

VALUE Management

Business success is all about creating and capturing value. This is the cornerstone of QDI's consulting philosophy.



Using Value to Win Customers

Value – The Cornerstone to Strategy

QDI's principals believe delivering value is the key to successfully entering new markets, launching new products, and growing market share. We have spent more than 25 years in the consulting field developing tools and concepts to help clients create value-based products, sales tools, communications and support programs.

To create value, you must identify market needs and develop products and services to meet those needs. To capture value, businesses must design “go-to-market” strategies that present and communicate value and support customers in the purchase, use, and ultimate disposal and replacement of a product.

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Steve Bassill & Mike Barr, QDI Strategies

All marketers list multiple features for their products. However, these features aren't meaningful until they're translated into customer benefits. Furthermore, unless the benefits are superior to those offered by competitors or offered at a significantly lower price, they have relatively little value. We believe many marketers lose market share because they fall short when it comes to succinctly defining the benefits and costs customers incur to purchase and adopt their product.

James C. Anderson, the leading academic voice in marketplace value, demonstrates the importance of understanding, creating, and delivering value in his books “Value Merchants: Demonstrating and Documenting Superior Value in Business” and “Business Market Management: Understanding, Creating, and Delivering Value.” Like Anderson, QDI recognizes the need to measure the customer's value in economic terms. While other marketing professionals also see the importance of value, many are challenged by how to quantify the

customer's value relative to competitive offerings. What distinguishes QDI is that we have developed value equations to measure incremental value and ultimately created our Value Estimator Workbook™.

Creating Value-Value for One

Until you know how to create value to profitably “win” one customer, you cannot master the challenge of creating value for many customers which is the requirement for growing Market Share.

To create Value for One, you must understand what defines the customer's perception of value.

Value is in the mind of the beholder.

The customer defines value, not the supplier. No matter how much a supplier thinks the customer should value his products or services, the sole judge of value is the **customer**. Thus, the ability to see value through the customer's eyes is absolutely critical to creating breakthroughs.

The CUSTOMER defines value, not the supplier.

The sole judge of VALUE is the customer.



Value is about perception.

Both benefits and costs are perceived. Perception – what the buyer thinks – is reality. While most buyers do not have a formal scale to measure each of the elements, more and more

buyers are evaluating value. Quality programs implemented throughout the industry are focusing on the “total cost,” which looks at both the hard and soft costs and benefits of doing business with fewer suppliers. Likewise, more and more businesses are training their sales team to sell based on value. Value-based sales tools focus on selling the “total value” or “value-add” which includes services and relationships. Additionally, customer satisfaction scores often index performance on criteria that are similar to the benefits used in QDI's Value Model.

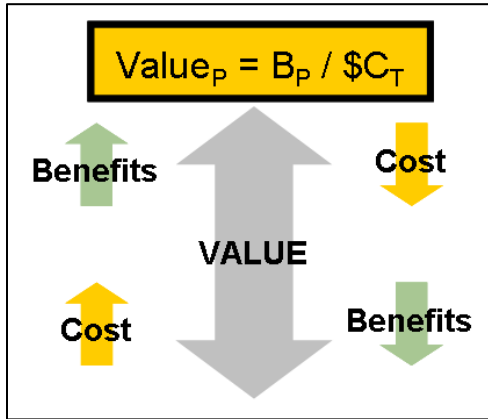
$$\text{Value}_P = B_P / \$C_T$$

QDI Value Model

As the benefits move away from the product or service, the beneficiary of the benefits may change. Logistical benefits (the ability to reduce supply chain costs) or engineering support benefits (the ability to help customers select products that will save them time and money) are often not valued by the person who makes the purchase decision. Therefore, it becomes necessary to “sell” these benefits to the appropriate buyer or influencer and work with that person to ensure that the decision-maker understands and properly values the benefits you offer.

Finally, researchers can measure these elements for individual customers or groups of customers using a variety of market research techniques. The most critical element to creating breakthroughs is the marketer's collective understanding of what the customer

perceives as value. As the formula below illustrates, there is an inverse relationship between perceived benefits, total cost, and perceived value.



To increase value, businesses must either increase the benefits and maintain the level of costs, or maintain the level of benefits and decrease costs.

Value decreases when:

- Benefits decrease and costs stay the same, or
- Benefits stay the same and costs increase.

