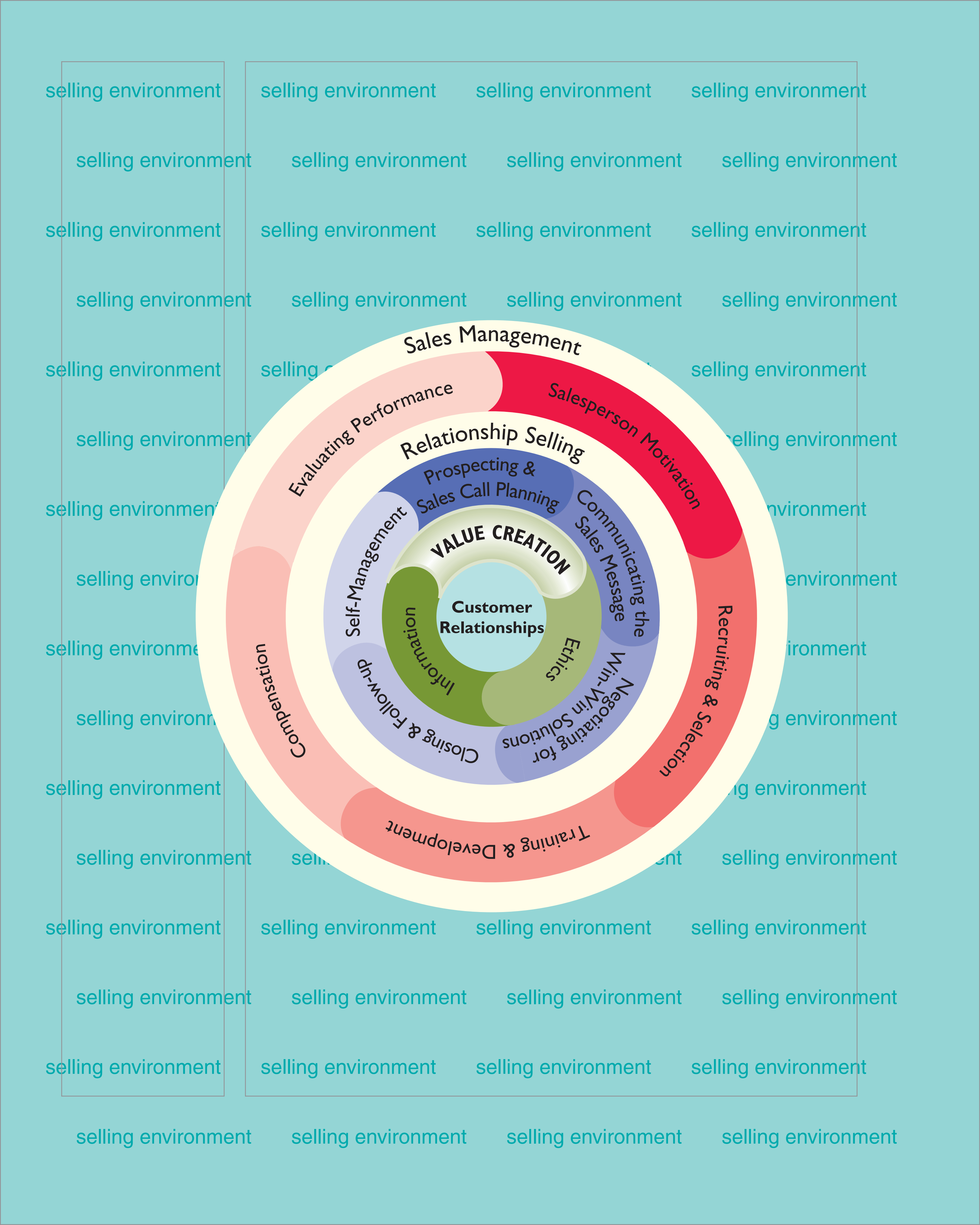

selling environment
Sales Management
Evaluating Performance
Salesperson Motivation
Recruiting & Selection
Training & Development
Compensation
Relationship Selling
Prospecting & Sales Call Planning
Communicating the Sales Message
Negotiating for Win-Win Solutions
Closing & Follow-up
Self-Management
VALUE CREATION
Information
Ethics
Customer Relationships

3 chapter

Value Creation in Buyer–Seller Relationships

Learning Objectives

This chapter focuses on one of the most important concepts in relationship selling: value. Value-added selling sums up much of what securing, building, and maintaining customer relationships is all about. Taking advantage of the opportunity to really understand value and value creation will help you immensely as you move into the selling process chapters in Part Two of the book. After reading this chapter, you should be able to

- Understand the concept of perceived value and its importance in relationship selling.
- Explain the relationship of the roles of selling and marketing within a firm.
- Explain why customer loyalty is so critical to business success.
- Recognize and discuss the value chain.
- Identify and give examples for each category of communicating value in the sales message.
- Understand how to manage customer expectations.

expert advice

Expert: Nat Martin, III

Company: Director, Purchasing and Concept Support, Darden Restaurants, Inc

Business: Operators of Bahama Breeze, Longhorn Steakhouse, Olive Garden, Red Lobster, Seasons 52, and The Capital Grill.

Education: MBA, Rollins College; BA in Law and Society, Purdue University.

In your mind, what is *value*?

Value is the perceived experience and worth gained from a product or service—*worth* meaning the quality of something that makes it desirable, useful, or valuable. If the value exceeds expectation the customer is highly satisfied. If the value meets expectation the customer is satisfied. If the value falls short of expectation the customer is dissatisfied. The level of the satisfaction experience directly correlates to the prospect of the customer repurchasing the product or service.

When you think of the importance of adding value to the customer, what does that mean to you?

Adding Value to the customer means providing him or her with a product or service (holistically the *relationship experience*) that exceeds the worth expectations. If the customer purchased a tangible product, then the product features and benefits can be enhanced by the relationship experience during the purchase process (resulting in exceeded expectations and higher worth). Of course, the same is true of a service purchase, which can be enhanced when the relationship experience exceeds customers' worth expectancy.

What are some of the most important things suppliers that call on Darden do to add value to your organization?

A vendor truly begins to add value to the Darden enterprise when attitude, commitment (consistency), and organizational relationship building are demonstrated and recognized. When all three behaviors come together a vendor moves from a purely transactional relationship to a strategic partnering relationship.

From your experience, what creates loyalty to one supplier over another? That is, what can a vendor do to keep a client's business over the long run?

The following are critical elements for a supplier to win loyalty from their customers—true "keys to supplier sustainability":

1. Know what's important to the customer.
2. Exhibit a partnering attitude.
3. Invest in organizational relationship building.
4. Commit to continual investment in quality and innovation.
5. Support the initiatives of the client's enterprise.
6. Work proactively with the client in contingency planning.

Adding Value Is "Marketing 101"

In Chapter 1 we defined value as the net bundle of benefits the customer derives from the product you are selling. The salesperson and the firm's other forms of marketing communication ensure the customer perceives these benefits as the value proposition. In transactional selling, the goal is to strip costs and get to the lowest possible sales price. Relationship selling works to add value through all possible means.

Value-added selling changes much of the sales process. As you will see in this chapter, the sources of value (or more properly **perceived value,** meaning that whether or not something has value is in the eyes of the beholder—the *customer*) are varied. Moving to more value-added approaches to selling is not easy, and selling value is the single biggest challenge faced by sales professionals.[1]

Why a chapter focused solely on value? Two simple reasons: (1) The evidence is clear that success in securing, building, and maintaining long-term relationships with profitable customers depends greatly on those customers perceiving that they receive high value from the relationship, and (2) many salespeople have trouble making the shift from selling price to selling value. As you can see from the model for Relationship Selling and Sales Management, value creation is one of only two issues closest to the customer core. This is appropriate, because creating and communicating value are central to success in selling in the 21st century.

