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WINNING ON THE MARGIN

The B2B value imperative[1]

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Today's B2B Sales and Marketing executive faces a uniquely challenging selling environment. Rapid advances in buyer sophistication, Internet access to product information, and social media access to seller references and past performance have shifted power from sellers to buyers. These forces are further reinforced by continued product lifecycle compression, globalization, and vendor base consolidation.

The imperative to grow while protecting margins is forcing organizations to fundamentally transform their Sales and Marketing functions and the way they go to market. For many organizations the path to success includes significant advancement in their value-based selling capabilities.

Value-based selling (VBS) is not a new idea. It dates back more than 20 years. VBS is simple in concept: win and grow customers through product, service, and program offerings whose total value relative to price exceeds that of alternatives. By providing greater value the seller is able to win at a price premium.

The reality has proven more difficult. VBS requires a challenging shift in culture, strategy, operations, and execution capability. While most organizations have made steps in the right direction, few have yet achieved the degree of VBS capability required for sustained success in today's environment. Furthermore, as more organizations move to broad solutions selling, the degree of VBS difficulty increases. Solution selling typically involves broader coordination across the seller's business lines and an ability to sell at higher levels in the buyer's organization.

This article provides an introduction to the critical components that must be addressed to build world-class VBS capabilities. The insights shared derive from extensive VBS initiatives with more than 40 companies across 13 industries in North America, Europe, and Asia.[2]

The focus of this article will be on four success factors that have proven to be the most critical to VBS capability building:

1. VBS capability building requires a comprehensive and systematic approach that addresses the full sales and marketing system. Many organizations are falling short due to piecemeal approaches.
2. VBS requires a degree of Sales and Marketing alignment and integration that transcends that required by past models. Age-old division of labor practices that separate Sales and Marketing must be replaced by collaborative business processes.
3. VBS is a go-to-market strategy, not just a sales discipline. Segmentation strategy, value proposition strategy, sales process strategy, channels strategy, and sales force structure must come together to cost-effectively provide unique and compelling customer value.
4. Implementation of VBS requires skilled change management practices for transforming deeply entrenched sales force beliefs, behaviors, and skills. Top-down initiatives alone have failed.

The next section provides a brief introduction to VBS and is followed by sections that address each of the four success factors.

Introduction to value-based selling

Value-based selling capitalizes on the rational B2B buyer's goal to select and grant loyalty to the suppliers that provide the greatest economic benefit, or value, to their organization. "Buyer value" is measured in terms of the worth that a buyer perceives a supplier's offering will provide relative to price. "Supplier value" is the revenue stream the supplier is able to command minus the cost to provide the associated offering. VBS focuses on achieving greater value than alternatives for buyers while delivering attractive value back to suppliers.

Many organizations and sales people today remain entrenched in feature-, friendship- and price-based selling. The proliferation of purchasing committees and increased oversight of buyers is rapidly neutralizing this age-old sales practice. The buyer paradigm has shifted from "buy from the seller with a good product and competitive price that I most like" to "buy from the seller who presents the best total solution and terms that maximize the economic benefit to my company." Furthermore, because of the extensive product information now available on the Internet, buyer's expectations of sales people are changing. In particular, buyers are becoming less willing to meet with sales people who are essentially information providers. The entry chip is increasingly becoming the ability to bring new ideas and to prove economic value.

The financial stakes fueling VBS are underscored by a great deal of research conducted over the last 20 years. Three particularly relevant and compelling insights are the following:

- On average, a 1 percent increase in price translates into an 11 percent increase in profit (Marn and Rosiello 1992).
- New customer cost-of-sales is typically three to ten times as high as existing customer cost-of-sales.[3]
- Reducing unwanted customer defections by 5 percent can impact profits by 25 to 85 percent (Reichheld and Sasser Jr 1990).

In short, even small improvements in price and customer loyalty translate into significant contributions to company performance, and vice versa. Effective VBS is widely viewed as a means to positively impact all three of these metrics while also driving higher win rates, larger deal sizes, and reduced cycle times.

Four fundamental strategies exist for creating customer value:

1. *Lowest price accompanied by efficient purchasing and order-fulfillment*. This strategy equates to transactional "commodity-selling." Only the low cost producer in a given market can sustain this strategy – which typically negates the need for a sales force.
2. *Lowest total cost-in-use including acquisition, possession, and usage costs* (Figure 22.1). This strategy is a form of "value-based selling" that focuses on creating buyer cost advantages beyond just price.
3. *Higher value added to the buyer's own market offering*. This strategy is also a form of "value-based selling" and focuses on the upside revenue the buyer will attain by using the seller's offering.
4. *Multi-dimensional* strategy that combines elements of 1, 2 and/or 3.

