

# Winning on the Margin: The B2B Value Imperative

by Michael Moorman,  
Ladd Ruddell and Scott Sims

Today's b2b Sales and Marketing executive faces a uniquely challenging selling environment. Significant increases in buyer sophistication, compressed product lifecycles, and globalization have combined to create powerful commoditization and competitive pressures. Furthermore, many buyers are seeking greater proof of value from suppliers while continuing to consolidate their vendor base.

The imperative to achieve growth and protect margins is forcing organizations to transform the way they go to market. B2b Sales and Marketing leaders have embarked en masse on an array of customer value management (CVM) initiatives. Focusing on customer value versus price is not a new concept. It dates back 20 years, at least. What is new is the intense focus and urgency the majority of b2b leaders are now placing on value creation and differentiation strategies, and on execution excellence.

Customer value management is simple in concept. The reality has proven more difficult.

CVM is simple in concept: win and grow customers through product, service and program offerings whose total value relative to price exceeds that of the alternatives. The reality has proven more difficult. Transforming from deeply engrained features-, friendship- and price-based selling to CVM can require a dramatic shift in culture, strategy, operations and execution capability. Few organizations have achieved the degree of CVM strategy and execution excellence they believe will be required for sustained success.

This article draws on ZS Associates' experience with more than 40 organizations in 13 industries. Through this experience we have identified four fundamental barriers that are preclud-

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ing many organizations from achieving the CVM capability they require for future competitiveness:

- Incomplete understanding of the underlying drivers of CVM effectiveness and their critical inter-dependencies, resulting in piecemeal capabilities building
- Insufficient cross-functional collaboration and coordination between Sales and Marketing
- Insufficient infusion of CVM expertise and attention to details during implementation
- Failure to continuously improve through systematic, on-going and rigorous assessment of CVM gaps and actions

A thorough understanding of the sales effectiveness drivers critical to CVM is a pre-requisite to successfully addressing these barriers. This article provides the overview of CVM drivers and capability building critical to today's b2b Sales and Marketing executive. The article begins with a brief introduction to CVM, then discusses strategy development and concludes with implementation and execution insights.

## Introduction to Customer Value Management

Customer value management capitalizes on the rational b2b buyer's goal to select and grant loyalty to the suppliers that provide the greatest economic benefit, or value, to their organization. "Buyer value" is measured in terms of the worth that a buyer perceives a supplier's offering will provide relative to price. "Supplier value" is the revenue stream the supplier is able to command minus the cost to provide. CVM focuses on achieving greater value than alternatives for buyers, while maximizing value back to suppliers.

Large numbers of organizations and sales people today remain heavily vested in feature-, friendship- and price-based selling. The proliferation of purchasing committees and increased oversight of buyers is rapidly neutralizing these age-old sales practices. The buyer paradigm has shifted from "buy from the seller with a good product and competitive price that I most like" to "buy from the seller who presents the best total solution and terms that maximize the economic benefit to my company." And while individual decision influencers each have their own needs and priorities, the language of buyers, and certainly of purchasing committees, is becoming the language of finance. The seller who is unable to articulate and prove the total value of their solution in economic terms is highly vulnerable. Firstly, it's very likely their competition is seeking to do so. Secondly, even if selected, the seller may lack sufficient leverage to justify their price in the face of buyer pressure to discount.

The financial stakes fueling CVM are underscored by a great deal of research conducted over the last 20 years. Three particularly relevant and compelling insights are the following:

- On average, a 1% increase in price translates into an 11% increase in profit<sup>1</sup>
- New customer cost-of-sales is typically 3 to 10 times as high as existing customer cost-of-sales<sup>2</sup>
- Reducing unwanted customer defections by 5% can impact profits by 25% to 85%<sup>3</sup>

In short, even small improvements in price and customer loyalty translate into significant contributions to company performance. The reverse is also true. Relatively small decreases in price and customer loyalty significantly hurt financial performance. Furthermore, it is common in b2b markets for 20% or less of customers to represent 80% of revenues and potential. Success or failure with these customers has dramatic, disproportionate impact on company

performance. Superior customer value is central to maximizing win rates, driving customer loyalty, and commanding attractive margins.

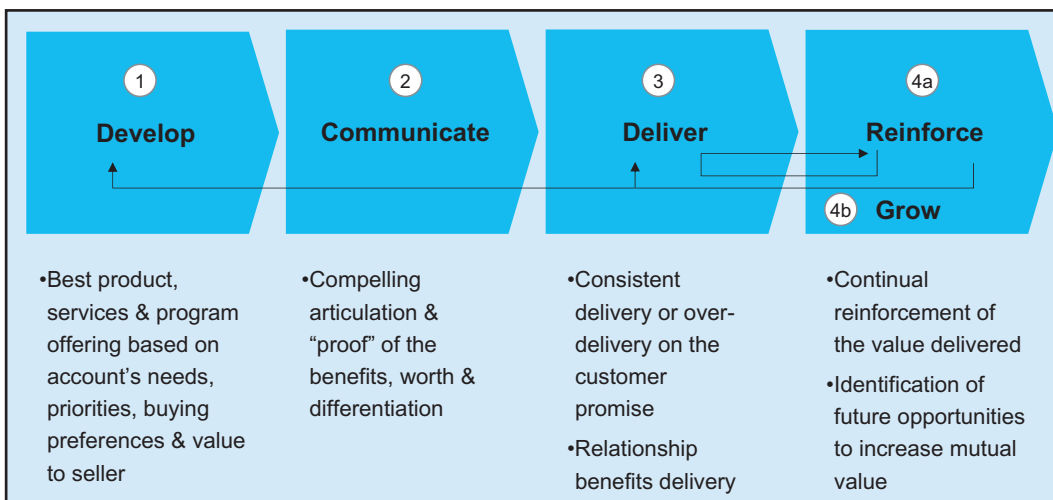
Four fundamental value strategies exist for creating customer value:

1. Lowest price accompanied by purchasing and order-fulfillment efficiency (i.e., lowest acquisition cost). This strategy is essentially transactional "commodity-selling" and in competitive markets is only sustainable for low-cost producers.
2. Lowest total cost-in-use including acquisition, usage and disposal costs (i.e., emphasizes price as only one cost measure). This strategy is a form of "value-based selling" that focuses on buyer cost reductions beyond just price and other elements of acquisition costs.
3. Higher value added to the buyer's own market offering (e.g., higher quality components, co-branding, etc.). This strategy is also a form of "value-based selling" and focuses on the upside revenue the buyer will attain by using the seller's offering.
4. Multi-dimensional strategy that combines elements of 1, 2 and/or 3.

The optimal CVM strategy is situation specific and depends on customer needs and preferences, supplier capabilities, the value of the customer to the supplier, and the competitive alternatives. Because these four factors vary across the customer universe, many organizations will be best served by hybrid CVM strategies. These strategies customize value propositions, sales processes and sales channels by customer segment or groupings of segments. Much of the challenge in CVM strategy development centers on determining the most cost-effective hybrid strategy that provides optimal effectiveness, efficiency and flexibility, and that enables world-class execution.

### The Customer Value Management Cycle

At a fundamental level CVM is best viewed as a continuous "Customer Value Management Cycle" (Figure 1).



**Figure 1.** Customer Value Management Cycle

End-to-end excellence in the customer value management cycle is the hallmark of exceptional CVM organizations. Gaps at any step result in value leakage in one of four forms: value given away, lost opportunity to create value, incomplete customer perception of value offered, or incomplete customer perception of value actually delivered.

Effective CVM has a specific and recognizable signature. Market offerings are developed according to customer-specific needs, buying processes, buying preferences and potential. These offerings are communicated and proven in terms of functional, emotional and economic benefits and worth. Meaningful differentiation from the next best alternative is clearly established. The customer promise is kept or exceeded. Value delivered is reinforced and leveraged to build the relationship to the next level. Both the buyer and seller benefit.

When successfully executed, CVM removes the burden from the buyer to "figure out" worth, and reduces the risk to the seller that the buyer will fail to do so. It provides buyers with the business case needed to justify the purchase decision within their own organization, based on terms that are meaningful to the spectrum of decision influencers. CVM elevates the relationship from a friendship to a professional business relationship, predicated on mutual and verified benefits that over time result in strong trust and loyalty.

### Sales Effectiveness Drivers

Achieving an effective CVM strategy and execution requires a comprehensive, systematic and integrated approach to CVM capability building and continuous improvement. Many organizations are unfortunately-and often unknowingly-adopting piecemeal approaches that undermine their success. A system of sales effectiveness drivers must be addressed and aligned to accomplish end-to-end excellence in the customer value management cycle. A detailed overview of these drivers is depicted in Figure 2.