Role of Selling in Marketing

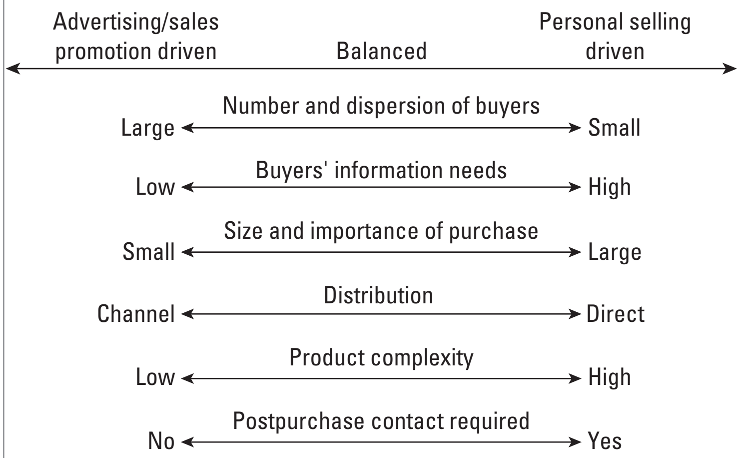
A good place to start understanding the role of value is with a brief review of marketing and the role of selling within marketing. For years, introductory marketing textbooks have talked about the **marketing concept** as an overarching business philosophy. Companies practicing the marketing concept turn to customers themselves for input in making strategic decisions about what products to market, where to market them and how to get them to market, at what price, and how to communicate with customers about the products. These **4 Ps of marketing** (product, place or distribution, price, and promotion) are also known as the **marketing mix.** They are the tool kit marketers use to develop marketing strategy.

Personal selling fits into the marketing mix as part of a firm's **promotion mix,** or **marketing communications mix,** along with *advertising* and other elements of the promotional message the firm uses to communicate the value proposition to customers. Other available promotional vehicles are *sales promotion,* including coupons, contests, premiums, and other means of supporting the personal selling and advertising initiatives; *public relations and publicity,* in which messages about your company and products appear in news stories, television interviews, and the like; and *direct marketing,* which might include direct mail, telemarketing, electronic marketing (via Web site or e-mail), and other direct means.[2]

These elements of marketing communications are referred to as a "mix" to emphasize that when developing a strategy and budget for marketing communications, companies must decide how to allocate funds among the various promotional elements.

Several factors may affect the marketing communications mix, as shown in Exhibit 3.1. The number and dispersion of buyers, how much information they need, the size and importance of the purchase, the distribution process, the complexity of the product, and whether postpurchase contact is required all drive decisions about the marketing communications mix.[3]

EXHIBIT 3.1 Factors Affecting the Marketing Communications Mix



Source: David W. Cravens and Nigel F. Piercy, *Strategic Marketing,* 7th ed. (New York: McGraw-Hill, 2003) pp. 408–09. Reprinted by permission of the McGraw-Hill Companies.

To ensure that the message about a company and its products is consistent, the firm must practice **integrated marketing communications (IMC),** as opposed to fragmented (uncoordinated) advertising, publicity, and sales programs. IMC is very important to relationship selling, as it keeps the message about the value proposition consistent. Key characteristics of effective IMC programs are:

1. IMC programs are *comprehensive.* All elements of the marketing communications mix are considered.
2. IMC programs are *unified.* The messages delivered by all media, including important communications among **internal customers** (people within your firm who may not have external customer contact but who nonetheless add value that will ultimately benefit external customers) are the same or support a unified theme.
3. IMC programs are *targeted.* The various elements of the marketing communications mix employed all have the same or related targets for the message.
4. IMC programs have *coordinated execution* of all the communications components of the organization.
5. IMC programs emphasize *productivity* in reaching the designated targets when selecting communication channels and allocating resources to marketing media.[4]

Dell Computer has been very successful at IMC, in both B2B and B2C markets. Internally, all employees behave as though they have customers. That is, various departments within Dell practice relationship selling among each other. Good **internal marketing** provides a consistency of message among employees and shows that management is unified in supporting Dell's key strategic theme of adding value through a high level of product and service quality. Externally, Dell uses all the elements of the marketing communications mix—advertising, personal selling, sales promotion, public relations/publicity, and various methods of direct marketing. Dell is careful to communicate its value proposition consistently via each element of the mix.

Role of Marketing in Selling

You just saw that personal selling is one important element in the overall marketing communications mix. But how does marketing affect selling? As we discussed, the marketing communications mix (or promotion mix) is one element of the overall marketing mix that a firm uses to develop programs to market its products successfully. Products may be physical goods or services. Some firms market primarily services (such as insurance companies), while others market both goods and accompanying services (such as restaurants).

The marketing mix consists of the famous 4Ps of marketing: product, place (for distribution, or getting the product into the hands of the customer), price, and promotion (marketing communications). Like the elements of the marketing communications mix, each element of the marketing mix plays a large part in forming and communicating the overall bundle of benefits that a customer ultimately will perceive as the value proposition. This is why salespeople benefit from a well-executed marketing mix strategy.

Another important way that marketing contributes to successful relationship selling is through systems that provide needed information for the sales process. In Chapter 2 you learned about CRM, and that discussion provides a framework for understanding marketing's role in managing the acquisition, analysis, retention, and dissemination of customer and market information needed by salespeople.

Clarifying the Concept of Value

Clearly, both personal selling (in its role in the marketing communications mix) and marketing (in its contribution to the salesperson's ability to convey the value proposition) are integral to creating and communicating value for customers. Nowadays, the lines between the functions of selling and marketing are blurring, as exemplified in the opening vignette to this chapter. Especially when cross-functional teams are used to manage customer relationships, marketers (as well as others in the organization, often including top executives) engage directly with customers. Likewise, in successful relationship selling, salespeople effectively convey the value proposition to customers, which means communicating and demonstrating a whole host of value-creating factors associated with the products and the company.

Later in the chapter we will discuss ways value can be created by a firm and communicated by its salespeople. First, however, let's clarify a few issues related to value.

Value Is Related to Customer Benefits

Value may be thought of as a ratio of benefits to costs. That is, customers “invest” a variety of costs into doing business with you, including financial (the product's price), time, and human resources (the members of the buying center and supporting groups). The customers achieve a certain bundle of benefits in return for these investments.

One way to think about customer benefits is in terms of the utilities they provide the customer. **Utility** is the want-satisfying power of a good or service. There are four major kinds of utility: form, place, time, and ownership. *Form utility* is created when the firm converts raw materials into finished products that are desired by the market. *Place, time,* and *ownership utilities* are created by marketing. They are created when products are available to customers at a convenient location, when they want to purchase them, and facilities of exchange allow for transfer of the product ownership from seller to buyer. The seller can increase the value of the customer offering in several ways.

- Raise benefits.
- Reduce costs.
- Raise benefits and reduce costs.
- Raise benefits by more than the increase in costs.
- Lower benefits by less than the reduction in costs.[5]

Suppose you are shopping for a car and trying to choose between two models. Your decision to purchase will be greatly influenced by the ratio of costs (not just monetary) versus benefits for each model. It is not just pure price that drives your decision. It is price compared with all the various benefits (or utilities) that Car #1 brings to you versus Car #2.

Similarly, the value proposition a salesperson communicates to customers includes the whole bundle of benefits the company promises to deliver, not just the benefits of the product itself. For example, Dell Computer certainly communicates the customization and bundling capabilities of its PCs to buyers. However, Dell is also careful to always communicate outstanding service after the sale, quick and easy access to their Web site, and myriad other benefits the company offers buyers. Clearly, perceived value is directly related to those benefits derived from the purchase that satisfy specific customer needs and wants.

For years, firms have been obsessed with measuring **customer satisfaction,** which at its most fundamental level means how much the customer likes the product, service, and relationship. However, satisfying your customers is not enough to ensure the relationship is going to last. In relationship-driven selling, your value proposition must be strong enough to move customers past mere satisfaction and into a commitment to you and your products for the long run—a high level of **customer loyalty.** Loyal customers have lots of reasons why they don't want to switch from you to another vendor. Those reasons almost always are directly related to the various sources of value the customer derives from doing business with you.

Loyal customers, by definition, experience a high level of satisfaction. But not all satisfied customers are loyal. If your competitor comes along with a better value proposition than yours, or if your value proposition begins to slip or is not communicated effectively, customers who are satisfied now quickly become good candidates for switching to another vendor. The reason relationship selling is so crucial to building loyalty is that its win–win nature bonds customer and supplier together and minimizes compelling reasons to split apart. Innovation 3.1 provides insights on how customers have changed in recent years and ways salespeople can foster loyalty with today's customers.

