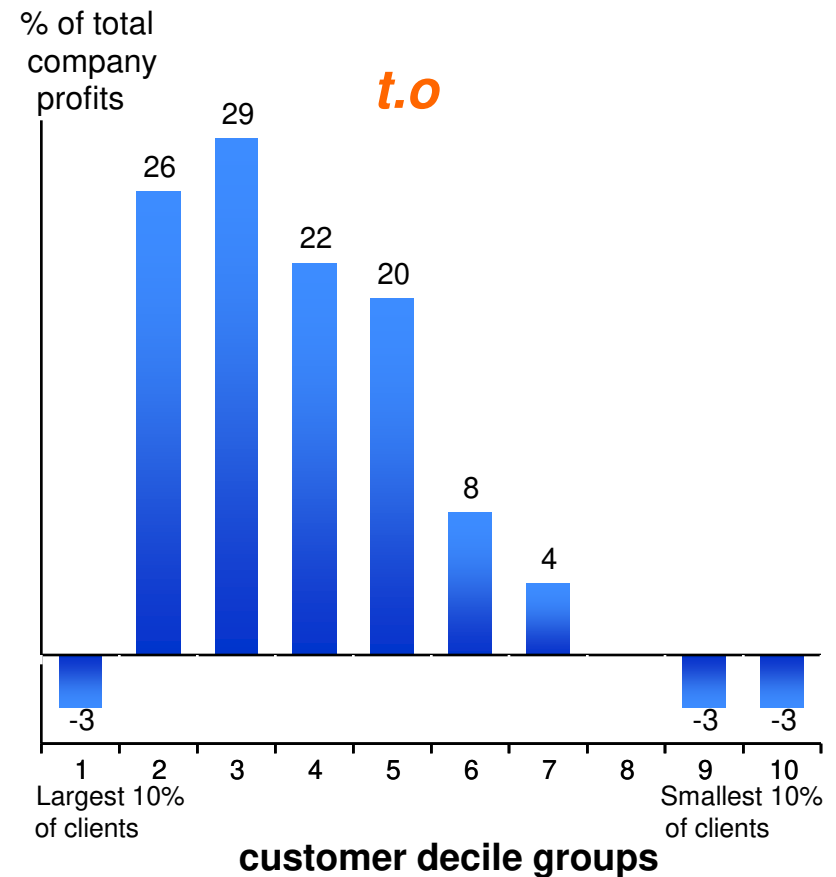
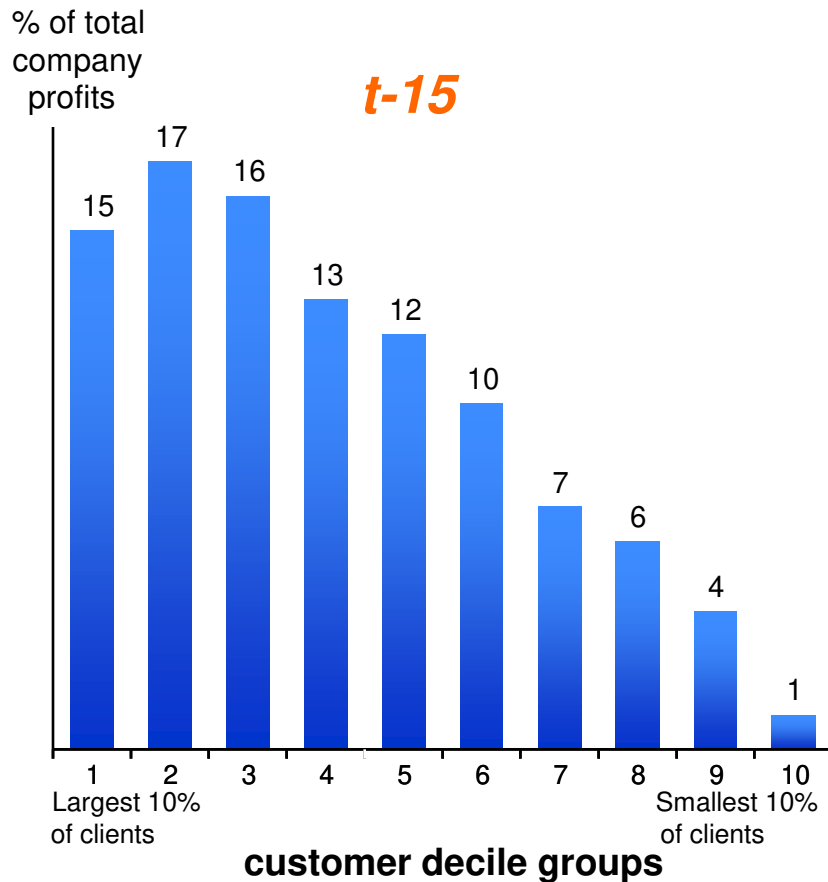


Supplier Relationships as a Source of Business Advantage

	Type	Business Contribution Criteria	Business Process Criteria
 <p>10 10 < 1% of suppliers</p> <p>20 600 c. 20% of all suppliers</p> <p>1, 350 3,000 c. 80% of all suppliers</p>	Strategic Suppliers	<ul style="list-style-type: none">• “First mover” advantage• Channels to market• Reverse revenue generation	<ul style="list-style-type: none">• VP lead• Business strategy driven• “A team” on both sides
	Preferred Suppliers	<ul style="list-style-type: none">• Point-to-point solution• Technology access• Operational advantage	<ul style="list-style-type: none">• Relationship manager• Strategy from CatMan• SLA scorecard
	Commodity Suppliers	<ul style="list-style-type: none">• Cost improvement• Superior service levels• Ease of transaction	<ul style="list-style-type: none">• Managed locally• Performance monitored• E-enabled

profitable and unprofitable clients:

% of company profit by customer decile (each decile = 10% of client base)



Adapted from: 'Profitable customers' by Charles Wilson

		LOVE	HATE
Sales Potential	High	<div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div>	<div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div>
	Low	<div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div>	<div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div>

CUSTOMERS EXPECT THEIR BUSINESS TO BE BETTER OFF AS A RESULT OF DEALING WITH YOU

- how will your offer enable your customer to serve their customers better ?
- how will your offer enable your customers to be more competitive ?

YOU MUST BE ABLE TO PROVE THAT DEALING
WITH YOU WILL CREATE ADVANTAGE FOR
YOUR CUSTOMER, NOT MERELY HELP THEM
TO AVOID DISADVANTAGE.

	STRATEGIC	HIGH POTENTIAL
CREATING ADVANTAGE		
AVOIDING DISADVANTAGE		
	KEY OPERATIONAL	SUPPORT

Key:

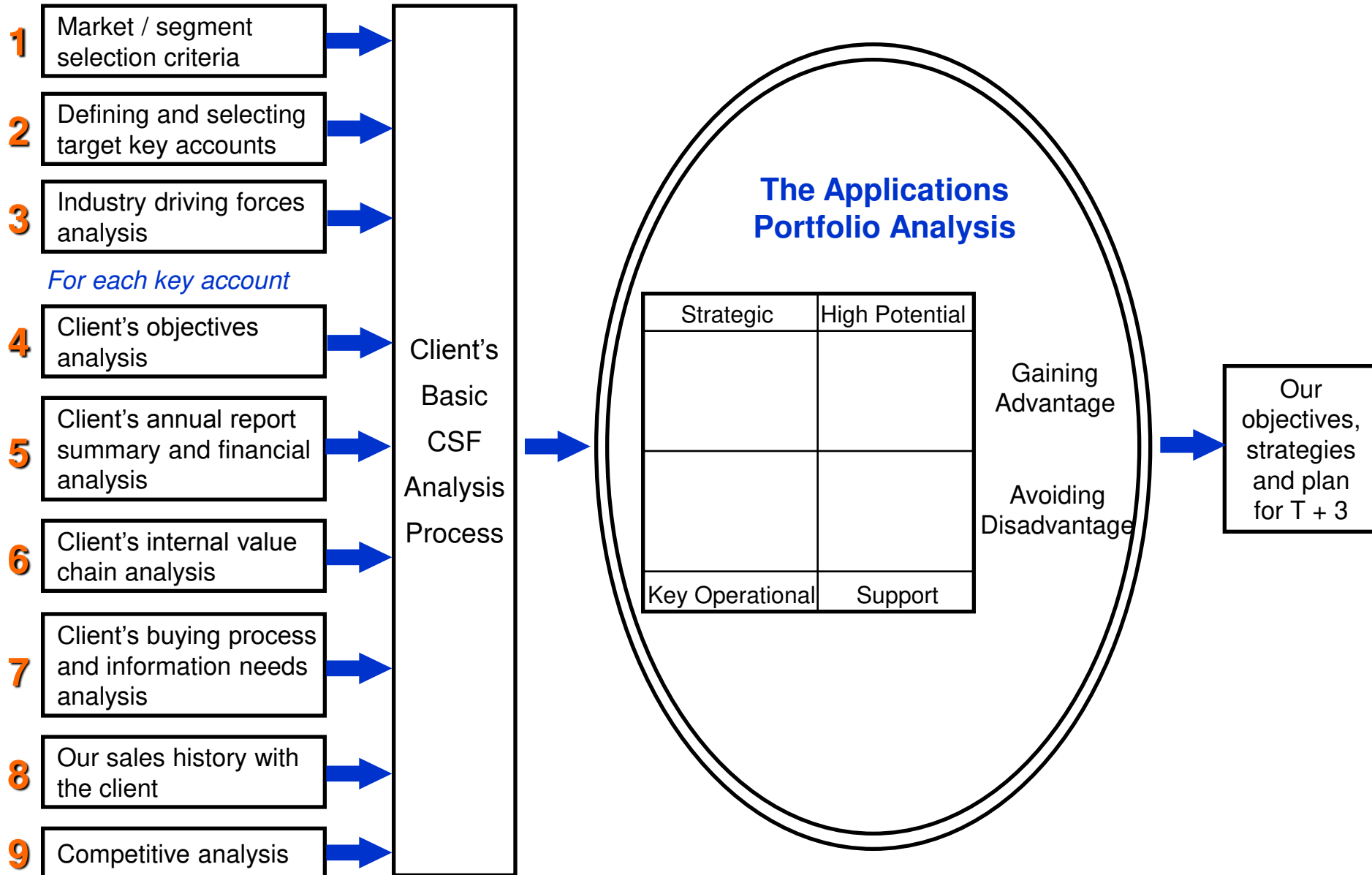
Strategic = Issues that will ensure the customer's long term success.

