BEYOND THE PRODUCT

By Wayne Harrison

Our mistake was to let him think he was only buying product. When he realised he was buying increased productivity he was completely on our side. He understood the process cost more than the product.

This article is intended to act as a catalyst for those who feel constrained to negotiating the price of their products. By identifying new customer value that goes beyond the product features and benefits, new services can be developed which provide the supplier with a stronger competitive difference and new revenue streams. They also move the customer focus from the product price to the business processes which the supplier can improve.

As markets continue to mature and life cycles shorten, a supplier's competitive edge will increasingly come from how they apply their intellectual property to create business improvements, and how they get the customer to think "Beyond the Product".

With value creation services as the foundation of a customer relationship, a thorough analysis and understanding of the customer's business processes becomes available. Improvements to these processes enable the customer to appreciate the supplier's creative problem solving ability.

Compare this to the more shallow relationship where the supplier has a reflex intervention at the customer's request for a repeat order and the negotiations are more adversarial, focusing on price.

Offer price only and you misrepresent the value of your product.[1]

Today leading suppliers have access to capital, and robust infrastructure, and offer quality products. Yet organic sales growth remains elusive and the erosion of profit margins is common. A key reason is the loss of the best human capital through cost cutting, flattening structures, the complexity of matrix management, and short term financial imperatives.

The impact of losing talented employees has been most damaging when former employees have reappeared as industry consultants generating fees from the intellectual property which they gained and developed as employees of the supplier.

This loss is exacerbated when the supplier then focuses on further cost reductions rather than creating new customer value. This approach only reinforces their status as a commodity supplier and makes their negotiations more price sensitive.

Four distinct strategies can be identified to create superior customer value:

1. Commodity Provider
2. Educational Provider
3. Diagnostic Provider
4. Discovery Provider

1. Commodity Provider

The strategy maximises the available economies of scale. The ability to offer value creating services is limited to delivering competitive prices and supply chain efficiencies. Little to no problem solving is undertaken for the customer and the opportunities in terms of product and services for both parties are finite. The customer will know what they want, have multiple choices, and the user will be familiar with the technology.

2. Educational Provider

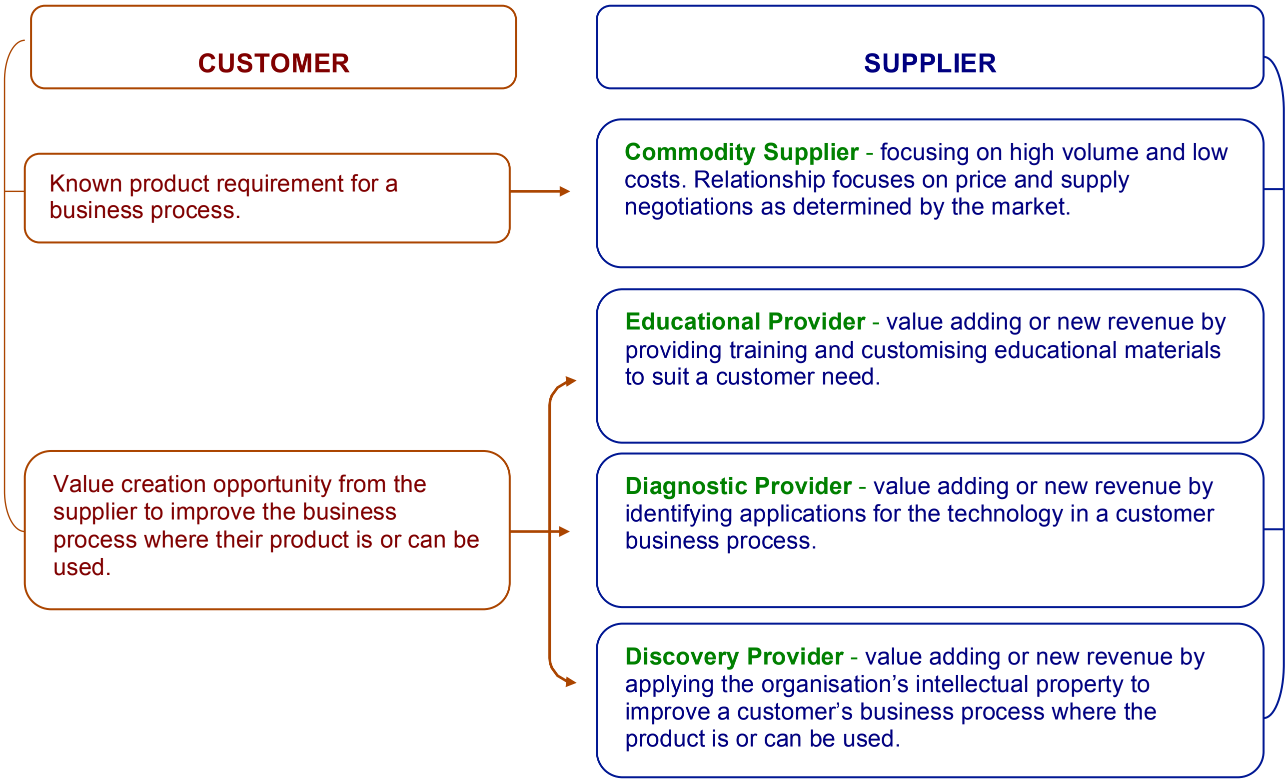
The strategy is to offer a fee for additional services covering training on the technology for the customer's intended use. A fee is more likely if it is emerging technology and unfamiliar to the customer. If the problem and solution are easily identifiable and straight-forward, then the opportunities remain limited.