The Value Chain

A famous approach to understanding the delivery of value and satisfaction is the **value chain,** envisioned by Michael Porter of Harvard to identify ways to create more customer value within a selling firm.[6] Exhibit 3.2 portrays the generic value chain. Basically, the concept holds that every organization represents a

INNOVATION 3.1

Customer Loyalty is Crucial to Business Success

There's a neighborhood hardware store where they never have promotional sales. They don't offer frequent-buyer cards, easy credit terms, or free coffee and doughnuts on Saturday mornings. The shelves are dusty, the parking is terrible, and the salespeople are crotchety. In fact, they seem to violate most of the rules of good customer service. They're nosy. They argue with customers. If a customer is thinking about buying something that is the wrong item for what he or she wants to accomplish, they'll actively voice an alternative opinion.

The store has been at the same location for close to 50 years and it still does a terrific business. There are plenty of other places to buy hardware—the "big box" stores for example—with wider selection and lower prices. So what keeps people coming to this one? It's those crotchety, opinionated salespeople.

These days, many salespeople are polite, efficient and helpful-and utterly anonymous. It's not their fault; they've been trained that way. They sell from a script and never take a chance. You might as well be talking to a robot.

Not so at the corner hardware store. For better or for worse, as a customer you never walk away from the counter without feeling that you've just engaged in a deeply human interaction. Sometimes it's amusing and sometimes it's a little annoying. But in the end, customers keep coming back because they feel somehow connected to the store and its salespeople. It's an institution, and the neighborhood wouldn't be the same without them. *That's* customer loyalty!

Building Loyalty Lots of companies spend lots of money trying to unravel the secret of customer loyalty. They relentlessly measure customer satisfaction on every dimension imaginable: Was the service prompt? Was the salesperson helpful? Could anything have been done to make the buying experience better? The assumption is that most customers defect because they were dissatisfied in some way. So if you can keep customers satisfied, they'll stay loyal.

It turns out that assumption is often incorrect. Customers who say they're satisfied walk away all the time. In fact, a recent study from the Gallup Organization found that customer satisfaction, as it's traditionally measured, does nothing to boost repeat sales. The study found, for example, that "extremely satisfied" bank customers were just as likely to take their business elsewhere as less-satisfied customers. The same pattern emerged among customers of a major supermarket chain. The researchers concluded that customer satisfaction in-and-of-itself "has no real value—none at all." And what about all the money and energy that companies spend to measure and improve it? Wasted, they say.

Not convinced? Take a look at Lincoln-Mercury. According to the American Customer Satisfaction Index, it has the highest customer-satisfaction ratings in the industry-ahead of Honda, BMW, and Toyota. Yet in the past two years, Lincoln-Mercury sales have fallen by 26 percent.

Keeping It Real The Gallup researchers did find something important that is linked to repeat sales: *customer engagement.* That is, a customer's emotional connection with you, your product or service, your company. Think of it this way: Chances are, you're perfectly satisfied with the service you get from your local ATM. But you don't sing its praises to your friends. Or look forward to using it. And if you found another one a half block closer to your home, you wouldn't think twice about using it instead. Compare that with a human teller who smiles and greets you by name, asks about your kids, and chats about the weather while your checks are being processed. Same level of service—same degree of satisfaction—but a world of difference!

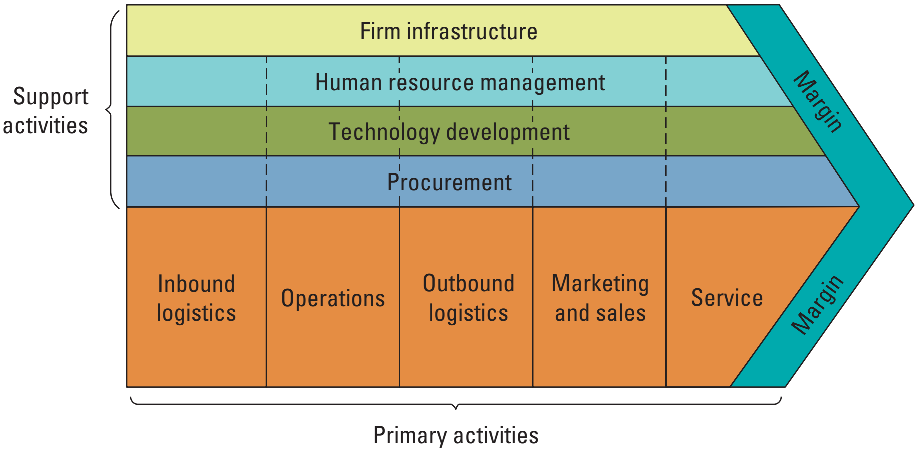
In a bigger organization, the equivalent personnel to the salespeople at the hardware store would probably get whisked off to a little room somewhere to get intensive training on selling skills. They'd be reminded to say, "Have a nice day." They'd learn how to meet explicit standards on various dimensions of customer service. If they couldn't get with the program, they'd be replaced-and six months later, some analyst would be wondering why sales had taken a nosedive.

Yes, the hardware clerks at the local store are quirky and cantankerous. But they know their stuff. They take pride in their work. And above all, they're real. That's what keeps customers coming back!

Source: Paul Cherry, "To Keep Buyers Coming Back, Don't Be Nice–Be Real," *American Salesman,* May 2008, p. 13.

synthesis of activities involved in designing, producing, marketing, delivering, and supporting its products. The value chain identifies nine strategic activities (five primary and four support activities) the organization can engage in that create both value and cost.

EXHIBIT 3.2 The Generic Value Chain



Source: Reprinted with permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group, from *COMPETITIVE ADVANTAGE: Creating and Sustaining Superior Performance,* by Michael E. Porter.

The *primary activities* in the value chain are

- Inbound logistics—how the firm goes about sourcing raw materials for production.
- Operations—how the firm converts the raw materials into final products.
- Outbound logistics—how the firm transports and distributes the final products to the marketplace.
- Marketing and sales—how the firm communicates the value proposition to the marketplace.
- Service—how the firm supports customers during and after the sale.

The *support activities* in the value chain are

- Firm infrastructure—how the firm is set up for doing business. (Are the internal processes aligned and efficient?)
- Human resource management—how the firm ensures it has the right people in place, trains them, and keeps them.
- Technology development—how the firm embraces technology use to benefit customers.
- Procurement—how the firm deals with vendors and quality issues.

The value-chain concept is very useful for understanding the major activities that can create value at the organizational level. CEOs in recent years have been working hard to *align* the various elements of the value chain, meaning that all facets of the company work together to eliminate snags that may impair the firm's ability to secure, build, and maintain long-term relationships with profitable customers.

When the supplier's value chain is working well, all the customer tends to see are the *results:* quality products, on-time delivery, good people, and so on. If the value chain develops just one weak link, the whole process of relationship selling can be thrown off. For example, a glitch in the value chain of one of Wal-Mart's vendors can delay delivery, resulting in stockouts in Wal-Mart stores. If this happens repeatedly, it can damage the overall relationship. To reduce the potential for this happening, Wal-Mart (which is known as a leader in implementing the value chain) requires all vendors to link with its IT system so that the whole process of order fulfillment is seamless.

The Lifetime Value of a Customer

One element depicted in Exhibit 3.2 is **margin,** which of course refers to profit made by the firm. You may have noticed that we've been careful to say that the goal of relationship selling is to secure, build, and maintain long-term relationships with *profitable* customers. If this seems intuitively obvious to you, that's good. It should. In the past, many firms focused so much on customer satisfaction that they failed to realize that not every satisfied customer is actually a profitable one! Today, firms take great care to estimate the **lifetime value of a customer,** which is the present value of the stream of future profits expected over a customer's lifetime of purchases. They subtract from the expected revenues the expected costs of securing, building, and maintaining the customer relationship. Exhibit 3.3 provides a simple example of calculating the lifetime value of a customer.

Selling to this customer is a money-losing proposition in the long run. Firms should not attempt to retain such customers. The analysis raises the prospects of **firing a customer,** which is a rather harsh way to express the idea that the customer needs to find alternative sources or channels from which to secure the products he or she needs. Of course, this assumes that other, more attractive customers exist to replace the fired one.[7] Firms engaged in value-chain strategies who don't pay attention to margin usually don't stay in business long.

