

Growth by value selling - B2B offering development through a customer-centric approach

Reddal Insights — 16 September 2015
Alexandre Dubois

As companies strive to expand their global presence, and the availability of products and services increases rapidly, competitive pressure is growing due to market saturation and commoditization. As offerings become increasingly similar, companies should involve their customers in offering development.

As companies strive to expand their global presence, and the availability of products and services increases rapidly, competitive pressure, due to market saturation and commoditization, is growing. As offerings become increasingly similar, customers are have a harder time comparing the different options available to solve their problems. Technological evolution is further speeding up product obsolescence, and companies need increasingly faster growth and scale to remain relevant and competitive in their markets.

Value selling is becoming a key way to differentiate from the competition by building a company's offering around a solution for a specific customer need and quantifying the impact (value-added) of the offering to the customers. The solution can be a combination of product(s), service(s) and/or the way the two are delivered to address a specific pain point for customers. For example, Rolls Royce introduced "power by the hour" as a business model, where the customer no longer pays for the plane engine and its maintenance, rather the earnings model is based on engine running time, essentially selling the value that the product provides instead of the product itself. In some cases, one has to look beyond the immediate customer's needs at the whole value chain and the future of the industry. For example, in the ICT industry, the future of B2B is likely in business logics and offerings that benefit the end-customer, not only the direct customer.

As value selling is about providing an “operating solution” to solve a problem or meet a need of a customer, a company has to commit to delivering a pre-defined, often quantifiable, benefit. This obviously introduces a new type of risk but taking the step can drive surprising value creation. Consider Maersk line, a Danish shipping company, which has moved into selling its shipping services based on the on-time arrival of the cargo, rather than selling by cargo space. The initiative required a transformation of Maersk line on multiple levels, increased revenues, and resulted in an estimated 350% ROI for the transformation initiative.

In most of the B2C world, access to information has led to sophisticated buyers, increasingly demanding and knowledgeable. Consumer brands communicate “a better self” to their customers: sports brands help you become faster or stronger, food and beverage brands make you healthier. However, the B2B world is still at an early stage, and this thinking is only starting to take root. There is still a window of opportunity for a customer-centric player to differentiate and capture market share by value selling.

Value selling requires a customer-centric approach

In a traditional approach (figure 1), a product is at the forefront of the offering development process: a product is developed, after which potential customers who would need that product are identified and marketing and sales activities take place to generate business.



Figure 1: Traditional linear offering development process

In this process, the customer is at the end of the chain, and ultimately has the choice to buy the offering being promoted. That offering is often developed based on the internal capabilities of the provider. However, as customers are the stakeholders driving revenues and success of the company, a better process would include them, making them active, rather than passive, players. One European B2B software company is taking first steps in this direction, increasingly involving customers early in the application development process. By working with short development iterations through joint testing and workshops, involving direct end-users of the solutions as well as product owners from their customer, the company has achieved a faster, more flexible development process that will create a solution that directly addresses end-user needs. The feedback from this experiment has been positive, and customer satisfaction is on the rise.

Value selling essentially involves a customer-centric, outside-in, approach and relationship with customers. Every part of the company’s value creation process must be aligned with the ambition of addressing the customers’ challenge in a way that creates value mutually. This is, however, about more than simply changing the location of the customer in the process. It is about shifting the organizational mindset to truly understand the end-customers’ businesses, and what drives the customers’ financial success. Organization structures, processes and compensation schemes must all be aligned according to these goals.