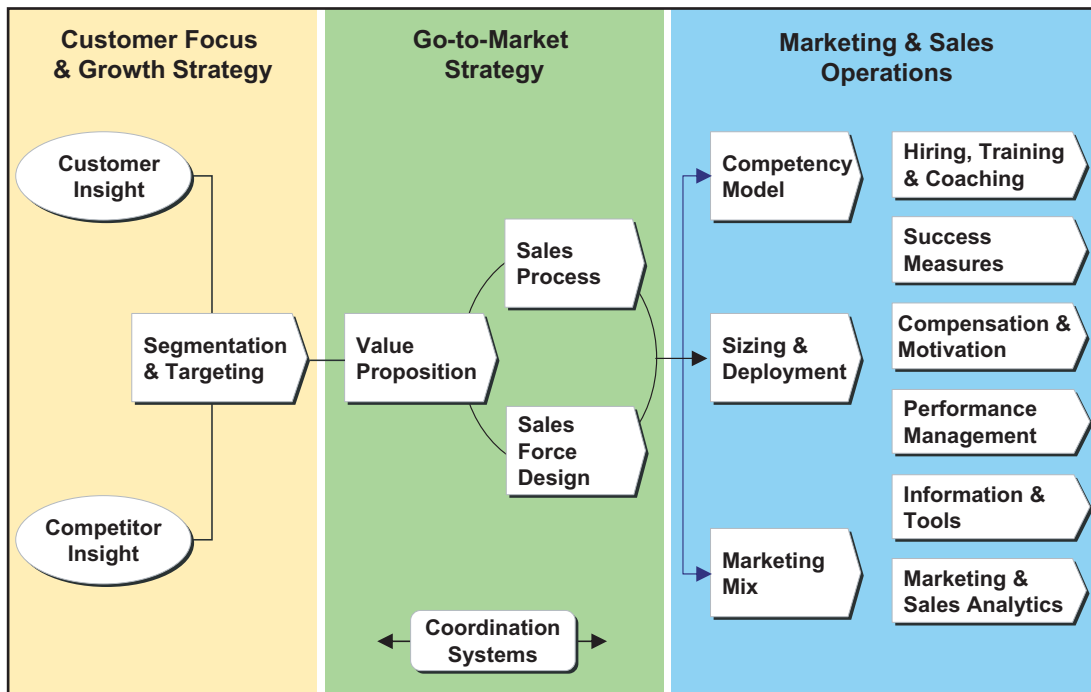


Figure 2. Sales Effectiveness Drivers Framework

A strong left to right hierarchy exists among the sales effectiveness drivers. Organizations frequently undermine their CVM efforts by investing in downstream drivers before they have sufficiently addressed those upstream. A common example is assuming that sales training will achieve the desired capability even before a compelling value proposition and sales process have been defined. To be effective, sales training must be anchored around the company's

unique segmentation, value propositions and sales process. It then has to be immediately followed with strong coaching by first-line sales managers.

CVM success requires that every driver in the sales effectiveness framework be rigorously designed to drive and enable a customer-focused value strategy. To this end Sales and Marketing play equally important roles in achieving world-class CVM capability. In our experience CVM capability-building requires a level of partnering between these functions that most organizations have not fostered. In fact, the shared imperative to develop CVM capability can be a catalyst for narrowing the divide that too often separates Sales and Marketing. As a case in point, Figure 3 shows the mutual roles that Sales and Marketing played in a recent and highly successful CVM effectiveness transformation with one Fortune 500 company.

CVM is an "end-to-end" capability that uniquely spans the sales and marketing continuum. By definition it requires strong partnership between Sales and Marketing. This is one of the reasons so many companies are finding CVM capability building so difficult to achieve.

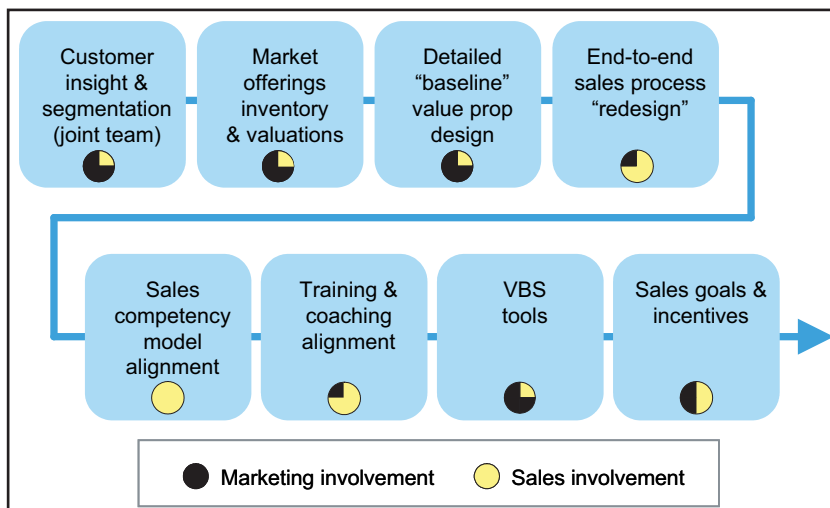


Figure 3. Sales & Marketing Collaboration (Case Example)

## CVM Strategy Development

As with all go-to-market strategies, CVM strategy is built upon four inter-related pillars: segmentation strategy, value proposition strategy, sales process strategy, and sales force strategy. Each requires deep customer insight to effectively develop.

### Customer Insight

Exceptional customer insight is at the heart of exceptional CVM. The best customer segmentations, value propositions, sales processes and sales force designs are all built on detailed, objective and comprehensive knowledge of customers. Critical knowledge areas include needs, buying processes, buying preferences, loyalty drivers and potential. Organizations that fail to achieve deep customer insight-that can be leveraged by both strategists and individual sales and service individuals-invariably undermine their own success.

Customer insight analysis should answer two fundamental questions: (1) what does the customer value and (2) how valuable is the customer to the seller. Together these insights enable

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strategies that support mutual value creation for both the buyer and the seller. Unfortunately, many organizations fail to sufficiently understand their current and prospective customers. The two most frequent reasons we have observed are the following:

1. The pressure for immediate sales effectiveness gains causes leaders to short-cut the attainment of necessary customer insight. This mistake is often exacerbated by an over-estimate of the degree to which the company actually has detailed insights on customers and prospects.
2. Insufficient strategist and researcher collaboration leads to customer research that fails to provide the detailed fact-base necessary to support effective segmentation, value proposition, sales process and sales force design decisions.

Customer research can be time consuming and expensive. For example, a detailed quantitative market research study can take four to seven months to complete. Not surprisingly the degree to which the company has sufficient customer insight to enable CVM strategy design is a frequent point of debate. The cost of building CVM on flawed customer understanding is high. And some organizations do, in fact, already have the fact-base they need to develop an effective CVM strategy. Knowing in which category the organization resides avoids two costly mistakes: developing a strategy based on incorrect assumptions or investing significant time and money for redundant information.

A detailed audit of existing customer insight relative to the strategy issues under consideration is required to determine gaps. As a quick check, there are a number of litmus tests we have found useful for gauging sufficient customer insight:

1. Has the company conducted rigorous customer insight research on needs, buying processes, buying preferences, perceptions and potential in the last three to four years? (or even more recently in rapidly evolving markets)
2. Do leaders have a common view about customer needs, relative priorities, preferred buying processes and current value perceptions? Strong debate can indicate an insufficient fact-base. Also, facts such as "we have been selling in this market for 75 years" are not proof of sufficient insight. For example, many tenured sales leaders have been surprised to learn their customers would be happier buying or being serviced through a different channel, conducting joint planning, or dropping certain services, etc.
3. Can sales and marketing leaders confidently estimate the size and the unique profile of each customer segment? Inability to do so demonstrates a superficial understanding of the market.
4. Have potential market offering elements been evaluated by customers at a detailed level and prioritized through an objective choice-model approach? Organizations often attempt to understand general needs and priorities but fail to evaluate market offering elements at the detailed level required for value proposition design.

A negative response to any of these is cause for management to carefully consider the need for additional customer insight.

Should additional customer insight be required, short-term gains can often still be achieved. An example from a recent CVM transformation was a short-term tactical initiative to better target field resources against the most immediate and meaningful opportunities. Another included improving goals to increase field accountability and motivation. These quick hits accomplished incremental gains while the organizations worked towards longer-term CVM capability building.

When organizations do invest in customer insights, research that fails to collect the most critical data is the second frequent error. Many Sales and Marketing leaders have unrealistic expectations about the degree of strategic expertise that internal and external marketing research partners will bring. Good researchers bring great skill in questionnaire design, fielding, and analysis techniques. They are also well versed in sales and marketing strategy issues. However, they typically do not bring the deep expertise required to define and prioritize the most essential facts that will be required for detailed value proposition, sales process and sales force strategy design. Determining these facts requires careful identification of likely design alternatives and determination of the facts that will be critical to deciding between these alternatives. And limitations on the amount of information that can be collected through interviews and surveys almost always require that a large number of desired research questions be dropped. At least 50% of the customer research studies we review provide a great deal of interesting information but fail to provide the detailed facts necessary for truly effective CVM strategy development.

### Account Segmentation Strategy

Customer segmentation is the first CVM strategy pillar. Customer segmentation in b2b markets is quite different than in b2c. Corporations have more complex needs than individual consumers. Moreover, it is often the case that within corporations multiple individuals, each with their own issues and needs, are involved in the purchase decision.

The most effective b2b segmentation models are constructed as two-dimensional matrices, as illustrated in Figure 4. The horizontal dimension partitions the account universe into "needs-based" segments. These segments group accounts based on common needs, buying preferences and buying processes. The vertical dimension partitions the account universe into "potential-based" segments. These segments group accounts based on total potential, likely win rate or retention rate, and average deal size. Together these two dimensions provide an actionable picture of the account universe based on "what the segment values" and "how valuable the segment is to us."