On the other hand, for profitable customers, increasing the **retention rate**—meaning keeping customers longer—by increasing loyalty can yield large increases in profits. This is because, as you can see from the calculations in Exhibit 3.3, it is much less costly to retain existing customers than it is to acquire new ones.

EXHIBIT 3.3 Calculating the Lifetime Value of a Customer

Estimated annual revenue from the customer	$ 15,000
Average number of loyal years for our customers	×5
Total customer revenue	75,000
Company profit margin	×10%
Lifetime customer profit	$ 7,500
Cost of securing a new customer	$ 3,500
Cost of developing and maintaining the customer (est. 6 calls per year @ $500 each)	3,000
Average number of loyal years for our customers	×5
Total selling cost	15,000
Estimated costs of advertising and promotion per customer (from marketing dept.)	500
Lifetime customer cost	$ 15,500
Lifetime value of the customer (lifetime profit – lifetime cost)	– $ 8,000

EXHIBIT 3.4 Impact of 5 Percent Increase in Retention Rate on Total Lifetime Profits from a Typical Customer

Industry	Percentage Increase in Profits
Advertising agency	95%
Life insurance company	90%
Branch bank deposits	85%
Publishing	85%
Auto service	81%
Auto/home insurance	80%
Credit card	75%
Industrial brokerage	50%
Industrial distribution	45%
Industrial laundry	45%
Office building management	40%

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Exhibit 3.4 shows the potential impact of customer retention on total lifetime profits in different industries.

Quantifying the value proposition is an important element of relationship selling. At the end of this chapter is an appendix that provides an approach, in spreadsheet format, to quantitative analysis of a product and its value to a customer.

So far, we have looked at important issues of value creation from the perspective of the selling firm via the value-chain concept. In the next section, we identify specific value-creating factors the salesperson can communicate to the customer.

Communicating Value in the Sales Message

In Chapter 6 we will discuss the *process* of communicating the sales message. Now we want to turn our attention to one of the most important *content* issues in relationship selling: selling the value proposition. In Chapter 6 you will learn how to translate the idea of value into specific benefits to the buyer. Now we focus on 12 broad categories from which you can draw these benefits in order to practice value-added selling. Keep in mind that it is customers' *perceptions* of these factors that are relevant. For example, Toyota might have excellent product quality, but if this is not communicated to customers, they may not perceive it as excellent. The twelve categories for communicating value are:

1. Product quality.
2. Channel deliverables (supply chain).
3. Integrated marketing communications (IMC).
4. Synergy between sales and marketing.
5. Execution of marketing mix programs.
6. Quality of the buyer–seller relationship (trust).
7. Service quality.
8. Salesperson professionalism.

9. Brand equity.
10. Corporate image/reputation.
11. Application of technology.
12. Price.

Product Quality

David Garvin has identified eight critical dimensions of product quality that can add value.[8]

- *Performance.* A product's primary operating characteristics. For a car, these would be traits such as comfort, acceleration, safety, and handling.
- *Features.* Characteristics that supplement the basic performance or functional attributes of a product. For a washing machine, they might include four separate wash cycles.
- *Reliability.* The probability of a product malfunctioning or failing within a specified time period.
- *Conformance.* The degree to which a product's design and operating characteristics meet established standards of quality control (for example, how many pieces on an assembly line have to be reworked due to some problem with the output). Conformance is related to reliability.
- *Durability.* Basically, how long the product lasts and how much use the customer gets out of the product before it breaks down.
- *Serviceability.* Speed, courtesy, competence, and ease of repair for the product.
- *Aesthetics.* How the product looks, feels, sounds, tastes, or smells.
- *Perceived quality.* How accurately the customer's perceptions of the product's quality match its actual quality. In marketing, perception is reality.

Channel Deliverables (Supply Chain)

Firms that have excellent **supply-chain management** systems add a great deal of value for customers. A supply chain encompasses every element in the channel of distribution. FedEx is an organization that brings to its clients excellent supply-chain management as a key value proposition. FedEx salespeople, as well as FedEx's overall IMC, constantly communicate this attribute to the marketplace.

Integrated Marketing Communications (IMC)

We have already seen how important integration of the marketing message is in managing customer relationships. When Lou Gerstner, former CEO of IBM, took the job, one of the first things he noticed as he visited various IBM field operations was that the image, message, and even the logo of IBM varied greatly from market to market. (Visit IBM at www.ibm.com). Such variance is almost always due to poor IMC. IMC starts with a firm's people accepting its mission, vision, goals, and values. Then the message gets communicated through the internal value chain. Finally, it gets communicated to customers and other external stakeholders through the promotion mix. Clients expect and deserve consistency in the way your value-added message is put forth. With great IMC, salespeople can refer to a well-known message about their firm that is all around to solidify the client relationship.

Synergy between Sales and Marketing

An easy definition of *synergy* is that the whole is greater than the sum of its parts. Sales and marketing exhibit synergy when they are both working together for the greater benefit of customers. The whole concept of our model for Relationship Selling and Sales Management revolves around synergy—seamless organizational processes focused on managing customer relationships. When sales and marketing are out of sync, customers are marginalized and the value proposition is weakened. One way to ensure synergy is with cross-functional selling teams that include members of marketing in key roles.

A vivid example of creating value through synergy is the way Procter & Gamble develops its regular promotion schedule for its brands. Brand management works directly with field sales management to create a schedule and product mix for the promotions that best serve P&G's clients. Thus, when a salesperson presents a new promotion to a customer, he or she can sell the value of the thoughtful planning that took into account the customer's needs and wants in making P&G's promotional decisions.

Execution of Marketing Mix Programs

Firms that do a great job of integrating the marketing mix provide opportunities for value-added selling. Salespeople enjoy communicating with clients about their firm's plans for product changes, new-product development, and the like. And a history of a strong marketing mix program gives salespeople and the firm credibility that helps turn prospects into new customers. Customers have confidence that your firm will support its products through effective marketing mix programs.

Quality of the Buyer–Seller Relationship (Trust)

A key issue in relationship quality is trust. **Trust** is a belief by one party that the other party will fulfill its obligations in a relationship.[9] Obviously, building trust is essential to relationship selling. It represents confidence that a salesperson's word (and that of everyone at his or her company) can be believed. It signifies that the salesperson has the customer's long-term interests at the core of his or her approach to doing business. An atmosphere of trust in a relationship adds powerful value to the process.

Service Quality

Services are different from products. In particular, services exhibit these unique properties:

- *Intangibility.* Services cannot be seen, tasted, felt, heard, or smelled before they are bought.
- *Inseparability.* Unlike goods, services are typically produced and consumed simultaneously.
- *Variability.* The quality of services depends largely on who provides them and when and where they are provided.
- *Perishability.* Services cannot be stored for later use.

These unique properties of services create opportunities for firms to use them to add value to the firm's overall product offerings and for salespeople to communicate this value to customers. Leadership 3.2 provides some valuable insights on how a company can use proficiency in service to be a market leader.

Leadership 3.2

Being a Customer Service Leader

Despite all that has been written about customer service, TARP (an organization that researches the effectiveness of customer service) and the American Customer Satisfaction Index (which ties customer service to profitability) indicate a continual decline in customer service. So what's the problem? Doesn't anybody get it?

"Getting it" requires taking a serious look at how you treat customer service within your organization. Three important considerations are: (1) Customer service is a leadership issue, (2) customer service is a marketing issue, and (3) customer service must be connected to your organization's mission.

A leadership issue Customer service must be thought of as a leadership issue. Employees in their twenties or thirties have probably not experienced much in the way of good customer service. Reading about it, being told about it, even attending training sessions about it, are not the same as personally being on the receiving end of good customer service. So company leaders must make sure good customer service is modeled and rewarded. People grasp what they experience.

One of the leader's most important tasks is to establish an environment of trust. James Copeland, former CEO of Deloitte & Touche LLC has pointed out that merely talking about trust does little good. "People have to understand that you shoot straight with them and if there's a problem, it has to be talked about honestly and not sugarcoated. If it's a hard solution, that's all right, but you have to deal with that in a way where people would say it reflects the trust they have put in you."

