

FIVE GOLDEN RULES OF WINNING VALUE PROPOSITIONS

I doubt there's a strongly beating business that doesn't strive to grow market share, increase revenues and profits, and reduce operating costs year on year. But when things do not pan out as expected - stretch targets prove unsustainable, an unforeseen downturn in chosen markets, an imbalance in the portfolio, diminishing profit margins from existing offerings, once flushed sales pipelines begin to trickle, slowing forward order book - its normal for companies to look for answers from (or to point an accusing finger at) the sales force. Fast forward a few months and there's a number of initiatives to generate more profitable business quickly - often involving new markets, new geographies, and new propositions.

Rule #1 - value propositions need to be regularly monitored and maintained

Necessity may be the mother of all invention, but we do not advise stress testing this theory in a crisis. Winning value propositions rarely evolve quickly from impending doom or as a knee jerk reaction to bad news.

Instead value propositions should be treated every bit as important and given the same priority and focus as strategy and business planning, talent management, business innovation, knowledge management, and the like. The development and maintenance of your value propositions should be treated with the same reverence and discipline as financial management. If sales and delivery capabilities are the engine of the organisation, then value propositions are the fuel and the oil. Failure to regularly monitor and maintain their level, quality, consistency and your engine will suffer.

Rule #2 - focus on price differentiation alone will ultimately erode margin

I can remember a time when marketing literature consisted of little more than a list of products and services, features and benefits, and a set of ambiguous "unique" selling points. Now, everyone is talking about *value*. Go to virtually any web site, or look at the marketing materials for any company and you will see them extolling their value added view of the world. In reality, very few companies communicate genuine value differentiation instead they talk about "value" as if it's a tangible feature of their offering, apparent for all to see and widely applicable.

Michael E. Porter, a leading authority on competitive strategy, identifies only two types of differentiation: *price* and *value*. Price differentiation is pretty straightforward, you're the cheapest compared to the next best alternative and customers buy from you for that reason above all else. If you are able to sustain economic advantage over your nearest competitors without forfeiting profit expectations then there is no harm in a price differentiation strategy. However, price differentiation alone will, in almost all circumstances, lead to margin erosion in the long term. Whatever else is said explicitly your brand will become synonymous with low cost and this is a tough expectation to meet without compromising quality and profits.

Rule #3 - understand customers' needs and wants

So what is value differentiation, and what makes a winning value proposition?

Simply put, value differentiation or the value proposition is the explanation of how your offerings surpass your rivals' on the criteria that matters most to the customer. The key

point here is the need to identify the criteria that matters most to the customer in each buying episode - they are not homogeneous statements. Trying to make them so is why hard-set concrete value statements appearing on company literature fail to appeal to customers. They lose colour and texture, and blend into one another so it appears everyone is saying the same thing. If you want customers to pay a premium to the market for your offerings, you need to articulate how they deliver against their unique requirements.

First, each customer in the market for your offering must have a need or a business problem they need to solve. This seems obvious, but too often, we see sales people pursuing opportunities in which the customer has no need to buy. You need to invest time and effort to understand your customers' businesses and identify their unique requirements (needs) and preferences (wants). I often see sales people struggle with the concept of needs and wants. Identifying that long distance runners at the end of a race are thirsty and need to re-hydrate (*need*) doesn't tell you whether their preference is tap water or cherry cola (*want*).

Rule #4 - Substantiate your value arguments

Demonstrating that you understand your customers' needs and preferences is half of the game, and often is sufficient to allow you on the field of play. However, occupying this territory is a futile and costly ploy. I see many companies justify their sales strategy and tactics by getting onto bidding short lists yet failing to close out business - "we must be doing something right, we are getting short listed". The next stage is to back up your claims of value with hard evidence - simply announcing "we can save you money", "we will implement faster", "we are lower risk" just won't cut it. Every value claim you stake must be supported by persuasive, compelling, simple language that describes the differences between your offering and that of your nearest rivals in terms that *matter most to your customers*. Then explain, again in simple accessible language, how these differences translate into tangible benefits (usually monetary) for your customers. Finally, you must back up the arguments with references, case studies, and documented proof of the value generated. The customer with the buying authority is increasingly in the hot seat for reducing costs and doesn't have the luxury of believing suppliers' assertions.

Value is simply the difference between the perceived benefits and consequences of a purchasing decision. In thinking about this, you must develop a very broad view of defining the benefits and consequences of your offering. Focusing only on features and benefits is a certain way of losing.

To win, the customer must perceive that your value proposition is superior to every alternative being considered. This includes competitors, or the possibility of the customer doing nothing. It is the responsibility of everyone with a vested interest in the business to differentiate your offering and produce a superior value proposition. The art of crafting compelling value propositions has to become integral to how you think about your business and your belief in the benefits it delivers to customers.

This is not rocket science. However, we see too many organisations making fundamental mistakes in defining and communicating their value proposition. They either produce a long list of benefits they assume are of value to a target customer base; or they recognise that the customer has an alternative, but assume that their points of differentiation are perceived by the customer as most important to them. Instead, there should be focused differentiation on what matters most to the customer, demonstrating the value of their superiority in these areas, and communicate it in a way that conveys a sophisticated understanding of the customer's business challenges and priorities.

Rule #5 - Focus differentiation on the few key points that matter most to the customer

Focusing on long lists of benefits will lead to 'me too' assertions from prospective suppliers, a confused buyer, and a price war. Focusing on points of difference may also confuse the buyer as the differences between competing offers only serve to complicate the buyer's decision. Without a detailed understanding of the customer's needs and wants, and what it is worth to satisfy them, suppliers may stress points of difference that have little value in the eyes of the customer. So whilst differentiating on favourable points is preferable to the long list of benefits approach, it is not the winning standard.

This winning standard is met by the organisation that delivers a value proposition that is simple to understand, powerfully captivating, and resonates with their business issues and challenges. These winning value propositions identify how their offerings are different on the few (often one or two) key points that matter most to the target customers, their claims are backed up by robust evidence of their superiority, and they are communicated in a way that conveys a sophisticated understanding of the customer's problem. The smart seller will make the buyer aware of points of parity - where there is little to choose between their offering and that of its nearest rivals - and may even concede points where its offering is inferior to its nearest rival provided that these points are perceived of lesser value to the customer.

In summary, focus your value proposition on the one or two keys points that matter most to the customer. Communicate your value differentiation in a way that is tangibly valuable and resonates with the customer. Substantiate your value assertions with hard evidence. Be prepared to cede points of weakness to your rivals provided that these are of less value to the customers; and play down points of parity to keep the buyer focussed on the simple value choices you present.

OnPoint helps clients to develop winning value propositions. We work best as part of the internal team, helping you craft compelling value propositions that will increase revenue and margin. We do this in a collaborative workshop style or sitting alongside responsible colleagues to help them define and communicate their value propositions. For more information, contact us via email at enquiries@onpointconsulting.co.uk