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As a management consultant, I decided to focus on the understanding, importance, and identification of the "other value" a company needs for success. Usually when management talks about "value" they are describing what their company is "worth" in various terms. The "other value" they are now focusing on is the "value" customers buy! Increasing this "value" is what leads to increasing "worth."

Management is recognizing that the "value assets they own" – what I call "competitive value" – is the real engine driving their success and that their "worth" is the scorecard defining their *level* of success. It's these assets that, when effectively combined, results in "value" customers buy.

Assets include, for example:

- The ability to obtain a deep understanding of the customer's business and turn customer information into customer knowledge.
- The unique skills, experience, and expertise of the company's people.
- The company's processes and management capabilities.

The real goal of a company is to use these assets to optimize its "value" and turn it into "value" a customer can use to increase their *success* in their quest to run their business, solve a problem, or enhance what they "own." To achieve this goal, companies must keep in mind:

1. It's *successful* customers that "buy,"
2. They have to learn all the reasons *why* customers *need* to buy, and
3. If they offer *effective, total solution value*, customers will pay for it.

There is a tight relationship between these three items: successful customers solve their problems and satisfy their needs by buying the best, complete solution that may even take care of issues that may be unrelated to the products and services they are buying. This means that customers look for providers who constantly seek an understanding of all their business problems and needs and who offer effective solutions with a value proposition that increases in scope with those needs.

Because "value" has several meanings, if businesses want to increase their value proposition, they have to think of value the way customers do. To customers, "value" is considered to be "what they get" in return for what they "pay," represented by one (or more) of the following equations:

- Value = Benefits/Price, where "benefits" are described in terms of, for example, quality, uniqueness, time, and popularity.
- Value = Utilization/Price, where "utilization" can be defined in terms of versatility, ease of use, and effort to learn.
- Value = "Degree of Fitness for Purpose"/Price, where "fitness for purpose" can be defined by the varying skills needed to "use" the product or service, environmental traits, and business processes involved.

Regardless of which one (or some combination) of the three is applied, each of the two common parts, the "value proposition" and the "price," indicate how "value" can be increased: Either raise the "proposition" or lower the "price."

Companies can lower prices by cutting costs, accepting lower revenues (or profits), increasing the quantity sold or all of the above. They can increase benefits by supplying customers with more products and services, additional features to existing products and services, and added operational intangibles (such as on-time delivery).

But which way is better? Well, that depends on a lot of different factors, including, but not limited to, short/long term goals, economic conditions, market entry strategy, and the definition of “who are the right customers.”

But because I believe...

It's not about price; it's about value!

It's not what's offered to customers to buy; it's what's needed to make customers successful!

...I would work on increasing the “value proposition” part of the equation every chance I get! If it's important for a company to do what they can to make their customers successful then it's first necessary to find out *why* their customers need to buy! “Why they buy,” or “what they need,” *depends* more on benefits, utilization, and fitness for purpose - at any given time - *than on price*. Again, customers will pay for effective value!

Lowering prices is the weaker of the two strategies because:

- It can only be lowered so far before costs prohibit further action,
- It's something competitors can also do,
- It sends a negative message about what the provider thinks about their own “value,”
- It sets up a “wait for the lowered price” customer buying process, and, most importantly,
- It adversely affects the constant search for “added-value” opportunities 1) by giving the enterprise a “false” sense of success and 2) by cutting revenue, creating a climate of “no money for new things.”

*If* a business wants to increase value by lowering prices then it may have to look at lowering costs as well. There is a wrong way and a right way to lower costs.

Across the board cost cutting like layoffs, cutting training and travel budgets, increasing benefit contributions employees must make, managing how many paper clips will be used are examples of reactionary reductions and examples of the wrong way to cut costs. They actually *lower* company value because:

- Company “efforts” are put into “non-core” activities, away from:
  - Focusing on the customer and their expectations,
  - Growth strategies, and
  - Increasing and improving the value that makes customers successful (the right quality products and services that results in revenue).
- It could lead to the possible depletion of knowledge, information, expertise, and experience, the basis for company innovation (and increasing value).
- Cutting costs like these results in increasing “non-productive costs” (e.g., “taking a charge” for re-organization), taking even more resources away from the primary focus of a company – helping customers succeed!