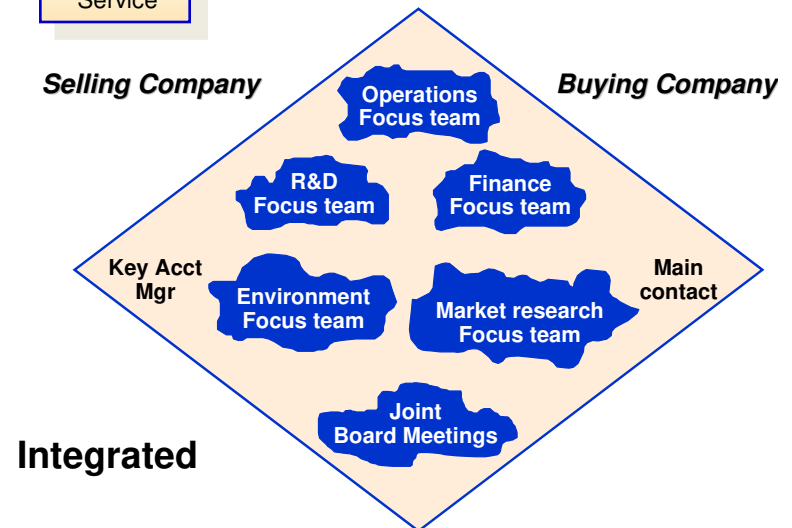
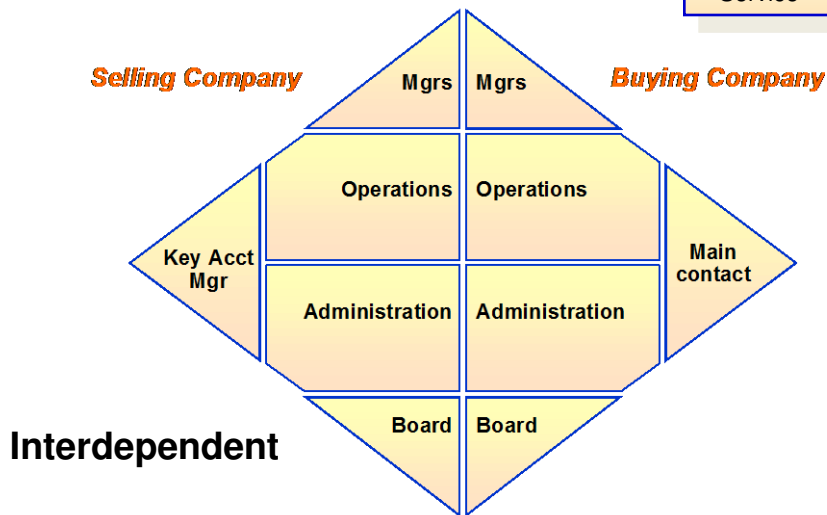
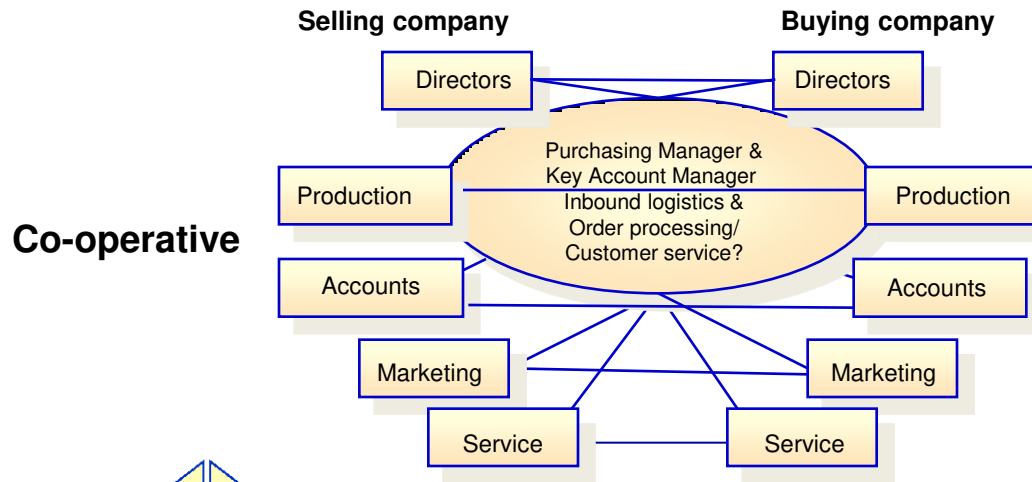
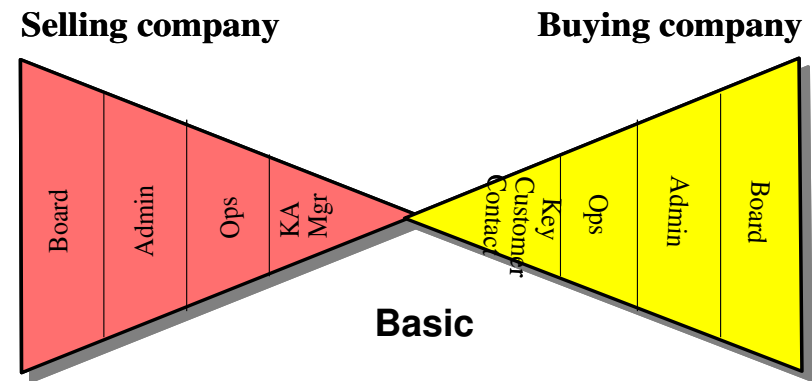
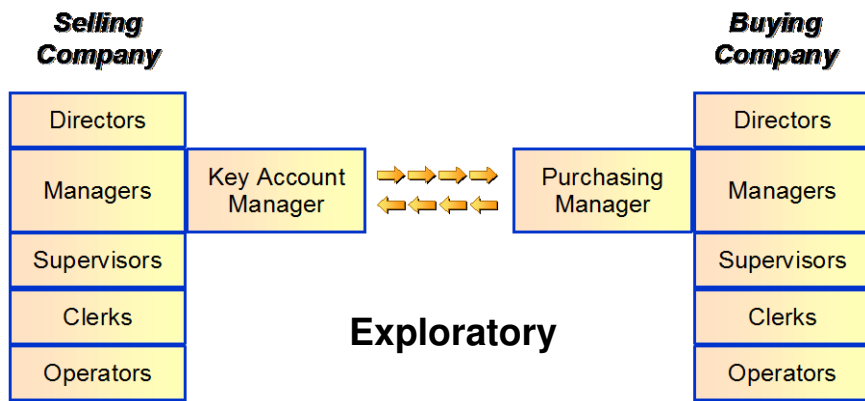
High Potential = Issues that, whilst not crucial currently, could potentially lead to 'differential advantage for the customer.

Key operational = Issues that, unless solved reasonably quickly, could lead to disadvantage for the customer.

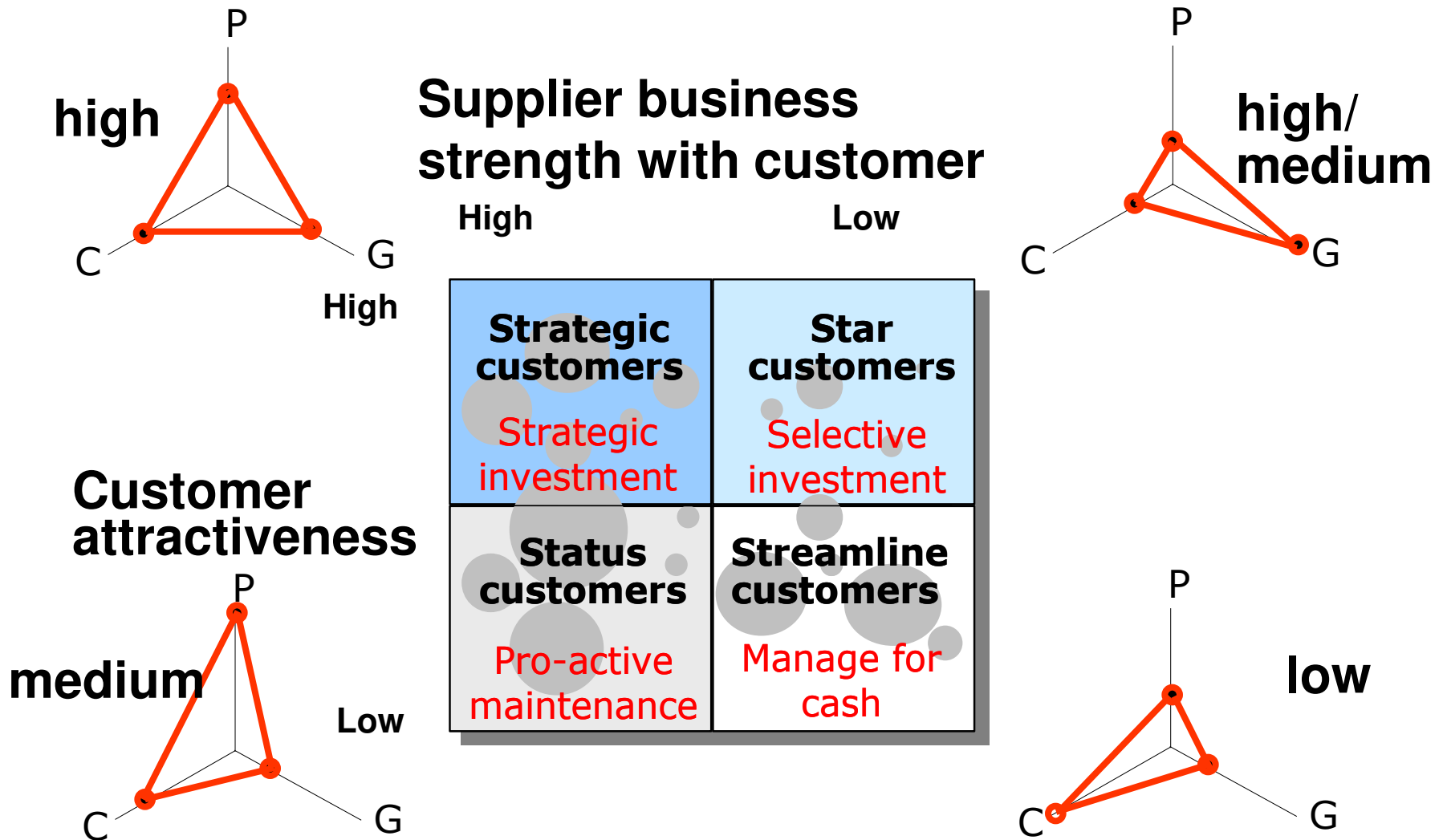
Support = Issues that, whilst of a non-urgent nature such as information availability, nonetheless need to be solved to avoid disadvantage for the customer.

