



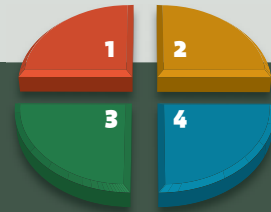
THIS FEATURE AT A GLANCE

Commoditisation

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Creating value

Relationship management is vital to uncovering a customer's intent and requirements, but to create mutual value, organisations must also think beyond products and services and understand how to leverage their capability



Strategic Purchasing Model

1. Show me the money
 2. Show me the future
 3. Show me the specs and price
 4. Show me what you can do
- What it does
- What it is

Stand out from the crowd: how to build differentiated value propositions



Ian Irving says that by creating a real perception of uniqueness with your customers you will not only retain their loyalty, but you will also develop truly collaborative relationships

THE WORLD HAS a surplus of 'similar companies, employing similar people with similar educational backgrounds, working in similar jobs, coming up with similar ideas, producing similar things with similar prices and similar quality'.

As management guru Tom Peters observed in 2000, commoditisation is one of the biggest threats facing businesses. Factors such as tougher competition, declining product differentiation and the rapid increase in exports from developing economies all make it harder for suppliers to differentiate themselves and to withstand resulting

price pressures. Strategic procurement practices also play their part, presenting particular problems for organisations that have broad capabilities, an expensive infrastructure and sell on brand and reputation. Yet it is my experience that sales organisations can fight against commoditisation and build a genuine perception of uniqueness if they engage with customers in a different way and use effective relationship strategies to construct and articulate truly differentiated value propositions. Leading names such as Shell, Bombardier, Serco and others are doing just that in some of the most challenging

commercial environments. Based on the practical approaches being adopted by these companies, this article looks at how your organisation can win on defined value rather than price.

Image change

The starting point is to consider your organisation's image both now and in the future. How is it perceived by existing and target customers? How would you like them to think of you? Typically there will be positive aspects you want to maintain and build on, as well as perceptions you wish to change. For example, it is preferable for a supplier's product or service to be seen as offering value for money rather than being expensive. At BREESE we find the two most effective ways of effecting image change are to either leverage relationships or build value propositions that are relevant to customers and contribute to the image that you want to develop. By aligning these aspects you're much more likely to move towards your organisation's desired image.

Relationship management

Generally relationship management is much simpler than sales organisations choose to make it. In any enterprise there

are only three groups of people involved in designing, delivering and implementing strategy:

1. **Policy-makers, who are responsible for profit, survival and growth. In business-to-business environments, your strategy must impact these aspects, whereas in the public sector, it must help to deliver the political agenda.**
2. **Operational staff who bring the strategy to life through policies and in doing so are responsible for procedures.**
3. **People who put procedures into practice. By refining day-to-day operations based on best practice, they continuously hone the efficiency and effectiveness of people and systems, to drive costs out of the organisation.**

To be effective you need to be organised along the same lines, and engage and communicate value appropriately at each level. In turn, developing a relationship management strategy that takes full account of your customer's requirements will depend on having an in-depth understanding of their procedures and practices. Many winning sales organisations use Miller Heiman's Large Account Management Process (LAMP®)

to help them align with their key accounts and focus on the investments that will move the relationships forward.

Types of value

Relationship management is vital to uncovering a customer's intent and requirements, but to create mutual value, organisations must also think beyond products and services and understand how to leverage their total capability. To guide clients in their proposition thinking, BREESE has developed a Strategic Purchasing Model that defines how different companies perceive value.

- **Commodity value: Focuses on specification and for many organisations the only criteria is price.**
- **Functional value: Usually relates to a specific level or type of capability that an organisation invests in to gain a competitive advantage - account management, a global footprint or the latest enterprise management systems, for example.**

However, selling functional value (what you do) is not a sustainable approach for a number of reasons:

1. **As the market segments into specification and price-based contracts and the more elusive value relationships, the middle ground is disappearing. In this environment the winners are the lowest cost operators and those at the opposite end of the scale that are able to articulate the total value they offer their customers. In the airline industry, for example, it's the difference between Ryanair and British Airways.**
2. **Functional value gradually erodes as other organisations develop the same capabilities.**
3. **Any price advantage you expect to get as a result of these investments will only be realised if you can translate it into business value for the customer.**

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The likelihood is that any additional capability will quickly be lost because you can no longer afford to keep it, leaving you with the option of offering either a fully commoditised service/tariff or operating a high cost infrastructure in order to win.

Applying the Strategic Purchasing Model makes you think beyond functional value and focus on the business value you create through your capability, and the enterprise value you can offer. It covers the four aspects above that need to be articulated to your customers as an integrated value proposition. Even complex solutions include a high proportion of commodity value, and where your organisation has invested in capability you will see value pricing coming through. If you're selling purely in the commodity zone, the name of the game is 'cost down'. However, where you can show value in three of the four areas then customer conversations begin to focus on 'cost out'. Once you start to sell business value (financial benefits and helping the customer to achieve their business plan this year and next), and then enterprise value (building the customer's forward strategy), you are really talking about the future.

With the Strategic Purchasing Model at the centre of your thinking about value, all your customer-facing staff (including marketing, product management

and sales), will be translating what you do into value, using the tools and processes employed by the customer. In each case that alignment in thinking forces back the procurement emphasis on price and specification.

Total value footprint

The process of creating value for a single customer enterprise involves the whole organisation and covers not only products or services but your total capabilities. Shell, for example, is building 'Benefit Capture Systems' that articulate the value created by working with their customers and express it in tangible financial terms.

In developing a total value proposition, four additional objective types of value come into play. The first three are relevant in any new strategic deal, the fourth is essential to retaining the loyalty of strategic customers. These are:

- **Tangible financial value - is immediately recognisable and determined through size and scale.**
- **Non-tangible financial value - expertise and knowledge**

tell us that aligning with an organisation that meets your ideal customer criteria should create opportunities to take out costs by combining capabilities. Yet this value is notoriously difficult to quantify and convey. The way forward is through a pilot or 'Proof of Concept', where you agree how to engage together to look at the issues and decide the parameters that need to improve in order to measure progress.

- **Tangible non-financial value - relates to the image and values embodied in your brand and that a customer buys into. In any new deal you must be able to compute and articulate this in terms of your customer's policies, procedures and practices.**
- **Non-tangible non-financial value - the most powerful value is that experienced personally by a customer. It goes beyond the Service Level Agreement and contract and is created by empathy between people in the relationship. There is a sense of loss if it is taken away, which is often the case where the focus is on price/specification. ☺**



ABOUT THE AUTHOR

Ian Irving is Managing Director of BREESE® (UK), and has extensive experience as a sales development practitioner. He has been an independent sales consultant with Miller Heiman, the world's largest sales performance consulting and training company, for 10 years