The Impact of Value – Close Rate

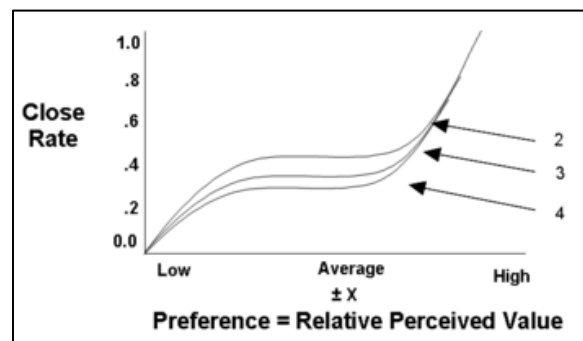
The customer’s perception of value drives the customer’s behavior. The greater the perceived value of an offering versus the customer’s alternatives, the more likely the customer is to make a decision to select the offering.

The concept of Close Rate represents the outcome of the customer’s decision-making process. Close Rates for a specific customer can be either one (a sale), or zero (no sale). As shown in the chart at the right, the greater the perceived value of an offering versus alternatives, the higher the probability the

Close Rate will be a score of one. Over several transactions this probability becomes the percentage Close Rate for a specific competitor or offering.

The vertical axis represents the Close Rate, which ranges from 0 to 1.0 (or 0% to 100% of the time). This is a measure of how often you win the sale when presented. The horizontal axis represents customer preference for your offering versus other available offerings.

The shape of the curve demonstrates that if the preference for your offering is low, your Close Rate will be low. As preference increases, your Close Rate increases. It is important to note that this relationship is not linear because the buyer’s behavior does not change proportionately with every change in the perception of value. There is a great deal of inertia around the customer’s purchase decision. Thus, the Close Rate curve goes flat when decision makers view products as about equal.



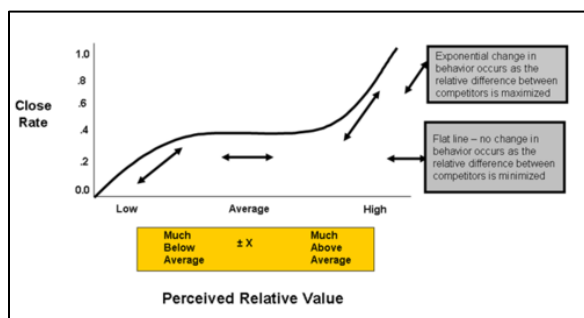
The multiple Close Rate Curves on the chart indicate that a company’s Close Rate is also a function of the number of competitors for a sale. Thus, if the preference for each competitive offering is essentially equal, the Close Rate for each competitor will be 1 / # of competitors. Each of four competitors with presence in a

market would win one-fourth the sales when their values are perceived as equal.

The inelasticity of Close Rate relative to changes in preference is similar to the concept of price inelasticity. Price inelasticity exists when customers do not change their purchase behavior when price reductions occur. This range of price inelasticity is called a “price band.” Close Rates do not move within a price band.

For example, research in the writing instrument market showed very large price bands. Parker Pen conducted research that revealed sales of its jotter pen did not increase at the retail level when the price was between three and five dollars. Below three dollars, sales increased dramatically and above five dollars sales dropped precipitously.

As the chart below shows, the shape of the Close Rate curve is “flat in the middle” where customers perceive all offerings as about equal. The Close Rate curve becomes almost linear as the difference in relative perceived value between offerings increases.



To improve Close Rate, the marketer needs to address the product’s Value Proposition as well as the channel’s ability to communicate value.

Great value alone will not generate a great Close Rate.

The issue for decision makers is to identify what part of the value equation should be fixed.



When a company is trying to increase the value it offers, the issue for decision makers is to identify what part of the value equation should be fixed. Should benefits be increased? Should costs be reduced? What changes will positively impact the value proposition the most? Making changes randomly is often a trap. For example, downsizing reduces internal costs and allows a manufacturer to decrease the price to the customer. This reduces the customer’s cost and increases his perceived value of the supplier’s products or services. However, downsizing also may reduce the benefits, making it harder to do business with the supplier, disrupting long-term relationships and, therefore, reducing value to the customer.

Ask the following questions before cutting internal costs:

Will this change (reduce or increase) the value the customer perceives?

Will it change the value positively enough to change the customer’s behavior?

The answers to these questions come from an in-depth understanding of the customer’s perception of value. Value represents the customer’s view of the benefits and costs of your offerings. Since companies ultimately exist to create customer value, their decisions should

align around the creation of incremental customer value.

Value Proposition

Your value proposition is a clear statement of the tangible benefits your customers receive when they use your product or service. Good value propositions begin by identifying the unmet needs of your target audience.