Business Partnership Process

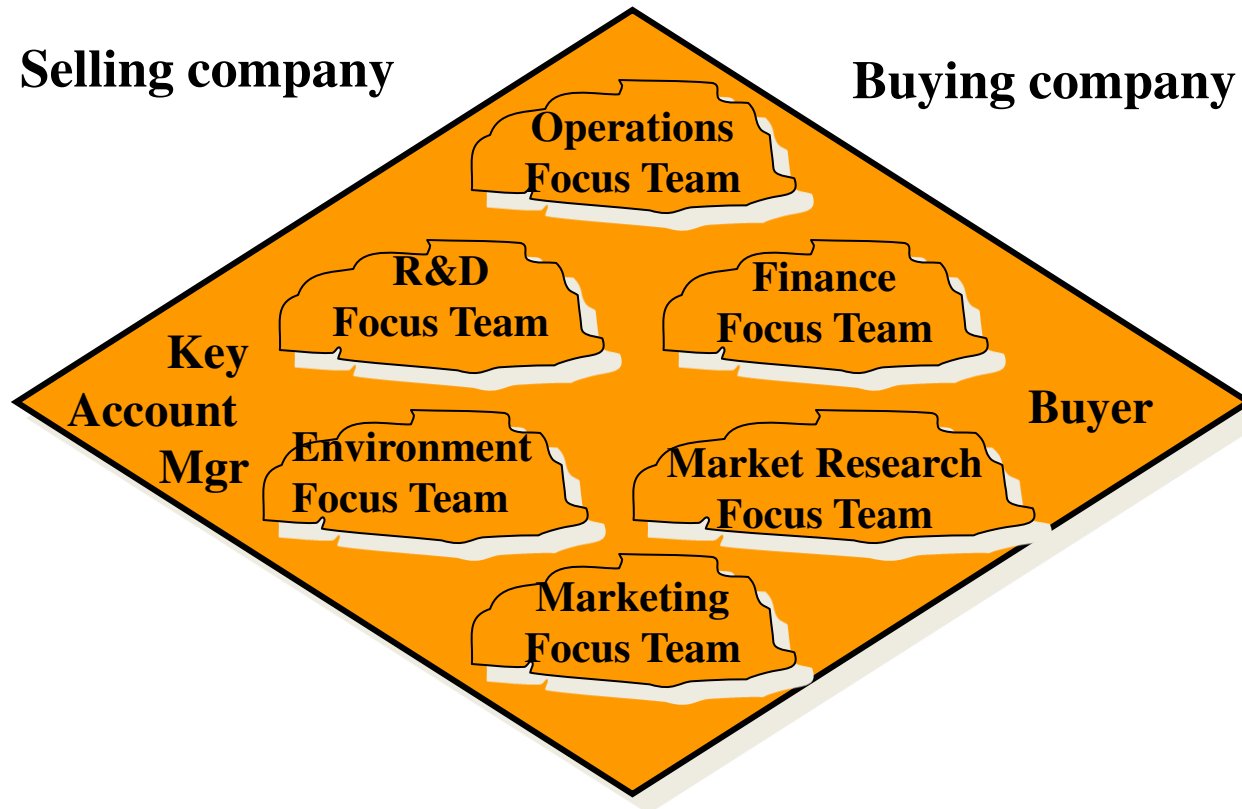


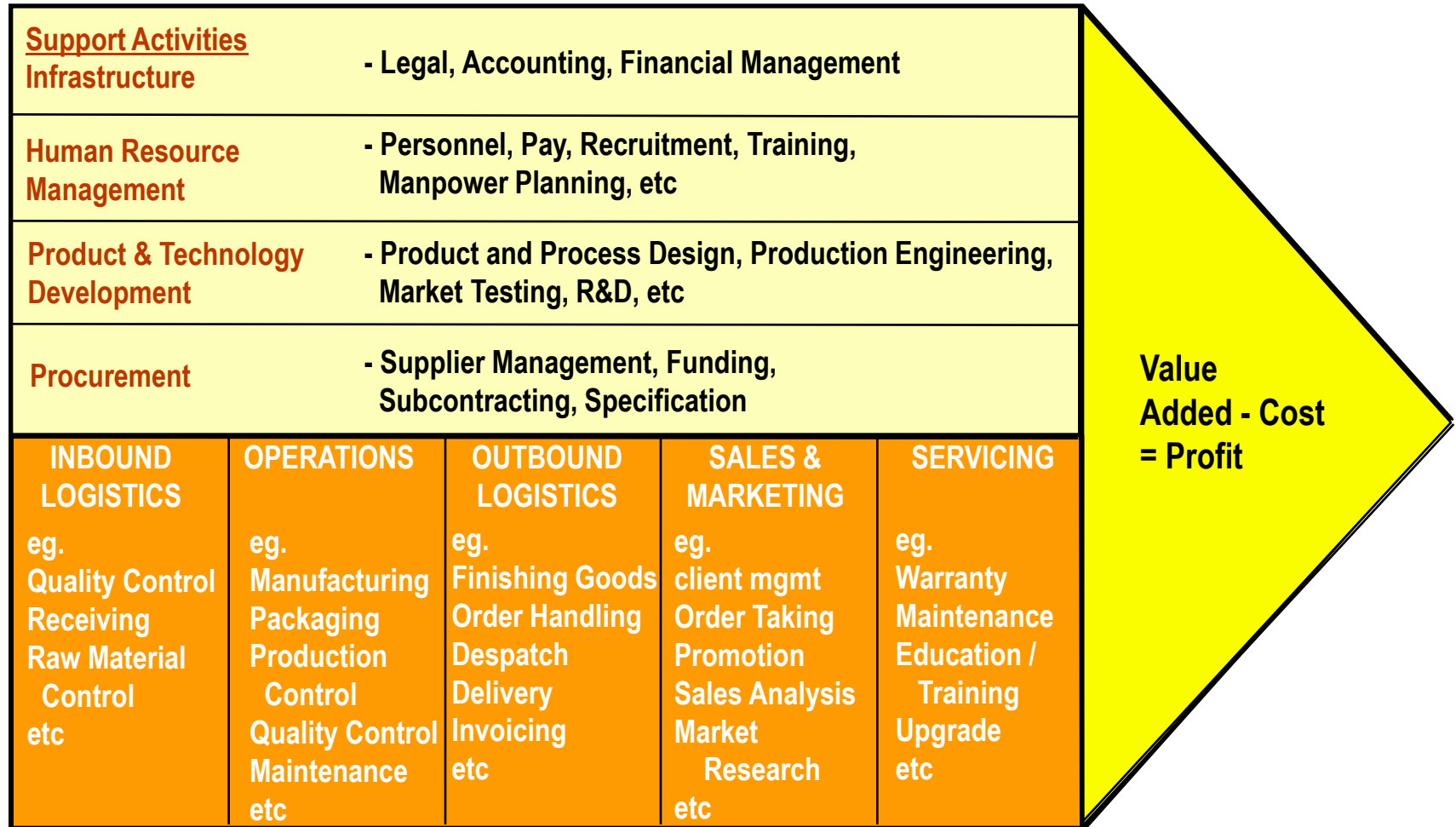


Setting expectations of account performance



Integrated KAM

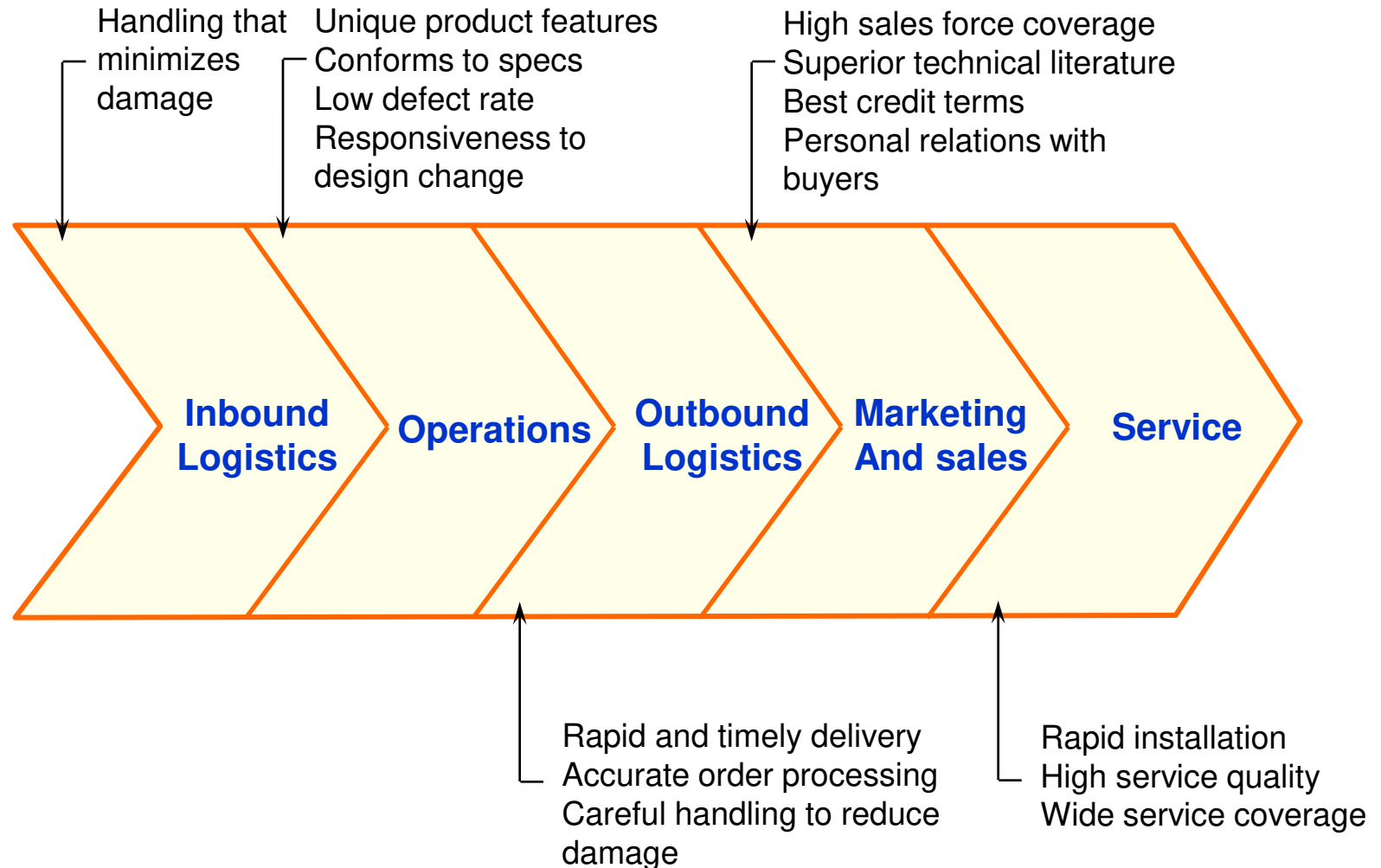




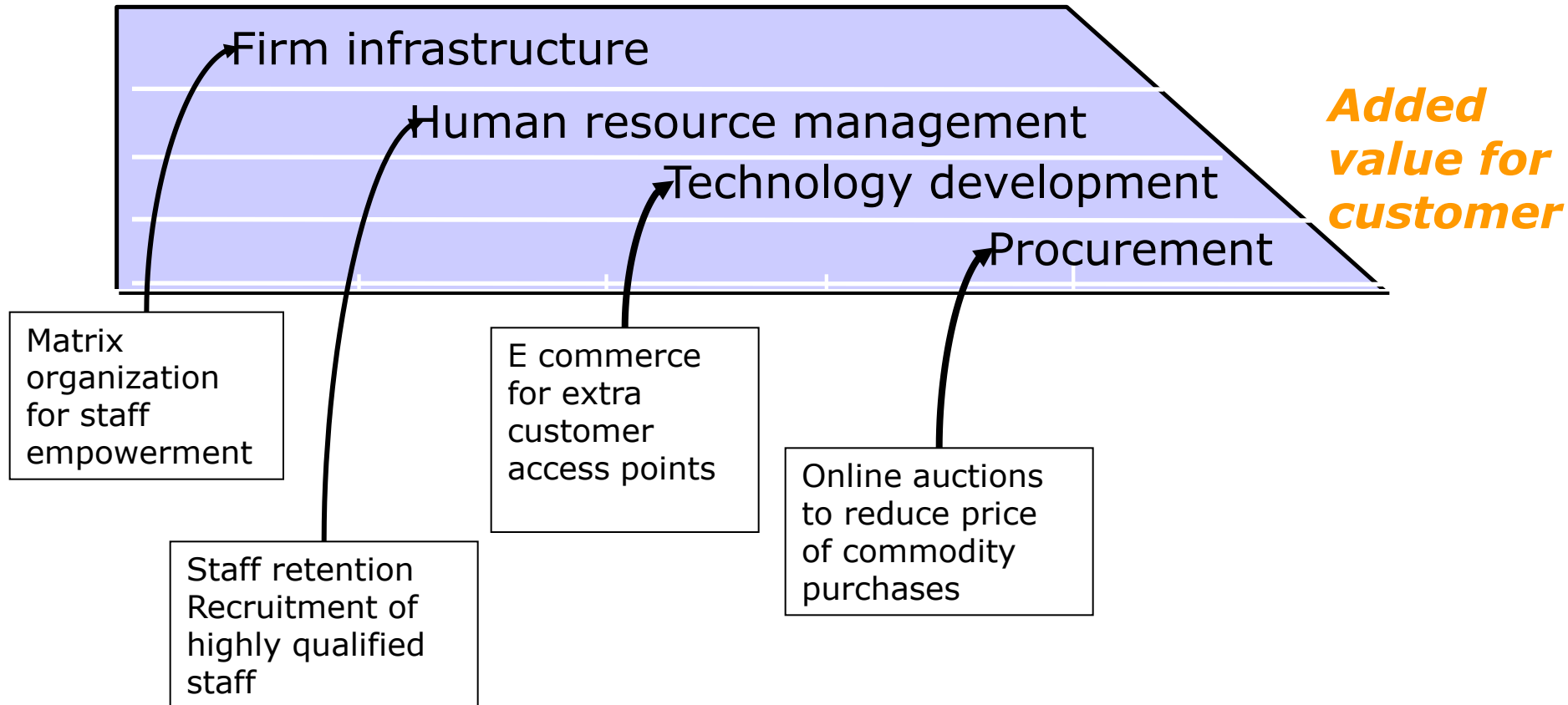
Primary Activities

Many activities cross the boundaries - especially information based activities such as:
 Sales Forecasting, Capacity Planning, Resource Scheduling, Pricing, etc

Sources of differentiation in the value chain

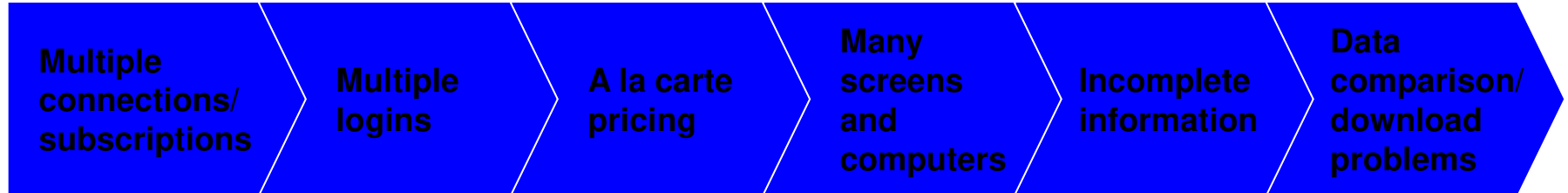


How do you add value through Key support activities?

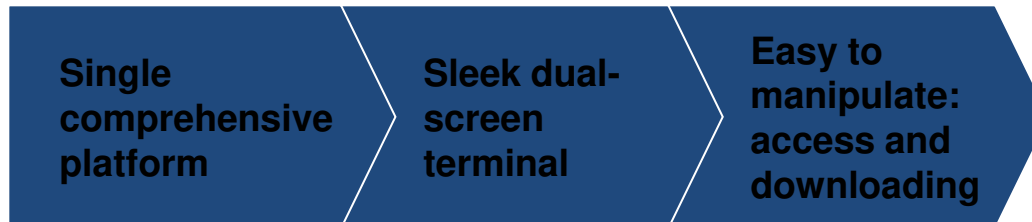


Bloomberg: Simplifying the Trader's Hassle Map

Without Bloomberg:



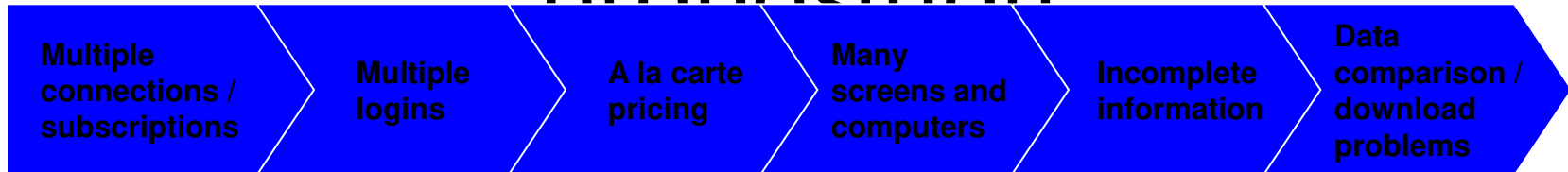
With Bloomberg:



Bloomberg's little box/big box value proposition

Without Bloomberg:

proposition



It takes time and is expensive to connect to up to 100 exchanges, communicate with thousands of brokers, subscribe to countless news and research sources, and hook up voice communication

Accessing each exchange and each news source takes time, and I need data that is current up-to-the-second

It's hard to keep track of what everyone charges, and it's expensive to buy data access and services a la carte

