VALUE FIRST THEN PRICE

QUANTIFYING VALUE IN BUSINESS-TO-BUSINESS MARKETS FROM THE PERSPECTIVE OF BOTH BUYERS AND SELLERS

'By combining an impressive list of expert analysts with real-world case studies, *Value First then Price* gives businesses the latest strategies and tactics needed to improve company margins and profit performance. Because the focus here is on customer quantifiable values, the book correctly shifts emphasis from a producer's features to an end-user's benefits.'
Kevin Mitchell, *President, The Professional Pricing Society, Inc.*

EDITED BY ANDREAS HINTERHUBER AND TODD C. SNELGROVE

ROUTLEDGE

Value First then Price

Value-based pricing—pricing a product according to its value to the customer rather than its cost—is the most effective and profitable pricing strategy. Buyers need to evaluate the monetary benefits of a product against the price of its competitors. Sellers justify their price points through documenting the value of a product, emphasizing its superiority against competitors and therefore justifying the premium price.

Value First then Price is an innovative collection which proposes a quantitative methodology to value pricing, and road-tests this methodology through a wide variety of real-life industrial cases. It provides a state-of-the-art and best practice overview of how leading companies quantify and document value to customers. In doing so, this book provides researchers with a method by which to draw invaluable data-driven conclusions, and sales and marketing managers the theories and best practices they need to quantify the value of their products to demanding, hard-nosed industrial purchasers.

With contributions from global industry experts this book provides cutting edge research on value quantification and value quantification capabilities with real-life, practical examples. It will be essential reading for sales and pricing specialists as well as business strategists, in both research and practice.

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7 Quantifying your value so customers are willing and able to pay for it

Todd C. Snelgrove

How does one get paid for value created? The question has been asked by every premium player in every market of the world. Given that the financial benefits of value creation and pricing are well known, why do so many companies fail to achieve the desired results after they've done the work to create something of value? For those that do invest and create customer value, it's time to do the work to get paid for it!

PV ≥ COST = ACTION

I have begun to look at this as a formula. If the perceived value (PV) of a good or service is greater than or equal to the cost of buying it, then an action such as a purchase should occur. In more detail, it is the perceived value from the customer's perspective; however, if that value can be expressed monetarily, it will be a harder value than a perceived value that is not. Cost includes the asking price, plus all other associated costs (shipping and handling, research time, cost of capital etc.). If I perceive that I will obtain more value than the cost of doing so, it probably will result in a purchase. The greater the difference between perceived value and cost, the higher the percentage of people who will buy. For example, if the quantified customer-specific value is $100, and the cost of acquiring it is $42, then a value surplus or incentive to buy of $58 exists and for most that surplus is large enough to motivate most people toward the desired action of purchasing. However, let's assume that perceived value is a feeling (no number is assigned to it); in this case, fewer people would buy. Finally, if the perceived value were only $43 and the cost were $42, far fewer people would invest in buying to receive the one dollar of benefit.

Looking at the example in Figure 7.1 of an offering for a tool called a laser alignment system, we see a list of perceived values; let's assume for each item there's a value that, based on industry averages or customer-specific numbers, totals $10,000 and that the total costs of acquiring the tool are $4,200, leaving a value surplus or "incentivization" benefit of $5,800. If the numbers are a hard value, believable to me as a buyer, then I will find a way to get the $4,200. In general, the harder and more monetary the value numbers are, the less value surplus is needed to get an order.

Perceived Value ≥ Costs = Action

Less Energy Consumption		
Faster Installation	Price of tool	
Longer Machine Life	Cost of adding or using existing vendor	Order or No Order
Easier Installation	Time to wait for delivery of tool	
Less Machine Vibration		
\$10,000	\$4,200	\$5,800 Value Surplus

Figure 7.1 Example of perceived value calculation for a laser alignment tool.

Companies that employ a good value-based pricing strategy are 20% more profitable than those that have weak execution on value pricing, and 36% more profitable than those that are good at executing a cost- or market-share-driven strategy (Monitor Pricing Group 2011, cited by M. Bertini, personal communication 2014). Thus I would argue that value pricing works only if additional areas are also addressed. A company must create value, communicate that value through sales and marketing, and quantify that value in monetary terms; only then can it get paid for the value created. Think about it for a second: if a company is great at three of these but not the fourth, it won't get paid for value.