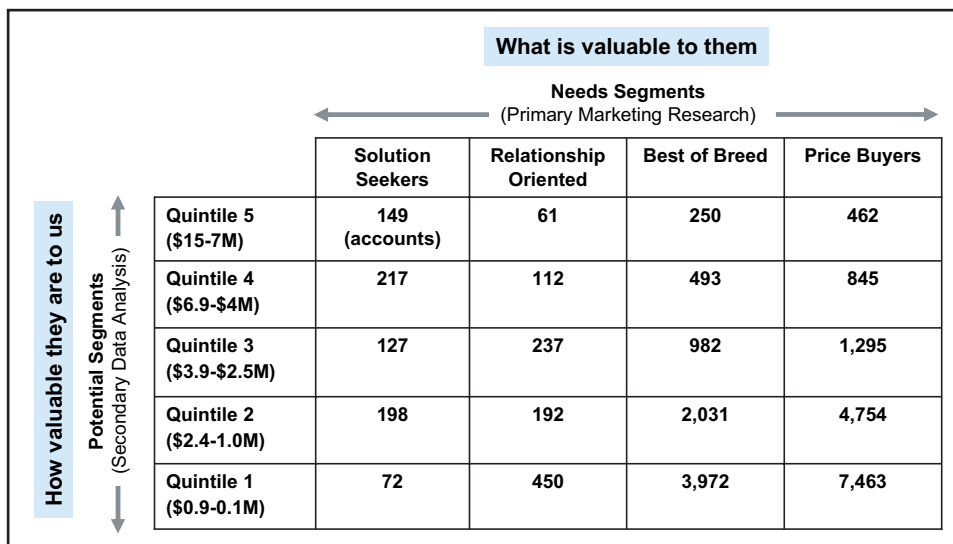
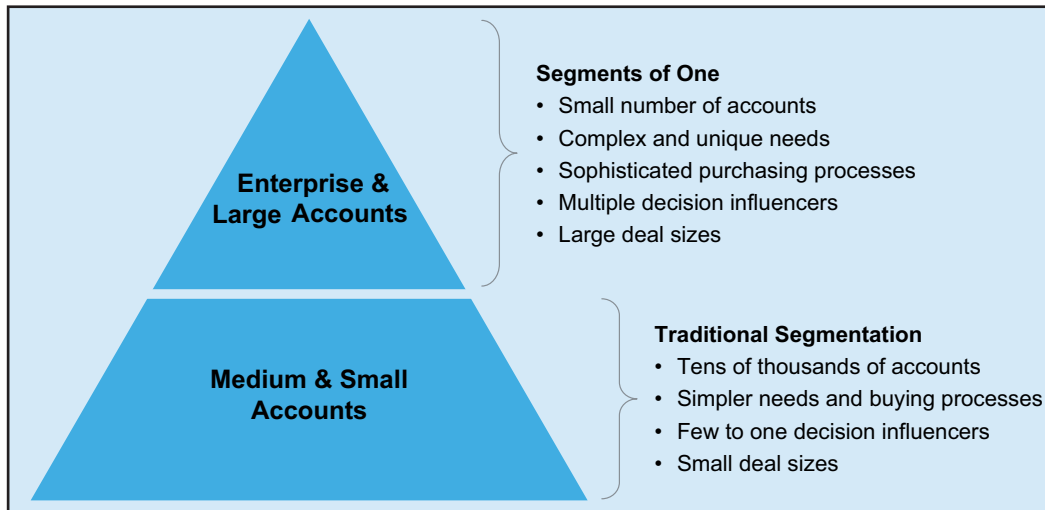


Figure 4. 2D Segmentation (Case Example)

To further understand how segmentation applies in b2b selling it is important to understand the typical b2b market structure. The customer universe of most b2b markets is comprised of enterprise and large accounts at one end of the spectrum and medium and small accounts at

the other. Common characteristics of each are summarized in Figure 5.



**Figure 5.** B2B Markets Segmentation

The broad diversity of needs in enterprise and large accounts, along with their large revenue and potential, typically requires that they be viewed as "segments of one." In practice this means that each account's specific needs, buying processes and preferences are individually determined through in-depth interviews, or by the sales force during the selling process. On the other hand, the medium and small market lends itself much better to more traditional segmentation approaches. In fact, as in b2c, the sheer number of potential customers in the medium and small market demands such approaches.

Combining qualitative and quantitative primary marketing research is highly effective for determining "needs-based" customer segments in the medium and small sector of the b2b market. Once segments have been determined, projection of the segments to individual accounts is critical for effective account-level targeting, assignment of accounts to sales channels, and account-specific value proposition mapping. Unfortunately, matching accounts to needs-based segments is typically difficult. A corporation's firmographic profile, which includes industry, geography, number of employees and corporate revenues, is often the data most readily available for assigning accounts to segments. However, our research suggests that firmographics often do not accurately predict account needs, buying processes or buying preferences. Rather, we frequently observe significant firmographic heterogeneity within needs-based segments.

An approach we have found to be particularly successful for projecting account segments is manual account profiling, conducted by the sales force. Well designed needs-based segmentation analysis can identify account profile attributes, or "hooks," that predict segment membership. In manual account profiling, marketing works closely with the sales force to assign as many accounts as possible to segments. These assignments are based on the sales force's existing knowledge of a large sample of accounts, and on subsequent account research conducted by the sales force to fill in knowledge gaps.

Account profile "hooks" also play an important role during CVM execution. We have had significant success implementing software tools that generate market offering and value proposition collateral for the sales force based on account profile. This collateral is then customized



by the sales person based on a specific account's particular needs and decision criteria. Not only do such tools increase sales person efficiency, they improve the professionalism of customer presentations and the effectiveness with which the field force communicates and proves a compelling value proposition.

### Value Proposition

The second CVM strategy pillar is value proposition. Value propositions are the detailed communication of the benefits and worth the customer will realize from the market offering being proposed to them (Figure 6). The opportunity to create customer value extends well beyond the functional benefits of a seller's product and price. Companies also create customer value through the services, programs and relationship benefits they provide their customers. CVM leaders move beyond a product-centric paradigm to one of value. They are value sellers, not just product sellers. They are also value innovators. They broadly focus on the ways in which their company can profitably create customer value.

Example for A Single Market Offering Element		
Market Offering Element	Benefit	Economic Worth
Through our inventory management service, we will staff your supply room with our employees (a feature).	Our inventory management service will lower your labor costs because our workers do not belong to a union	With our inventory management service, your firm will lower its annual inventory costs by \$225,000
Example for A Complete Market Offering		
Market Offering Elements (Features)	Benefits	Economic Worth
<b>Expertise in Customer's Business</b> <ul style="list-style-type: none"> <li>• Provide team with business &amp; technical expertise explicitly focused on your industry</li> <li>• Thought leadership in emerging issues and solutions</li> <li>• Knowledge management tools for reps</li> <li>• Account specific web page</li> </ul>	<ul style="list-style-type: none"> <li>• Don't have to repeat myself or train the next person when I call</li> <li>• Don't get handed off to the next person</li> <li>• Get provider who knows me and my business</li> </ul>	<ul style="list-style-type: none"> <li>• Save \$3M per month through increased labor productivity</li> <li>• Increase revenues by 5% through increased manufacturing capacity</li> <li>• Reduce product disposal costs by 3% per year</li> <li>• Reduce installation and operation risks (contractual guarantees)</li> </ul>
<b>Tailored Solutions</b> <ul style="list-style-type: none"> <li>• Flexible solutions developed specifically for your needs and priorities (list products, services, programs, systems)</li> <li>• On-site technical expertise and customized configurations</li> <li>• Simplified pricing structures</li> </ul>	<ul style="list-style-type: none"> <li>• Client team who understands my needs</li> <li>• Cost-effective solutions that meet my needs</li> <li>• No unnecessary "extras"</li> </ul>	
<b>Productivity Improvements</b> <ul style="list-style-type: none"> <li>• Applications for streamlining resource requirements and minimizing total cost-in-use</li> <li>• ROI analysis tools</li> </ul>	<ul style="list-style-type: none"> <li>• Value-delivered reporting (proof)</li> <li>• Proactive issues identification and alerts</li> </ul>	
<b>Service Excellence</b> <ul style="list-style-type: none"> <li>• Seamless customer experience across all touch points</li> <li>• Second level response team</li> <li>• Response time contractual standards</li> </ul>	<ul style="list-style-type: none"> <li>• Rapid response</li> <li>• Single point of contact</li> </ul>	
<b>Purchase Efficiency</b> <ul style="list-style-type: none"> <li>• Streamlined contracts</li> <li>• Service charge transparency</li> <li>• On-line purchasing for repeat and simple orders</li> <li>• Integrated electronic invoicing</li> </ul>	<ul style="list-style-type: none"> <li>• Easy to work with (responsive)</li> <li>• Transparent pricing</li> <li>• Streamlined invoicing</li> </ul>	

Figure 6. Marketing Offerings & Value Proposition (Case Example)

Every company will have a value proposition whether one has been formally defined or not. Sales people inevitably must answer the "why you" question. A good exercise to conduct is to ask different sales and marketing individuals to articulate the company's full market offering and associated value proposition(s). We frequently find that a large majority are unaware of many of the ways in which the company creates customer value or how to most effectively

communicate that value. This gap is most often a consequence of having no formal documentation or training on the company's full market offering across all touch-points. In such cases the natural tendency for sales people is to focus on the known. Unfortunately, this tends to be price, promotions and product features. It is not surprising that research with customers often shows a significant gap between perceived value and that actually being delivered.