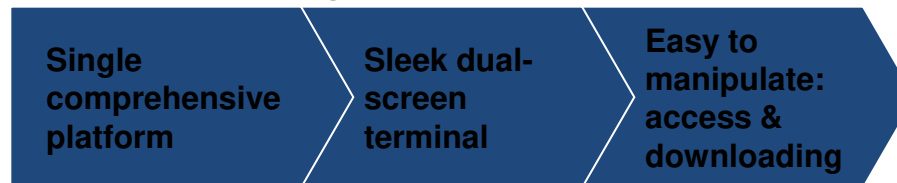
To see all of the data at once I need to have a bunch of computers and screens at my desk. Best alternative is to toggle between windows, which takes time

No matter how much research I do, I don't know if my people look to, but never sure if I have as good and as current market information as our competitors do

Some data pricing information is not current, and a vast number of sources and not all of the data I have can be easily downloaded into Excel for additional analysis

chain: life without/with Bloomberg

With Bloomberg



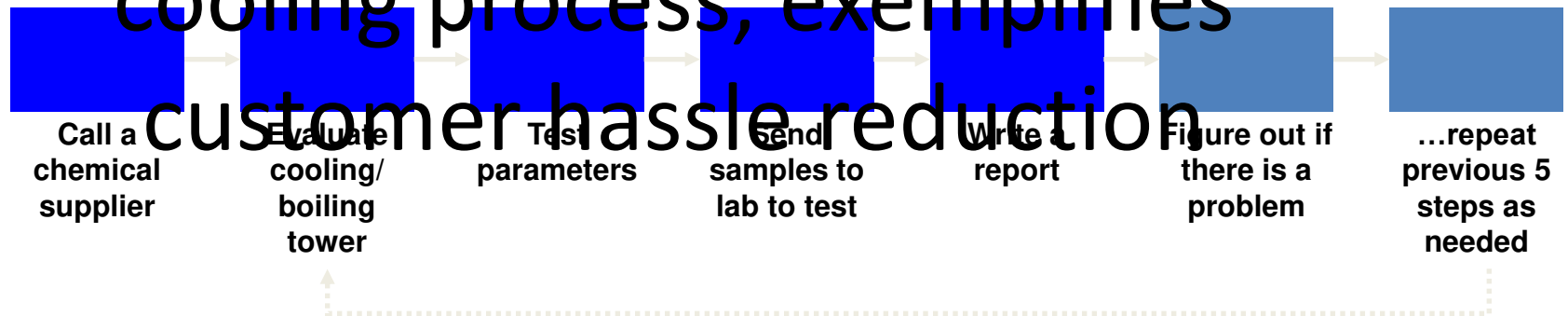
With one subscription, I have access to current and historical pricing for 5M financial instruments on 200 exchanges, along with 250K other subscribers

I can view market movements on countless instruments all at once and with little desk clutter. I have VOIP with video, so no phone needed

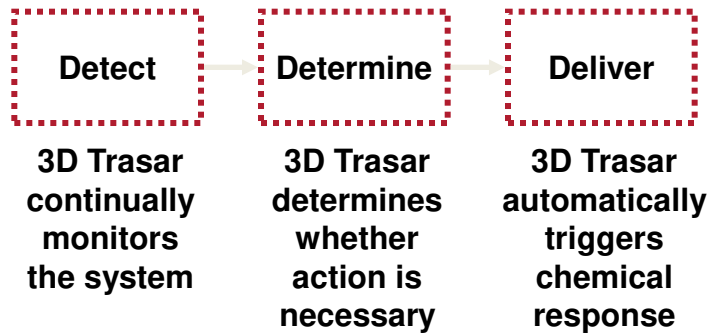
I can access the markets from my wireless device and I can easily export data to Excel or other apps whenever I need to

HASSLE MAP: 3D TRASAR, a Nalco technology for managing the water

Water cooling process management without Nalco technology...