This trust philosophy relates directly to the recovery factor when a customer has been disappointed. Statistics show that when customers are told the truth about a problem and given honest answers and solutions, they not only remain customers but become more loyal. It is a leader's responsibility to model and reinforce this trust.

A marketing issue Customer service is also a marketing issue. It always has been, yet often it is treated as a separate issue. Marketing is, after all, everything you do to reach and keep customers. So any organization that commits to making customer service the focal point of its marketing strategy has an opportunity to add value and gain a great competitive advantage. Today, organizations that understand and deliver effective customer service stand out in customers' minds, especially when so many firms deliver poor customer service.

Start with your mission How do you determine what good customer service is for your organization? Begin with your mission statement. Developing an effective mission statement is a leadership issue. Too many organizations have unrealistic or public relations–oriented mission statements rather than well-developed, realistic, living mission statements. When your mission is genuine, succinctly written, and truly reflective of your organization's core values, it will serve as a valuable document from which to craft operating principles. Take the mission statement from the Ewing Marion Kauffman Foundation, for example: "To help individuals attain economic independence by advancing educational achievement and entrepreneurial success, consistent with the aspirations of our founder Ewing Marion Kauffman."

This mission is so clear it is easy to go into the core of it and define the "who, what, where, when, and how" of each integral part of the mission. As it relates to customer service, for example, when a client of the foundation is dealt with, it would be easy to go into the mission statement and ask, "Did I respond in a manner that will have a lasting impact and did I reinforce that we offer a choice and hope for the future?"

Your mission statement can also help you establish service standards that will be acceptable operating practices for all employees. If, for example, your mission statement says you are to "serve the needs of your members," what standards can be set to ensure you are meeting that part of your mission? What specifically will your employees be expected to do to ensure you are living your mission?

Reevaluating the appropriateness of your mission statement is a good place to start whether you are establishing new policies for delivering customer service or reviewing your current customer service practices.

Make your service standards clear, concise, observable, measurable, and realistic by checking to see if they are aligned with your mission. Once they are established, make sure everyone in your company understands the importance of operating by the standards and monitor them often.

Acknowledge employees who live by the standards and send a strong message to everyone in your organization that you are a leader who is serious about providing good customer service.

Source: Bette Price, "Being a Customer Service Leader," *American Salesman* 47 (October 2002), pp. 6–9. Reprinted by permission of © National Research Bureau, 320 Valley St., Burlington, Iowa 52601.

INNOVATION 3.3

Implementing Value-Adding Services

Value-added services are everywhere. The dealership where you take your car for servicing now offers free loaner vehicles. The manufacturer of disposable contact lenses now gets them to you via second-day air. Even the theater company in your community has hopped on the bandwagon with a two-for-one deal.

Perhaps you have a few of these programs. Are they working in the way you intended them? Are they bringing in new customers? Helping you hold on to existing ones? Are they giving you a leg up over the competition and helping your salespeople demonstrate your added value? Or are they merely a pain to deliver, draining you of profits and causing complaints from customers who see them not as extras but as givens? To win value-conscious buyers, you need to lead the value-added services race in your industry—and make sure your leadership pays off on the bottom line.

Six Guidelines

Here are six guidelines to use in planning and implementing new services:

1. *Don't confuse your definition of value with that of your customers.* Adding the wrong value is easy to do. It happens all the time. A dangerous prescription might be: Just turn inward and become so involved with your internal processes you forget to ask the customer. The only thing worse than not doing anything to improve your Value Proposition is to move in a direction that takes value away. Instead of adding value, you end up adding something that isn't perceived as such by the customer. It's the leader's role to accurately interpret what the customer's needs are. This can be done through customer surveys, focus groups, and one-on-one interviews.
2. *Figure out what business you're really in.* Smart companies don't compete; they out-think and out-innovate the competition by adding unique value. To do this, you must know what business you're really in. When Merry Maids, the ServiceMaster division, thought through the customer's highest value, it became clear it wasn't clean houses, or more leisure time—it was peace of mind. "Sure, they are paying for the cleaning," says Mike Isakson, Merry Maids president. "But if a prized possession got broken or damaged or stolen, that negated everything." Take time to figure out what business you're in.
3. *Rethink your customer's "highest need."* It's easy to believe the services you assume are important to customers are in actuality not that important at all. As United Parcel Service (UPS) discovered, you can have too much of a good thing. UPS assumed that on-time delivery was the paramount concern of its customers. So the operative word became speed—and rushed drivers.

Because of the unique properties of services, it should not be too surprising that the dimensions of service quality are different from those for goods:

- *Reliability.* Providing service in a consistent, accurate, and dependable way.
- *Responsiveness.* Readiness and willingness to help customers and provide service.
- *Assurance.* Conveyance of trust and confidence that the company will back up the service with a guarantee.
- *Empathy.* Caring, individualized attention to customers.
- *Tangibles.* The physical appearance of the service provider's business, Web site, marketing communication materials, and the like.[10]

In relationship selling, these dimensions of service quality often provide added value for customers. Innovation 3.3 gives some useful examples of how a company can implement them in a value-adding way.

The problem was, UPS wasn't asking the right question. Only when UPS began asking broader questions about service improvement did it discover customers weren't as obsessed with speed as they were with more interaction with drivers. If drivers were less harried and more willing to chat, customers could get some practical advice on shipping. Result: UPS now allows its drivers an additional 30 minutes a day to spend, at their discretion, to strengthen ties with customers.

4. *Develop new ways to listen to your customers.* Norm Brinker, chairman of Brinker International, is one of the country's most respected restaurant gurus. Brinker avails himself of the latest data on changes in what restaurant customers value, but he also has an additional way of taking the pulse. He likes to pose as a confused tourist outside his own and other restaurants. He asks departing patrons if they were happy with their meal. He even visits competitors' restaurants, walking around as if he runs the place, stopping at tables to inquire about the food and service. "You have to listen to customers on an ongoing basis," Brinker says. What Brinker does is what every leader must do: Keep experimenting with new ways to find out what's on customers' minds.
5. *Brainstorm unusual ways to add value.* F.D. Titus & Sons, a City of Industry, California–based distributor of health care supplies and equipment, believes if you're going to develop effective value-adding services you have to first "get out of the box." Titus is referring to the crush of meetings, deadlines, emergencies and other distractions that keep managers from being as creative as possible, and then thoroughly thinking through an idea. Look for ideas you can borrow from other industries, other businesses that are successful in coming out with customer-pleasing programs.
6. *Figure out the lifespan of your proposed value-added service.* A contact lens maker proudly introduced speedier delivery with second-day air service. This gave the firm a big boost, but since then the innovation has been copied by other leading players in that industry.

Before you change or add a new service, anticipate which ones will provide an advantage, and how long you can count on having that advantage before competitors neutralize your service by coming out with one of their own. New services can be expensive initially. Often customers are slow to respond to them.

Creating and implementing value-adding services will sharpen all of your skills as a leader, your sense of where your industry is going and your ability to sell your vision to your people so that they can sell its value to customers.

Source: Robert B. Tucker, "Value Profitability," *American Salesman,* April 2006, p. 28.

Salesperson Professionalism

Your own level of professionalism in the way you handle yourself with customers is a great potential source of value to them. What is professionalism? It includes little things such as clear and concise correspondence, proper dress, good manners, and a positive attitude and can-do demeanor. Part Two of this book covers many aspects of how to exhibit professionalism as you go about relationship selling. For now, read Leadership 3.4 for a meaningful discussion of two of the most important aspects of professionalism in sales—personal values and integrity.

Brand Equity

Brand equity is the value inherent in a brand name in and of itself.[11] Brand equity is a bit like the concept of goodwill on the balance sheet, since if a company liquidated all its tangible assets, a great brand would still add terrific value to the firm. Examples of brands with high equity are Coke, IBM, McDonald's, and Dell.

Leadership 3.4

On the Value of Professionalism

Sales consultant Dave Kahle provides the following words of wisdom about the importance of personal values and integrity in sales.