In fact, an early win for many organizations is to more effectively communicate and prove the value the company is already delivering to its customers. This insight runs counter to the common viewpoint that new offerings will be necessary to increase performance. Innovation is essential to long-term success. However, when the organization has not yet tapped the value of the current offerings there is incremental customer value to be leveraged. Additionally, the return from future innovations can only be fully realized if the organization is able to align perceived value with actual.

Development of compelling value propositions can be viewed as a step-wise process (Figure 7).

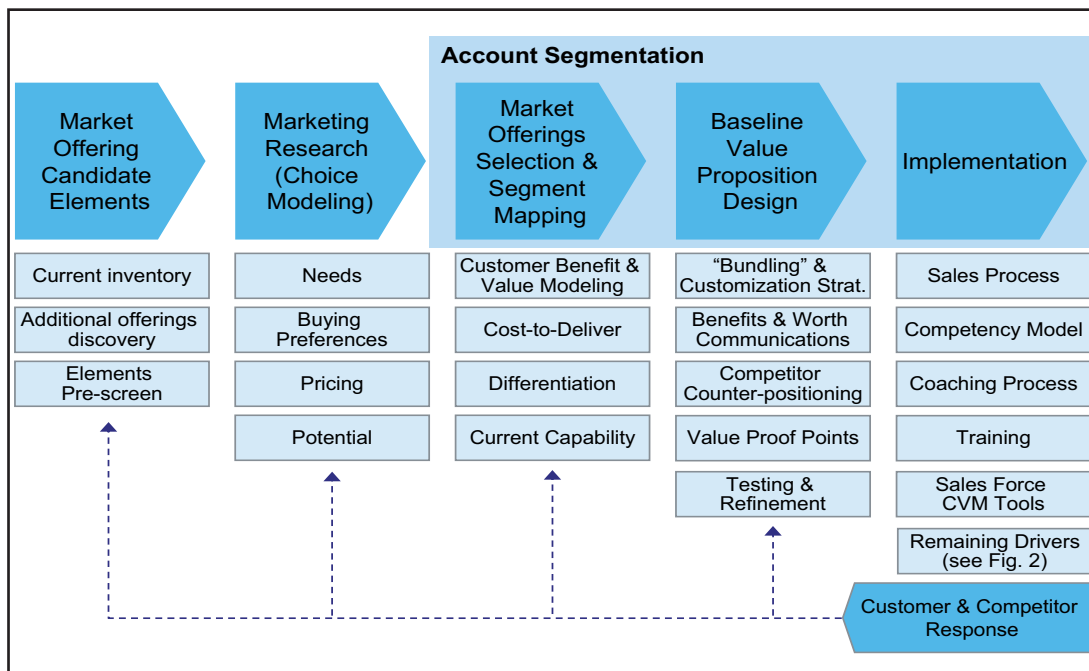


Figure 7. Value Proposition Development Roadmap

An inventory of all the ways the company already does, and could, create customer value is the critical first step. Defining this inventory requires investigating every customer touch point and considering the way the customer interacts with the offering at every stage in the consumption chain. It can also involve an exhaustive review of prior customer presentations and RFP responses. The discovery process typically leverages engagement from internal experts in combination with exploratory customer interviews.

The second step is to conduct broader primary marketing research to explicitly evaluate customer needs and priorities relative to the specific set of market offerings under consideration. A critical success factor in this research is to understand the relative degree of importance that different customers place on each potential market offering element. Research that poses the question "what is important to you?" will usually get the response "everything." Choice-models that force the respondent to communicate relative priorities amongst possible market offering alternatives

are the most effective techniques for establishing relative importance (Figure 8a, 8b).

**When considering elements that motivate you to choose one supplier over another, which ONE element is MOST valued & which ONE element is LEAST valued by your company?**

Least	Element	Most
<input type="checkbox"/>	Price of product	<input type="checkbox"/>
<input type="checkbox"/>	Consistency of product performance	<input type="checkbox"/>
<input type="checkbox"/>	Level of technical support	<input type="checkbox"/>
<input type="checkbox"/>	On-time delivery	<input type="checkbox"/>
<input type="checkbox"/>	Frequency of contact with sales rep	<input type="checkbox"/>

**Figure 8a.** Least/Most Choice Model Question Example

	SEGMENT				
	1	2	3	4	5
NEEDS	Content Traditionalists	Active Competitors	Diversified Enterprises	Premier High-fashion	Anxious & Reliant
<b>Sales &amp; Marketing Support</b>					
Affordable displays	●	●	◐	◐	◐
Basic affordable sales aids	◐	◐	◐	◐	◐
Brand-building	◐	◐	◐	◐	◐
Local marketing support	◐	◐	◐	◐	◐
Lead generation support	◐	◐	◐	◐	◐
Generous co-op advertising	◐	●	◐	◐	◐
Flexible co-op advertising	◐	●	◐	◐	◐
Customer targeting support	◐	◐	◐	◐	◐
Promotional support	◐	◐	◐	◐	◐
Real-time design assistance	◐	◐	◐	◐	◐
<b>Product Attributes</b>					
High number of SKUs	◐	◐	◐	●	◐
High fashion product line	◐	◐	◐	◐	◐
Moderate number of SKUs	◐	◐	◐	◐	◐
High quality products	●	●	●	●	●
Good value for price	●	●	●	●	●
<b>Operational Performance</b>					
Error prevention assistance	◐	◐	●	◐	◐
Predictable, on-time delivery	●	●	●	●	◐
Short lead times	●	●	◐	◐	◐
Accurate order fulfillment	●	●	●	●	●
Fast, easy error recovery	●	●	●	●	◐
Warranties and guarantees	◐	◐	◐	◐	◐
<b>Business Mgt Support</b>					
Business sales incentives	◐	◐	◐	◐	◐
Designer sales incentives	◐	◐	◐	◐	◐
Consumer financing aid	◐	◐	◐	◐	◐
Market intelligence	◐	◐	◐	◐	◐
Responsive customer service	●	●	●	●	◐

Value proposition emphasis points are derived from an examination of needs and priorities across customer segments.

- very important     
  - important  
 - somewhat important     
  - marginally important     
  - not important

Potential emphasis area

**Figure 8b.** Example Market Offering Priorities Arrived At Through Choice Modeling

When conducting quantitative analysis, two choice-modeling methods that are particularly valuable are "paired comparisons" and "best worst conjoint." These methods impose lower respondent burden and are statistically more efficient than alternative methods. A hierarchical Bayesian method can be used to estimate the relative importance of needs for each respondent. The output from this analysis provides the data necessary for needs-based segmentation. At present latent class clustering is the most effective technique for determining quality segments. Empirical results have consistently shown latent class segmentation derives truer segments than traditional clustering techniques.

Selection of market offering elements for each customer segment should be based on a number of attractiveness dimensions. Some of the most important include degree of value created for the customer, cost to deliver, degree of competitive differentiation achieved, and current capability. In many cases, impact on the customer's total cost-in-use, including acquisition, usage and disposal costs, must be modeled to fully understand the extent of customer value created.

Once market offerings have been designed and mapped to segments, the challenge is to translate those offerings into specific customer benefits and worth. Benefits should be communicated in the customer's language to the degree possible. Depending on the value proposition strategy, worth is communicated in terms of acquisition cost savings, total cost-in-use savings, and increased customer revenue associated with using the solution. In most selling situations, the specific worth an individual customer will realize must be refined as part of the selling process itself. Best-in-class value sellers collaborate with the customer during the estimation process to ensure accurate data and strong buy-in to key assumptions.

The degree to which value propositions will be tailored to specific customers is an important aspect of the value proposition strategy. A wide spectrum of value proposition tailoring strategies exists. Figure 9 summarizes the fundamental options ranging from the completely standardized to the highly customized.

