Selling Value: The Fastest, Cheapest Way To Generate Profitable Revenue

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Today's economic conditions are putting immense pressures on profitability of businesses. Some firms are reacting to these market realities with irrational pricing tactics—cutting price or giving more for the same prices—irrespective of the criticality of their solutions to their customers.

A few astute firms, on the other hand, are using the current recession to consolidate their market positions by:

1. Taking advantage of new macro-market forces that cannot be controlled by them, their customers, or their competition
2. Recognizing and targeting customers that are attractive in this new environment
3. Revisiting their competitive landscape and positions in this environment
4. Rationalizing their solutions for these attractive market segments
5. Entering new, adjacent markets with low entry costs and exiting unprofitable ones
6. Competing on value in markets where their solutions are critical

Of these, though, the fastest and the least expensive way to stem the rot of declining profitability and swing back into the profit zone is to focus on selling value, especially in markets where solutions are critical to customers.

These turnarounds and recoveries do not require million dollar expenditures. They require an organizational will to drop old bad habits and acquire new processes and disciplines that assure profitable revenues. They need organizational commitments to change, in thinking and behavior, with an eye toward offering best value to customers and extracting a reasonable share of that value as profitability for the firm.

EXAMPLE

Recently, I was at a firm that supplies equipment that is critical to the operations of the domestic gas industry. Its distributor was screaming that the firm needed to reduce it prices by 30% to be more competitive in a market that had seen precipitous decline in demand.

My client, a premium supplier to this industry, assiduously declined to dive into this whirlpool of declining prices. Instead, we took a step back and spent a few days to understand the new realities of the market and the equipment's competitive position. Then, we had a workshop to determine the pricing premium we could command over our competition.

The methodology was simple:

1. We brought together customer-facing, financial and operational people to the workshop
2. Clarified that our intent was to price our products on value <u>and</u> at what the market can bear
3. We evaluated the business climate, customers, competition and the client company's business design and direction to determine attractive market segments, where our solutions were necessities

4. We created a positioning statement for the firm's product in target market segments. This included a portion that highlighted the product's uniqueness in targeted markets
5. We translated our intent into a formula: $P=P_t+V_u-V_t$ where P is our price; P_t is our competitor's price; V_u is the value of what we do better; V_t is the value of negatives regarding using our product. In this case, there were no negative costs. So the appropriate formula was $P=P_t+V_u$
6. V_u –the sum of monetary value of all the incremental benefits that we delivered—was examined from two perspectives:
    a. Monetary value of incremental benefits fell into three silos: revenue increase, cost reduction, and improvements in Return on Assets (ROA)
    b. Six areas of benefit contribution:
        i. Functionality: Improvements in monetary value driven by product features
        ii. Process: Benefits driven by improvements in customer processes and end-user supply-chain processes
        iii. Knowledge: Benefits driven by the knowledge-base of people and company systems
        iv. Risk: Benefits driven by reduction in probabilities of failure, in facets important to the successful fulfillment of contracts (finance, manufacturing capacity, timeliness of delivery and responses, etc.)
        v. Relationship: Benefits due to continued relationships between firms and its personnel
        vi. Market: Benefits to customers because of the firm's participation in the market.
7. We used the Table as a template to sum up the monetary value of our incremental benefits. The MS Excel spreadsheet was substantially larger and more complex than this template.

Value=> Benefits	Revenue Increase	Cost Reduction	Improve Return on Assets
Functionality			
Process			
Knowledge			
Relationship			
Risk			
Market			
Total			

Table: Summing Up Value of Benefits

At the end of the process, team members discovered that the value of the incremental benefits of their product was 95% more than the competitive product's price. They also discovered that they had walked in the shoes of the customer; they now had a deeper appreciation of customers' issues.

Of course, we were cognizant of the complexity of the next steps. We still had to deal with customers' organizational buying processes, pricing sensitivities, and negotiations. However, if we did not have a good understanding of the incremental value of our solutions, we would be fighting these battles blindfolded.