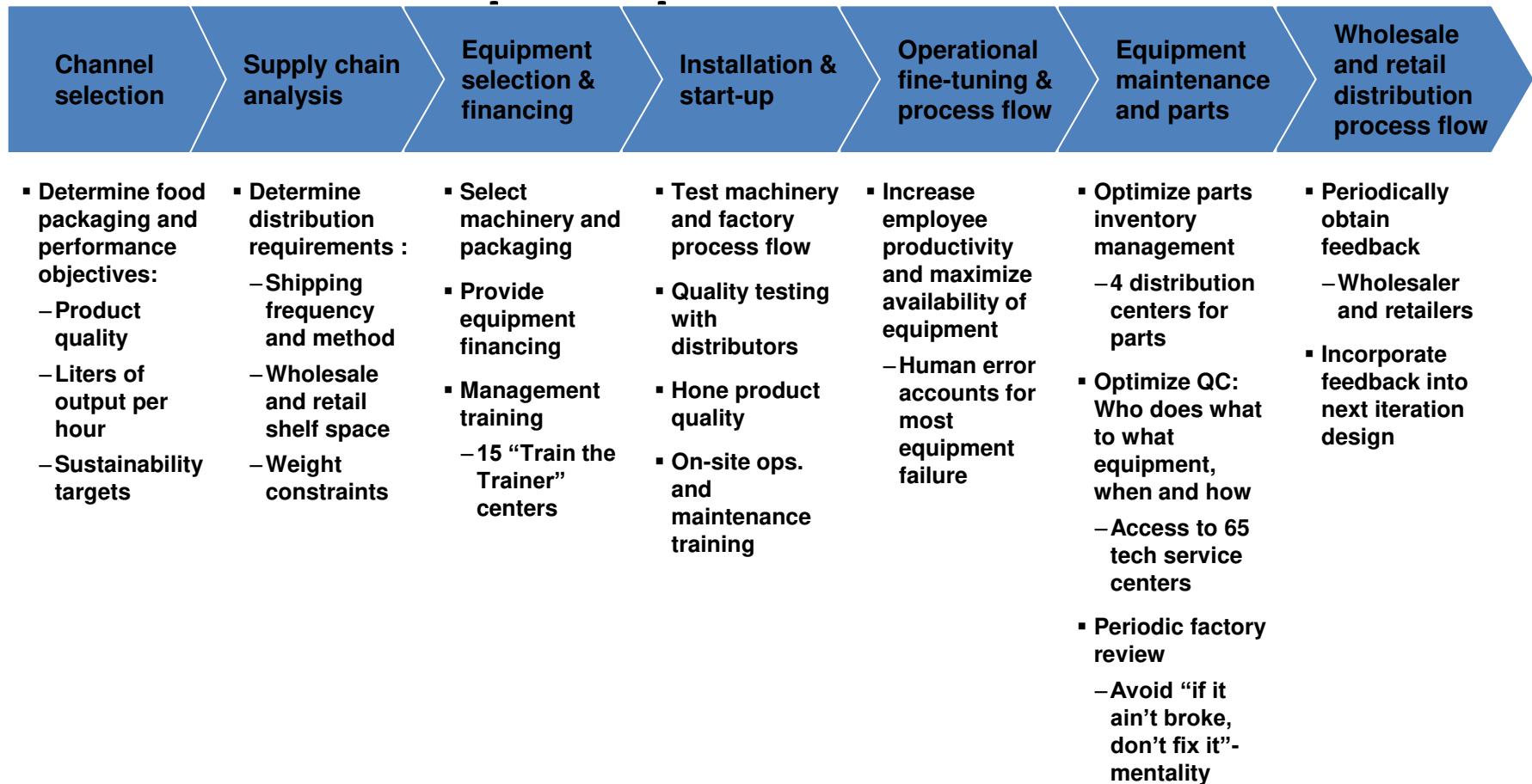


...and with it



▶ The 3D Trasar system takes the entire burden off of the customer's hands

Tetra Pak is a multi-stage, multi-



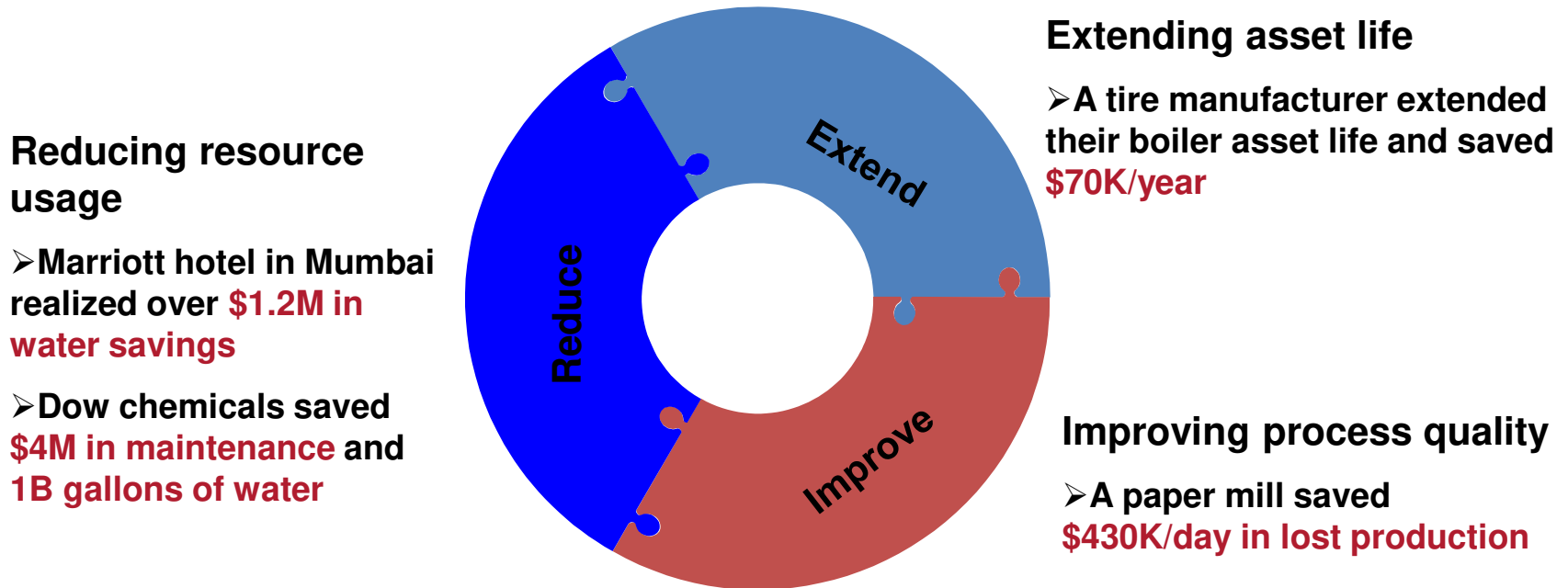
Tetra Pak goes beyond its role as a packaging supplier to help build its customers' businesses

- **U. Soff** Created alternative packaging for high-quality wine
- **Byrne Dairy** Altered supply chain to "buy local" for Byrne Dairy
- **Corelli Tomatoes** Developed own brand to prove viability with consumers
- **Chef Creations** Customized packaging for high-end specialty foods



MAGNETIC: Nalco excels at 'Doing Customer's Math'

Nalco's products provide an ROI to their customers by:



- Nalco focuses on customer driven solutions and designs it's product proposals to show significant customer ROI

Co-creation

- Discovering new ways of creating value for both supplier and customer by working closely together. The whole is greater than the sum of the parts.

Partnering

- Selling becomes understanding creativity and redesigning the boundaries to create value.

“Must Have’ Criteria Drive Hard and Soft Measures

1. Vision

- Sharing of long-term vision and orientation.
- Global focus and commitment with service & support capability.
- Defined but yet flexible boundaries.

2. Culture

- Similar or complementary values.
 - Understanding of the process to deal with differences.
 - Flexibility in approach since circumstances may change over time.
- An exit route needs to exist.

3. Impact

- Maximum economic and strategic leverage, i.e. product / market differentiation.
- Attainment of time to market, quality & productivity objectives.
- Shareholder value creation.
- Blending core competencies, leadership capabilities & complementary strengths (allowing outsourcing of non-core capability).
- Adding real productivity & value (significant cost savings & revenue potential).
- Globally focused, linkages to new business opportunities & capable of complementing the business focus.
- Attainment of high performance, low cost & strategic objectives (producing unique design, integration & marketing capabilities).

4. Intimacy

- Readiness to share ideas & information.
- Not overly locked into a competitor.

5. Balance

- An element of demonstrated commitment from both sides.
- Readiness for risk taking and sharing of costs.
- Building trust and, thereby, moving to intimacy.

Six tips for winning big customers

1. STUDY	Find their weaknesses, their opportunities and above all, their threats. Know absolutely everything about them.
2. NICHE	Spot at least one thing they haven't thought about.
3. SOLUTION	Find at least one way of creating advantage for them. (This is very different from avoiding disadvantage)
4. FINANCIAL	Work out financially how this will benefit them (i.e. avoiding costs, reducing costs, creating value) Justify these numbers.
5. PRESENT	Present your winning offer to a small group of senior decision-makers in the target client.
6. CONFIDENCE	Demonstrate your distinctive competence to the client and back it up with evidence to prove there is no risk involved in dealing with you.

The value chain



“ Do what your customers value, do lots of it and get rich “

This quote from Professor Malcolm McDonald makes sense, but most financial advisers find it difficult to identify or articulate what it is they do for their clients that they genuinely value.

(Money Marketing. 4th November 2011)

Consumer Value

- added value (functional)
- cost reduction
- cost avoidance
- emotional contribution (eg “feelgood factor”, trust, confidence, self esteem, risk reduction etc)

