

Turbocharge Your Value Proposition

A few months ago, I met with the management team of a medium-sized company having sales problems. The company was in a commodity business, and the sales reps were stuck trying to sell to low-level, price-oriented purchasing personnel in the customers. What could they do?

The answer that I heard: hire rainmakers with C-level contacts. This seemed like a replay of many meetings that I've attended over the years.

The real issue is that this common reaction is aimed at a symptom, not the underlying problem. The real problem is not the level of customer contact – it is that the company's value proposition is not sufficiently innovative and compelling.

The reality is that a rainmaker sales rep with a me-too value proposition will wear out his or her C-level welcome very quickly, while a rep with a compelling value proposition will quickly attract C-level attention.

Extended product

The key to turbocharging your company's value proposition is to build your extended product. Your extended product is the full range of attributes that a customer experiences when obtaining and using your product. If you are selling office supplies, for example, the extended product includes product information, convenient shopping or delivery, payment terms, instructions, easy return process, strong warranty terms, and a host of other attributes. In fact the nature of an extended product is so broad, that there is always room for great creativity and improvement.

Think about the smart phone you have in your pocket. The core telecommunications product, phone service, has long been available through your home phone, your office phone, and a dense web of pay phones. But once you have experienced the convenience of having a phone with you all the time, the extended nature of the portability changes your perception of telephone service. Throw in email and other applications, and a new product is born out of an old commodity service.

I remember advising several major telecom companies soon after deregulation, when wireless service was in its youth. I can conjure up a mental picture of a young product manager going before the investment committee of a major telephone company with the proposal to build an extensive new wireless network so adults wouldn't have to stop at a gas station to make a call, and teenagers could call each other across the middle school courtyard.

The manager would have been laughed out of the room. And then the investment committee would return to its "serious work" of figuring out how to lower costs because traditional telephone service was a commodity under continuous price pressure.

It took a visionary entrepreneur like Steve Jobs to see the possibility and value of an extended telecommunications product. The result: enormous success and hundreds of billions of dollars in company value.

Vendor-managed inventory

I have written several times about my experience working with Baxter to develop one of the first, widely-followed vendor-managed inventory systems. This system, now named ValueLink, is at the heart of much of Cardinal Health's medical supply business. It represents an innovative extended product that led to enormous value and transformed an industry.

Initially, Baxter was a provider of commodity products like IV solutions. It sold to low-level price-oriented buyers in hospitals, and was subject to constant price wars. Once Baxter dropped its supplies on the hospital receiving dock, its business was completed.

A small work team was commissioned to explore how to break out of this impossible situation. The team decided to simply go exploring and discover what happened after the supplies were received by the hospital. Within a *few days*, they were stunned by what they found: if the value of a liter of IV solution was a dollar at the receiving dock, the total cost by the time it was administered to a patient was a multiple of that number. And with duplication of activities between Baxter and the hospital, the company had an opportunity to take a multiple of the product cost out of the hospital's system.

All of a sudden the world changed for Baxter. The company developed the now-familiar system in which it placed in the hospital Baxter operations personnel who counted the hospital's inventory and transmitted the information to Baxter's distribution center, where automated systems picked the product into totes destined for patient care areas. These totes were put away by the Baxter personnel on site in the hospital. The upshot was that the hospital's costs plummeted and service improved to near-perfect levels.

Once the hospital CEOs saw this new system, and experienced the magnitude of the savings, they swung into action. They simply asked Baxter two questions: (1) Can you really do this? and (2) Can we trust you? The answer to both questions was positive, and the result was over 35% sales increases in the highest penetrated accounts in the country.

In comparable situations, I have almost always seen gains of this magnitude. This is the power of creating an innovative extended product – a compelling new value proposition. No rainmaker with CEO contacts needed here.