As I travel the world, I hear too often from CEOs the refrain "I want our salesforce to sell based on value but they do not … why"? The answer is "simple." No one size fits all and no silver bullet exists. Selling on value takes focus, management support, tools and training, and product or service differentiated attributes to see the results. In talking with other thought leaders in the value space, I have come to realize that numerous other things need to happen to make value selling work for a company.

For a salesforce it comes down to two main focuses: Do they have the ability to sell value? And do they want to sell value? I find that most companies focus on the ability area and assume that the salesforce wants to sell value, and that they just need to go and do it. So what's needed?

WHY SPEND THE TIME AND EFFORT TO QUANTIFY YOUR COMPANY'S VALUE?

The first step in the journey is to realize that quantifying value is something your customers want and need you to do, something that will allow them to justify buying your option, unless you're consistently the lowest-priced offering. In the world of buying and pricing, two competing forces exist. From a customer's perspective, these are the *willingness to pay (WTP)* for value and the *ability to pay (ATP)* for that value. In the days when the user of a product or service was the decision maker, and purchasing was more of a clerical function, the process was easier—easier in the sense that the user of the solution you were offering could justify in their own mind what better, longer, easier, faster meant because they were the ones who would receive the benefit. However, in the last two decades, the activity of "purchasing" has evolved into the strategic focus of "procurement." The difference is important: now procurement decides what is of value, what they are willing to pay for—and because they are not the ones who will see and receive the benefits, they are less likely to pay for them. Second, in today's budget-constrained world, the question is whether the customer has the money or budget to buy the better offering. The case studies, research, and anecdotal stories that follow show that if value can be quantified in the universal language of dollars and cents, then obtaining new budgets or reallocating money from another budget can easily happen, and procurement will be willing to invest.

For example, I might say to a potential customer (user of a product or service), "This solution will allow you to do the job 22% faster, and the quality of the job will be 10% better" (assuming data exist to reinforce this). How willing and able would that customer be to pay for that value? It would depend on what those impacts would mean to them and on comparing this buy with other, competing purchases. They might sense that mine is the better solution, and then they would have to take this argument to their boss, procurement, and finance and explain that time is money, for example. However, what if after mentioning the above benefit statements and, based on industry averages, or their company-specific measurements, handed them a customized business case showing that my solution would save their company $225,000 a year in overtime, parts, reduced scrap, and less rework? Which scenario has a better chance of getting the order? Now they would know what the solution was worth and where it would rank with competing requests for the two very scarce resources of time and money. In today's world, where your offering is competing for funding and priority over other options, the one that has the best business case, with the hardest values, and the highest probabilities of realization, will be the offering that is purchased. If you cannot quantify the value of your offering, it will be placed in the dreaded no decision, or low-priority, bucket. Or the purchase will be seen as a commodity and you will be compared with your competitors based on price and delivery. Instances of decision-by-committee have increased, and "let's not make the wrong decision" seems to be a dominant driving force. It's easy to point to "we got all the minimum requirements at a lower unit price" to support a bad supplier selection if ultimately things don't work out. However, with a vetted business case, all functions involved in the decision can point to the payback, ROI, and cash flow of the business case provided to justify why that project or solution was approved over the other options. Even when there is no budget, if the payback is believable or guaranteed, money can easily be reallocated or found when a quantified business case exists.

So once you see the need for and benefit of quantifying your value, what else needs to happen to enable your company to sell and get paid for that value? Let's look at the internal and external resources, requirements, and focuses needed (see Figure 7.2). These are not ranked by order of importance; however, you need to address all of them to be truly successful. Over the last decade I have had the chance to sit with the Guru of Value, Professor James Anderson, and discuss what's working,

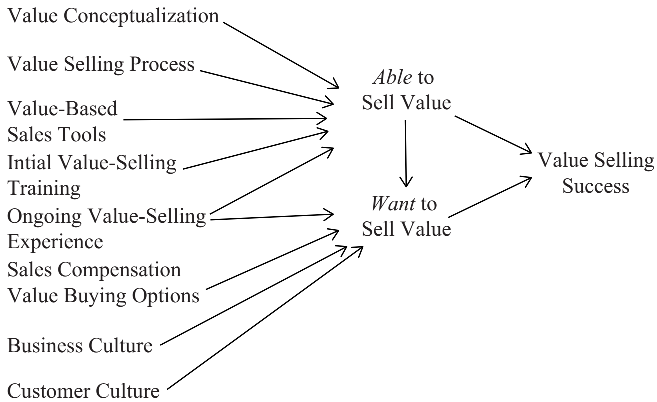

Figure 7.2 What causes value-selling success?

what's not, and why, in our company and others' "Value Merchant" strategy. After one discussion, Jim created the diagram shown in Figure 7.2. I was amazed at how clearly he was able to represent the main points and show how they support the two areas of ability and willingness to sell value. Checking to make sure we address all areas listed in this diagram ensures that we cover all the basics for a vital, ongoing, robust program based on value that allows a company to differentiate its offering from that of the competition.