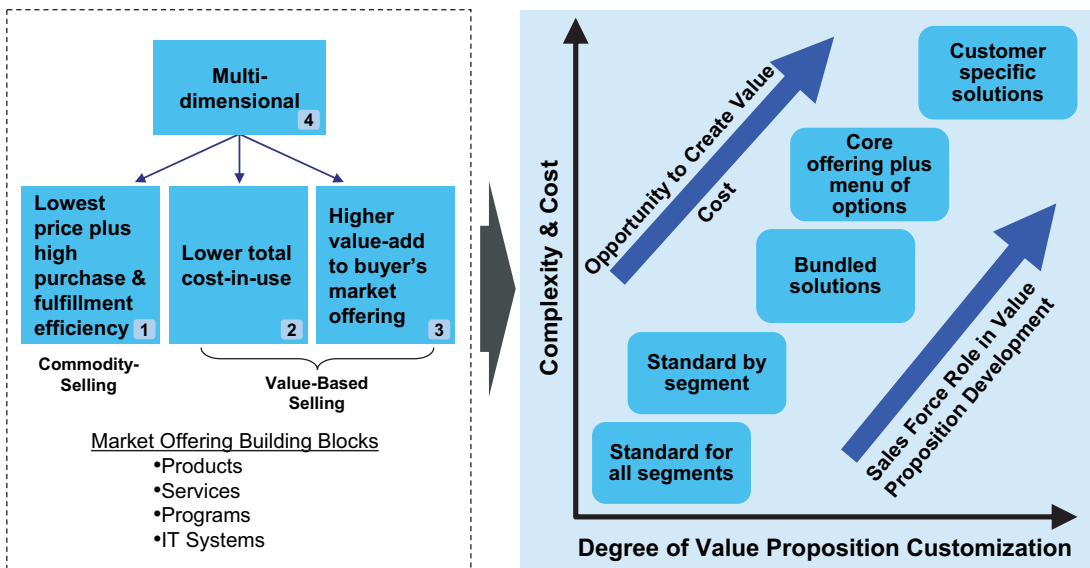


Figure 9. Value Proposition Strategy Continuum

As the degree of customer customization increases, the role of the sales force in developing the value proposition becomes more prominent. In highly consultative sales situations the seller

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may develop unique customer solutions that draw on a broad cross-section of the company's capabilities. In some cases the proposed solution may even require changes in the seller's and buyer's operations, or partnership with other vendors or business partners. High customization provides the greatest opportunity to create customer value. It also increases cost of sales and operations. Mutual value creation for both buyer and supplier is achieved when the CVM strategy balances customer benefits with willingness to pay a profitable price. Providing benefits that a customer will not pay for, through either price or volume, equates to giving away value. Since delivering value has costs, it also equates to giving away profits.

Hybrid value proposition strategies often present the greatest opportunity to profitably maximize value creation across target customer segments. Such approaches employ a mix of value proposition strategies based on customer segment or account-specific profile. For example, more standardized value propositions may be targeted at lower value segments or those that have simpler needs. Customized value propositions may then be targeted at higher value customers with more complex needs. Hybrid value proposition strategies lead directly to hybrid sales channels, selected based on their ability to most cost-effectively deliver the desired value proposition to each target segment.

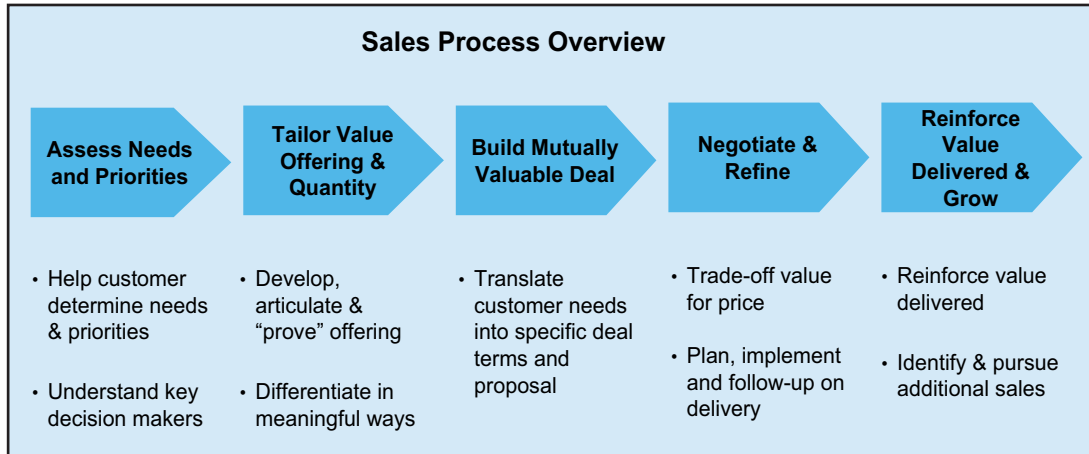
Best practice CVM marketers create a "baseline" value proposition for each target segment, regardless of the degree of customization that will ultimately take place. Baseline value propositions provide the market offering and associated customer benefits and worth starting point. For segments receiving no customization, the sales force can leverage baseline value propositions "as is." For segments receiving customization, sales persons tailor the baseline value proposition based on the specific account's needs, priorities and value to their own company. Even for enterprise and large "segment of one" accounts where significant customization may be required, it is beneficial to provide Sales with a starting point from which to work. Editing allows sales persons greater sales efficiency and effectiveness than creating from scratch.

The power of effective value proposition communication is exemplified by the experience of one of our clients. Following an initiative to improve the sales force's ability to articulate and quantify benefits and worth, a large customer explicitly recognized them for a dramatic increase in the value of their relationship. Interestingly, the client had actually scaled back on several major elements of their offering from prior years. This example reinforces that the only value that matters is that which the customer perceives.

### **Sales Process**

Sales process is the third strategic pillar and the backbone of CVM. Sales processes such as the example shown in Figure 10 provide the roadmap by which account-specific value proposition development and tailoring, communication, delivery and reinforcement are consistently and effectively accomplished.

CVM sales processes mirror customer buying processes for the company's specific market offerings. They inventory and sequence the internal and customer facing activities critical to successful end-to-end execution of the customer value management cycle. The very best CVM sales processes ensure customer commitment to the problem to be addressed and the proposed solution in advance of pricing discussions. They also lead to negotiation processes in which the seller trades-off market offering elements for price concessions-as opposed to subjectively discounting price.



**Figure 10.** Generic Sales Process

Sales processes are often depicted as a high-level set of five to ten steps such as that shown above. However, much of the value of sales processes lies in the layers below. Impactful sales processes will include at least the following for each major step:

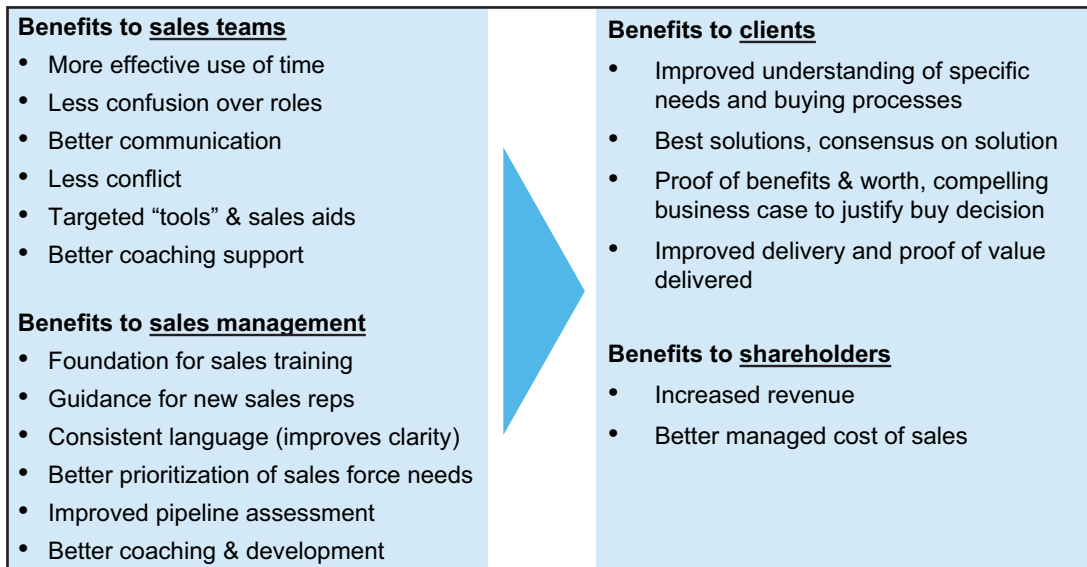
- Critical activities
- Relevant advances to be sought
- Measurable milestones demonstrating progression to the next stage
- Roles of all internal players (not just Sales)
- Key enablers (e.g., tools, reports, experts, etc.)

It is in the underlying layers that sales processes tend to be most different. CVM organizations carefully develop all layers of their sales process to ensure they reflect their unique selling environment and strategy. They envision the sales process as an escalating series of customer commitments that culminate in the commitment to purchase. They establish measurable proof points to ensure successful advancement from one stage to the next. In this way they change the sales manager and rep conversation from "we are very close to a deal" to "we are at this stage in the sales process and this is our strategy to move forward." Clear delineation of roles in CVM sales processes helps ensure that all customer touch-points understand their specific accountabilities in the context of the company's overall customer management strategy. Identification of key enablers helps ensure that internal support groups understand the needs of the selling organization and how their efforts support the company's sales effectiveness.

Sales process strategies can vary on many dimensions. One is the degree to which needs assessment and solutions development are emphasized. In consultative sales processes these elements receive significant focus. A natural by-product of effective consultative sales processes is customer value creation in advance of a deal. In consultative sales processes the sales team helps the customer develop a clearer definition of business opportunities, formulate a solution, and develop a compelling business case, all in advance of a final commitment to purchase. In more transactional selling situations the focus is on pricing and purchase negotiations, and on buying efficiency.

CVM sales processes are not recipes for success to be followed to the last letter. They do not prescribe customer needs, the value proposition or the negotiation strategy to be employed. Rather, they provide a logical progression of activities that maximize success at each stage in the customer value management cycle. Sales processes greatly improve sales discipline. An

example of the benefits highlighted by the sales managers of a large financial services organization are provided in Figure 11.



**Figure 11.** Sales Process Benefits (Case Example)

CVM Marketers put a number of critical elements in place prior to sales process execution. They define account segments, determine profiling attributes, develop "baseline" value propositions, and create tools for use by the sales force. They also develop pricing strategy and counter-positioning to competitor value propositions.

