Implementing Value Selling: 5 Key Lessons

The current recession, along with the growing importance of procurement in the buying process, has uncovered the shortcomings that many companies have in being able to quantify and communicate their value. In this article, the author gives 5 key lessons for implementing value selling, which will not only help in differentiating a supplier's solution and capturing value, but equally important, will help give its sales team deep customer insights on which to build long standing relationships. **Christopher D. Provines is Vice President of Global Strategic Pricing, Reimbursement & Government Affairs for Siemens Healthcare Diagnostics and a member of the Professional Pricing Society Board of Advisors. He can be reached at cprovines@mac.com.**

"All the vendors' solutions are roughly the same; it now comes down to price." For suppliers, hearing this from customers is usually a sign of trouble. In B2B markets, it could simply be a negotiation ploy. Often it is a smart procurement manager who uses a phrase like this to try to set the stage for negotiations. Alternatively, it could be the legitimate perception of the customer, often caused by suppliers confusing customers by focusing on collateral and messaging filled with features and very little value. In either case, for unprepared suppliers, it can result in eroding prices and margins.

In reality, rarely are all competitors' solutions the same. There are usually meaningful differences in the way suppliers' solutions impact a customer's business. This is particularly true across segments of customers with varying needs, behaviors and operating characteristics. These differences in needs, behaviors and operating characteristics often drive a wide range of total cost of ownership (TCO) or value across various solutions.

Value selling is certainly not a new idea. As early as the 1950s and 1960s, marketing academics wrote about and advocated for quantifying and communicating value.[1] Yet, surprisingly few firms in business markets can quantify and communicate their value. A recent survey of 2800 companies showed that roughly 60% need improvement in selling value. Not surprisingly, this is up considerably from before the recent recession.[2] The recession, along with the growing importance of procurement in the buying process, has uncovered the shortcomings that many companies have in being able to quantify and communicate their value.

Why can't companies consistently communicate value to their customers? Based on research as well as experience on both sides of the table, as a supplier and buyer, what follows are 5 key lessons for implementing value selling. If done correctly, implementing a sustainable value selling capability will not only help in differentiating a supplier's solution and capturing value, but equally important, will help give its sales team deep customer insights. Armed with these insights, the sales team has the potential to be viewed as a trusted advisor and grow their relationship and business. It's up to you to give them the opportunity.

Lesson #1: Get Clear on Your Value or Total Cost of Ownership

Total cost of ownership (TCO), as the term is used in purchasing, means quantifying differences in the short and long term impact of not just the direct purchase price, but also all the costs and benefits associated with acquiring and using alternative offerings.[3] For B2B marketers and pricing professional, this should sound very similar to value or economic value.

When comparing alternative offerings, there are many potential costs or benefits to consider. These could be in areas like delivery, set-up, maintenance, defect rates, rework, effectiveness, ongoing operating costs, and training. In fact, one cross industry survey of procurement managers identified 13 potential categories and 237 individual cost drivers where there could be meaningful differences.[4] See figure 1 for a list of categories and examples.

For both procurement as well as B2B marketers, understanding value or total cost of ownership is becoming increasingly important. Consider the story of Carglass, a leading vehicle glass repair

Figure 1: Categories of Potential Value of TCO Differences

Category	Example(s)
Operating cost	Efficiency, capacity
Quality	Rework, inspection
Logistics	On-time delivery, availability
Technology	Flexibility, future use
Supplier reliability & capability	Partnering costs, R&D access
Maintenance	Preventative maintenance
Inventory costs	Safety stock, storage costs
Transaction costs	Ease of transaction
Life cycle costs	Life of product
Initial price	Unit cost
Opportunity costs	Cost of money
Other	Training costs, ease of use

and replacement company operating in the after-sales market, with locations in a number of European countries. One of the biggest purchased items for Carglass is the window glass that is used in the replacement & repair process. Glass suppliers provide glass to one of Carglass' seven distributions centers, which are used to service customers in a specific geographic area. Carglass traditionally had used lowest price as the basis for making purchasing decisions.