THE ABILITY TO SELL VALUE COMPONENT

Value conceptualization

What is your company's value to your customers? What does it help them do better than the other options? Value selling begins with the basic step of making sure your company creates something of value. Whether it's a product or a service, it needs to have an attribute that is not only different but also of value to someone within your target audience. Most academics use the term "unique selling proposition" or USP; however, just because something is unique doesn't mean it is of value. At our company's 100-year celebration, our CEO took the stage and memorably said, "Value is not in the minds of our engineers and what we think value is; value is what customers value."

Years ago, while interviewing for my job at SKF (a Swedish-headquartered global leader in industrial engineered products), I asked our Canadian president why customers would choose to buy an SKF bearing over a competitor's offering, when we had a price premium. I will never forget the stone-faced glare of our Swedish president, who said—almost in disbelief that I didn't already know why—" We are Swedish." I began to chuckle and then realized that he wasn't joking. So, our head office is in one country, whereas our competitors' are in others. This is unique, but it's not something of value (to me, at least). What I heard him say was that our head office is in Sweden. What he meant was that we make the highest-quality products in the world, and that we've generated more innovations and patents than all our competitors (Swedish culture is highly innovative and focused on quality). So the first phase of value selling is to make sure that you create something that is of value to your customers—whatever that may be.

Since publicly traded companies have a shareholder responsibility to create sustained profit, let's make sure we help them do this in the right way by adding real value and taking out real cost. To get buy-in, this value must be quantified.

Value-selling process

Second, value has to be part of your selling process. Are you merely reacting to customers' requests, or are you proactively engaging customers, solving problems, and articulating that value during your sales process? The Corporate Executive Board (CEB 2012), a U.S. think tank, recently found that of more than 1,400 B2B customers' sales interactions, those customers completed, on average, nearly 60% of a typical purchasing decision in researching solutions, ranking options, setting requirements, benchmarking pricing, and so forth before they even talked with a supplier. So if the customer has decided that three suppliers meet their minimum criteria, then price is the only measurable thing of difference. In this case, it's hard to come in and say, "Hey, you need to rethink your requirements: what you really need to do is measure value or total cost of ownership." However, based on experience, we've been able (although it's harder when it's later in the sales cycle) to say, "Should we be discussing the $5,000,000 in annual parts that you buy and a price savings of 5% on that if you give me an additional $2,000,000 in business ($350,000 theoretical price savings), or the $4,000,000 in CAPEX and OPEX savings (hard EPS improvements) our company can help drive to your bottom line by getting your facilities to a world best-in-class average? An opportunity for profit that is 11.5 times bigger." All the customer can now ask are questions like "Has this happened before? What's the probability that it will happen? How will we measure it? What happens if you hit or miss your target? What payment relationship should we have?" These all move into the discussion of implementation to realize value.

Can your salesforce have an intelligent discussion with procurement, finance, engineering, and even the customer's CEO to explain how lowest price is not the same as lowest cost? Can your company affect, measure, and reduce costs and increase value in using your product or service during the phases of acquisition, installation, operation, maintenance, and disposal? Can your company also increase the benefits your customer receives, such as increased production, reduced risk, increased safety, increased sell-through? By looking at the total cost of ownership (reduction of costs) along with the total benefit of ownership (increase in benefits of value), you can now understand and demonstrate in numbers how you can affect and measure the impact of your offering on their total value of ownership—which is the difference in reduced costs plus increased benefits minus any price difference—thereby making them measurably more profitable. Actually a better term

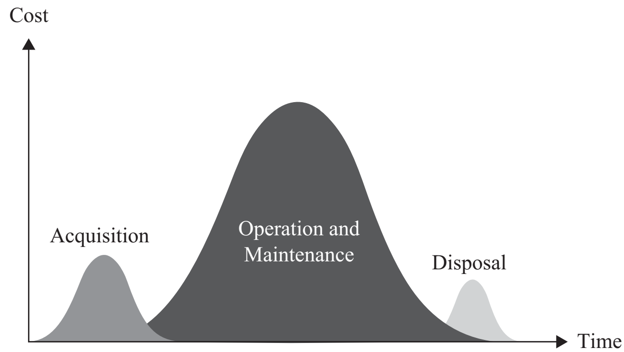

Figure 7.3 Total cost of ownership.

to use is Total Profit Added (TPA). This would be the most holistic measure of all the costs saved (TCO) and all the increased benefits created (TBO), thereby allowing for a clear demonstration if the price being charged will lead to the highest profit for the customer, versus other options, over the total life of the product or service. TPA is the next evolution measuring and choosing based on best value (see Figure 7.3).