Through the sales process, Sales executes the value strategy at the account level. They profile and determine the needs of specific accounts, identify key decision influencers, and tailor the value proposition in terms of account-specific benefits and worth. They communicate the value proposition in terms that are relevant to each of the key decision influencers in the account. This includes technical, user and economic buyers. They justify and negotiate price based on the total value of the proposed offering to the account. They create relationship value during delivery. Later, they reinforce value actually delivered to the account, and use the opportunity to entrench customer loyalty and advance other sales opportunities. The sales person may have many accounts assigned to him or her, each at a different stage in its buying process. The sales process provides reps the framework for disciplined management of their entire account portfolio.

The greatest beneficiaries of a sales process are the middle 60% to 70% of sales force performers. In most organizations sales force skill roughly follows a 20/60/20 distribution. 20% of the sales force is excellent, 60% is good but needs to get better, and 20% is not very good and probably will not get much better. The top 20% are generally intuitive sellers. They naturally implement a well structured and logical sales process. However, most sales people are not intuitive sellers. The majority need processes, tools, training and coaching to help them navigate CVM in a logical and effective way. Sales processes capture the sales motion of the best reps.

Even so, in nearly every one of the many instances in which we have designed and implemented CVM sales processes, the sales force has initially pushed back. Common reactions have been "we already know how to sell," "sales is an art, not a science," and "great sales people are born,

not taught." However, high performing sales people excel because of what they do, not who they are. Research demonstrates that top performers are generally those that allocate disproportionate time to account analysis and detailed call planning. They systematically identify the advance they need to accomplish in each customer interaction and carefully prepare for the interaction. What happens on a sales call has much more to do with the preparation for that call than "sales magic." Quality sales processes help the middle tier adopt the same type of selling rigor and discipline practiced by top performers.

A compelling anecdote on sales process impact is found in a recent health-check ZS conducted with a Fortune 500 company. During a CVM sales force transformation, the single most controversial change had been implementation of a sales process. The field was highly skeptical of having a defined sales process and in some cases actively resisted adoption. Six months post-launch, the sales force attributed its significant performance improvement first and foremost to the sales process and supporting tools.

### Sales Force Strategy

The fourth CVM strategy pillar is sales force strategy. Sales force strategy includes the selection of sales channels (e.g., GAM, SAM, KAM, field sales, telesales, business partners, etc.), account to channel assignments, and sales resource sizing and deployment. These decisions need to be carefully synchronized with the other elements of the CVM strategy to most cost-effectively deliver the desired value proposition and sales process to each target segment. With the evolution to hybrid value propositions and the proliferation of sales channel options, sales force strategy design has become complex. Many factors must be considered when determining sales channels. Some of those which we have found to be the most significant are summarized in Figure 12.

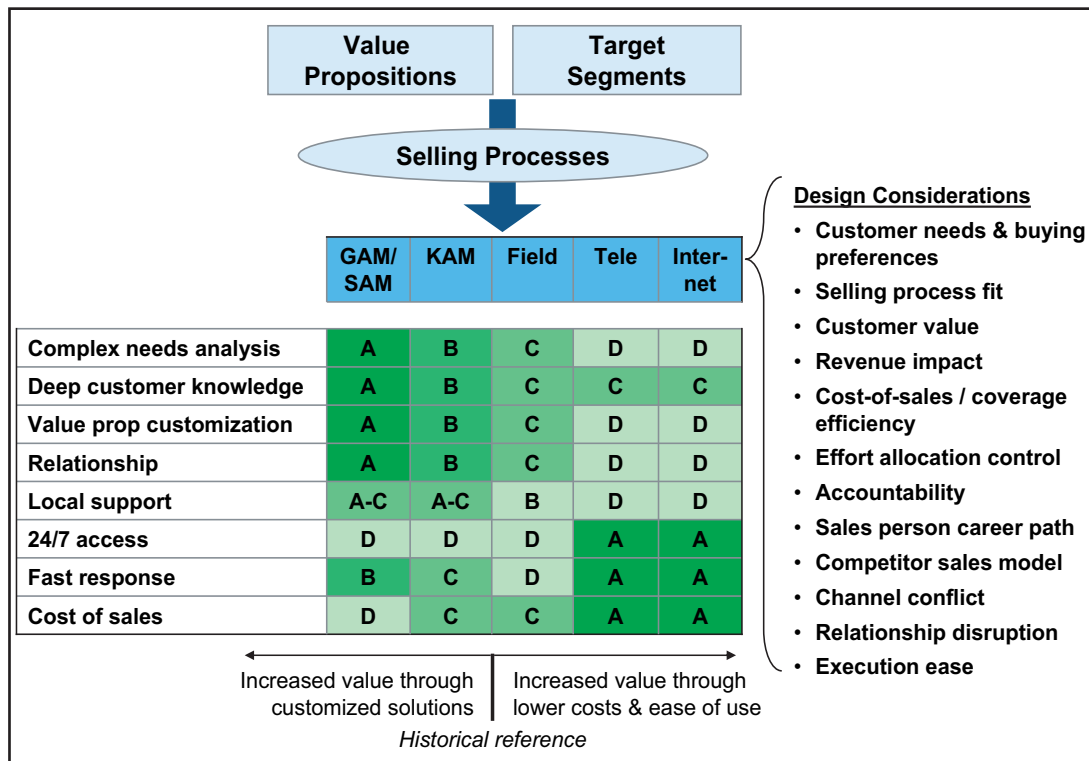


Figure 12. Sales Process Benefits (Case Example)



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Two recent sales force strategy trends that have contributed to CVM are the addition of strategic account management (SAM) and the expanded utilization of telesales. SAM is a business-wide initiative typically targeted at a seller's largest and most valuable accounts. Strategic accounts want and value business solutions beyond those provided by the seller's core, standardized offerings. They are willing to reward sellers who are able to creatively leverage their company's full portfolio of capabilities to help them solve larger business problems. SAM adopts highly consultative sales processes that place emphasis on needs identification and solutions development. Global Account Management (GAM) takes SAM one step further. GAM focuses on large global accounts that buy globally and are seeking global solutions from their suppliers.

SAM and GAM programs are complex. The leaders of SAM and GAM teams require business skills similar to those of general managers. They often orchestrate large numbers of regional and local sales and service resources and have significant P&L accountability. They work internally within their own organization and the customer's to develop custom solutions and ensure delivery. The combination of talent requirement, sales resource requirements and operational costs associated with these programs makes them expensive. However, when designed and executed effectively, these programs provide exceptional opportunity to create unique mutual value for both the buyer and seller organizations.

Telesales is also an area of increased focus, and is being used in many ways within CVM strategies:

1. To increase supplier value by reducing cost-of-sales (in some cases this cost savings is shared with customers, thereby increasing both supplier and buyer value)
2. To reach smaller, geographically remote customers that otherwise would go unserved
3. To cost-effectively manage repeat and transaction purchasing in larger accounts, often in combination with a field sales team (in addition to lowering selling costs, this application can also deliver faster response times to buyers)
4. To support e-selling in cases where a buyer may need to speak with a "live" person during the transaction

Once sales channels have been selected, account to sales channel assignment is critical to CVM effectiveness and efficiency. Aligning accounts to sales channels based on needs, buying processes, preferences and potential is a difficult and often political exercise. However, the vastly different capabilities and costs of alternative sales channels demands that this decision be carefully made if exceptional CVM is to be realized.

CVM organizations develop and manage centralized business processes that ensure objective account to channel assignment on a periodic basis. These business processes address both current customers and prospects. An early success factor is to ensure that all constituents understand the account to channel assignment rules and rationale from the outset. Land grabs undermine CVM by creating mismatches between customer needs and the sales channel's capability to cost-effectively meet those needs.

Sales resource sizing and allocation can also have strong impact on CVM success. Mis-sizing and mis-deploying sales teams relative to workload and opportunity are mistakes we often see. For example, a telecommunications organization we supported fell into the trap of under-sizing their key accounts team. As new accounts were moved from the general field force to

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key accounts, the capacity of the key accounts team was not appropriately upsized. Consequently, customers who were the general field force's most important accounts suddenly were undeserved when transferred to key accounts. Value was lost for these important customers and soon thereafter for the seller.

## **CVM Implementation & Execution**

Organizations that achieve CVM excellence are execution obsessed. Superior execution is the essential variable in delivering the extra inch required to consistently win in competitive markets.

Transforming the sales force from friendship, features, and price focus to a value focus is typically quite challenging. Tailoring and communicating value proposition benefits and economic worth can require sellers to have deep knowledge of their customers' businesses. In many cases they must be able to model the impact of their offering on the buyer's total cost in use, including acquisition, possession and usage costs, or help forecast the increased revenue the buyer will achieve in the sales of its own product. They may need to speak the language of finance while being able to address the unique needs and issues of diverse decision influencers. Obviously, CVM can require skill, effort, support and tools well beyond those necessary for friendship, features, and price based selling. This challenge provides one explanation why so many selling organizations have not been able to break free of their old selling habits, even though they realize the imperative to do so.

Once an effective CVM strategy exists, we have discovered that several downstream drivers in the sales effectiveness framework are particularly critical to CVM implementation and execution, including:

- Detailed CVM specific competency models
- CVM selling tools that support each stage of the sales process
- Expert CVM coaching of sales representatives

Additionally, a proactive and strong change management program is often required to drive the change in beliefs and behaviors associated with CVM. In this section we will share insights on CVM change management and the implementation and execution drivers most critical to CVM.