3. Diagnostic Provider

The strategy is to identify alternative value creating services at 'problem points' which are known, and are beyond the customers ability to diagnose and correct.

For example, a technician from the supplier's service division can diagnose the fault and issue a repair job card for the customer's maintenance crew, and/or undertake the repair. The ability to offer these valued services allows both parties to increase the quality of the business relationship.

Value Creation Strategies



4. Discovery Provider

The strategy is to identify alternative solutions by auditing the customer's business processes, and in turn to offer services and solutions which the customer could not identify or purchase elsewhere. This is where the opportunity to add the greatest value exists.

The supplier can position themselves as business consultants and value creators by applying their intellectual property. Under these circumstances price can reflect the customer value, not the supplier's costs, and the customer has difficulty anchoring the negotiations to the supplier's costs.

For example, a technical salesman who audited a vehicle manufacturer's warranty claims established a high rate of claims for faulty engines. After consultation with his technical laboratory, the salesman was able to propose a solution to the engineers, creating new value through more reliable engine performance.

In this example the salesman is performing the role of an engineering consultant and providing problem solving expertise. (Diagram - Value Creation Strategies Discovery Provider).

However, if the same vehicle manufacturer's engineer had already completed the engineering assessment and specified the solution, then their requirement would simply be a product purchase. (Diagram - Value Creation Strategies Commodity Provider)

Probe for the value before quoting price.

Businesses that benefit from value creation strategies typically have non-standard products that can be priced to their value, or standard products requiring non-standard service. The strategic business practices that are value creators include:

- The separation of commodity products and services from problem-solving services.
- The development of intellectual property as a service division for a specific market segment.
- The pricing of service options to reflect the customer's value especially if the customer is unfamiliar with the technology. This makes the intellectual property invaluable to the customer.
- The creation or strengthening of brand names.
- The supply of products and services to performance specifications.
- The supplier's cost to the customer is low compared to the value they receive.

If the customer only sees price, they will only buy on price. But if they only see value, then they will buy on value.[1]

To add customer value, the distinction between value and price must be understood. The customer must perceive value as the supplier's ability to analyse the process where the product is used and recommend improvements that lead to cost savings versus product price reductions.

It can be a difficult transition for a supplier with a culture of setting selling prices based on their costs to become a customer's 'highest' value supplier. This is also a difficult shift for a customer who has perceived the supplier as only providing goods for a known need in an existing business process.

Only when the value created is transparent can suppliers expect to achieve a mutual gain.

This transparency would include sharing:

- Company philosophies and market trends.
- Present and future needs of both parties.
- Competitive threats and obstacles to growth.
- Profit Improvement Programs that identify and document process improvements and cost savings.
- Further segmentation of product and service differentiating properties to provide both parties with a stronger competitive advantage.

Six steps to success

Moving from an intervention where the need is known to a relationship built on value creation requires six steps to success:

1. Find and support a leader who can manage inflated expectations and develop an organisation's intellectual property into new revenue streams by developing locally and expanding globally.
2. Create a culture in top management that develops and retains skills by going beyond sales and equity participation.
3. Resist the tendency to use technology to boost output. By ceasing dependence on volume and costs, it becomes clearer how the organisation's intellectual property can be strengthened to create customer value as a competitive point of difference.
4. Collate stories that show the common strategic contribution, value creation strategies have made over a variety of businesses.

   Presented in the context of emerging trends, the evidence can be used to generate confidence in your company's potential success and competitive point of difference.
5. Gain control of the customer through value, not price, and invest in growth segments through market development instead of using price to gain market share.
6. Assess the opportunity to have Value Creation Services as an element of conventional strategy.

Suppliers who adopt all of the elements shown in the diagram Value Creation Strategies are able to build superior negotiating advantages. They remove price and supply as the primary issues and have more reasons for ongoing dialogue. They cherish and provide incentives to those who identify and develop Value Creation Services.

They avoid closure with a customer and are always looking to move from customer requested interventions for a known need to strategic and collaborative relationships that identify new value by improving the customer's business process.

The temptation is to sell on price. The need is to have a customer understand value creation ahead of price.

Price reductions do not provide improved business processes and it is here that value creator's focus. Organisations that create superior customer value avoid selling on price, and rarely have it raised during negotiations.

About the author

Wayne Harrison is the Founder and Principal Consultant of Pathfinders Downunder. He is a highly respected strategist and thought leader on negotiation and communication. His know-how is regularly called upon by leading organisations to harmonise and navigate divergent views that arise when differences over resources, strategy, organisational change, risk and cultures are involved.

Wayne is an accredited Mediator, and a Fellow of both the Australian Institute of Company Directors and the Australian Marketing Institute. He holds Board experience and is the Author of FROM HOPE TO STRATEGY – *The Anatomy of Negotiation*

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