Value-based sales tools

Most companies mistakenly think that having a value-based sales tool is the holy grail and the end of the value journey. As companies have said to me in the past, "If we just had a methodology to sit down with customers and document for them where and how much more money they can make or save using our offering versus the next best alternative, all our problems would be solved." This is one of the foundational building blocks; however, it is only part of the journey.

At SKF, in the early 2000s, we realized that all the superior technical benefits in the world of our products wouldn't matter to a VP of finance or procurement unless we could convert what those features and benefits meant into cold, hard cash. With that in mind, we created a tool called Documented Solutions Program™ (see Figure 7.4). It is our methodology for sitting down with the user of the solution and running an expected and eventually an actual business case ROI. This financial justification for the customer can now be used to show their bosses the benefits in hard cash of choosing to work with SKF, or to buy a specific solution. We are not the lowest-price provider in our industry, but we can help customers realize the lowest costs by using our services and products. This tool and methodology has become a mainstay of our business, and each year we report the numbers generated. At the end of 2015, we had over 66,301 accepted or verified cases with customers, with savings of over 5 billion U.S. dollars, covering all five of our technology platforms. You can imagine the power of sitting down with a customer and demonstrating how this same offering has helped their own company at a different

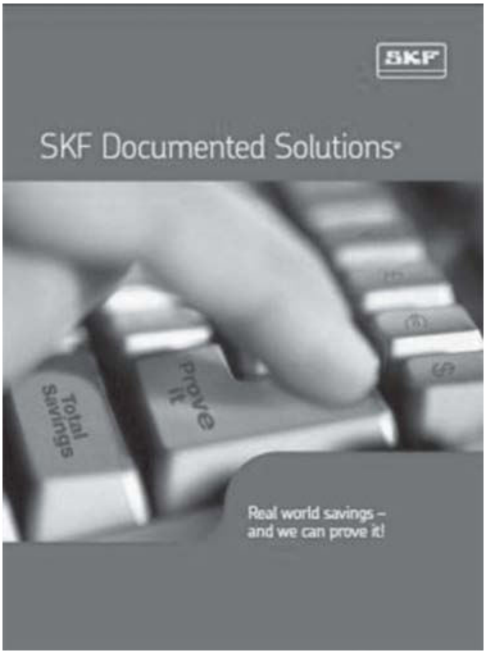

Figure 7.4 SKF documented solutions.

location in the world, or someone within the same industry, save so many dollars by implementing this solution. The conversation goes from "how much does it cost?" to "when can we get this started so I can start saving money and solving a problem?"

For a value quantification tool to really work, it must be easy for the technical and financial person to understand. Remember, a good TCO tool is not a sales tool in and of itself. It's a process and methodology for benchmarking, finding, prioritizing, customizing, and quantifying expected values in financial terms so that customers can see if it makes sense for them to invest in your solution. Too often I see company-made templates that are really just a sales tool called something else.

Characteristics of a good TCO quantification tool:

1 Benchmarks data ranges and reference points.
2 Allows customers to change input data.
3 Is clear and concise. Sometimes engineers overcomplicate things and think the more detailed, the better.
4 Shows the results as your customer would like to see them, for example in terms of ROI, net present value, cash flow break even, dollars saved.
5 Is functional—allows users to save cases and work through a process to go from proposal, to accepted, to verified.

6 Builds in an archive so that cases can be saved, searched, and sorted by industry, application, country, distributor, customer, and so forth.
7 Provides live updates when connected to corporate server; links to reference material.
8 Is easy to use—available in a light version such as for an iPad (SKF launched in 2015), multiple languages and currencies, and so on.