In fact, when I start working with a new client, one of the first things I do is read the customer service surveys. Buried in most surveys is an innocent-looking question that goes something like this: Which supplier do you trust to help you manage change in your company? If the client is the supplier trusted for change management, the rest is relatively straightforward. If not, we know how to climb that mountain.

Supply chain transformation

About a year ago, I participated on a panel on supply chain transformation along with top officers from P&G, Pepsi, and Chiquita. All three companies were making lots of money and gaining significant market share, even in the depth of the recession, by doing essentially the same thing.

They had identified the customers in their sweet spot – their islands of profit and those that should be in this category – and they were focusing and *investing* their resources to develop

innovative ways to *make these customers more profitable* on handling and selling the supplier's products. When the customers made more money on the supplier's products, they increased the supplier's market share, and greatly reduced the price pressure.

At the same time, the coordination led to important operational efficiencies for the supplier: better forecasting, smoother order pattern, etc. So the supplier became much more profitable, even as the customer increased its profits and rewarded the supplier with a massive gain in share of wallet. These smart suppliers reinvested a big portion of their new profits in renewing the cycle by finding ever-new ways to expand their value proposition.

This was a real win-win both for the supplier and for the customer. The only losers were the suppliers' competitors, who were frozen like deer in the headlights trying to cut costs across the board.

Extended products everywhere

Innovative companies in every industry have an opportunity to turbocharge their value proposition by creatively pushing the envelope on developing their extended products.

Take financial services. It would seem that lending money is the ultimate commodity business. After all, money is fungible – which means essentially that you can't tell one dollar from another. Yet even financial services companies have terrific opportunities to build their value proposition.

For example, one company segmented its customers, and developed highly streamlined processes and customized information for its sweet spot customers. At the same time, it drew on its vast local experience and contacts to help these target customers grow and succeed, and it committed to support them in good times and bad. This was a very compelling value proposition, which converted its commodity business into a highly differentiated one.

Developing your value proposition

What does it take to develop your value proposition? An open mind, clear vision, and a little legwork.

The Baxter innovation began as a "showcase" project. Baxter simply contacted a friendly hospital and asked if it could send in a small team to look around. The objective was to try to find new ways to improve customer service and lower costs. The team – and the hospital – didn't know what it would find, but both thought it was a good idea to take a look.

Once in a customer, it is very important to look with an open mind at what the customer actually does and experiences through the entire cycle from discovering a need to consuming the product (and even needs that arise after consumption). The objective is to "walk in the customer's moccasins," and the best technique is simply to spend a lot of time *observing* individuals as they go about the process. Questions can come later.

Here's another powerful technique: go on a journey of exploration. For example, several years ago, GE's Canadian appliance division asked its VP of Manufacturing to explore what innovations other companies had developed that were not necessarily well-known. After significant research and field work, he discovered an incredibly effective process for make-to-order manufacturing that a small company in New Zealand had developed. (I describe this system in Chapter 24 of my book, *Islands of Profit in a Sea of Red Ink.*)

When he visited the company, he was amazed by the creativity and innovativeness of the process. He took the knowledge back to Canada, reorganized the company's manufacturing process, and produced stunning results. The process was soon implemented in GE's appliance manufacturing facilities around the world, and now – like vendor-managed inventory and make-to-order manufacturing – is a standard way for leading companies to do business.

Pushing the envelope

Every company has an opportunity to turbocharge its value proposition. The rewards are tremendous: strong competitive differentiation, surging profits, and expanding market share – even in a commodity business. No, especially in a commodity business.

What's preventing top managers from pushing the envelope on value creation? In most cases, it is the strong human tendency to simply assume the status quo and focus on tuning it up.

Turbocharging your company's value proposition costs nothing and takes little time. All you need is an open mind, clear vision, and a commitment to do things better.

Today's market leaders all are constantly, almost frantically, trying to push the envelope on their value proposition. That is how they became market leaders, and that is why they stay that way.

Why not decide to do the same? After all, that's all it really takes.