QDI's Value Model™ (VM) is a formula we've developed to help marketers solve the age old "features versus benefits" dilemma.

$$\text{Value}_P = B_P / \$C_T$$

Value is perceived...P

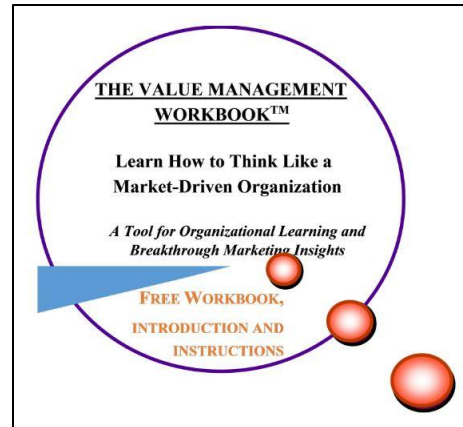
Benefits: Product/Service, Services, Relationships, Brand

Costs: Total Purchase Cost, Ownership & Adoption Costs and Risks

Too many businesses mistakenly concentrate attention on features rather than benefits and speak in generalities rather than specifics. QDI's Value Model™ helps marketers clearly define the perceived benefits and total costs of a product or service from the customer's perspective. To generate sales, marketers must emphasize the features that truly set their product/service apart from the competition.

QDI's Value Management Workbook™

QDI's Value Management Model is a market model to help quantify and clarify the drivers of market share and your relative performance versus competition. Market share is a function of being present at the sale (Market Presence) and winning when you are present (Close Rate).



QDI's Value Management Workbook™ is based on QDI's Value Model™ (VM) and helps you clearly define your product's benefits and costs.

You not only measure how you stack up against the competition but also test the impact different changes to your offering would have on your close rate. The output is a projection of the value of benefits, close rate, and market presence for you and each competitor- which combine to determine your market share. The greater your value, the higher your close rate will be and the higher your potential market share.

Follow these Four Steps:

1. Identify and quantify what drives the customer's decisions today and how that would change, if at all, because of new potential offerings. Learn the relative importance of:
 - The product or service you are offering, the ease of doing business with you, and the customer's relationship with you and your brand.
 - The product's cost, the purchase and adoption costs, and

the customer's risk in buying your product.

2. Identify, define, and quantify your value versus the customer's alternatives
3. Model a projected market close rate – how often each competitor will win a sale based on the degree of competition for the sale.
4. Model market presence based on each competitor's geographic, customer, and sales presence.

The output is a projection of market share for each competitor based on a “benefits and cost” scorecard for you and each competitor that leads to a close rate score and a market presence scorecard for each. These scores together generate a model of market shares for each competitor.

[Click Here to see an example of QDI's Value Management Workbook™](#)

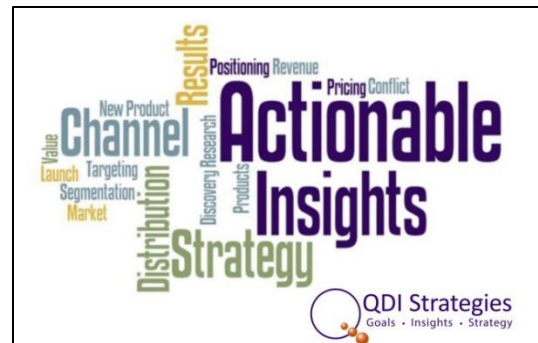
To learn more about QDI's Value Management Workbook™, [click here](#).

Value Management Systems Model™ (VMSM)

QDI consultants developed [Value Management Systems Model™ \(VMSM\)](#) for both executives and line management to maximize organizational performance and profit by aligning all decisions, strategies, and tactics to achieve specific market share, revenue, and profit goals. The Systems Model highlights the impact of each major marketing force, program/activity, management and decision making process on overall performance as it relates to delivering sales revenue.

While QDI's Value Management Workbook™ looks outside the company to learn the customer's perception of a product's value, the Value Management Systems Model™ takes a deep look at each of the functions inside the company and pinpoints areas that need to be changed to achieve your goals. Learn if all activities, programs, and processes are doing their part to deliver customer value. One or two miss-aligned activities can jeopardize the success of an entire effort.

[Click here to learn more about QDI's Value Management Systems Model™](#)



How does QDI help?

QDI listens and understands what customers, channel partners, and other customer facing people are saying, and grasps how it relates to your business challenge - whether that is kick-starting a stalled product line or effectively marketing a new product. QDI has an intellectual and intuitive skillset and a process for linking what they are learning to your business to find solutions for your problems and how to execute those in the market.

Call Steve Bassill or Mike Barr at 847-566-2020. Let's start a conversation and see ways we can help you.

Visit QDI Strategies at <http://www.qdistrategies.com>

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Steve Bassill on Twitter [@sbassill1](#)

Michael Barr on Twitter [@mikedbarr007](#)

An example of QDI's Value Management
Workbook™

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