INITIAL VALUE-SELLING TRAINING

Now that you know your offering has value, your sales process incorporates value, and you have tools for demonstrating and quantifying value, you'd better make sure your salesforce is comfortable with selling based on value versus price or technology. During initial training, spend time discussing why this is a good strategy for them and your company and why customers want and need proof of value. Programs that come as edicts from the head office usually encounter resistance in the field that is not needed. Bring the team along on the journey; don't ram it down their throats. Of course, they need to understand and practice with the tool's functionality. Also, if your salesforce is technical, then you will need to spend even more time getting their buy-in. For SKF this has been an issue, because we hire engineers, for whom the technology itself explains the value. They tend to be happier talking about product features and benefits such as the hardness of the steel or the precision of the manufacturing process—and if the solution proves the value, why would one need to convert that value into dollars and cents? When talking to other engineers, they're right; they understand what these things mean—but finance does not. Over the years, we've launched and used a great outside global sales consulting group to ensure that our teams feel comfortable with and know how to sell based on value, and that they're comfortable with terms like Return on Investment, Return on Equity, Net Present Value, and how we affect a customer's Earnings Per Share. If your salesforce doesn't understand these terms or know how your company's offering can affect your customer's profit, then some training is required.

In the ability-to-sell-value stages we focused on the basic underpinnings needed. Next we discuss what else needs to happen to keep the culture change program alive and thriving with your team, and with your customers.

THE WANT TO SELL VALUE COMPONENT

Ongoing value-selling experience

However, training is not a one-and-done thing; it must be ongoing. Just as athletes train daily, so should salespeople. At SKF, we have just begun to do role-playing in which a senior manager acts as the customer and challenges our salesperson's presentation and offering and asks, "What's the value for me, the customer?" You will only be good at and comfortable with value selling when you know and have answered similar questions hundreds of times. What will procurement's response to this offer be? Let's practice and think through what their possible objections might be so that we're prepared on game day. I also like regions and countries of the world that include the discussion of value during every meeting, where someone presents a case, what numbers were used, how the process worked, and key learnings. Having regional experts to do joint sales calls with, along with management drive-along and coaching, must be ongoing, and part of an annual reminder of the importance and focus of this initiative within your company.

Sales compensation and value buying options

If you can prove value, companies can pay for it. Sales compensation will have an impact on how your people behave. Do you incentivize volume targets? If so, then you shouldn't have to ask yourself why your salespeople are so eager to cut prices. In some organizations I have seen sales targets set as a threshold, with no consideration of whether a deal was struck by providing discounts. Some companies might think of themselves as advanced because they reduce the sales amount to the net discounted price. However, for a company with a 10% net profit margin, a 5% price cut is the equivalent of realizing only half the profit dollars. Also, remember that free services, free samples, free training, extended terms, and so on are just other, more creative ways for a salesperson to discount your offering. I suggest that the salesperson who sells less but at full price should be rewarded more than the salesperson who spends most of their time with internal management justifying that a particular customer needs to get a discount.

We've looked at how you pay your salespeople, but we should also look at whether you've given your customers an option to buy based on value realized. In other words, do you use pay-for-performance models that allow customers to pay once value is realized for them? If not, then they might not be able to buy based on promises of potential future value. At SKF we use a few different methodologies: for large customers we might enter into a guarantee of annual cost savings. As a CEO once said to me, "I have 25 different ways to offer a discount, such as volume, competitive issues, industry, new business, et cetera, but I don't have a way to guarantee the value we create … that has to get fixed."

It's great to offer customers value, but have you offered them ways to pay for that value that fit their particular situation? Before moving on, let's be clear about what it means to get paid for value. It's not about "extracting" all the incremental value delivered to the customer in a price premium, for example. To do so would leave the customer with no incentive, or value surplus, to incentivize them to choose your option. Second, I believe most companies have a "buy my product or service at a price" option only. However, a whole set of options need to exist based on the customer's situation and what they value. The extreme is a "buy my products at a certain list price all the way to a 100% pay-for-performance" option. Within SKF we call this integrated maintenance solutions (IMS) (see Figure 7.5). As with many outsourcing agreements, we focus on where we can drive the most immediate customer savings. So, we might say, "Mr. Customer, what did you pay last

Figure 7.5 Pay-for-performance options.

