QDI's Market Vision

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Dare to Compare

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Have you ever wondered how your business stacks up to the competition? The truth is, it would be worrisome if you haven't asked yourself that question recently.

In our previous newsletters we have talked about Relative Value - your value versus the competitor's value. Then we introduced the concept of Close Rate, as a measure of how well your value competes versus competition for a sale.

For a quick recap, the value you offer and the value your competitors offer is a function of the Benefits each offers and their Total Cost. Close Rate is a measure of your relative value versus competitive offerings.

However, Value is perceived. You may think you are offering the customer value, but the customer may view things differently. It is important to assess not only the value (DESIGNED VALUE) you believe you provide, but also what the customer views as value (ACTUAL VALUE).

Your Value Creation

QDI's Value Assessment Workbook helps marketers clearly define the elements that they believe drive customer value. QDI has designed the workbook to be used by individual product managers or product planning teams comprised of sales and marketing perspectives.

At the heart of the workbook is the Benefits Calculator WORKSHEET that asks the marketing team to define and quantify the benefits they believe the customer perceives in each of the four benefit categories. The team or the product manager who is doing this assessment can use the information you have (what people know) or you can get research to provide greater insight or support for what you think you know.

The discipline of clearly stating what you believe to be the benefits of each feature and the importance of each category of benefits to each customer segment is the purpose of the Benefits Calculator Worksheet and is the

INSIGHT INTO THE CURRENT MARKET

Dare to Compare

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About QDI

QDI Strategies is an International consulting organization that helps clients create and execute breakthrough go-to-market strategies in commercial and industrial markets.

starting point for effective marketing. Likewise, as you get more granular in your thinking, you also need to define the relative importance of each element in each benefit category.

Your performance scores versus the options the customer has are the bases of the DESIGNED VALUE you deliver to customers. The insight that results from this exercise forces clarity in your product development, pricing, and marketing and sales initiatives.

Example

This process controls client generated product benefits and competitive comparisons which are shown in the snapshot below of the "Product" portion of the Detailed Buyer Benefits Assessment.

In the table you can see that "product" benefits account for 80% of the value customers get from this type of product. Likewise, three specific benefits; (1) Durability, (2) Reliability, (3) Ownership Cost and (4) Condition monitoring are the key product values. Of these, "Reliability" accounts for 55% of all the product value because:

- The product "Reduces chance of failure due to lack of maintenance -- Components have higher Mean Time Before Failure -- 50% of similar components fail prematurely -- downtime costs = $20k/hr. On average it takes 6 hours to install a large, new component. With spare, would be down 1/4 of a day."
- A calculation of this value showed it could save customers $60,000 per year.

In the last three columns we rated the performance of the two top competitive products versus our client's new product. We used a scale of 1 to 9, where a score of 9 was "one of a kind," a score of 8 was "much better than competition" and a score of 7 was "better than average."

		Detailed Buyer Benefits Assessment				
	Category Importance *	Description	Benefit Criteria Weight	Performance		
Benefits		*Benefit Item Description*	*Importance Scores*	Company	Comp 1	Comp 2
Product Benefits Category	80.0%	In the expanded column below, describe each criterion in as much detail as possible	100 Point allocation			
Durability (Longer life)		In severe conditions, we will double life. Temperature and Corrosion do not impact this product, which is one reason why we last longer. Avg life today for big Ujoints = 4 - 5 yrs, harsh applications = 1 - 2 yrs.	30%	9	4	4
Reliability (Lower Failure Rate)		Reduces chance of failure due to lack of maintenance -- Components with higher Mean Time Before Failure -- 50% of Ujoints fail prematurely -- downtime costs = $20k/hr. On avg takes 6 hours to install a large, new ujoint. With spare, be down 1/4 of a day.	55%	8	2	2
Ownership Cost		Reduces maintenance costs and reduces chance of failure due to lack of maintenance -- Stora Enzo - Every 5 weeks, 2 people spend 14 hours greasing Cardan shafts (these 2 people are outsourced) Failed bearing here would take 8 to 24 hours to replace. Vibration in the process causes wear on the u-joint - current method to check u-joints is time consuming and unproductive - Downtime cost is $20K per hour	10%	8	2	2
Condition Monitoring		Ujoints that make the early detection of wear or warning of failyre easier for maintenance personnel.	5%	7	4	4
Product Benefits Category Totals	Weighted Scores		1	6.6	2.16	2.16

View Larger

The formulas built into the model then calculated a weighted score for each competitor which showed that on product benefits alone our client was more than competitive offerings. Since product accounted for only 80% of the total benefits the customers receive, it was possible that other benefits such as service, relationship and brand could pull down our client's overall benefit advantage versus competition.