However, supplier quality and delivery performance issues prompted Carglass to review its supply chain and purchasing criteria. After regular analysis, the company learned that quality of the glass, delivery performance, and other key cost drivers drove a substantial increase in costs. For example, poor supplier delivery performance meant that Carglass had to rush deliveries or source glass through OEM dealers at much higher costs. Using lowest price as the purchasing criteria actually resulted in higher costs. Carglass now uses a TCO model and the cost driver analysis not only to make purchasing decisions, but also to work with suppliers on cost reduction initiatives.[5]

In other situations, customers know total cost of ownership for solutions that they purchase and use these insights in the negotiation process against suppliers. In their article on customer value, Anderson, Narus and Van Rossum tell the story of an integrated circuit (ICs) manufacturer that was competing with a competitor for a customer's business.[6] During the course of negotiations, the manufacturer learned that his price was 10 cents higher per unit than his competitor. When asked by the customer why his price was higher, the supplier did not fully understand the unique value his solution provided and had a hard time defending his higher value and price.

Unbeknownst to the higher priced supplier, the customer's engineering team had done an analysis and determined that his ICs were worth almost 16 cents more per unit due to the value it brought compared with the cheaper alternative. The customer's engineering team had recommended buying the more expensive ICs even at the higher price. Yet, the higher priced supplier, not knowing his own value, eventually lowered his price by 10 cents per unit during negotiations to win the deal. This resulted in giving away substantial value.[7]

While the previous stories highlight savvy purchasers using total cost of ownership to make supplier decisions and to support negotiations, the fact is that many customers do not know total cost of ownership for their critical purchases. Studies show that even the best procurement organizations do not consistently use total cost of ownership analysis when making purchasing decisions.[8] One study of purchasing managers showed that less than one third of respondents rated their company as good/excellent in even being able to identify cost drivers.[9]

If customers are struggling to identify their own cost drivers and understanding their own cost of ownership, then there is a significant opportunity for smart suppliers to use value or total cost of ownership in the selling process. Assuming the supplier's solutions have some real advantages and they are not simply competing on lowest price, then moving to a value selling orientation will help suppliers defend their value and prices.

There are many potential approaches a supplier can use to understand value or total cost of ownership. One simple approach to understanding value is doing in-depth interviews of customers along with studying how competitive alternatives impact the customers' business. A first step in preparing for customer interviews, and prior to conducting any analysis of competitive solutions, is to develop a list of value hypotheses. This is a simple list of areas where the supplier believes there could be meaningful differences in value.

For example, a manufacturer of air filters who has a superior filter that requires less frequent changing and is more efficient because it causes fan motors to work less and has a lower loss of air pressure might interview building facilities management personnel and study how different air filters perform under various operating conditions. The filter manufacturer might look for differences between its offerings and competitive offerings in frequency of changing filters, energy usage differences, fan motor repair/re-

Figure 2: Value Hypotheses List: Simplified Air Filter Example (partial list)

Feature (facts/data about product)	Benefit (what does it do for customer?)	Quantifiable value (What is the financial impact?)	Other value (what is other value that has not been quantified?)	Source / Data
Filter lasts 30% longer	Labor savings from less frequent changing	Labor rate $ * annual time saved	Eliminate non-value added work	Workflow study
	Use fewer filters	Annual # of filters saved * cost per filter	Less disposal / "green" positioning	Workflow study
Fan motors work 20% less	Uses less energy	Annual energy savings per filter * number of filters used * Energy $ rate	"green" positioning	Air flow study

placement frequency and inventory and handling cost differences. Armed with these insights, the manufacturer can then quantify the differential financial impact to the customers' business. A simplified example is presented in Figure 2. Completing this in advance not only helps to identify potential sources of value, but also helps to identify data that will need to be gathered.[10]

Lesson #2: Design Simple, Honest and Accurate Selling Tools

"We've tried value selling tools and the sales organization wouldn't use them." This is not an unusual complaint. There are a number of important design criteria for creating usable and helpful value selling tools. Some of these are fairly obvious and some may seem counterintuitive. However, the ability to have the field sales organization adopt and readily use value-selling tools comes down to getting these design criteria right.