year for all the parts, people, and operating expenses to run these factories?" "X." "Okay, we will do it better (measuring these deliverable KPIs and doing it for an immediate savings of Y). However, as we make you more money, we get a reward as those benchmark targets are exceeded (e.g., increased production)." I would say that outsourcing IT in general follows this model, and it can make sense. Corporate experts focused on just information technology delivery should be better at it because it's their core expertise. This is a great offering; however, a few issues could arise, and I have seen companies try this, along with other pay-for-performance agreements. If all the offsets are not listed, something that looks good (increased production, less inventory, etc.) might be a short-term win; but if assets are pillaged to do this (they were run with no proactive maintenance), actual losses—not savings—will result. Just think what a pump will really be worth in a few years if the proper maintenance isn't done. All those proposed or even realized savings will be more than offset by increased future costs. With that in mind, pay-for-performance agreements work if they are long-term, so that no one is incentivized on such short time frames. However, in between these two options, other getting-paid-for-value formats should exist. A simpler version is, "Mr. Customer, although our products might have a higher average initial price of X, we guarantee an annual hard savings of X." The benefit is that the customer is getting value for paying more, and the value becomes ongoing, whereas price reductions are one-time (suppliers won't or can't offer a 5% per year incremental price savings, but they can offer a new 5% guaranteed savings in another area). As a customer, as long as the savings are hard, measurable, and don't force other costs up, I am willing to keep paying more as these savings compound and make me more sustainably profitable.

A question I've been asked by procurement professionals is, "Which is better: an acquisition price savings or ongoing annual cost savings?"

Imagine you're presented with the following choice: a 5% upfront price savings on a contract for 5 years or a 5% annual cost savings over 5 years (see Figure 7.6). Which is the more valuable option? First, let's assume something that rarely happens—that the 5% price savings will actually make it to your company's bottom line and that no unintended increased costs will occur elsewhere. Let's also assume that the 5% annual TCO savings are real and measurable—lubrication savings, for example.

Given these two scenarios, some procurement people might assert that because both are 5%, they are worth the same. This analysis would be correct after year one, but not after year two. Switching to a new supplier may bring a 5% price savings, but that supplier would not offer and would not be able to deliver that incremental price savings every year thereafter.

From a TCO perspective, however, during year two an additional 5% savings would be generated by focusing on a new area of opportunity such as energy savings. The magic of compounding and ongoing annual savings would allow a TCO annual 5% savings to be worth 15% versus the 5% price savings over a 5-year period, or three times as much. Remember, we assumed the best-case scenario for the substituted product based on price.

> IACCM research shows that a focus on price concessions undermines the value achieved. For example, the probability of a poor outcome increases by more than 50%, compared with agreements that focus on performance. This translates into significant increases in cost and missed or lost revenue—at levels far exceeding the theoretical savings from the low negotiated price.

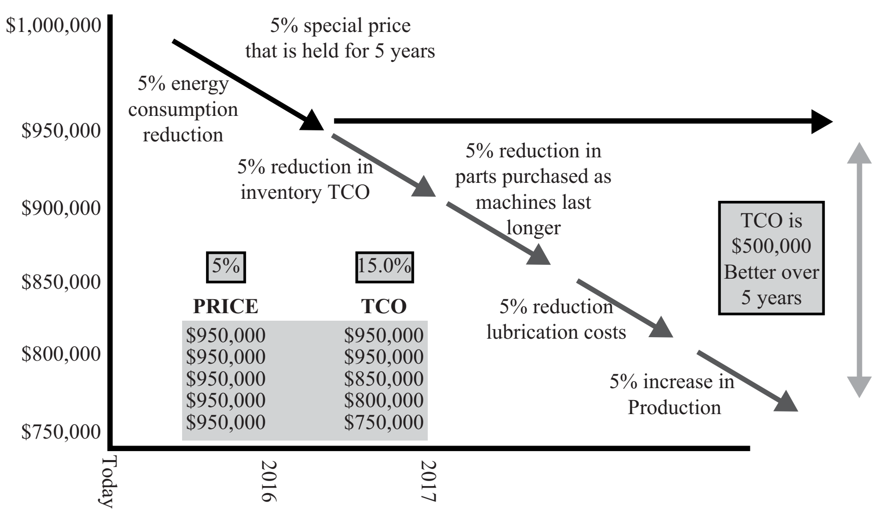

Figure 7.6 5% price versus 5% annual TCO improvements?
Source: Todd C. Snelgrove, Aberdeen Procurement Conference, March 2012, Boston, MA.

> SKF has provided thought-leadership in this area for more than 20 years, having successfully resisted "commoditization" by switching instead to delivering market-differentiating value. (Tim Cummins, CEO, International Association of Commercial and Contract Management, quoted in SKF 2014: 2).