His eyes were narrow and bloodshot from staying out late and partying too heavily the previous night. A two-day-old stubble framed his face. He was wearing a dark-colored T-shirt, which he hadn't tucked in, a pair of jeans, and scuffed loafers that had probably never seen shoe polish. It was the second day of my Sales Academy seminar, and this participant in the program was complaining to the group that his customers were only interested in low price.

I didn't say this, because I didn't want to embarrass him in front of the group, but I thought it nonetheless: "Do you think your appearance and demeanor have anything to do with your customers' reaction? Do you think that you may give them the idea that you are the lowest rung on the pricing scale? Is it possible that you have inadvertently positioned yourself as the Wal-Mart of the industry?"

I remember, as a child, having a salesperson call on my family. He had an appointment to discuss a correspondence course for one of us. He drove a big Lincoln, dressed richly, spoke articulately, and carried himself with confidence. It wasn't a coincidence that we bought his program without quibbling about the price.

These two scenarios illustrate a powerful and frequently overlooked best practice in the world of sales: Whether you intend to or not, you always create a position in the minds of your customers, and that position influences the customer's attitudes toward you as well as the buying decisions that follow. In other words, if you look like you're the low price, your customers will expect you to be the low price.

It follows, then, that if we are going to be an effective, professional salesperson, we ought to give thoughtful consideration to how we position ourselves in the minds of our customers.

Let's begin by understanding the idea of positioning a little deeper. *Positioning* has long been a term bandied about by advertising mavens and marketing gurus. They define it as the place that your brand or product has carved out in the mind of the customer. It's the pictures that enter the customers' mind when they think of your product, the feelings that your product evokes, the attitudes they associate with you, and the thoughts that they have of you.

Chances are, for example, that the words "Volkswagen Beetle" evoke a set of responses from you that are different than "Chevrolet Corvette." You expect a certain degree of quality, price, and service when you enter a Wal-Mart that is not the same as your expectations upon stepping inside a Saks Fifth Avenue store.

Billions of dollars are spent every year on carefully crafted impressions by businesses anxious to carve out a valuable position in the minds of their customers.

Alas, if only the same thing could be said of many salespeople.

Just like the carefully designed impressions by advertising mediums inexorably chisel a spot into our psyches, so do the repeated visits by a salesperson embed a set of expectations, pictures, and emotions into the minds of our customers. The position you, as a salesperson, occupy is a complex intertwining of the perception of your company, your solutions, and yourself. The most effective salespeople and sales organizations understand that, and consciously work to create a positive position in the minds of their customers.

Creating your position Let's begin at the end. A good starting point is to think deeply and with some detail about what sort of position you want to create. What, exactly, do you want your customers to think of you? Let me suggest two possibilities: the minimum acceptable position, and the ideal position.

At a minimum, I believe your customer should view you as a competent, trustworthy person who brings value to the customer. They believe that you generally know your products and their strengths and weaknesses, that you generally know the customer's issues, and that you can be reliably counted on to do what you say you will do. That's the least acceptable position to which you should work towards. If your customers don't think of you at least in this way, you probably should not be in sales.

At the other end of the spectrum is the ideal position. This builds on the minimum, but adds a specific understanding on the part of the customer of your unique combination of strengths and attributes. It evolves as you have history with the customer until you occupy a position that is totally and uniquely yours and that carries with it the expectation that your strengths in some specific and unique way add value to the time the customer spends with you. The ultimate test of the power of your position is the customer's willingness to see you and the resulting preference for doing business with you.

Here's an illustration. If you were shopping for an automobile, a low-mileage late model Taurus would probably provide you with competent, reliable transportation. So, when you think of that specific automobile, it would evoke a set of ideas in your mind all revolving around competent and reliable transportation. Now, think of a brand new Lamborghini and you would understand it to be transportation, but with a unique flair—something above and beyond just reliable transportation. That flair would be a result of the unique strengths of that particular automobile conveyed in a graphic way to your mind.

So it is with salespeople. You want to position yourself in your customer's mind the equivalent of the Taurus. But if you really want to carve out a unique, memorable position in your customer's mind, you'd want them to think of you as a Lamborghini.

The question then is, how do you want your customers to think of you? Once you articulate a specific picture, you can then start to build that position. Here are four essential steps to help you convey a positive position to your customers.

1. *Soberly assess yourself.* What sort of position are you currently occupying in the customer's mind? Be as objective as possible as you think through each of the issues listed below, and compare yourself to your competitors. How do you stand on your

    - Appearance
    - Product knowledge
    - Understanding of company policies and procedures
    - Competence with basic sales skills
    - Understanding of the customer
    - Bearing and demeanor.

    If you find that you rank below your competitors on any of these issues, then you need to spiff them up so that you are thought of, at least, as a Taurus. Then, you can begin to move toward the Lamborghini position.

2. *Start on the inside.* In my book, *10 Secrets of Time Management for Salespeople,* I propose that you "get grounded." That advice is based on the observation that it is difficult to sustain a false position. It is all a whole lot easier if you portray yourself to be who you are. Integrity, meaning consistency between who you are and who you present yourself to be, is a foundation to a positive position.

In order to do that, you must clearly understand who you are. That means that you crystallize, in a written document, these three issues:

- ***Your purpose.*** This really speaks to your spiritual orientation. Why are you here? What is your purpose in life and in this job? Why are you doing this anyway?
- ***Your vision.*** What would you like to become? What do you see as possible and ideal in your job, your career, and in your life?
- ***Your values.*** What are the highest priority items in your life and in your job? What are the people, ideas, behaviors and qualities of character that are most important to you?

Once you have thought deeply about these internal issues, you'll find it much easier to live them. The process of articulating them and putting them on paper keeps you focused and attentive to the deeper issues.

Do a sober assessment of your strengths. If you are going to position yourself in the eyes of the customer as having some combination of uniqueness, you first have to identify what those unique strengths are. What are your personal unique attributes, experiences, and passions as it relates this job? Do you have some special experience? Do you have some unique capabilities? Do you have some unique relationships? Do you have some unusual characteristics? Identify those strengths on a piece of paper, and then add a line or two on how each of those can bring value to the customer.

At this point, you will have done the necessary homework to make the job of building a unique position much easier. You now know who you are and what strengths you can bring to your customers. Now comes the fun.

Continually seek opportunities to convey your brand. *Act in a way that is consistent with your statements of strengths.* For example, if you say that you are good with high tech, don't take notes on a scratch pad. Put them into a PDA. If you say you are personally attractive, don't forget to shave before you make a sales call. Be consistent—act like the person you claim to be.

Find ways to utilize your strengths and emphasize your uniqueness. In one of my sales positions, for example, recognizing that I had some unique talents in speaking to groups, I consistently found ways to organize seminars and workshops for my customers in which I presented to the group. I could have made individual sales calls to six customers, but I found that when I brought all six together in a group, I was more effective. It was just me utilizing my strengths.

Be creative. One of my strengths happened to be my wife, who is a gourmet cook, and extremely good with anything that even looks like food. We collaborated, and as Christmas gifts for my customers, she would make dozens of varieties of homemade cookies and candies, and I'd pack them uniquely for each customer. Within a year or two, everyone looked forward to my arriving with our annual Christmas present.

Develop a reputation by intention. Decide what you want to be known for, and then work to consistently make that happen. One salesperson makes sure, for example, that he doesn't call on a customer unless he has something to share with that customer which he believes that customer will find valuable. As a result, he has no problem getting time with his customers. He's developed the reputation of always bringing something of value.

If you want to be known as the most responsive salesperson, set up a system that allows you to respond to every phone call within an hour or two. If you want to be known as the fountain of product knowledge, make sure that you study every price list and piece of literature on every product you sell. If you want to be known as the specialist in some application, make sure that you know it inside and out.

Consider everything that you do. Question every single aspect of your interaction with the customer, and gradually shape every thing to match the position you want to gain. If you want your customer to think of you as confident and competent, don't drive a dirty 10-year-old car. If you want your customer to think of you as worth an extra couple percentage points in price, then don't come in wearing wrinkled Dockers and a dirty T-shirt. If you want to be known as intelligent and articulate, don't use slang.

Your position in the minds of the customer is a powerful and subtle component of an effective salesperson's approach. Consistently working at building a positive position will pay dividends for years.