Figure 3 provides a six-sigma view, called a critical-to-quality tree, of these design criteria. A critical-to-quality tree is a simple tool that helps translate customer language into quantified requirements for product/service design. In this instance, both sales representatives and the end customers were viewed as the "customer" in order to delineate the design criteria for selling tools.

In the CTQ tree in Figure 3, each high level need is ultimately translated into very specific and measurable design criteria. For example, the need to have a selling tool that is believable is ultimately translated into seven very specific and measurable criteria. Whether the tool that is being used to communicate value is a web based value model or a spreadsheet based selling tool, it is important to try to follow these basic design principles. Depending on the industry characteristics and norms, there may be other CTQs to consider. However, this should be a reasonable list to start with.

Figure 3: Value Selling Tool CTQ Tree

Need (high-level)	Drivers	Critical-To-Quality (CTQs) (specific and measurable)
Simple	Easy to use	• Takes sales rep less than ½ hour to complete tool for a customer • Average sales representative can use without issues
	Easy to learn	• Can use distance learning to teach tool to sales representative • Training required is less than 1 hour
	Easy to understand	• Average sales representative can easily understand • Output is clear and understandable for 90% or more customers • Critical few value drivers that make up majority of value are identified (80/20)
Believable	Accurate	• Calculations are accurate • 80% or more of value difference is quantified • Tool reflects current competitive alternatives
	Honest	• Show both positive and negative value
	Evidence based	• Assumptions and calculations supported by studies or data • Sources of data clearly documented
	Transparent	• Benefit logic and formulas are clearly stated
Customizable	Customer specific	• Uses customer specific data to create customized value analysis
Integrated	Supports selling process	• Language in tool supports selling process • Not seen as extra work by sales representatives

Lesson #3: Develop Evidence to Support Value and an Evidence Process

Evidence and Guarantees

Having a simple value calculator or ROI tool is necessary, but not sufficient. While some customers may not challenge the assumptions and calculations, many customers will. In this case, it is important to be prepared with evidence to support assumptions and claims of value. Obviously, the level of evidence required will vary depending on things like industry practices, the size of customer expenditure, the risk involved in the purchase decision, and how much of the value created is to be captured. For example, the level of evidence required for a major new medical device that could be used in millions of patients with cardiovascular disease may be very different than the evidence needed for a B2B software solution to improve sales force effectiveness.

Take the example of Genomics Health (GHDX). GHDX is a California based, innovative diagnostics company. Oncotype DX Breast Cancer Assay is a multigene expression test, developed and marketed by GHDX, that physicians currently use to predict the likelihood of chemotherapy benefit and recurrence risk for patients with early-stage, estrogen receptor positive breast cancer. Prior to this test being available, doctors relied on treatment guidelines that took into account inputs like the size and type of cancer tumor, to decide who should receive chemotherapy.[11]

In the traditional diagnostics testing industry, where a $50 test is considered expensive, GHDX set the price of its new diagnostic test at approximately $3,500. The value proposition to payers (government and private insurers) was simple. Based on existing treatment guidelines, some percentage of patients were receiving expensive chemotherapy (approximately $15,000) that the GHDX test suggested was not necessary. In order to persuade payers that the test was good value for money, GHDX developed economic studies and value models to prove that if physicians used insights from the new test, the test would be a fair value at $3,500.[12]