These types of cuts show that there is something wrong with the value proposition and some of the components that are used to construct it. Also, they show that the company probably isn't growing, isn't putting resources into “future” value opportunities, and doesn't fully understand why customers “need to buy” at any given time.

If cost cuts like these were necessary, then it would also be necessary to evaluate the proposition for its status as well. These two activities, cost cutting and evaluating the proposition, should go hand-in-hand! The business needs to know what “value assets” aren't contributing effectively, what ones need work, and

what new ones need to be added. This begs the question: How often is this “value asset” evaluation done, and, if so, how effectively?

In other words, the company has to go into “value asset” improvement mode. It has to get ready for the new competitive environment that will have customers expecting higher value after “recovery” takes place. This means that the company will have to eventually increase its value proposition’s scope if it wants to be competitive, although it will be first applying efforts to the recovery process (hiring needed skills, re-working processes, learning about changes to customer requirements).

Summarizing, cutting prices along these lines can be a complicated, resource intensive, “multi-campaign” process that does not focus on the customer until the last step:

- First, prepare for and cut prices,
- Second, cut costs (by evaluating “value assets?”),
- Third, incur non-productive costs,
- Fourth, prepare for the rebound, and
- Fifth, increase the “value proposition” anyway (how is the company going to grow if it doesn’t?).

The stronger of the two “increasing value” strategies is increasing the proposition’s benefits, utility, and fitness, illustrated by an example of the right way to cut costs - quality improvements.

Creating enhancements to “value assets” through quality improvements - resulting in, for example, lowered error rates, re-work iterations, and process times – will lead businesses to lowered costs and increased value. The paradox about this type of cost cutting is that it could lead to the justification of *higher prices*, not lower. Quality improvements could actually create demand, due to the higher effectiveness of the “total value proposition,” which can justify higher prices. But lowering costs this way allows the company the “luxury” of also cutting prices. It’s nice to have choice!

Quality improvement benefits are examples of how a company can improve the value customers receive. Other examples include training, learning and deploying new technologies, and resource management. These are, generally speaking, types of *indirect benefits*, the kind customer don’t experience first hand, just the results.

The other part of increasing value requires that the company increase useful, purposeful benefits that are *directly* experienced by the customer: products, services, and other intangibles. These benefits are defined by the customer’s problems, strategies, and needs - which is what compels them to “buy” in the first place. It’s the supplier’s quality, uniqueness, timeliness, and popularity of these benefits that compel customers to “buy” from them.

Information about indirect and direct benefits can be identified through periodic “value asset” assessments. The business needs to know what “value assets” aren’t contributing effectively, what ones need work, and what new ones need to be added, including those assets that may increase the scope of the value proposition. Increasing scope means identifying something about the customer that could satisfy their needs through improvements and breakthroughs that may or may not have anything to do with the present value proposition.

What are the benefits of increasing value by increasing the proposition? The company learns:

- Why customers buy.
- About its value assets and how they affect the success of the customer.
- About the effective value customers are willing to pay for.

This means that by raising benefits, the company has a better chance to deliver the right solutions (products and services) to the right customers, promoting customer satisfaction and loyalty through a compelling Total Value Proposition. If the company raises value by cutting prices, it won’t learn the things it needs for growth.

Answer this: Can companies answer the following questions, among others, by pursuing a “lowering the price” strategy?

- Is the company improving its benefits year after year?
- Can management name the non-performing assets that were removed, assets added, and assets improved?
- Has the company lost a customer, or some of a customer’s business, because that customer had an issue unrelated to the company’s product or service area?
- What new information did the company learn about its customers’ problems that it did not know last year?
- Is the company preparing for the future? How?
- What are the impediments to delivering the company’s value effectively?
- How has the delivery model changed?

Probably not!