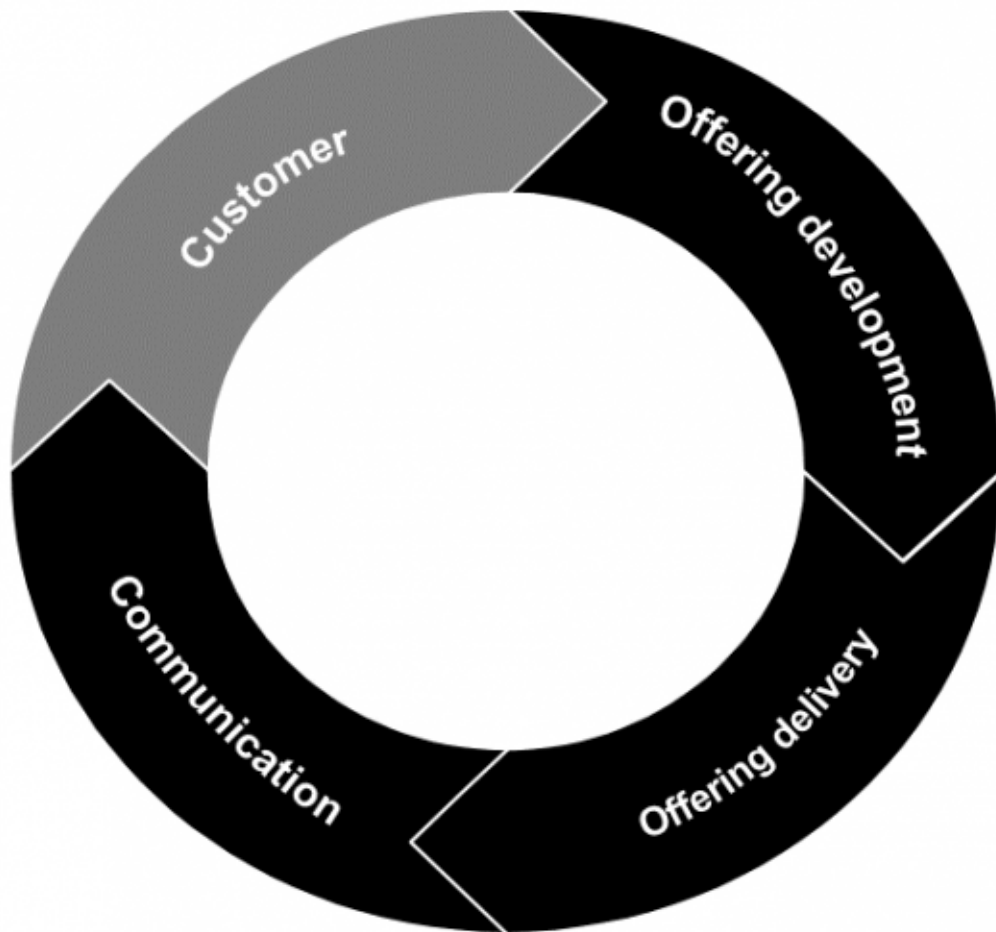


Figure 2: Customer-centric, iterative offering development and delivery process

Value selling is an iterative process, beginning with the customer (figure 2). Although seemingly a minor change, the modification of the customer role and location in the process, and the iterative loop make all the difference in the outcome.

There are three key changes in perspective required to become a B2B value selling company

1. Identify and solve customers' pain points by actively involving them in offering development
2. Align the operating model with the customer needs
3. Communicate measurable value to customers

Solve customers' pain points by involving them in the offering development

Many companies claim they understand their customers' challenges but fail to understand their impact on the customers' organization thoroughly enough. To create a truly value adding product, proactive and open two-way communication with customers is needed. If the customer is to be at the center of offering development, the company must understand its customers' value chain, processes and areas of difficulties, to be able to develop, deliver and communicate efficiently the right offering at the right time.

Consider the case of a Nordic ICT company; the management knew that their customers

needed their solution with pre-determined features, but did not have a clear understanding on how the solution affected the operations of the customers and what measurable value the solution offered. At the same time, the company's price point was higher than the competition and marketing and sales was struggling to find communication approaches that worked. As a result, the win rate of bids was below targets. To better understand the customers' pain points, the company decided to begin transforming its offering development process by interviewing customers about their pain points before and during solution development. Reception from target customers was positive and the new initiative provided deepened understanding of the customers' processes both for the company and its customer, having a positive impact on the customer relationship overall. After a particularly intensive phase of customer interaction, the company was praised for its efforts, one customer even stating that the company now understands them and their processes better than they do themselves.

The key to identifying opportunities is assessing how similar challenges differ from a customer type to another by asking questions such as "where can we relieve pain in the customers' value creation process?" Depending on the challenges, the underlying core offering elements may be similar, but the delivery process and value-adding services may be different to serve and satisfy different types of customers effectively.

Customer interviews, co-development, or co-innovation are examples of involving the customers in the development process. Offering development teams can involve customers in several ways, for example, organizing customer workshops or events that gather several customers having similar challenges, where ideas and thoughts can be shared. Also, short iterations with regular testing rounds together with the customers allow for an agile and efficient development process. Such cooperation can also result in cost-sharing of development activities, especially when customers see the value of the process as significant.

Users of this collaborative approach will find that there can also be several pitfalls in the implementation of this process. For instance, sometimes a development team might push for new advanced technology, even when the benefits do not outweigh the costs or, similarly, the team might have a tendency to work in a silo and not involve the customers early enough or frequently enough in the process. To avoid these pitfalls, iteration with the customer should start already in the concept design phase under the leadership of a committed owner who is incentivized based on the success of the customer interaction and, ultimately, the new offering.

The emphasis should be on developing the offering that best addresses the customers' pain points and results in mutual value creation. If in this process the solution that adds the most value for the customer comes through applying advanced technology, only then should the technology be included in the roadmap.

Caverion, a company that builds and maintains intelligent and energy-efficient solutions for buildings, leverages sensors and monitoring technology to support its value proposition: creating a building in which productivity is higher, for example, due to favorable conditions

(such as temperature, lighting, humidity). Here, technology is used towards adding customer value, and the offering is developed based on research to optimize working conditions in buildings. Accessory products, when not aligned with customer value creation, are divested to minimize costs of the total offering and focus only on technical features that add value for the customer.