However, for some payers, the evidence was not enough. A common challenge in the diagnostics industry is to prove not only that a test provides new clinical insights, but also that physicians would use insights from the test to change clinical practice. From a payer perspective, the payer is worse off if it pays for an expensive diagnostic test and the women and doctors do not follow the test results. So GHDX went a step further. They entered into risk sharing arrangements where they tracked, along with a payer, whether the test was having the intended impact on clinical practice. If the number of patients receiving chemotherapy exceeded an agreed upon threshold, even if the test suggested that the patients would not benefit, the insurer received a pre-negotiated lower price.[13]

Evidence Process

Beyond having evidence for a specific product or solution, it is important to have an evidence process. This simply means having a way of generating the right evidence early enough to substantiate and support the value that is to be communicated. For many companies, this usually starts in the new product development (NPD) process. While the NPD processes are different across firms, at a high level, many companies have some kind of stage gate process like those first introduced by Dr. Robert Cooper. Cooper defines five stages: Preliminary Investigation, Detailed Business Case, Development, Testing & Validation, and Full Production & Market Launch.[14]

Figure 4 provides a generic new product development process as originally described by Dr. Cooper. At each stage of the new product development process, there are key questions that need to be asked to support evidence development. In some industries, such as the medical technology, where longer-term clinical trials are needed to prove value, making evidence mistakes early in the product development process can have a disastrous impact on a company's ultimate ability to prove its value.

Figure 4: Integrating Value and Evidence into Product Development

Stage	Preliminary Investigation	Detailed Business Case	Development	Testing & Validation	Market launch
Key evidence questions	• What are customers' key value drivers? • Solving which unmet needs generate the greatest value? • Based on value and costs, which features should be priority for development?	• What is the potential value of the technology (or service)? • What evidence will be needed to support value? • What will be the cost to develop the evidence? • Does the investment in evidence make sense?	• Will published data be required to support value? • What are the best places to publish?	• What value selling tools are required to defend value? • What case studies should be developed? • What simple value messages should be developed? • Does the evidence support the value messaging?	• How will value-selling tools be deployed to defend value? • Is evidence clearly aligned to value?

Lesson #4: Integrate With Overall Selling Process and Focus on Sales Force Buy-in

Change Management

Depending on the structure of your business and the industry selling practices, there may be a variety of groups involved in communicating value to customers. These groups can range from key account executives to sales representatives to field based marketing people to reimbursement managers in the healthcare industry. In practice, within any of these groups, there are probably individuals that are doing an outstanding job of communicating value today. Often, these are the same individuals that may have already created their own "homebrew" value selling tools. An important part of the buy-in and change process will be to identify and involve these individuals in the efforts.

From experience, these talented sales professionals usually develop their own value selling tools for a couple of reasons:

Existing value selling tools are inadequate: The tools provided by the marketing groups are too complicated, not compelling or not working for some reason.

No tools are provided: Savvy sales personnel have given up the feature-laden brochures and have figured out the few critical value messages to communicate to customers.

Involving field thought leaders has a number of benefits. First, existing good work that has already been developed can be leveraged. This will speed up the efforts. Second, from a change management perspective, getting key thought leaders and respected people from the sales organization on-board will help gain broader buy-in from the sales organization.

Sales Training

Another important point is to assess and identify the critical training required for the field at large to be able to use value-selling tools successfully. In most organizations, there is a wide variation in skills, knowledge and strengths. Often, the field will need to be trained not just on what value is and how to use the tools, but they will also need to be educated on how to speak the financial language of customers. Finally, they should be armed with objection handling tools and critical messages to go along with the selling effort. Without a well-prepared and bought-in field sales organization, any effort to implement value selling will not likely see significant benefits.

Sales Process

One critical part of implementing value selling tools is being able to integrate these into the overall sales process. Unfortunately, many businesses lack a formal or well-defined sales process. A recent survey of businesses of all sizes indicated that only 43% have a well-defined sales process[15]. For businesses that have a well-defined process, integrating value-selling tools should be relatively easy. Integrating into the sales process will require getting field sales input on how and when to use the tools as part of the normal process. Pilots should also be considered to test the new tools as part of the sales process.