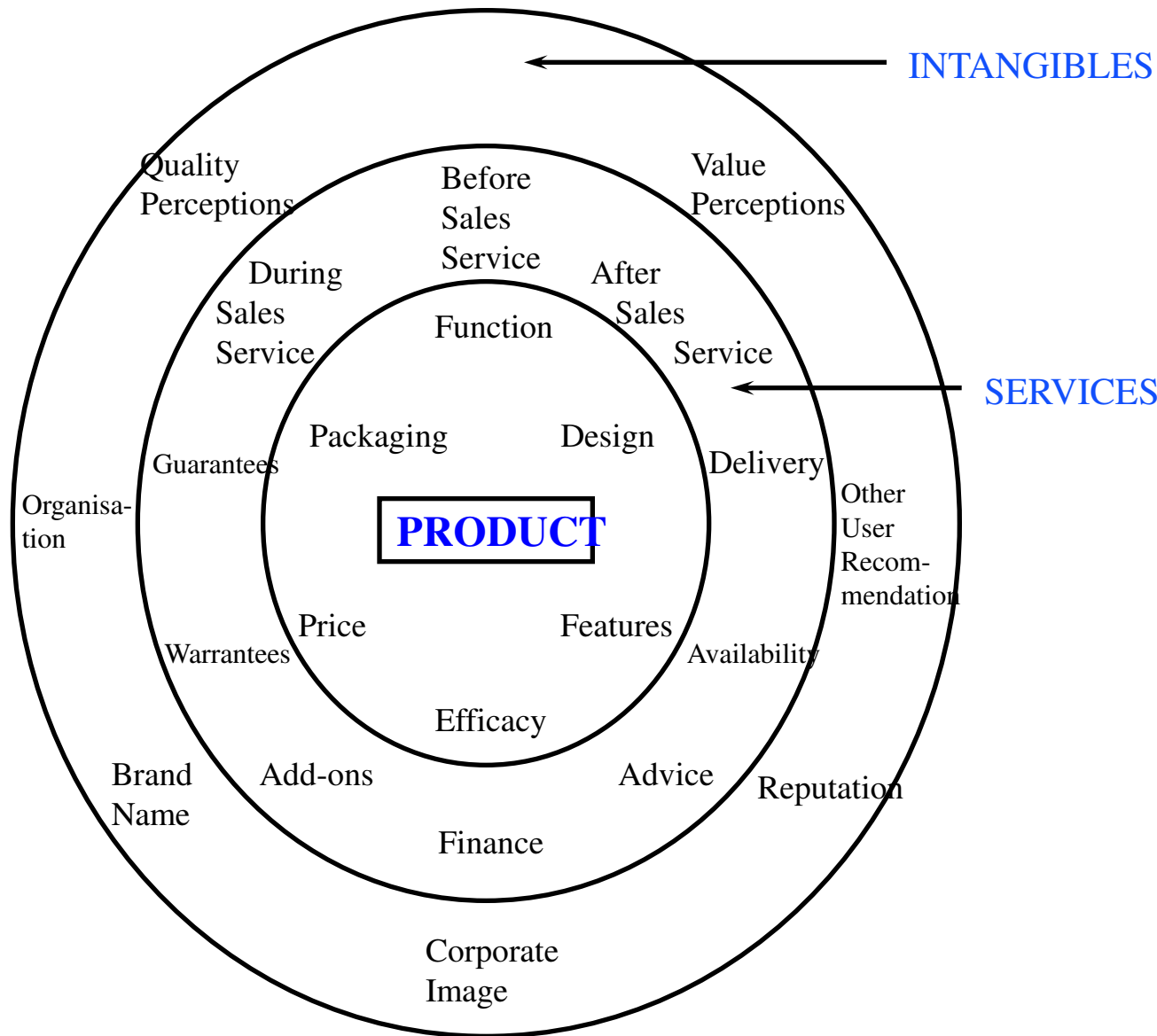
Emotional Value

Value, like beauty, is in the eye of the beholder

Functional Contribution – perceived value

- Performance
- Features
- Conformance with specs
- Reliability
- Durability
- Serviceability
- Fit and finish
- Competence
- Responsiveness
- Empathy

All leading to personal perceptions based on experience and social context.



MARKETING IS NOT

- | Selling
- | Advertising
- | Product Development
- | Customer Service

MARKETING IS

- | A dialogue over time with specific groups of customer, whose needs you understand in depth and for whom you develop an offer with a differential advantage over the offer of competitors

Consumer physical needs (e.g beer)

- alcohol strength
- appearance
- pouring satisfaction
- pack appearance
- shape and size
- taste
- colour
- relaxation
- stimulation

Consumer emotional needs (e.g beer)

- self display
- prestige
- aspiration
- social group identification
- safety
- reassurance
- success
- fashion
- style
- value
- masculinity/femininity
- companionship
- distinctiveness

		Desire			
		Rank	0	1	2
Exclusivity	0				
	1				
	2				

DESIRE

- 0 No Interest
- 1 Possible Interest
- 2 High Interest

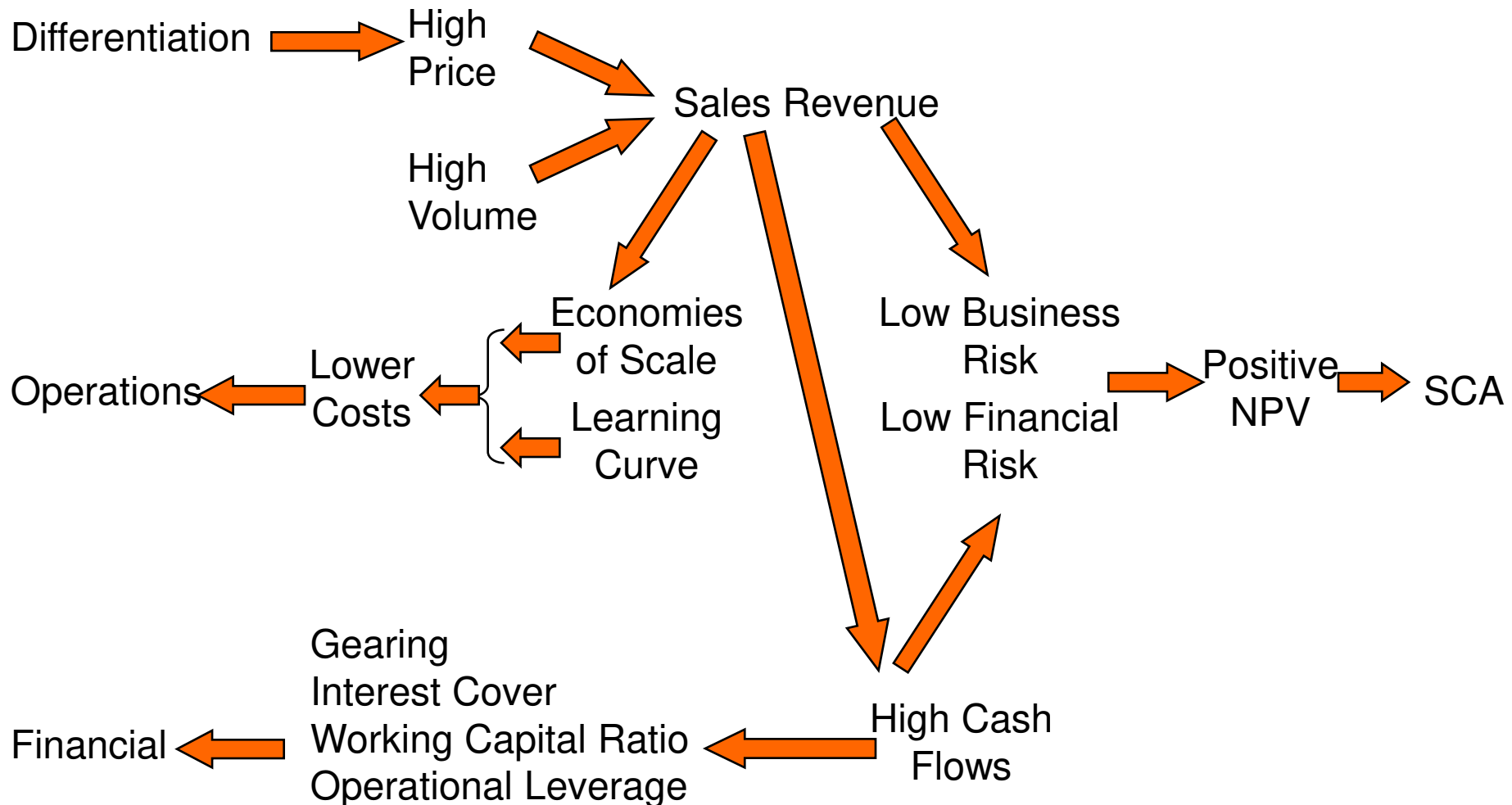
EXCLUSIVITY

- 0 Anywhere else
- 1 Somewhere else
- 2 Nowhere else

1. rank the ideal customer's desire level for the offer.
2. rank the exclusivity of the offer.
3. multiply the two integers.
4. if the total is less than 2, re-craft your offer.

www.marketingexperiments.com

The route to Sustainable Competitive Advantage (SCA)



Over 40 years of research into the link between long run financial success and excellent marketing strategies reveal the following:

Excellent Strategies

- Target needs based segments
- Make a specific offer to each segment
- Leverage their strengths and minimise their weaknesses
- Anticipate the future

Weak Strategies

- Target product categories
- Make similar offers to all segments
- Have little understanding of their strengths and weaknesses
- Plan using historical data