BUSINESS CULTURE

Are you really a value company? Does your CEO talk nonstop about the value you create for your customers? Do you reward and recognize the people who create the most value or the newest ways to save customers money? Or are you just using a few buzzwords on a PowerPoint slide or corporate brochure? Value needs to be part of your company's DNA. Does sales get mixed messages like "Get every order and sell value"? Unless your message is clear, you will end up rewarding and motivating sales to cut prices, and volume will be the underlying dimension that's rewarded. If you're unable to prove your value you might get a short-term order based on lowest price, but over time it will not translate into more sustainable orders as someone comes along and undercuts you. We are lucky at SKF to have as our leader a CEO who continually focuses on value as our main differentiation.

Customer culture

Does procurement see you as a commodity and therefore assume you can be bought using certain tactics, or do they see your offering as strategic for them?

As a company you can do all these other things well, but if procurement sees you as a commodity, and buys your product or service as such, much effort needs to be exerted by everyone to get procurement to rethink where and why they have chosen to treat you that way. In my experience, most companies have an issue here. Let's begin with the way procurement chooses how to select suppliers and negotiate with them based on the Kraljic 4-box matrix. The Kraljic Matrix (see Figure 7.7) is a well-respected thought process introduced in 1983 in the *Harvard Business Review* article "Purchasing Must Become Supply Chain Management." Although the concept has since been modified (to a 9-box or a 36-box matrix), and procurement's implementation of it has evolved over the years, the thoughts and resulting actions of procurement still follow this concept. Too often there is a mismatch between how we perceive ourselves as sellers and how buyers perceive what we are selling, leading both sides to wonder why they cannot communicate.

A key driver of procurement is to increase spend under management (they control a higher percentage of the company's procurement dollars spent) and to buy from fewer suppliers (to increase leverage and to reduce transaction costs). When I am at a Strategic Account Management Association (SAMA.org) conference, and I ask senior global strategic account managers "Where do you see your company on this matrix?" in general I get the following feedback.

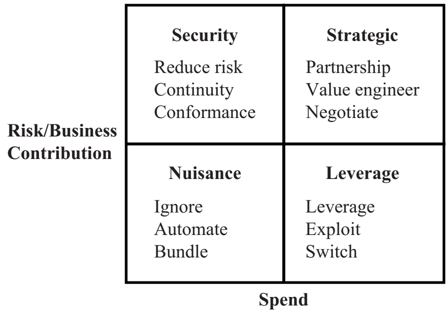

Figure 7.7 Kraljic Matrix.

Comments such as "We are not the small, unimportant **Nuisance** offering, where transaction costs are the most important differentiator." However, I say, for suppliers in this realm, ease of use and ordering efficiency are the most important characteristics and decision-making criteria for procurement, with unit price being most important. When thinking about spend, we need to look at what percentage of the customer's total spend we are. In general, suppliers will focus most of their efforts on direct material spend, as that is where the most money is spent. When companies rank suppliers on spend they tend (of course) to place direct materials (all the products that go into making their primary product—steel, for example) on the right-hand side of the matrix because a small savings on a big number would seem to have a bigger effect on company profit. As we will see, the spend with a supply category is probably not the primary indicator of where efforts should be focused or the biggest hard savings and benefits can be realized. Although the y-axis represents the business contribution, if you cannot quantify the business contribution, procurement will assume that all offerings are the same and will push you into the lower two quadrants.

Most of us are not in the top left quadrant, either, at least not in the long term. This quadrant is where a supplier exists that is not a huge percentage of the customer's total spend but that has a product or service that cannot be easily substituted. Remember, the ease of substitution is based on the customer's assumptions, not ours. If you happen to have a patent on a product or service that they need or access to a chemical or raw material that no one else has, or if demand exceeds supply in a market, then you are in this position. However, in general, this is not a long-term realistic position to be in. If what you sell has an ISO specification, competitors are reasonably the same size and offering, and the perceived risk is very low or zero. I recall Rob Maguire, whose chapter appears in this volume, saying that people are confused about what an ISO standard is: "It's a conformance standard … not a performance standard." Yes, both products are the same size, fit the same hole, and so forth; however, that doesn't mean they'll produce the same results or perform the same way.

We suppliers want to think that we're strategic—that if the customer would really work with us, we could offer a lot of value, savings, benefits, risk reduction, and innovation. Talking with procurement professionals at numerous global conferences over the past decade, I find that they would place none or only a handful of suppliers in the top right quadrant as Strategic. However, after I discuss how often that's a mistake—that a lot of suppliers could really help their companies be more profitable by doing things differently—the standard retort is, "Then why don't they come to us and demonstrate and document how they would do that, and what the impact would be?" Sales and procurement functions both need to take responsibility for placing suppliers in the wrong quadrant and therefore not getting the possible or desired results.