### **CVM Change Management**

All organizations that have become highly effective at CVM execution have a strong continuous improvement culture. Continuous improvement focuses on incremental change. In the context of CVM, continuous improvement is achieved by relentlessly evaluating CVM gaps and aggressively pursuing opportunities to improve. Common opportunities include customer insight refinements, market offering and value proposition innovations, refinements to the sales process, improved coaching, better alignment of performance measures and incentive compensation, and better CVM tools for sales people.

Step function capability changes, such as large-scale CVM transformations, require a broader approach to change management. Such transformations typically demand a fundamental and significant shift in beliefs and behaviors by sales managers and representatives. Many may have been selling for many years and have deeply entrenched work styles and viewpoints on how to succeed. Motivating adults to re-invent themselves, and enabling them to do so, is perhaps the single greatest challenge associated with large-scale CVM initiatives. During such transformations individuals will progress at very different speeds. Early stars can serve as role

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models and proof points for others. Not everyone will be able to make the transition and difficult people decisions will be required. It is easy for individuals, and in fact the organization as a whole, to build momentum towards CVM but then slide back into old habits.

An especially critical success factor for CVM transformations is winning the hearts and minds-and building the skills-of the first-line sales managers. Their understanding, buy-in and capabilities in value-based selling will strongly shape those of the representatives reporting to them. A first-line sales manager who is opposed to the company's CVM strategy, or who lacks value-based selling knowledge and skills, can undermine the success of an entire district, or more.

The quality of the change program has dramatic impact on the percentage of converts, rate of change and sustainability. Successful change requires a number of key ingredients:

- Inspired leaders with strong CVM knowledge who are hands-on and demonstrate unrelenting conviction
- Fostering of close Sales and Marketing collaboration from the outset
- Development of a comprehensive work-plan that proactively sequences and addresses all implementation issues
- Development and delivery of compelling and continuous communication and re-communication
  - Clear and compelling case for change (i.e., "burning platform")
  - Clear vision of the "As Is" and "Will Be"
  - Concise articulation of why it is right for the customer, the company and the individual
  - Comprehensive and believable roadmap for how the organization will get there
  - Continuous front-line attention to "business today" during the transition
  - Carefully managed communications to customers
- Development of strong governance processes including clear milestones and measures, and high visibility and accountability for all work teams
- Quality engagement of field leaders in advance of their reports
- Provision of the necessary tools, training and support (i.e., not just asking you to make difficult change, but also providing you the tools to succeed)
- Visibility of performance metrics
- A careful balance of positive motivators and "consequences"

Large-scale change management requires experience, discipline and deep attention to detail. Some mis-steps will invariably be made; however, too many can result in extremely high transition costs or even leave the company with a half-implemented strategy.

### **Implementation & Execution Drivers**

As CVM strategies become the norm in b2b markets, the quality of execution will inevitably be one of Sales' and Marketing's most powerful and sustainable sources of competitive advantage. The relative complexity of building and executing CVM strategies ensures meaningful value differentiation will exist between organizations that are merely good executors versus those that are great. Our experience and research suggests that three sales drivers are uniquely critical to CVM implementation and execution: competency models, coaching, and sales force tools.

Competency models must detail the highly specific knowledge, skills and attitudes (KSAs) that are critical to CVM sales people and sales managers. These include detailed KSA's related to the company's market offerings, sales process, and value propositions, just to name a few.

These detailed competency models sometimes conflict with the more generalized competency models adopted by many organizations (e.g., a single competency model for managers regardless of function). While generalized models create efficiency and consistency, they dramatically fail to emphasize the specific knowledge, skills and attitudes essential to CVM success. A detailed CVM competency model clearly communicates and reinforces specific expectations and paints a clear picture of what success looks like. The result is more impactful coaching, performance reviews, selection and hiring, and training needs assessments.

We have also found that incorporating "anchors" into the competency model and/or the performance management model that objectively depict "excellent," "skilled" and "basic" for each competency area improves competency model effectiveness. The objective of these descriptions is to continuously reinforce key tenets of CVM while reducing coaching and performance feedback subjectivity. To be effective these anchors must paint a clear and objective picture of what each level looks like such that managers and sales people can easily identify at what level they are currently performing, and key areas they need to address to advance. An example for one dimension is provided in Figure 13.

Basic	Skilled	Highly Advanced
<ul style="list-style-type: none"> <li>• Comprehensive knowledge of company's product, service &amp; program offerings</li> <li>• Skilled at highlighting "features" of our offering most critical to the buyer</li> <li>• Conveys basic benefits of the offering to the buyer during the sales process</li> <li>• Knowledgeable in profiling and baseline value proposition tools</li> <li>• Works with pricing to ensure deals are within company terms</li> </ul>	<p><u>Basic plus:</u></p> <ul style="list-style-type: none"> <li>• Effectively tailors baseline value proposition offerings based on deep insight into customer needs and buying preferences</li> <li>• Has intimate knowledge of the services, operational support, economic programs and consultative services that are appropriate for each account type</li> <li>• Adept at translating market offering features into specific benefits and worth critical to the customer</li> <li>• Proves the value proposition to key buying influences</li> <li>• Typically able to trade-off offering elements for price concessions. Fights for maximum price</li> <li>• Highly skilled in profiling, market offer selection, value-in-use, and account review tools</li> </ul>	<p><u>Skilled plus:</u></p> <ul style="list-style-type: none"> <li>• Effectively tailors baseline value proposition offerings based on deep insight into customer needs and buying preferences, key decision influencer perspectives, and "next best alternatives"</li> <li>• Creates value in the selling process itself, helping key decision-makers better assess their own needs and priorities and arrive at solutions they may not have considered. Is viewed as an important business advisor by the customer</li> <li>• Expertly communicates and proves the value proposition to each key decision influencer relative to their unique issues and their company overall</li> <li>• Consistently negotiates high price premium deals</li> <li>• Leverages account reviews to consistently demonstrate value delivered and penetrate new opportunities</li> <li>• Has clear understanding of the role that all functions play in creating and delivering value to the customer</li> </ul>

**Figure 13.** CVM Value Proposition Competency Anchors (Case Example)

Excellent and relentless coaching has time and again proven to be especially critical to CVM implementation and execution success. This is particularly true when large shifts in mindsets, behaviors and skills are being sought. Training is an important and necessary aspect of developing organizational capability in value-based selling. However, value-based selling is predominantly an apprenticed skill. Training is good for conveying concepts, frameworks and methods. Value-based selling is a skill requiring complex problem solving, business acumen and adaptability. It is developed over time through practice and feedback from a value-based selling expert. Coaching also plays a critical role in motivating sales reps to attempt and stick

with value-based selling during the undeniably uncomfortable period of new behaviors and skill building.

At steady state, world-class sales managers spend upwards of 50% of their time coaching. During CVM implementation this allocation can be even higher. The primary focus of CVM coaching is depicted in Figure 14. A first-line sales manager must be expert in CVM to be an effective CVM coach. The need for CVM expertise presents a dilemma during large-scale transformations since few first-line sales managers may initially be experts. In our experience managerial expertise can be rapidly built through a combination of extensive training, outside hiring, frequent sharing of issues and best practices, coaching by senior leadership, and enlistment of outside experts.

<b>Coaching Emphasis</b>	
<b><u>Advanced</u></b> <ul style="list-style-type: none"><li>• <b>CVM value proposition development</b><ul style="list-style-type: none"><li>– Needs assessment</li><li>– Solution development</li><li>– Communication / proof</li></ul></li><li>• <b>CVM sales process execution</b><ul style="list-style-type: none"><li>– Account planning</li><li>– Call planning</li><li>– Call execution</li><li>– Negotiations</li><li>– Value reinforcement</li></ul></li><li>• <b>Territory planning &amp; management</b><ul style="list-style-type: none"><li>– Account targeting</li><li>– Pipeline management</li></ul></li></ul>	<b><u>Hygiene</u></b> <ul style="list-style-type: none"><li>• <b>Basic sales skills</b><ul style="list-style-type: none"><li>– Communication</li><li>– Cold calling</li><li>– Closing</li><li>– Dealing with concerns</li><li>– Time allocation</li><li>– Tools</li></ul></li></ul>

**Figure 14.** CVM Sales Managers Focus Heavily on Advanced Coaching Elements

Strong coaching on, and demand for, rigorous call planning has especially high impact during the early stages of implementing CVM. Quality call planning disciplines the sales person to identify where the customer is in the buying process, on the advance they need to accomplish, and the preparation needed to achieve that advance. In this way, call planning leads to a natural adoption of the sales process. Our experience is that "over-focus" on quality call planning is a critical success factor for any sales organization seeking to drive new behaviors. An example of a quality call planning aid used by the field force and sales management in a recent CVM transformation is provided in Figure 15.

Because coaching is so important to CVM, designing and institutionalizing a rigorous coaching process greatly improves CVM execution. Such processes help ensure consistent, constructive coaching in the key CVM competency dimensions. They also help ensure that sales managers are able to insert themselves in sales processes where they can have the most impact. Finally, rigorous adoption of the coaching process helps sales managers ensure they are focusing their time on the most important activities, not just the most urgent. An example of a quality coaching process is provided in Figure 16.