Personalising segments



Listen to how customers talk about category need

Customer View

Advice

- cutting costs
- future technology direction

Help

- design & configuration
- process engineering
- electron commerce

Run

- international network
- disaster recovery

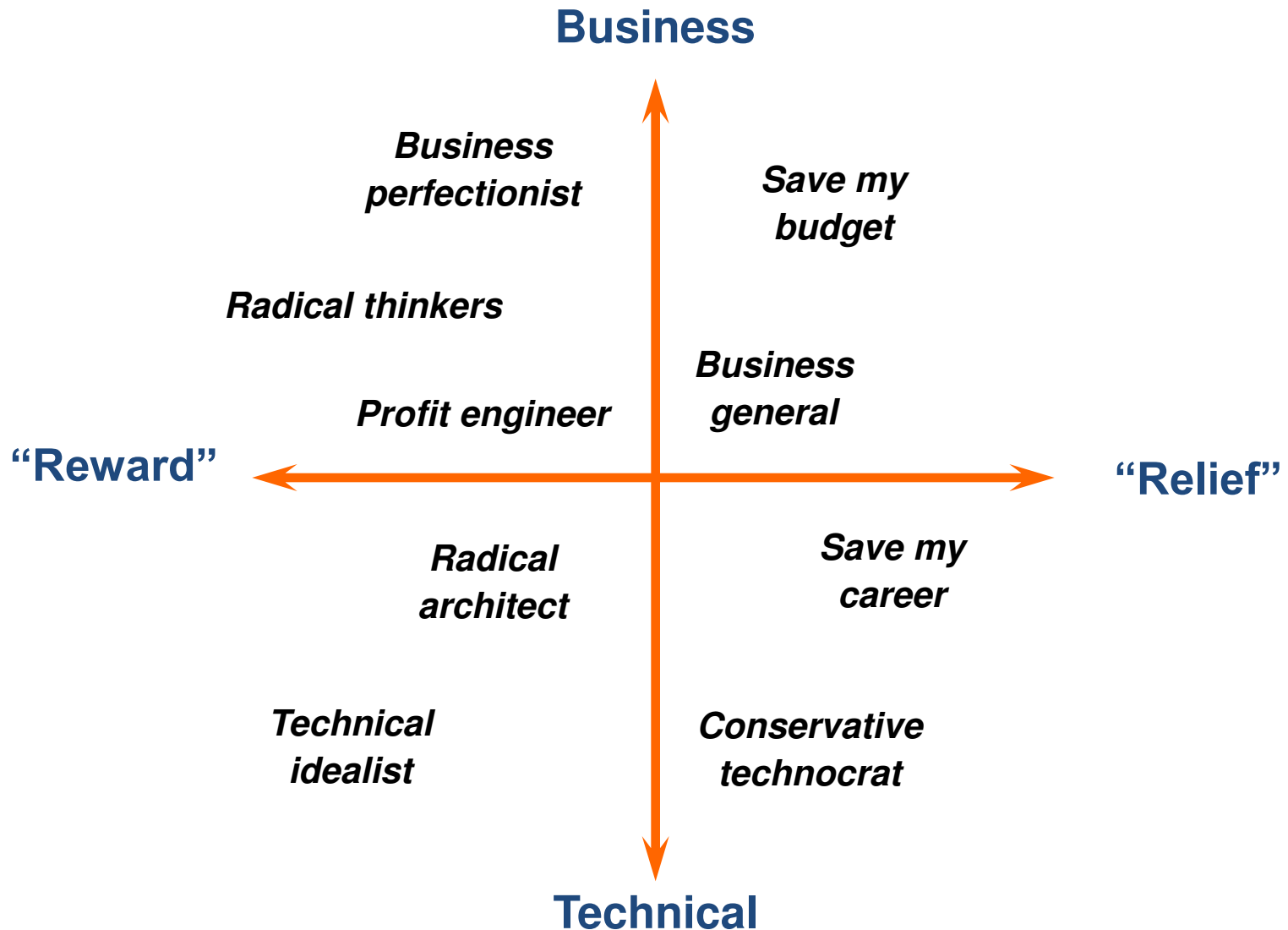
Supplier View

- fast PAD family
- multimedia FRADs
- PIX firewall

- Solutions
- Gigabit Ethernet
- solutions

- high performance
- LAN support

Understand the different category buyers



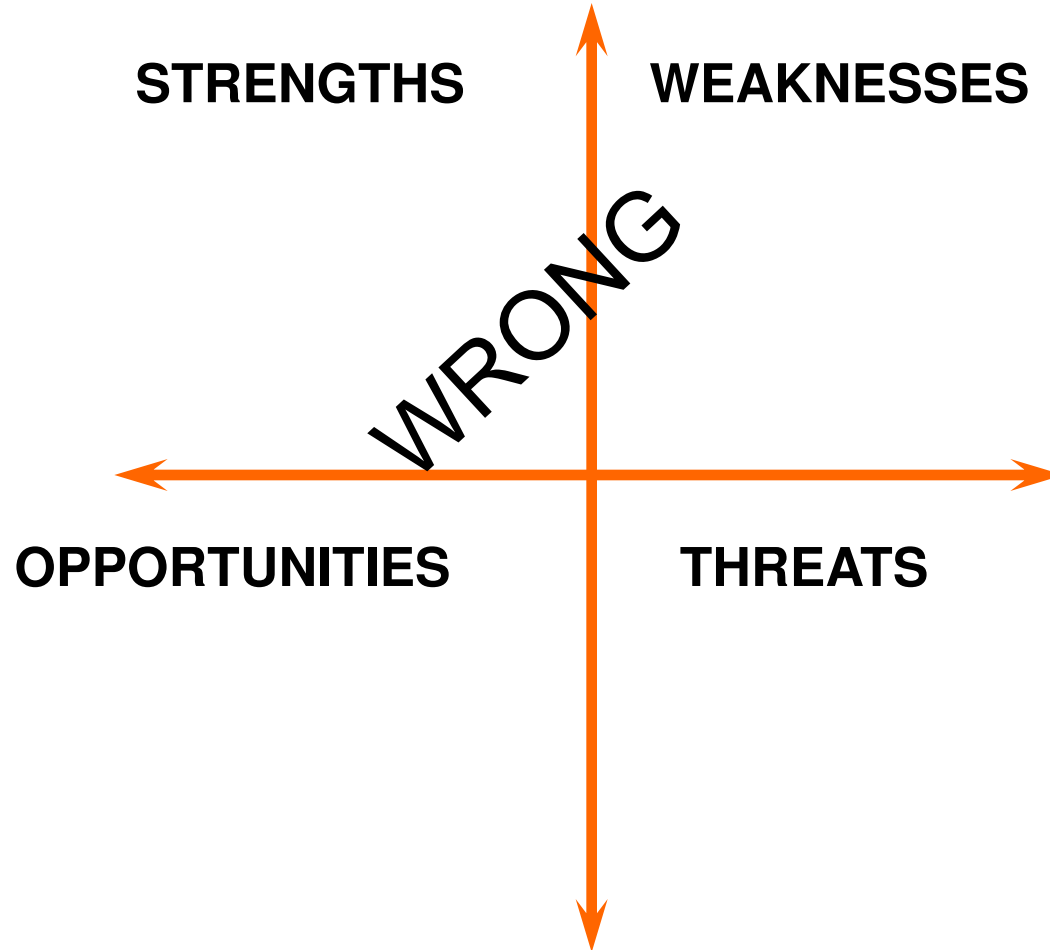
SWOT analysis

By segment, what value is required by the customer?

What value are you offering to entice the customer to buy from you

Avoid SWAGs

SWOT Analysis



Strategic marketing planning exercise - SWOT analysis

1. SEGMENT DESCRIPTION

It should be a *specific* part of the business and should *be very important* to the organisation

2. CRITICAL SUCCESS FACTORS

In other words, how do customers choose?

1	
2	
3	
4	
5	

3. WEIGHTING

(How important is each of these CSFs? Score out of 100)

Total 100

4. STRENGTHS / WEAKNESSES ANALYSIS

How would your customers score you and each of your main competitors out of 10 on each of the CSFs?

Multiply the score by the weight.

	You	Comp A	Comp B	Comp C	Comp D
1					
2					
3					
4					
5					
•					

5. OPPORTUNITIES / THREATS

What are the few things outside your direct control that have had, and will have, an impact on this part of your business?

OPPORTUNITIES

1	
2	
3	
4	
5	

THREATS

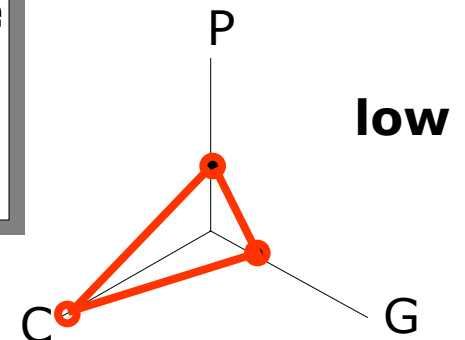
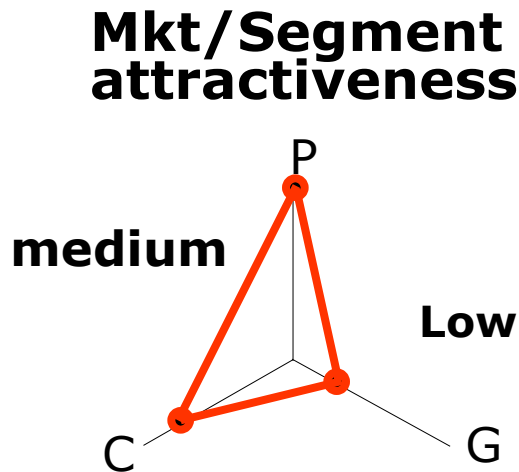
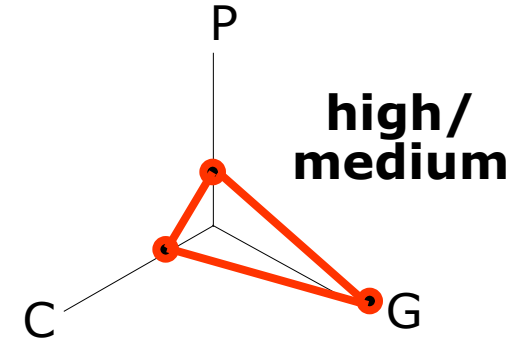
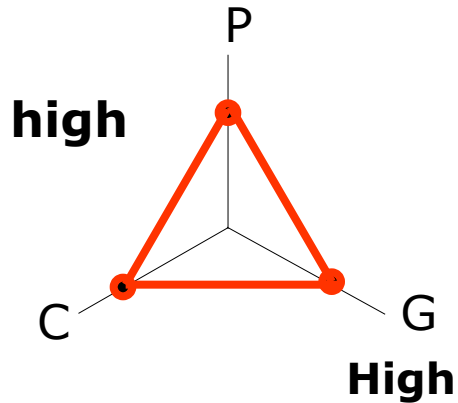
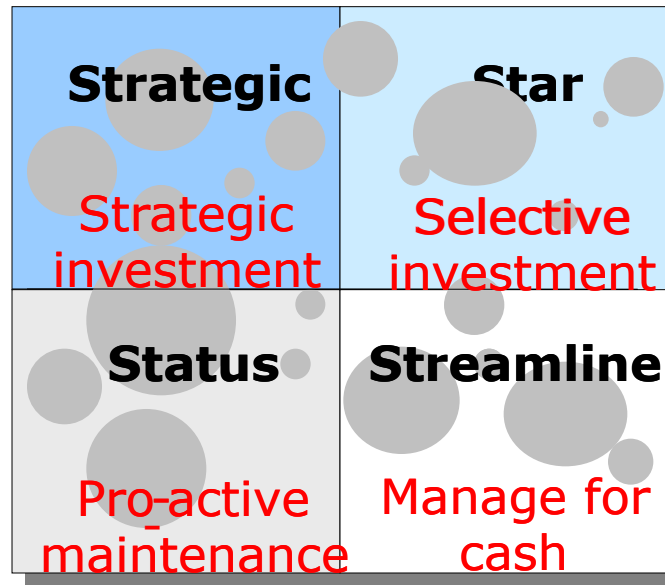
6. KEY ISSUES THAT NEED TO BE ADDRESSED

What are the really key issues from the SWOT that need to be addressed?

Setting expectations of performance

Supplier business strength with segment

High Low



The contents of a strategic marketing plan (T+3)

(less than 20 pages)

- The purpose statement
- **Financial summary**
- **Market overview**
 - how the market works
 - key segments and their needs
- **SWOT analyses**
- Portfolio summary
 - of SWOTs
- Assumptions
- **Objectives and strategies**
- Budget for 3 years

The contents of a KAM strategic marketing plan (T+3)

- Purpose statement
- Financial summary
- KA overview
- Client's CSF analysis summary
- Applications portfolio summary
- Assumptions
- Objectives and strategies
- Budget

The value proposition concept

- “A clear simple statement of the benefits, both tangible and intangible – the company will provide along with the approximate price which a customer in that segment will pay for those benefits”

The McKinsey approach involves:

1. Identifying the target customer
2. Stating the benefits offered
3. Determining price relative to competition
4. Providing a concise statement of the value proposition

Which alternative Conveys Value to Customers?

Value Proposition	All Benefits	Favourable Points of Difference	Resonating Focus
Consists of:	All benefits customers receive from a market offering	All favourable points of difference a market offering has relative to the next best alternative	The one or two points of difference (and, perhaps, a point of parity) whose improvement will deliver the greatest value to the customer for the foreseeable future
Answer the customer question:	“Why should our firm purchase your offering?”	“Why should our firm purchase your offering instead of your competitor’s?”	“What is most worthwhile for our firm to keep in mind about your offering?”
Requires:	Knowledge of own market offering	Knowledge of own market offering and next best alternative	Knowledge of how market offering delivers superior value to customers, compared with next best alternative
Has the potential pitfall:	Benefit assertion	Value presumption	Require customer value research

Sonoco's Distinctive Value Propositions

- The value proposition was that the redesigned packaging would deliver significantly greater manufacturing efficiency in the customer's fill lines, through higher-speed closing and provide a distinctive look that consumer would find more appealing – all for the same price as the present packaging.