The above segmentations are the backbone of a value-selling organization and culture; however, if the customer still perceives that the dollar spend with you is not significant (the x-axis in the Kraljic 4-box matrix) and you are not strategic enough to spend the time or effort to treat them like a partner and demonstrate the value you could bring, then much of the above won't help. When you get to the procurement person or team at your customer and they are aggregating volume, threatening with low-priced offerings of competitors, contemplating the use of a reverse auction, employing some sort of benchmark pricing that shows, somewhere, one time your product price was less, asking you to explain your cost breakdown to justify a final price, then you should know that your customer sees you in one of the bottom two boxes and will focus on leveraging you. Most people forget that the x-axis label represents financial contribution and they focus on dollars spent instead. This is a major issue that sales needs to address. Our company has made it a focus, and we have people whose job is to get customers to understand that even though the relative dollar spend might be low (versus direct spend such as raw materials), the impact can be huge. I think the x-axis should measure financial opportunity dollars (money saved using existing TCO, or financial improvements Total Profit Added™). For example, supply risk might be low because other global players exist and products have an ISO specification. Dollars spent is relative. Customers might purchase \$10 million of industrial parts to keep their plants running, but when their total spend is \$5 billion some might assume that this "supply bucket" should be treated as non-critical or as a nuisance leverage buy (0.2%. … not even close to 1% of total spend). However, when looking at how value can be created by reducing operating machine costs (less energy, water, lubricant, repair parts, labor, and/or increases in machine production, throughput, or quality), one customer saw that our impact could be worth \$128 million in savings. We were then moved immediately to the Strategic quadrant.

To help the market evolve, you need to do some research, work like a consulting organization that talks about the results you can impact and by how much. Don't just discuss the technical features of your widget. We need procurement around the world to challenge their assumptions. I spend a lot of time at procurement and academic conferences presenting our thoughts and methodology. This has proved very helpful in moving our market to change how they measure and choose suppliers, the most advanced being on hard value generated. A nice reference and study that I use is from Manufacturers Alliance for Productivity and Innovation (2012), a U.S.-based think tank that represents industrial manufacturers. A study they conducted with the procurement representatives of member companies found that companies that had a structured way to buy on best value were 35% more profitable than companies that had no structured methodology for measuring and understanding value.

TO KEEP THE PROGRAM ALIVE AND FLOURISHING

As I have shown in the focuses or requirements needed, a value quantification tool needs to be the output of the strategy of creating, communicating, quantifying, and getting paid for value; however, numerous other issues need to be addressed: "A fool with a tool is still a fool." For value quantification to become a company focus, a mantra, a part of who your company is and the reason for your being, other supports must be in place. Some suggestions follow.

Who will drive this program internally and externally? A program without a driving person is destined to fail. Baker and Liozu (2013) observed,

> Whenever this question is posed to a group of businesspeople—"Who's in charge of value in your company?"—someone will inevitably shout out "Everyone!" Really? If everyone owns something, no one does. Adam Smith demonstrated that the *division and specialization of labor* were a central cause of the wealth of nations; they are also the central cause of the success of a business. Not everyone can be good at everything. (p. 104; italics in original)

Will the ability to quantify the value of new products and services be part of your new product development process, so that when a new "solution" is presented to the market you can quantify its financial impact for customers?

External marketing should consistently reinforce this as part of your brand image. I'm not a fan of hearing how old a company is, or how big it is, or how many people it employs. What's in it for the customer to buy your company's offering? Spend time on the "so what is the benefit" and less on the how (the how can be discussed in face-to-face meetings). A tagline of mine is "Making Industry More Profitable." I might employ the smartest people, I might be the most knowledgeable, I might have more patents, and I might have the best products … these are just things I can apply to a customer's business, with the result that I make them more profitable. Say what the result is; don't make the customer assume what those benefits will be for them. Trade shows, magazines, brochures, and company speeches should have a dedicated "section" where your company can summarize the hard value your company has delivered.

The value journey is never-ending; an almost-as-good competitor will always be ready to copy your latest innovation. To stay out of the commodity game, and to make yourself and your customers more profitable, demonstrate and document when, where, why, and how you can affect how much money your customers make. It's not a zero-sum game if you can quantify your value; then you will be remunerated with an equitable portion of that value.

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