Value added marketing flashcard

Article by John Scallions shares two examples of value- added strategies from United Parcel Service and British Sugar Ltd, Europe. Executives must learn new tools and strategies to fight against discounting in the marketplace and help grow profits in today's harsh economic climate. This will help you to maximize your ROI and win sales without resorting to price discounting. It is only a matter of time before more companies acknowledge that they cannot only compete on price or broadcasted strategy, and must instead forge true value adding relationships with selected customers.

This is especially true in the challenging and uncertain business environment with which we are confronted today and we will likely face far into the future. In today's competitive marketplace, successful companies develop Value-Added Strategies to build and sustain important customer-supplier relationships- relationships that rise above the traditional confines of both product and price. They share a common vision: to engage in innovative strategies to enhance their respective long-term profitability in a spirit of what I call " mutual self-interest. Suppliers that engage in real Value-Added Strategy have the ability to charge a remit for their products and services, or as an alternative, do not need to reduce their prices, or reduce them as much as other suppliers, over time, as has been customary in many industries lately. These suppliers often charge a premium because the value they deliver to customers-in the form of increased bottom-line profits-routinely exceeds the price premium charged by high multiples.

By having many organizations dedicated to enhancing their profitability-their own as well as those of their strategic suppliers-enlightened customers engaging in such value adding relationships are typically at the forefront of

their industries. While these customers often pay a premium for the products and services their suppliers provide, the overall cost of doing business together may be among the lowest in their respective industries.

The suppliers they select have one thing in common-their selection represents the best, most profitable business decisions that these customers can make in their businesses to build market share, increase revenues and enhance profitability for today and also for the long term. As both customer and supplier work together, their common vision enables each to rise above the primal sire to deal in a relationship principally based upon traditional competitive product and pricing strategies. What Is “ Value-Added? True Value-Added Strategy goes above and beyond the product level to create a true strategic relationship between the two companies. The product itself does not change, and in fact, it sometimes becomes almost incidental to the customer-supplier relationship. Value-Added Strategies are based on the supplier’s competencies and other areas of expertise as an organization. They are designed to provide high value to a selected customer’s bottom line, versus merely seeking to “ add value” to the individual products and services it sells.

It is a supplier’s organizational value rather than its product or service value that is at the core of Value-Added Strategies. From the customer’s perspective, a Value-Added Strategy enhances profitability. The supplier develops projects and programs that boost the customer’s profits in one or more of three ways: 1. Enhancing customer’s revenues 2. Reducing customer’s current costs 3. Avoiding customer’s future costs Whether a

supplier achieves one, two or all three of those objectives, the result is that it improves the customer’s bottom line.

A Value-Added Strategy focuses on achieving these objectives by leveraging core competencies or other areas of special expertise in the supplier’s organization to materially benefit the customer’s profitability. Value-Added vs.. Added-Value A Value-Added Strategy should not be confused with an Added-Value Sales approach to marketing products and services. While many companies use the terms interchangeably, the difference between the two is significant. It is essential that companies understand the difference between the two; otherwise Value-Added cannot be used effectively to develop marketing differentiation strategy.

With “ Added-value,” a company focuses on the same objective as in a “ Value-Added” Strategy-improving the customer’s bottom line-but it does so by quantifying the tangible benefits a customer receives from using the actual products and services the supplier sells. For example, if a supplier’s product has lower installation costs and lower lifetime maintenance costs, these are Added-Value product benefits, because the source of the value to the customer emanates from the product itself. This approach does indeed add value, and it makes sense to position products and services sold that way.

But customers typically do not perceive one company’s product and service offerings to be highly differentiated from another’s, especially when they look at the suppliers’ product and service portfolios in their entirety. Today, there increasingly exists product and service parity in customers’ eyes. Even

if one supplier has great technology or a tremendously valuable product, its biggest and best competitors probably have similar and comparable products. If they don't, it won't be very long before they do, wiping out any competitive advantage that the original supplier had.