Intergraph SmartPlant P&ID

- *Point of parity:* Using this software, customers can create P&ID graphics (either drawings or reports) as fast, if not faster, than they can using CAD, the next best alternative.
- *Point of difference:* This software checks all of the customer's upstream data related to plant assets and procedures, using universally accepted engineering practices, company –specific rules, and projects or process-specific rules at each stage of the design process, so that the customer avoids costly mistakes such as missing design change interdependencies or, worse, ordering the wrong equipment.
- *Point of difference:* This software is integrated with up-stream and downstream tasks, such as process simulation and instrumentation design, thus requiring no reentry of data (and reducing the margin for error).
- *Point of difference:* With this software, the customer is able to link remote offices to execute the project and then merge the pieces into a single deliverable database to hand to its customer, the facility owner.

Rockwell Automation Value Equations

Power reduction Cost Savings

= [Kw spent x number of operating hours per year x \$ per Kw hour x number of years system solution in operation]

Computer Solution

- [Kw spent x number of operating hours per year x \$ per KW hour x number of years system solution in operation]

- Rockwell Automation Solution

Value Case Histories

Since 1992, GEIW & PT has documented more than 1,000 case histories, accounting for \$1.3 billion in customer cost savings, 24 billion gallons of water conserved, 5.5 million tons of waste eliminated and 4.9 million tons of air emissions removed.

At Sonoco, each value proposition must be:

- *Distinctive*. It must be superior to those of Sonoco's competition.
- *Measurable*. All value propositions should be based on tangible points of difference that can be quantified in monetary terms.
- *Sustainable*. Sonoco must be able to execute this value proposition for a significant period of time.

Value-Based Pricing

**By Emeritus Professor Malcolm McDonald
2012**

Value Based Pricing (VBP)

A value-based price is designed and communicated such that all parties understand, recognise and accept the distinctive worth of products and services purchased in the transaction and participate optimally in the gains created by their use.

The whole transaction is motivated by a desire to deliver a superior solution to a customer's problem (or enable customers to exploit a business opportunity).

For VBP to have an prospect of success, we need to deal with individuals who are willing to listen intelligently to our offer and have the vision to recognise the potential impact of this offer on their own value-adding processes. This will mean being willing on occasion to bypass procurement and go direct to the owners of the problem.

VBP

If the buyer seeks to dominate the relationship and is willing to apply raw buying power, there is virtually no scope for the VBP deal.

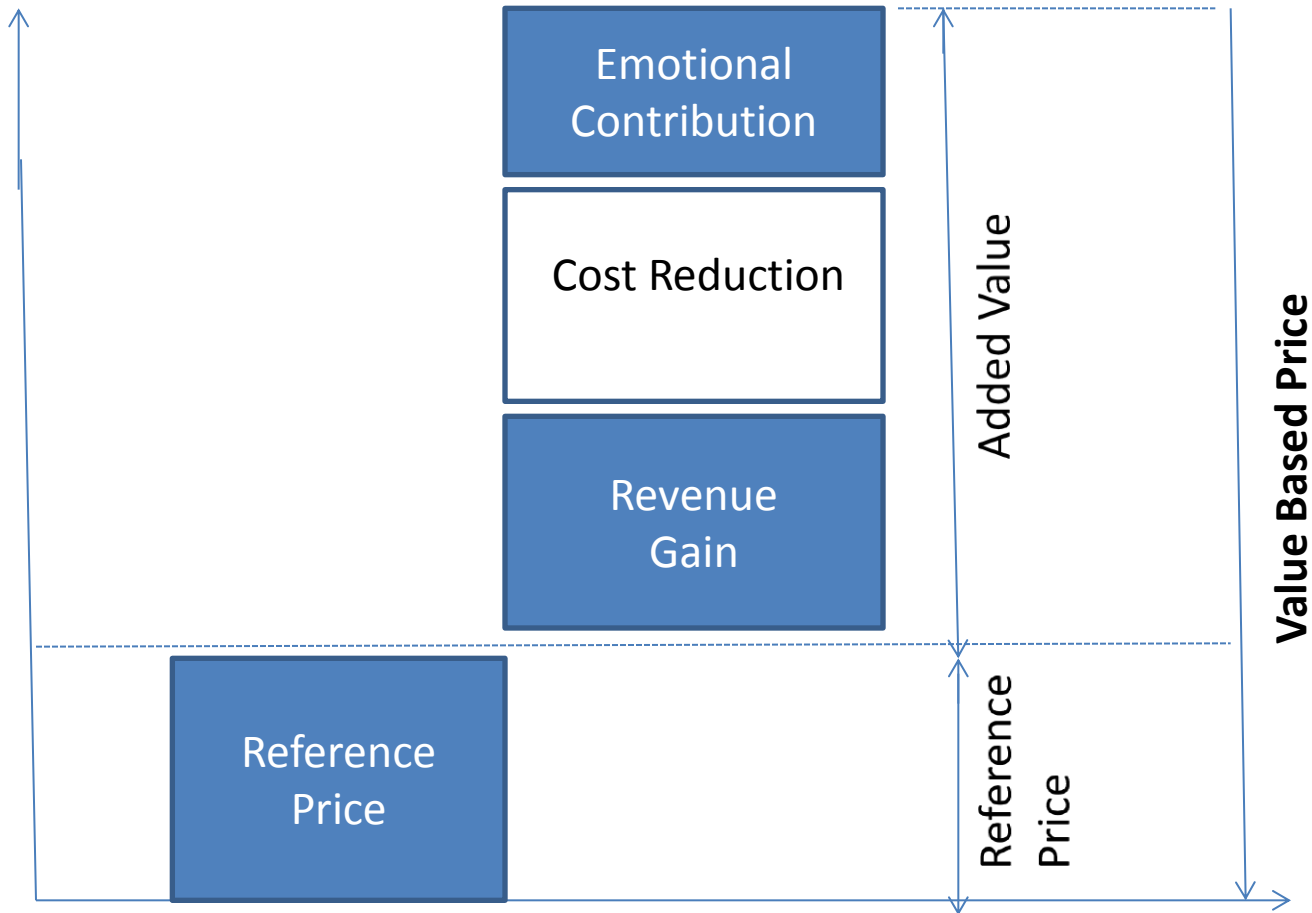
The formula for calculating a value-based price is: $RP + NRG + NCR + EC =$ Maximum value-based price.



Reference Price	Net Revenue Gain
Net Cost Reduction	Emotional Contribution
Maximum Value-Based Price	

We need to know a lot about our customers' businesses to be able to assess how our products or service enhances revenue streams or helps to eliminate costs.

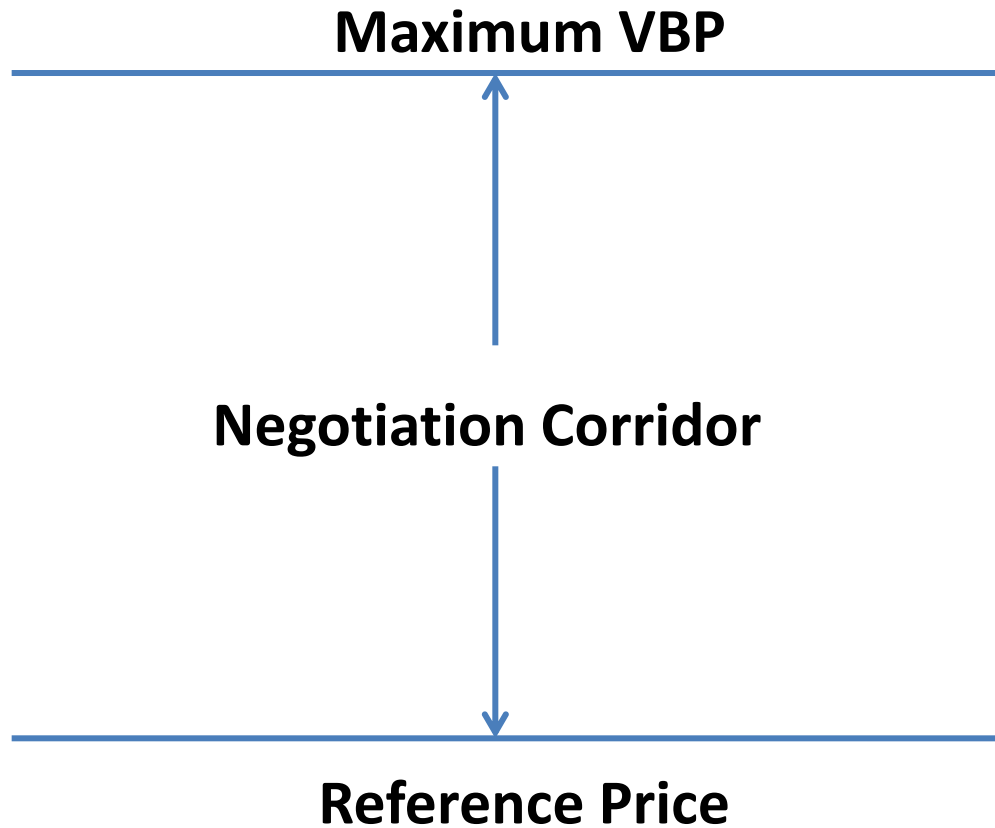
Building Blocks of VBP



Building a Value-Based Price

- The VBP may be related to reducing customers' costs, to increasing a customer's productivity, to reducing their "hassle", or to improving their peace of mind. The first two elements – revenue gains (RGs) and cost reduction (CRs) – generally are relatively easy to quantify. It is somewhat more difficult to put a rigorous economic value on emotional contribution (EC) – and even more difficult to defend it on objective evidence.

Table 1	RGs	CRs	EC
Longer lasting, more durable joints	Fewer injuries, better productivity	Reduced warranty claims	Reduced hassle
Low volatile organic compound (VOC)/toxic emissions	Lower absenteeism through workplace allergy-related sickness	Fewer claims, avoidance of HSE investigation	Peace of mind for managers
Wider range of operating temperatures	More choice of geographical markets with extremes of temperature	Greater flexibility in manufacturing process design	



Generic VBP Worksheet

PRODUCT/SERVICE	COMMENTS
Scenario	Select this carefully – could be useful life, a year, or some other unit that makes sense in the context.
Customer/client	Name of client and contact person
VALUE ELEMENTS	COMMENTS
Emotional contributions	Add up cash value of all intangibles if calculable. In practice, quantifying these is difficult or impossible, but we should capture them on this worksheet because they can be powerful persuaders in face-to-face negotiations.
TOTAL EMOTIONAL CONTRIBUTION (EC)	COMMENTS
Add: Revenue gains	Readily measured gains such as increased revenue, improved yield, etc.
Less: Revenue losses	Productivity losses from implementing our solution (e.g., scrapping of stock).
NET REVENUE GAINS (NRG)	NET CASH VALUE OF ALL BENEFITS IN THE SCENARIO
Add: Cost reductions	Ways in which our solution reduces our customers' costs. These need to be quantified objectively and ideally independently.
NET COST REDUCTIONS (NCR)	NET CASH VALUE OF ALL COST SAVINGS
Total added value	$EC + NRG + NCR$
Unit reference price	Price of reference product, which could be a competitive item or a previous version of our product.
Maximum economic price	$RP + EC + NRG + NCR$
Minimum economic price	RP or cost based on competition-based price
Target price	Negotiable