Finally, quality CVM sales tools play an essential role in both motivating and enabling the sales force to adopt and perfect CVM. Figure 17 summarizes some of the most critical tools

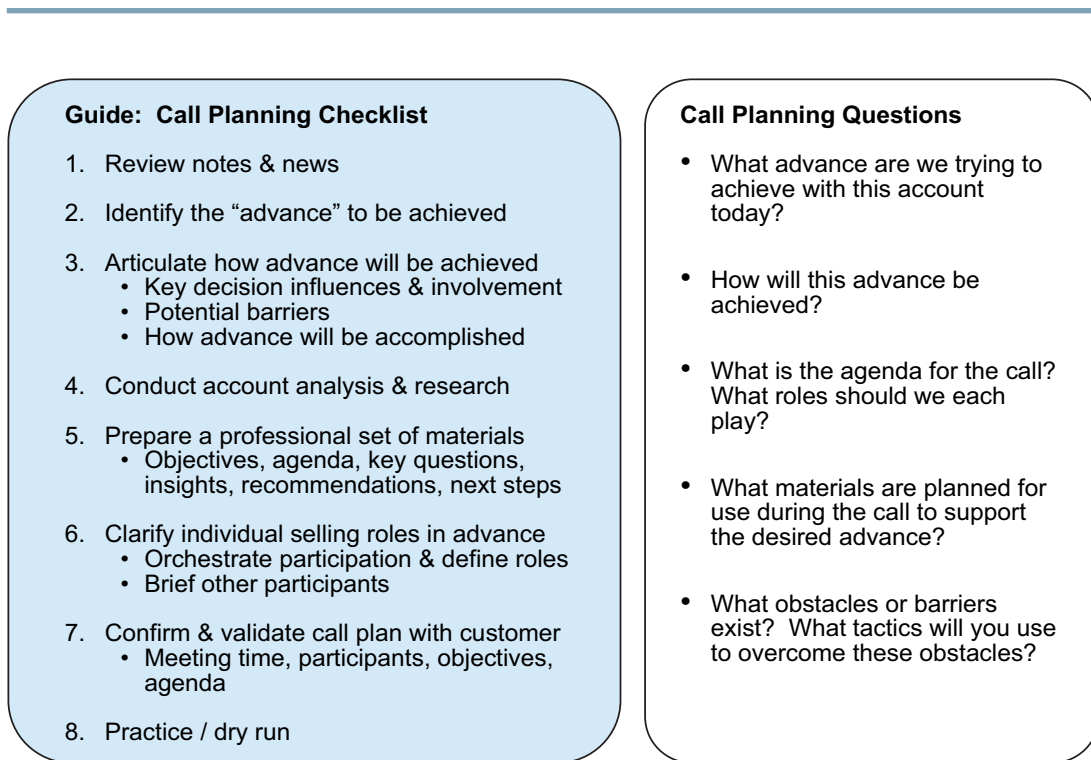


Figure 15. Call Planning Aid (Case Example)

<p><b><u>Bi-weekly Sales Activity Meeting</u></b></p> <p><i><b>Tactical+</b></i></p> <p>(1<sup>st</sup>: 30 min, conf call) (2<sup>nd</sup>: 60 min, face-to-face)</p>	<ul style="list-style-type: none"> <li>• Review pipeline activities (penetration, retention &amp; acquisition)</li> <li>• Review account targeting</li> <li>• Agree on &amp; review “Top 5” opportunities</li> <li>• Review account plans &amp; next steps on “Top 5” opportunities</li> <li>• Resolve issues</li> </ul>	<p><b><u>Rep Rides</u></b></p> <p><i><b>Tactical</b></i></p> <p>Top 20%: 2x/Qtr Mid 60%: 1x/Mo Low 20%: 2x/Qtr</p>
<p><b><u>Quarterly Performance &amp; Territory Plan Review</u></b></p> <p><i><b>Strategic</b></i></p> <p>(90 min, face-to-face)</p>	<ul style="list-style-type: none"> <li>• Performance review &amp; feedback <ul style="list-style-type: none"> <li>– Performance to goal</li> <li>– VBS capabilities</li> <li>– Personal development plan</li> </ul> </li> <li>• Win/loss reviews</li> <li>• Assess &amp; agree on territory &amp; pipeline development plan</li> <li>• Review account plans for top priority accounts</li> </ul>	<p><b>Review/coach:</b></p> <ul style="list-style-type: none"> <li>• Call planning</li> <li>• Call execution</li> <li>• Value proposition development &amp; communication</li> <li>• Sales process execution</li> <li>• Basic sales skills</li> </ul>

Figure 16. Coaching Process (Case Example)

and demonstrates how they fit into the sales process. These tools should not be confused with sales force automation (SFA) or customer relationship management (CRM) tools the sales force may already be using. As opposed to CRM and SFA, these tools focus on identifying customer needs and priorities, developing compelling marketing offerings and value propositions,

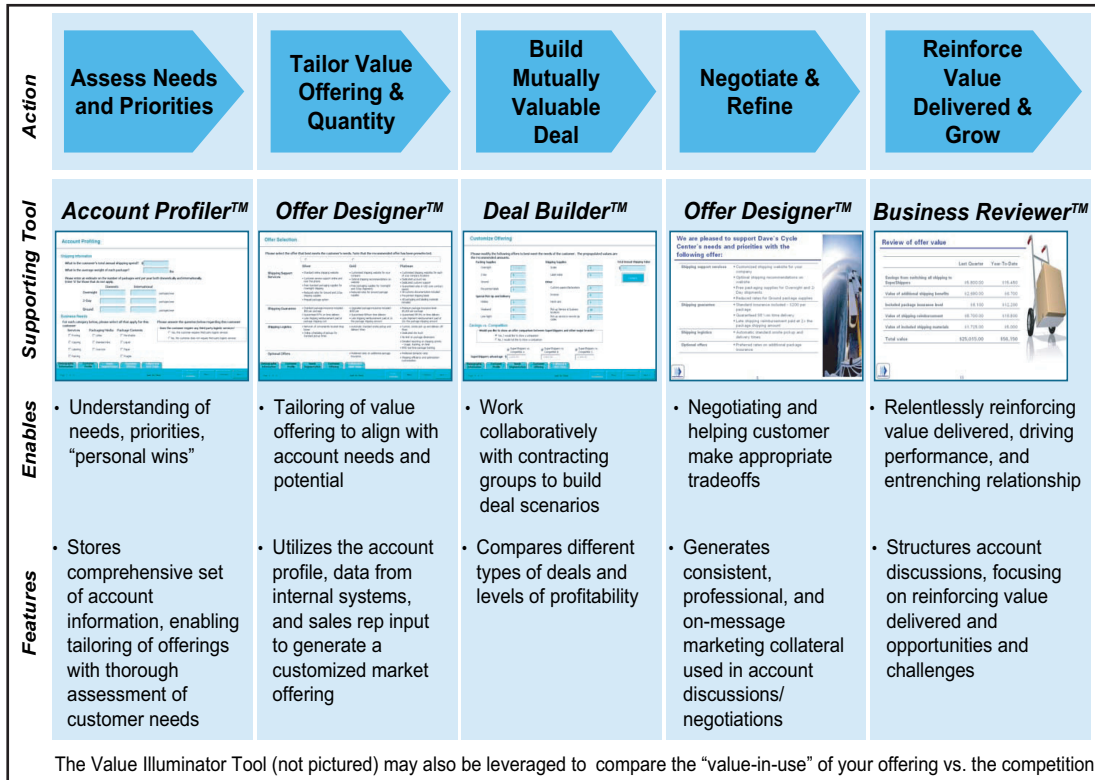


Figure 17. CVM Software Tools Requirements

and communicating and proving value. When designed and rolled out correctly, CVM tools greatly improve sales force effectiveness in consistently developing, communicating, proving and reinforcing customer value. And since the tools sequentially align with each step in the sales process, use of the tools indirectly helps sales people to naturally adopt the sales process.

## Summary

Customer value management strategy and execution capabilities will increasingly be a differentiator between winners and losers in b2b markets. Successfully transforming the sales and marketing organizations of today to avert commoditization and compete with value-minded competitors will take strong leadership skills. Sales and Marketing will have to collaborate closely to build the organizational capabilities necessary for excellence in all stages of the customer value management cycle. A comprehensive, purposefully orchestrated approach to capability building that systematically addresses all sales effectiveness drivers will be required. Customer segmentation, value proposition, selling process and sales force strategies will have to be carefully aligned. Special attention to competency models and the decisions they support will be necessary during implementation. Strong coaching and CVM tools will be required to motivate adoption, improve capability and sustain momentum. CVM leaders will continually strive for a level of execution excellence that differentiates the customer value perception of their offering versus alternatives. Those organizations that most effectively master CVM will win by an inch, which is all the margin they will need. ■

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*Michael Moorman and Ladd Ruddell are Managing Principals and Scott Sims is a Principal with ZS Associates' Chicago office. The authors may be reached via email at: [mike.moorman@zsassociates.com](mailto:mike.moorman@zsassociates.com), [ladd.ruddell@zsassociates.com](mailto:ladd.ruddell@zsassociates.com) and [scott.sims@zsassociates.com](mailto:scott.sims@zsassociates.com).*

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