Competitive parity of products typically exists between most suppliers' products and services today. Any customer value that may be derived from products is largely the same, I. E. , the playing field is virtually level. This ultimately leads to more " accommodation" of product and service offerings in the marketplace, often creating increased supplier frustration and causes them to quickly dismiss the power of Value-Added Strategies, largely because they are mistakenly engaging in Added-V alee Sales, I. E. Product-based differentiation in its marketing differentiation strategy, and not in true Value-Added Strategy. In today's highly competitive and technology- driven environment, companies must begin to understand and finally accept that product-oriented strategies can no longer provide suppliers with any meaningful or sustainable differentiation from their competition beyond the short to medium term. A Value-Added Strategy helps overcome the issue of product parity by taking the relationship to a higher level.

Value-Added Strategies connect the two companies at the organizational level, not the product level. Valuated is organizationally- based value, creating a relationship between supplier and customer through the placement of multiple cross-functional department relationships and through the integration of inter-company systems and processes. If effectively applied in marketing strategy, the competitive advantages gained by a

supplier are not easily replicated and can become a sustainable competitive advantage over several years.

In executing Value-Added Strategy, company size does not matter as much as one might think. In the example of the seal manufacturer, its fiercest competitor, a global company with six times more in revenue, is unable to pursue a similar strategy because its management and company culture pursues product-based fermentation strategy that strives to differentiate by offering a wide product line at discounted prices. At the time of this writing, the gap between the two seal suppliers has closed to less than four times in revenue due to the success of the Value-Added supplier’s increased share of the market.

Total Value Proposition = Value-Added + Added-Value Countless business books have been written about Value-Added and Added-value, and most of these books offer different and conflicting definitions of the two. Still more talk about the “ Total Value Proposition” and usually fail to tie together a clear ND concise definition that is both tangible and easy to explain. Simply, a supplier’s total value proposition is the sum total of the value its products (Added-value) bring to the customer and the value that the supplier’s organization brings (Value-Added) to this same customer, I. . , product value plus organizational value equals a supplier’s total value proposition. Examples Of Value-Added Strategies United Parcel Service At United Parcel Service, a core competency is their understanding and application of information and communications technology. It is unparalleled in the industry and could otherwise match up with even the most successful

telecommunications supplier. This expertise came in very handy recently with one of Pup's largest global accounts.

Pup's Global Account Manager (GAME) responsible for the Siemens global account in Germany had uncovered that Siemens was in the early planning stages of building a new, state-of-the-art manufacturing facility for one of its divisions. As part of this effort, this Siemens division was preparing to contract with a telecommunications consultancy in Europe to write the technical specifications for a tender (request for proposal). The tender, once developed, would then be let to one of the major telecommunications providers, e. . , Nortek, Lucent, etc. Further, this particular division within Siemens did not have enough telecommunications expertise to create the specifications itself, so it was forced to go outside to a third part telecommunications consultancy. Learning of this opportunity, the UPS GAME for Siemens offered to provide Pup's own telecommunications consultants to write the specifications for the tender at no additional charge to Siemens. After a bit of initial skepticism with such a generous offer, Siemens eventually agreed.

UPS then dedicated four of its telecommunications consultants for a period of almost three months to complete the task saving Siemens over IIS$600, OHO in avoided telecommunications consultancy costs. What did UPS gain for all their effort? They more than doubled their account share within Siemens to more than 80% of Siemens' business in that division that next year. Pursuing similar Value-Added Strategies, they also went on to achieve sizeable increases in sales within many other Siemens' divisions. British Sugar Ltd, Europe One of the ultimate commodity products in the world is sugar.

