

- [issue summary](#)
- [AMI main site](#)



SEPTEMBER 2004 MARKETING COMMUNICATIONS

By Sarina Sorrenti AFAMI CPM

Creating winning customer value propositions

GETTING marketing, sales, manufacturing, R&D and internal customer support to align their activities to deliver winning customer value propositions is a challenge for many business-to-business organisations. The walls between internal departments can prevent the development and delivery of aligned customer value propositions.

I worked with, and learned from, Michael Lanning and Dr Lyn Phillips, who developed value proposition theory in the early 1990s at Kodak. This theory, unlike other customer service or selling models, acknowledges both the need to create positive customer experiences and the suppliers' need to make a sustainable profit.

As Lanning says in his article 'Delivering Profitable Value': 1

"Those who would make a business succeed face crucial decisions. Most important of these, yet most overlooked and poorly understood, is a disciplined choice of the experiences the business will cause some intended customers to have. These are the resulting experiences a business delivers, and they are the essence of a value proposition.

"Properly understood, business is very much about the exploration and improvement of customers' real-life experiences. The traditional concepts of 'needs, requirements and benefits' share important common ground with resulting experiences. However, the differences are considerable, as the conventional concepts focus too much on what the business does or on superficial, vague ideas of benefits and needs. Managers must learn to deeply understand and decisively act on specific experiences customers would most value ... The resulting experiences delivered to customers are the essence of a value proposition."

A value proposition is more than a statement of offer or a buy-line. It is a statement, decision and commitment to deliver a specific combination of resulting experiences, including a price, to a group of target customers, profitably and better than the competition.

The essence of an offer

A value proposition articulates a headline - the essence of the offer:

- Who are the customers we are targeting (including decision makers).
- Our customers' business values (what is most important to them and not us).
- What products/services we provide (the offer selected with trade-offs that demonstrate a competitive advantage).
- How we deliver the products/selected services (direct, indirect, face-to-face, online).
- Benefits realised from a customer perspective (status, security, trust, growth, etc).
- Pricing to ensure a win-win for the customer and supplier.



Sarina Sorrenti is a director of engage consulting group.

Email: sarina@engageconsulting.com.au

Web: www.engageconsulting.com.au

FEEDBACK:

Tell us your thoughts on this article or what you think about the new format Marketing Update [click here](#)

- Communication processes (relationship management, conferences, etc).

The value proposition theory has been useful in supporting profitable sales and growth. The biggest sign of an organisation getting its mind around this is when it stops using price as an excuse for not winning sales. When salespeople start to talk in terms of customer business outcomes, the customer's customer metrics and maintaining a healthy gross margin, the mindset change takes place.

The 10-step process I have used with companies to improve their marketing and sales effectiveness includes:

1. Reviewing market research on an organisation's competitive positioning.
2. Conducting 'day-in-the-life' case studies.
3. Developing overall value propositions.
4. Developing customer segmentation.
5. Developing aligned customer value propositions.
6. Coaching and mentoring sales staff.
7. Educating internal departments in developing and delivering customer value.
8. Integrating value propositions into internal processes and systems.
9. Integrating value propositions into all external marketing communications.
10. Developing measures of value proposition success.

The 10 steps have not always been sequential. It is critical that the sales managers and marketing managers take a lead role in developing the value proposition approach. Having an organisation's sales people intimately involved is also a critical success factor.

Organisations can have value propositions at a strategic level to articulate their overall offering. Organisations can also have value propositions for customer segments; these can then be adapted for particular customer opportunities.

The meaning of 'value'

The term 'value' can be interpreted in many ways. I have applied 'value' with new customers in two ways. The first is to understand customers' personal and business values - what is most important to them and what is most important to the business.

Customers' personal and business values can differ from being conservative to being innovative. Understanding the different sets of personal and business values is critical in helping suppliers frame the most appropriate, aligned offer that creates a customer's most important business outcomes.

The second definition of value I have used is estimated worth, the quality of something that makes it more or less desirable. Providing an offer to customers that creates value in their eyes is critical; the higher the perceived value, the more a client is willing to pay for it. Matching an offer to what is most important to customers is an art and, once mastered, drives ongoing win-win business relationships.

It would be nice if customers would just tell us what is most important to them. Sometimes our customers cannot articulate what they value; however, they demonstrate it through their behavior. It is up to us to put ourselves in customers' shoes and discover what they need to improve in their business

lives.