Source: Dave Kahle, "Salespeople: Position Yourselves with Power," *American Salesman,* November 2007, p. 14.

In relationship selling, when all else is equal, your job is generally easier if you can sell the value of your brand.

An interesting twist on applying the concept of brand equity in relationship selling is selling yourself to clients. Innovation 3.5 provides insights on how you might brand yourself to help you manage customer relationships.

Corporate Image/Reputation

Closely related to brand equity is the concept of how corporate image or reputation adds value. Some firms that have financial difficulties continue to gain new clients and build business simply based on their reputation. On the other hand, the perils of losing and then trying to regain company reputation are well documented. Enron, WorldCom, and Arthur Andersen have all faced challenges in regaining reputation in the last several years. Selling for an organization with a strong, positive image provides a leg up on competition, and the confidence that image brings to clients can overcome many other issues in making a sale.

Application of Technology

Some firms add substantial value to customer relationships through technology. Fortunately for the salesperson, communicating this value-adding dimension is usually quite straightforward. Pharmaceutical companies like Pfizer and Merck have developed sophisticated software for specific clients. Such activity goes beyond mere relationship selling into the realm of **strategic partnerships,** which are more formalized relationships where companies share assets for mutual advantage.[12]

Price

Now we are back to where we started in this chapter: price. As we said, many salespeople have difficulty transitioning from selling price to selling value. You may be surprised to see price mentioned as a value-adding factor in relationship selling. However, remember the discussion on value as a ratio of benefits to costs. For customers, value is the amount by which benefits exceed their investment in various costs of doing business with you (including the product's price). And one of the ways we pointed out that you can increase value is by reducing costs (in this case, lowering price).

INNOVATION 3.5

Be Your Own Brand

Word of mouth is the most powerful force in business. Who doesn't want to have other people "buzzing" about them? If people respect you, like you and have a good experience with you (or hear about it from someone else) they hire you, promote you and do business with you. But how do you get people buzzing about you?

Let's look at how big companies do it—Nike, for instance. Everyone recognizes the famous swoosh logo on shoes, hats, shirts, and golf bags. That logo has power. But its power was not the result of a multimillion dollar marketing effort.

Back in 1971, a graphic design student at Portland State University named Carolyn Davidson was hired to "just do it"—create a logo for the side of a running shoe. She was paid the princely sum of $35. Carolyn had a moment of creative genius! It resulted in a symbol that became ubiquitous on Nike gear. Twelve years later the company gave her a gold Swoosh ring embedded with a diamond, along with a certificate and an undisclosed amount of Nike stock. Today the company reports net revenues of 13.7 billion dollars!

You don't need to have a big budget or a multimillion dollar ad agency to build a personal brand! It's about focusing on how to communicate effectively—using your wits. A creative, thoughtful approach to delivering the message will get people saying positive things about you. If you and your message are interesting, and if you get out and deliver that message often enough, you are going to develop a powerful personal brand.

Sometimes people try to make it too complicated. A personal brand is really nothing more than a message, and a message is a thought—it's what people think, when they think of you.

What comes to mind when people see you? Or hear your name? That's your personal brand. It's the sum total of what people know about you—what they think of you after you've had a conversation, given a speech, or they've seen you in the public eye in some way.

So every time you speak, you are branding yourself, and it's important to think strategically about what and how you are delivering that message. Your conversations, presentations, e-mails, phone calls and conversations in the hallway all send signals. Are you talking about big ideas? Are you clear, concise, and interesting? Do people appear to sit up and pay attention when you speak?

People have a feeling about others, almost as soon as they meet and work with them. They continue to shape that feeling with the more interactions they have. Pretty soon, they see them walking down the hall, and something registers, positive or negative. It's within your power to make that feeling positive. What constitutes a strong personal brand? There are seven aspects of a powerful personal brand. A personal brand:

- Is instantly recognizable
- Stands for something of value
- Builds trust
- Generates positive word of mouth
- Gives a competitive advantage
- Creates career opportunity
- Results in professional and financial success

Some people have all the tools to create a strong, personal brand—but they just can't get the ball rolling to get their name out there. They've got great ideas, and a semirecognizable name, but there's no buzz about them. So how do you create buzz? One way is to start speaking, in formal and informal settings. Speaking is perhaps the single best way to establish yourself as an expert in any business or industry.

Speaking inside and outside your company or industry positions you as an expert for several reasons:

- Many of your colleagues or competitors don't do it.
- People assume if you are speaking on a topic you are an expert.
- Other people promote your talk.
- You are center stage which automatically gives you credibility.
- If you give a valuable talk, people remember you.
- If they remember you, you become top of mind—you are the one they think of when they are referring someone for new business, promotions, other speaking engagements, etc.

Some people say, "I don't really have opportunities to speak." But finding opportunities to speak is easier than you think. Here are some tips on finding opportunities:

- If you're a businessowner or entrepreneur, call to ask organizations where you are a member if you can speak.
- Ask all of your local business and community organizations, from the Chamber of Commerce, to the Lions Club.
- If you're trying to develop your reputation inside an organization, look for opportunities there. Many companies sponsor brown bag lunches, panels, and have off sites where you can present your ideas. Put your hand up to present in team meetings; by volunteering and putting it on your calendar you automatically create a deadline that forces you to go into action and prepare a great presentation.

- Start small with friendly audiences if you haven't done much speaking, until you develop confidence and have a chance to test out your presentations—figure out what a small friendly audience is for you—it might be a team meeting, your church group, or the Rotary Club in town.
- As you develop confidence, push yourself to accept bigger assignments.
- Pitch to speak at regional conferences of professional associations and organizations, attend events where your clients or customers or colleagues go, get to know the executive directors or presidents of those organizations and ask if they are looking for speakers.
- The more you do, the more confident you become and the better your material is because you have tested it out. Speaking brings more speaking, as people hear you speak and like you they invite you to speak for other organizations.

The benefit of this is not only that you are getting in front of these audiences—you are getting other people to market for you. You aren't just getting exposure to the 50 people who show up. Your name is going out on their stationery, e-mail newsletter or Web site to the thousands of members on their list. That's powerful marketing. And it doesn't cost you anything.

Wherever you are today in your professional life, you can start sending strong, positive signals that will cut through the clutter of day-to-day business and create buzz about you.

Everyone has the power to create their own positive personal brand. In fact, you could argue, they must, if they want to succeed in a competitive, global economy. It's up to you to create the strategy and messages needed to create a buzz and a powerful brand.

Source: Suzanne Bates, "Is There Buzz about You? The Power of Building a Personal Brand," *American Salesman,* October 2006, p. 27.

For some firms, low price is a key marketing strategy. Usually, such firms manage to compete on price by having consistently lower costs than competitors. The lower cost structure may have a number of sources, among them greater production efficiencies, lower labor costs, or a better supply-chain management system. Famously, Southwest Airlines has competed successfully for years using a low-cost strategy. Its operating efficiencies translate into not only lower prices but also better profit margins.

Managing Customer Expectations

We have seen that salespeople can draw on a wide array of factors in communicating their firm's value proposition. Each factor provides a rich context for communicating benefits to customers, a key topic in Chapter 6. A final caveat deserves mention as we close our discussion of value. For any potential source of value or benefit, it is essential that the salesperson (and their firm) not *overpromise and underdeliver.* Instead, in relationship selling it makes sense to engage in *customer expectations management* and thus *underpromise and overdeliver,* which creates customer delight.

Customer delight, or exceeding customer expectations to a surprising degree, is a powerful way to gain customer loyalty and solidify long-term relationships. Overpromising can get you the initial sale, but a dissatisfied customer will likely not buy from you again—and will tell many other potential customers to avoid you and your company. In executing the various process steps of relationship selling in Part Two of this book, remember the power of managing customer expectations.

Summary

Salespeople who really know how to communicate the value proposition to customers are well on their way to being successful relationship sellers. In relationship selling, a customer's *perceptions* of the value added are key. Sales and marketing play major roles in communicating the value proposition. This message must be consistent in all forms in which it is communicated—hence the importance of integrated marketing communications (IMC).

Michael Porter's value-chain concept provides a very useful model for understanding value creation at the firm level. At the salesperson level, we present a variety of categories from which a salesperson can draw to communicate various aspects of value as benefits to customers.