Companies have tried unsuccessfully for decades to differentiate their sugar from that of their competitors. UK-based British Sugar Ltd. Succeeded in differentiating sugar by not even trying. They ignored their product and focused upon other sources of value resident within their organization that they could provide. British Sugar's Value-Added Strategy was founded upon two key Value-Added Contributions. 1 . Leverage Consulting Expertise The first strategic Value-Added Contribution involved leveraging the environmental consultancy expertise that they had developed over the years for internal use.

Many of British Sugar's customers are in the food processing industry and, like British Sugar, had an ongoing problem of treating environmental waste resulting from the processing of sugar as well as in the processing of foods. As part of its strategy, British Sugar offered its environmental consultancy to a selected group of six strategically important customers at no additional charge. All six customers to whom it made the offer accepted. Each was able to significantly reduce and avoid considerable costs in their businesses almost from the first day.

Some customers no anger needed to pay outside consultants for these services, and some eventually eliminated the need to maintain an internal environmental consulting department altogether. 2. Sell Excess Capacity The second involved selling excess capacity of electricity to this same select group of six customers. One of British Sugar's major cost drivers is electricity (a " 20/80 cost"). Years earlier, when the I-J was going through its own deregulation of the electric utility industry-as the US is currently doing-British

Sugar had acquired a power generation company for it's own exclusive energy generation and consumption.

Over time, it found that it had more capacity than it could use in its own operations. Instead of selling it outright for a profit, executive management decided to offer its excess capacity at cost to this same group of six strategic customers-and not one pence (penny) more. The price offered to these customers, I. E. , British Sugar's actual cost, was 70% below the lowest wholesale price in the industry. It was also estimated that this excess capacity of electricity would be enough to satisfy anywhere from 25%-35% of the six customers' needs at their UK – eased facilities.

When offered this opportunity to purchase electricity at a much-reduced price, all six customers were interested, especially after the very positive experience with British Sugar assuming the responsibility for environmental consultancy within their companies. What was in this for British Sugar? A lot. Not only did all six customers give either all of most of their business to British Sugar, but British Sugar was able to demand a premium price for the sugar they sold to these customers. Moreover, it gained a tremendous amount of control over its business within the customers' businesses.

For example, as a condition under UK law, in order for British Sugar to effectively " sell" electricity at its cost, it must have a British Sugar office inside every facility that consumes its electricity. This meant that, as part of the agreement with these customers, there needed to be a British Sugar office inside each of these customers' locations that consumed British Sugar's electricity. In the world of strategic or global account management,

such a cohabitation arrangement is invaluable for the supplier to grow its business in an account and to maintain control f its business in that account over the long term.

Some people believe that British Sugar should have made a small profit by charging a slightly higher price for its electricity. Wicked these same British Sugar customers still be interested in buying electricity if British Sugar offered it at 50% below the lowest wholesale price vs.. 70%? Sure they would, but two things potentially dangerous things would likely happen: ? First, if British Sugar charged any price above its actual costs, then under UK regulatory law it would have to begin to create a number of reports and filings and dotingly submit these to the government.

This would have created a lot of new internal expenses and a need to staff new departments. ? ? Second, and a more insidious problem, such an approach would defocus management from their core business-sugar-and on to an entirely new and different industry: electricity. Such a shift into a new complex industry in which they were novices meant that British Sugar really couldn't compete successfully long term unless it wanted to refocus its current driving forces from that of a manufacturer and marketer of sugar to a full time generator and marketer of electricity.

Attempting to do both would likely jeopardize the success of both, and British Sugar's management was unwilling to take such a dangerous step. What Is " Value-Expected? " I am repeatedly asked if there is a logical and inevitable end to Value-Added Contributions, I. E. , at some point aren't all Value-Added Contributions likely to be matched by competitors, thus becoming part of the

product offering and eliminating any prior competitive advantage by a competitor? The answer is both yes, and no.