'Day-in-the-life' video tapes or virtual video tapes through client observations and interviews can be extremely powerful in understanding a client's values and identifying improvements in our value propositions.

These 'day-in-the-life' exercises provide insight, test preconceived assumptions, and uncover business and personal values of decision makers and ideas for improvement. Companies such as Honda, Toyota, Volkswagen and Nestle use this research technique as part of their innovation processes to design better customer solutions.

Seven customer value segments

Data gathered from 'day in the life' exercises conducted with several organisations, including Kodak, Silcar and PMP, has uncovered seven common customer value segments. The segments have been grouped based on customer business values and what is most important to them, depending on their organisational maturity and development.

The seven segments are:

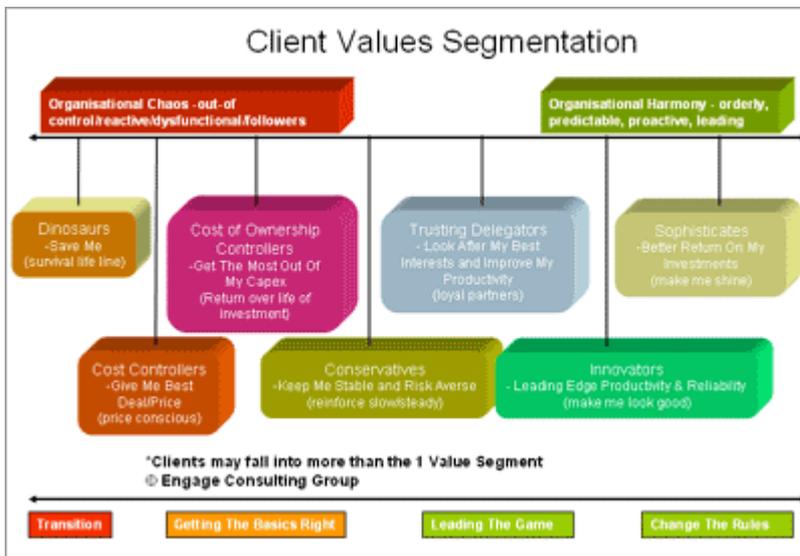
- Dinosaurs - they are looking to be saved.
- Cost controllers - they want the best price/deal.
- Cost of ownership controllers - they want the best return on their capital.
- Conservatives - they are risk averse and want stability.
- Trusting delegators - they want partners that can support their best interests and productivity improved.
- Innovators - they want leading-edge productivity and reliability.
- Sophisticates - they want a better return on their triple bottom line (financial, social and environmental) investments.

These segments flow along a continuum (see Figure 1) that categorises customers into organisations that are chaotic, dysfunctional, followers in their marketplace and controlling in their management style, through to customers that are leading edge, best practice, proactive and predictable in their management approach. Understanding where a customer fits on this continuum helps in understanding what value proposition best matches their business imperatives.

Many organisations mismatch their offerings to their customers. For example, when a cost controller customer is provided with an innovator value proposition, the customer does not value the offer, the salesperson becomes frustrated and uses price as the excuse.

The objective is to identify what segment a customer fits and then develop a matching value proposition that delivers value at a price the customer is willing to pay for and at which the supplier makes an appropriate return.

The continuum also allows for salespeople to choose who to work with. If the supplier does not have a cost-competitive offer and the customer is a cost controller, then the supplier is better off walking away and focusing on other opportunities.



Customer values assessment online

To help organisations determine which customer segments their customers fit into, a customer values profile assessment TM online questionnaire has been developed and is now commercially available. This tool, along with the 'day-in-the-life' research, can reveal customers' true business values.

When managers, marketers and salespeople use these tools upfront they will improve their chances of increasing their return on their efforts by improving profitable sales, increasing customer loyalty, and improving sales and employee morale.

Deeply understanding customers' business imperatives and their personal values will enable an organisation to develop winning value propositions.

The acknowledgement and understanding of customers' personal values and business outcomes is a small but important part of the development of a market-focused organisation. The cultural change process of delivering consistent offerings at a competitive price where suppliers make an appropriate return is the most difficult part. In my experience, once the mindset shift takes place with key customer contact people, the rest will fall into place with some careful reinforcement, coaching and support.

Reference

1. Lanning M. An introduction to the market-focused philosophy, framework and methodology called Delivering Profitable Value. Published by The DPV Group, USA, 2000; p.3. Available from: <http://www.dpvgroup.com/IntroDPV.pdf> [cited 2003 June 16].

[back](#)