The optimal VBS strategy is situation specific and depends on four factors:

Acquisition cost	Possession costs	Usage costs
Price	Interest	Field defects
Paperwork	Storage	Training
Shopping time	Quality control	User labor
Expediting	Taxes and insurance	Product longevity
Mistakes in order	Shrinkage and obsolescence	Replacement
Pre-purchase product evaluation	General internal handling	Disposal

FIGURE 22.1 Total cost-in-use components

- customer needs and preferences
- supplier capabilities
- the value of the customer to the supplier
- the competitive alternatives,

Because these four factors vary across the customer universe, many organizations are best served by hybrid VBS strategies. These strategies customize value propositions, sales processes and sales channels by customer segment or groupings of segments. Much of the challenge in VBS strategy design is determining the most cost-effective hybrid strategy that provides optimal effectiveness, efficiency, and flexibility, and that enables world-class execution.

The sales effectiveness system

At a fundamental level, VBS is best viewed as a continuous "customer value management cycle" (Figure 22.2).

End-to-end excellence in the customer value management cycle is the hallmark of exceptional VBS organizations. Gaps at any step result in value leakage in one of four forms: value given away, lost opportunity to create value, incomplete customer perception of value offered, or incomplete customer perception of value actually delivered.

Effective VBS has a specific and recognizable signature. Market offerings are developed according to customer-specific needs, buying processes, buying preferences, and addressable potential. These offerings are communicated and proven in terms of functional and economic benefits and worth. Meaningful differentiation from the next best alternative is clearly established. Pricing is based on value, and price reductions are always accompanied by reduction in the overall offering. The

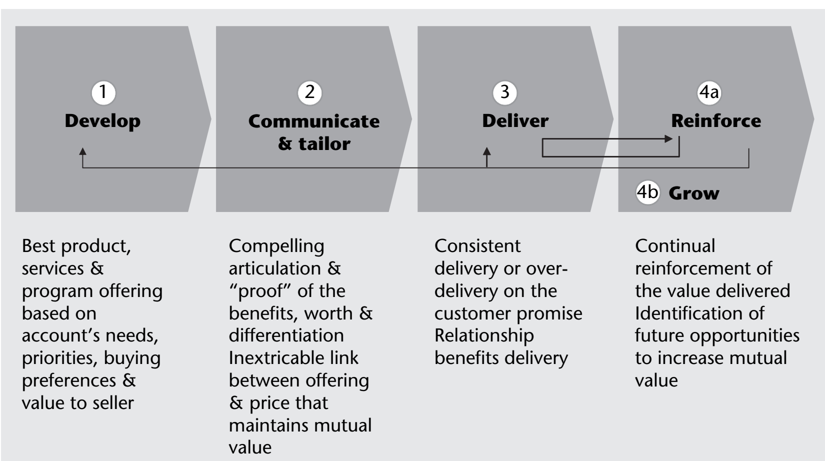

FIGURE 22.2 VBS customer value management cycle

customer promise is kept or exceeded. Value delivered is quantified, reinforced, and leveraged to build the relationship to the next level. Both the buyer and seller benefit.

When successfully executed, VBS removes the burden from the buyer to "figure out" worth, and reduces the risk to the seller that the buyer will fail to do so. It provides buyers with the business case needed to justify the purchase decision within their own organization, based on terms that are meaningful to the spectrum of decision influencers. It also provides the seller with the business case needed to command a value-based price premium. VBS elevates the relationship from a friendship to a business relationship, predicated on mutual and verified benefits that over time result in strong trust and loyalty.

There are no silver bullets or short-cuts to achieving competitive VBS capabilities. The landscape is littered with leaders who have over-relied on training, new compensation plans, and updated brochures. In many cases, all three were pushed top-down with little consideration to addressing the barriers associated with truly changing sales person understanding, beliefs, behaviors, and skills.

Meaningful advances in VBS capability require a comprehensive, systematic, and integrated approach to strategy design and capability building. Sales and Marketing is a dynamic system – and is arguably one of the most complex functions in any business. Each of the key components in this system must be addressed and aligned to accomplish end-to-end excellence in the customer value management cycle. A detailed overview of these components is depicted in Figure 22.3.

The sales effectiveness system has a strong left to right hierarchy. Organizations frequently undermine their VBS efforts by investing in downstream components

FIGURE 22.3 Sales effectiveness system