Align the operating model with the customer needs and the solution offered

Understanding customers' pain points and developing an offering to solve them is an important first step but soon after the operating model will have to be optimized to support delivering the offering. Maersk, the Danish shipping company, successfully applied this approach by identifying a need for reliability among its customers that was not being met. At a time when cargo shipping was known for late deliveries roughly 50% of the time, Maersk switched from volume shipping to making reliability the norm. Because of late deliveries, customers had to buy and ship buffer stock to ensure not having any shortage. The situation was causing significant additional costs to customers, as the products shipped were also losing value due to delays. Successfully identifying and servicing this need for reliability, Maersk ultimately started an end-to-end organizational transformation that focused on this issue, differentiating the company from its competitors in the process.

How the solution is delivered is a big part of value selling. Developing delivery to fully address the targeted customer challenges typically requires rethinking the operating model in detail. The activities within the company must be integrated and aligned to the customers' pain points, from R&D to sales and marketing, from offering development and delivery to customer service. Focus needs to be on achieving the impact of the solution, rather than selling the solution itself. Cross-functional activities require a higher level of integration. For example, a global company using several solutions from a single provider could want a one-stop shop model, in which there would be a single point of contact, which would simplify significantly the interaction process.

The delivery model applied plays a key role. High levels of automation can be one way to improve scalability, reliability and profitability. Maersk developed a more consistent process for the scheduling of its ships. By having ships departing on a regular basis, at consistent hours, it increased reliability, which was critical in achieving the performance it sought. Scheduling consistency enabled Maersk to improve its timely delivery rates toward the objective of being on time 95% of the time.

Technology is a common way to enable a higher level of automation. The better access to data through Internet of Things, cloud, digitalization and mobile technologies, has created additional business opportunities to offer value-adding service to customers. For example SKF, a bearing manufacturer, has integrated value-added services like condition-based maintenance effectively into its wind solution, thus transitioning from a traditional bearing manufacturer to also monitoring windmills as a service with the data gathered on the bearings, helping its customers boost turbine performance and profitability.

Business and earning models should also be reviewed alongside the operating model. Value-

based pricing becomes a possibility, and coupled with improved scalability, has the potential to grow profit margins above the levels of a traditional cost-plus pricing. Determining the benefits and impact delivered to the customers allows to quantify the impact, and then share the value and risks with the customers, rather than simply pricing based on the costs of providing the solutions.

Multiple elements, including how an offering is developed and configured, how the customer interaction is managed and how the offering is delivered and priced, must all come together for a strong solution. The trick is to go over all areas systematically and define how each can contribute to the strongest possible value for the customer.

Communicate measurable value to customers

Value communication is a key element in value-selling and involves communicating the impact and measurable benefits of an offering rather than features of an offering as well as building stronger customer relationships. A well-known example is Apple, which when launching the iPod, advertised “1 000 songs in your pocket” while competing MP3 devices promoted having 1GB of storage. The difference is immense from the customer’s perspective, even if the storage space was similar.

Considering the scrutiny for purchases in a B2B environment, measuring the value contributed by the offering is key in value selling. In B2B environments, aligning the business case presented to the customers’ own KPIs, makes the message relatable to the customer and helps ensure that the rationale behind the solution holds, delivering the benefits expected.

Value communication must be done at a higher level in the buyer’s organization than in traditional sales. Decision makers must be targeted, and their decision drivers must be understood. The communication of the improvement that the offering delivers should thus highlight not only the benefits to the company’s KPIs, but whenever possible also the individual KPIs of the decision maker.

Finally, branding and brand messages should be aligned with the value selling principles. Over the years, several companies have communicated their value differently, with success: Kone with selling people flow rather than elevators, and Rolls Royce with “power by the hour”, for plane engines. This ensures not only the alignment of the marketing function with value selling but eventually becomes part of the company’s common language and helps build a cohesive customer-centric culture.

Value selling is an iterative process requiring cultural change in the organization

Value selling is challenging, time and resource intensive. More pre-sales activities have to be conducted, and clear identification of the customer needs and solution impacts must be derived before revenue can be expected. When the costs of the pre-sales activities outweigh the additional revenues, a traditional sales model can be preferred. Management must be able to decide when value selling should be considered, and this requires new skills.

Provided the right skills, transformation support and training, value selling enables the ability to develop trust and deeper relationships with the customers. It is also a chance to receive feedback on the offering, its delivery and the value communication. This is critical as the solution development process is not static. Continuous iteration is required to improve the offering and customer experience to stay ahead of the competition. Post purchase, establishing common milestones with the customers for future steps can help developing the relationship further, with increased transparency.

In brief, value-selling is a customer-centric approach to transforms the customer into an active player in the solution development, and allows a targeted offering with a clear value delivered. It relies on a deeply embedded organizational culture and mentality, and on building strong customer relations. Value selling for an organization, however, can often be substantial change and needs to be implemented to the day-to-day way of working on all levels of the organization in order to provide all the benefits and growth potential.

References:

Kujala, M. Evaluating the adoption and monitoring the application of value-based selling. Aalto University Master's thesis, 2015.

Levit, A. Bold transformation at Maersk: Changes the customer conversation...and drives off the chart results. Sales Performance International, 2013.

Smith, T. Pricing Strategy: Setting Price Levels, Managing Price Discounts and Establishing Price Structures. Cengage learning, 2010.