The Impact of Value

The key benefit to QDI's clients who use the value model is clarity and specificity of benefits. QDI's Value Assessment Workbook forces you to answer specific questions such as:

- What are the product's benefits?
- Who benefits from the product, i.e. which customer groups / applications?
- Specifically, how much is this product worth?

Using QDI's Value Assessment Workbook, you have now clarified and quantified the Designed Value you think you provide to customers. You now have a very solid benchmark to use to answer two key questions related to pricing and value:

- Is your "real" close rate higher than what you have projected with QDI's Value Assessment Workbook?
- Is your "real" close rate lower than what you have projected with QDI's Value Assessment Workbook?

The "real" close rate is what you experience in the market. Many companies measure this. If you haven't, just ask your salesforce as their estimates will be reasonable to use for this analysis. Eventually, you should put in place a "close rate" tracking system to track wins, losses, no decisions and decisions to buy nothing - how many and why.

An In-depth Look

If your "real" close rates are higher than what you have projected, then you have to ask yourself:

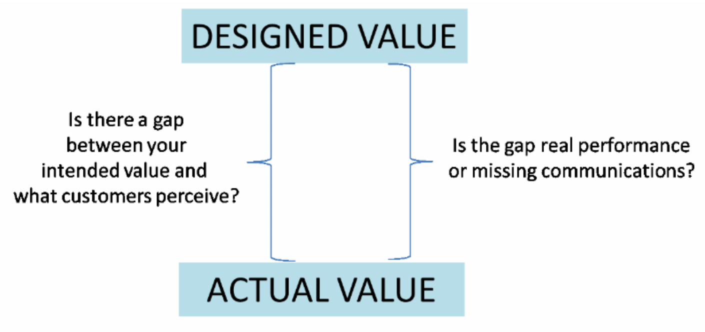
Are you leaving money on the table?

- Is the Designed Value you offer significantly greater than competitive alternatives?
- Can you raise your prices? If so. How much?
- Or have you used your value advantage to maximize share? Are you capturing share equal to the value you are giving away?

Have you under-estimated your Designed Value?

- Are your benefits actually more valuable than you believe they are? Why?
- Are competitive offerings less valuable than you think? Why?
- What impact does this have on your product design or pricing strategies?

If your "real" close rates are lower than what you have projected, you may have a gap between your designed and actual value.



You have to ask yourself:

Have you over estimated your Designed Value?

- Are your benefits actually less valuable than you believe they are?
- Are competitive offerings more valuable than you think?
- How does your total cost versus competitors compare?
- How does your brand score compare to competitors?
- What must you change to establish superior value?

Are marketing and sales clearly communicating the Designed Value?

- If the Designed Value you think you deliver is generating a higher CLOSE RATE than you actually achieve in the market, you may be failing to communicate this value.
- Is this lack of communication making it more difficult to sell to a specific segment or gain the support of a specific influencer?
- Do the marketing communications give the same weighting to each benefit that the team scored their relative importance? Does this lack of clarity hurt your close rate? Is this communication failure costing you pricing power?
- How effectively are your channels communicating your value?
- If the calculated close rate is less than your actual close rate you may have other problems.
- Is your sales force using price instead of value to close the sale?
- Have you misrepresented what customers value in your model?

What to Do Next

When trying to increase the value they offer, the issue for decision makers is to identify what part of the value equation they should fix. Should they increase benefits? Should they reduce costs? What can they do most effectively?

The trap most marketers fail to consider is the interdependency. For example, downsizing reduces internal costs and allows a manufacturer to decrease prices to his customers. This reduces the customer's cost and increases his perceived value of the supplier's products or services. However, downsizing often also reduces the benefits, making it harder to do business with the supplier, disrupting long-term relationships and, therefore, reducing value to the customer.

The question in cutting internal costs is simply, "Will this change reduce or increase the value the customer perceives? And, will it change the value positively enough to change the customer's behavior?"

The answer to these questions comes from an in-depth understanding of the customer's perception of value which only comes from talking with your customers.

You should be talking to your customers all the time. QDI suggests putting more structure into those conversations. If you try to quantify your internal perception of your value versus competition before you talk to customers, you will have defined some very clear benefit and cost dimensions that you want to make sure you get customer feedback about.

Using this structured approach will provide your marketing team a much clearer picture of where they stand in the market than the traditional less structured approach to talking with the market.

Your success is ultimately driven by the customer's perception of your value versus his alternatives. Knowing what to do (and not do) to profitably increase that value is where QDI's Value Assessment Workbook will help.

Try it for yourself. Go to www.qdistrategies.com to explore QDI's Value Assessment Workbook. We have created an "EXAMPLE" workbook that walks you through a simplified analysis of the digital camera market when it was evolving. Then, if you want to learn more and explore the complete Value Assessment Workbook, give us a call and we can set you up. If you have questions about Relative Value and how to conduct research that measures relative value, contact us.

FOR MORE INFORMATION

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