For businesses that are in the majority, those without a formally defined sales process, implementing value-selling tools could prove very difficult. While a segment of sales representatives will naturally use the tools, getting the majority of the organization on-board will be a challenge. For businesses that are in this situation, the right starting point may be to develop a basic sales process first and then move to value selling. It usually will prove difficult to gain wide spread usage and adoption without a clear selling process in place.

Lesson #5: Get Senior Executive Ownership & Commitment

Finally, and this may be the most important lesson, the senior leaders of the sales and marketing organization need to be the owners. While an effort to improve a company's value selling capabilities may start in other parts of the organization, in the end, the owner must be the leaders of the business. In his book on transformational change, John Kotter outlines eight key elements of a successful transformational change effort.[16] One of these is establishing a strong guiding coalition. A strong coalition of leaders from both sales and marketing will be necessary to help make the transition from selling on features to selling on value.

The reason that both sales and marketing need to be on-board is because often a company's inability to communicate value has root-causes in both organizations. The marketing organization needs to move to a more outcomes and evidence based orientation away from a feature marketing orientation. This takes not only process changes, but also a clear mindset change. The sales leadership will need to ensure there is a well-defined sales process, an investment in training sales representatives and basic performance management processes in place. Finally, the leadership of the business will need to make the investments required to make value selling a strategic capability of the organization.

Conclusion

In business market relationships, moving the conversation to value from price is an increasingly important capability for suppliers. Many customers are rapidly improving their procurement practices and skills. This means that sales teams will be dealing with savvy buyers. These buyers will demand more, negotiate harder and pressure the sales and margins of their suppliers if the suppliers are not prepared. As the front line in defending value and prices, the sales team can be the difference between victory and defeat. As Cervantes, the famous Spanish novelist said, "…to be prepared is half the victory." Help your sales team be prepared and give them a chance at victory and your sales and margins will benefit.

Endnotes

1 Lindgreena, A., Wynstra, F. Value in Business Markets: What Do We Know? Where are We Going? Industrial Marketing Management. January, 2005.

2 Accenture. Optimizing Sales Effectiveness to Achieve High Performance. 2010. Accessed December 18, 2010

3 Lindgreena, A., Wynstra, F. Value in Business Markets: What Do We Know? Where are We Going? Industrial Marketing Management. January, 2005.

4 Ferrin, B., Plank, R. Total cost of ownership models: an exploratory study. Journal of Supply Chain Management. June, 2002.

5 Hurkens, K., van der Valk, W., and Wynstra, F. Total cost of ownership in the services sector: a case study. Journal of Supply Chain Management. Winter, 2006.

6 Anderson, J., Narus, J., and Van Rossum, W. Customer Value in Business Markets. Harvard Business Review. March 2006

7 Ibid

8 All, A. Procurement Must Look Beyond 'Stuff' to Strategy. IT Business Edge. July, 2007. Accessed January 16, 2010.

9 Ferrin, B., Plank, R. Total Cost of Ownership Models: An Exploratory Study. Journal of Supply Chain Management. June, 2002.

10 Example modified from: Air Filtration: Total Cost of Ownership. www.camfilfarr.com Accessed December 18, 2010.

11 www.genomichealth.com/Publications/Index.aspx Accessed December 18, 2010.

12 Carlson, J., Garrison, L., and Sullivan, S. Paying for Outcomes: Innovative Coverage and Reimbursement Schemes for Pharmaceuticals. Journal of Managed Care Pharmacy. October, 2009

13 Ibid

14 Cooper, R. (1999) *Product Leadership*. New York: Perseus Books

15 Accenture. Optimizing Sales Effectiveness to Achieve High Performance. 2010. Accessed December 18, 2010

16 Kotter, J. (1996) Leading Change. Cambridge, Ma.: HBS Press