Certainly, at the very foundation of free competition, if a competitor has a competitive advantage – especially a significant advantage, competitors in the industry will seek ways to minimize or eliminate that advantage. Sometimes when a Value-Added Contribution becomes something that many competitors have matched, it does become part of the combined standard product offering. This is what is called Value- Expected. Technically it is still Value-Added, but because it no longer differentiates as it once did, the Value-Added Contribution now becomes an expected Value-Added Contribution, or Just Value-Expected.

A good example of this is supplier managed inventory (SIMI) or vendor managed inventory (VIM), wherein a supplier manages the inventory of its products on behalf of the customer. When it was first introduced in the late asses and into the early asses, it presented a significant competitive advantage for a number of suppliers in many industries. Beginning in the asses in many industries, it became a standard service offering and soon it was considered as a basic component of a supplier's product offering. It became Value-Expected.

To minimize or delay a Value-Added Contribution from becoming Value-Expected, two things can and should be considered. There is a greater likelihood that a supplier can prolong its competitive advantage if it can proactively recommend Value-Added Contributions before the customer even thinks about it. Too often, most suppliers are reactive in this endeavor

and, if they do offer a Value-Added Contribution to a customer, it is done for one of two reasons: 1 . The first is that a competitor is already providing it to a customer and has gained a competitive advantage.

The market's many reactive suppliers then want to minimize their competitor's advantage, thus creating a motivation to match the competitor's same Value-Added Contribution. 2. The second is when the customer asks or demands that the supplier provide the additional service because it will represent a cost savings to the customer. The trouble with this scenario is that when a customer initiates a cost or revenue improvement initiative-a supplier-provided Value-Added Contribution-it typically designs it so there is a high level of substitutability in the " service" requested, I. . , the customer can easily substitute one supplier's Value-Added Contribution for another supplier's Value-Added Contribution. The key for a supplier is to propose Value-Added Contributions to the marketplace that the customers have not yet even considered. Suppliers can design and engineer their Value-Added Contributions in ways to minimize the degree of substitutability that can exist in the contribution provided. In essence, suppliers can more readily maintain a balanced peer relationship with its customers.

The most effective way to design any Value-Added Contribution to be as non-substitutable as possible by a customer is to make the Contribution systemic and as integrated as possible between both the customer's and the supplier's many different functional departments and their business operations. Another Example A manufacturer of flour and other mixing and baking ingredients had proposed to one its biggest customers, a leading

commercial bakery in North America that a lot of operating costs between both companies could be driven out if the two companies were to merge their transportation logistics functions.

The flour supplier was noted for its world-class transportation logistics. At the same time, when its trucks unloaded it's raw flour and other mixing ingredients at the customer's commercial baking facilities, some of these trucks " dead-headed" back to the supplier's production locations, I. E. , they traveled back empty. Not surprisingly, the commercial bakery's trucks also did a lot of dead-heading back to their sites after they unloaded the finished baked goods at their customer's locations, e. . , the major supermarket chains. By combining the two transportation-scheduling functions, and by utilizing the supplier's expertise in transportation logistics planning (which the supplier retained), both companies saved millions of dollars each year in operating costs. The supplier was able to maintain a high degree of control of its business within the customer's business because it systematized the Value-Added Contribution and dad it systemic to the operation of both companies.

As compelling as it is, if the supplier were to stop here with only this single Value-Added Contribution as part of its strategy, it would be only a matter of time, before competing flour producer would find a way to replicate. But, what the incumbent supplier does have is access to this customer's people and information in key areas of the customer's business that its competitors do not have. With this proprietary access, the supplier has the ability to pursue additional proactive integrations of customer systems and processes.

In doing so and in pursuing a deliberate, cogent Strategic Supplier Alliances strategy, the supplier can create multitude of such linkages and " entanglements" that can integrate the two companies so much that they create tremendously high barriers of entry to competitors. This prevents, or severely hampers, the competitors' ability to gain a foothold into this customer's business. Likewise, such a series of entanglements will also be critical in creating the high barriers of exit necessary to make it costly and difficult for the customer to substitute this supplier for another.