Key Terms

perceived value
marketing concept
4 Ps of marketing
marketing mix
promotion mix (marketing communications mix)
integrated marketing communications (IMC)
internal customers
internal marketing
utility
customer satisfaction
customer loyalty
value chain
margin
lifetime value of a customer
firing a customer
retention rate
supply-chain management
trust
brand equity
strategic partnerships
customer delight

Role Play

Before You Begin

Before getting started, please go to the Appendix of Chapter 1 to review the profiles of the characters involved in this role play, as well as the tips on preparing a role play.

Characters Involved

Alex Lewis

Abe Rollins

Setting the Stage

As part of a realignment of territories in District 10, Alex Lewis has just acquired a few customers from Abe Rollins. The realignment took place to better equalize the number of accounts and overall workload between the two territories, and both Alex and Abe welcome the change.

Unfortunately, one of Alex's new accounts, Starland Food Stores, is giving him some problems. On his first call on buyer Wanda Green, she took the opportunity to hammer hard on Alex that (to quote), "The only thing that matters to me is price, price, price. Get me a low price and I will give you my business." Alex knows that over the three years Abe called on Wanda, the two of them developed a strong professional relationship. Therefore, Alex gave Abe a call to see if they could get together over lunch to discuss how Alex might shift Wanda's focus away from just price to other value-adding aspects of the relationship with Upland.

In truth, Upland is pretty competitively priced item-to-item versus competitors. However, it is definitely not the lowest-priced supplier, nor would Alex have the discretion to make special prices for Wanda.

Alex Lewis's Role

Alex should begin by expressing his concern about Wanda's overfocus on price as the only added value from Upland. He should be open to any insights Abe can provide from his experience on how to sell Wanda on other value-adding aspects of the relationship.

Abe Rollins's Role

Abe should come into the meeting prepared to give a number of examples of how Alex (and Upland Company) can add value beyond simply low price. (Note: Be sure the sources of added value you choose to put forth make sense in this situation.) Abe uses the time in the meeting to coach Alex on how he might be able to show Wanda that while Upland's products are priced competitively, they offer superior value to the competition in many other ways.

Assignment

Work with another student to develop a 7–10 minute exchange of ideas on creating and communicating value. Be sure Abe tells Alex some specific ways he can go back to Wanda with a strong value proposition on the next sales call.

Discussion Questions

1. to come to come
   to come to come
   to come to come
2. What do you think are the most important ways sales can contribute to a firm's marketing and vice versa?
3. Why is it so critical that marketing communications be integrated?
4. What is customer satisfaction? What is customer loyalty? Is one more important in the long run than the other? Why or why not?
5. Take a look at Exhibit 3.2 on the value chain. Pick a company in which you are interested, research it, and develop an assessment of how it is doing in delivering value at each link in the chain.
6. Leadership 3.2 provides tips on being a customer service leader. Identify a firm that exhibits many of these qualities of service leadership. How do you think service leadership translates into stronger customer relationships for the firm you selected?
7. Review Leadership 3.4, "On the Value of Professionalism." What does integrity mean to you? How do you know if someone has integrity?
8. Consider the advice in Innovation 3.5, "Be Your Own Brand." Give examples of how these concepts have helped or could help you in your college career.

Ethical Dilemma

Ben Lopez has been with Bear Chemicals for seven years and has earned a reputation as one of the best salespeople in the company. Starting as a detail salesperson calling on small specialty companies, he worked his way up to key account manager calling on some of Bear's largest customers.

Today, Ben was faced with a difficult decision. Midwest Coatings, Ben's smallest account, called again this morning wanting him to come out and talk about problems with its new manufacturing operations.

When Ben first started with the company, Midwest was Bear's largest customer. However, over the last few years Midwest has become less competitive and has seen significant declines in its market share, with a corresponding reduction in the purchase of chemicals. Of even greater concern was the trend for foreign competitors to deliver higher-quality products at lower prices than Midwest.

Unfortunately, Midwest still views itself as Bear's best customer. It demands the lowest prices and highest level of service. Its people call frequently and want immediate attention from Ben even though Bear has customer support people (customer service engineers) to help with customer problems and service. For Ben, a growing concern is his personal relationship with several senior managers at Midwest. The chief marketing officer and several top people at Midwest are Ben's friends and their children play with Ben's kids.

After the phone call this morning, Ben called his boss, Jennifer Anderson, to get direction before committing to a meeting. He explained that the problems at Midwest were not Bear's fault and a customer support person should deal with them by phone. Ben was worried that going out there would take an entire afternoon. He did not want to waste his time when a customer service engineer could handle the situation. Jennifer, who knew about the problems at Midwest, suggested it was time for full review of the account. She also told Ben that it might be time to classify the company as a second-tier account, meaning Ben would no longer be responsible for calling on Midwest. While acknowledging the problems with Midwest, Ben is hesitant to lose the account because it might create personal problems for him at home.

Questions

1. Should Ben drop Midwest as his account and let it become a second-tier customer?

2. What obligation does a company have to customers who no longer warrant special service or attention?

Mini Case

BestValue Computers

CASE 3

BestValue Computers is a Jackson, Mississippi, company providing computer technology, desktops, laptops, printers, and other peripheral devices to local businesses and school districts in the southern half of Mississippi. Leroy Wells founded BestValue shortly after graduating from college with an information technology degree. Leroy began small but soon collected accounts looking for great value at reasonable prices with local service. When Leroy started his business in Jackson, he believed that anyone could build a computer. In fact, other than the processor and the software that runs computers, many of the components used are sold as commodities.

Leroy initially viewed his company as a value-added assembler and reseller of technology products. This business model was so successful that Leroy decided to expand from Jackson throughout southern Mississippi. To facilitate this expansion, Leroy hired Charisse Taylor in Hattiesburg to sell his products to all of south Mississippi, including the Gulf Coast, where a number of casinos were locating.

Before hiring Charisse, Leroy made sure that she had a reputation for developing long-term relationships with her customers and that she was a professional with integrity. Charisse did not disappoint Leroy. She has grown the business significantly in the two years that she has been with BestValue. Charisse credits her success to being honest with customers, which includes explaining exactly what BestValue can provide in terms of software and hardware. That way no one is surprised with the result. In fact, many times customers have remarked to both Charisse and Leroy that they received more than they expected.

Now Leroy has set his sights on the New Orleans and Memphis markets. In addition, many of his initial customers have grown beyond a couple of desktop computers. They are starting to ask Leroy if he can provide and service local area networks (LANs), which allow many computers to share a central server so that workers can share files and communicate much more quickly. Leroy has decided to pursue the LAN business because selling, installing, and servicing LANs seems to be a natural extension of his current business.

However, adding the LAN products and accompanying services to his existing line of business represents a big addition to his current method of operation, which is to provide high-quality, high-value computers and peripheral devices. This new venture into providing more of a service than a product seems somewhat risky to Leroy, but he recognizes that LANs are the wave of the future and that to remain viable he will have to start viewing his company as more of a service provider than a product provider.

To facilitate Leroy's expansion into Memphis and New Orleans, he has hired two new salespeople. They are similar to Charisse in that they are relationship builders who believe providing clients with more than they promised is the key to successful selling today. This attitude is important because the competition in these two markets will be tough. Much larger competitors like Dell, IBM, and Hewlett-Packard have been selling equipment in these areas for a long time, so it will be very important for the sales reps to communicate BestValue's message of great value, including reasonable prices and local service. In fact, Leroy realizes that the only way to compete with the big boys is to be better than they are by providing value over and above what they offer. That philosophy has made BestValue a success so far, and Leroy thinks it will work in these new markets too.

Questions

1. Identify and describe the categories of value creation on which BestValue currently relies most.
2. How can BestValue utilize the service quality dimensions to make sure it is communicating a consistent message of high-quality service and value every time someone from the company interacts with a customer?
3. Even though BestValue provides basically a commodity product, what role can the concept of brand equity play for BestValue's sales reps as they begin contacting customers in the New Orleans and Memphis areas?
4. What is the role of the BestValue sales reps in managing customer expectations? How can they ensure that new customers in the New Orleans and Memphis areas are delighted with their purchases? Be specific and explain.
5. What are some dangers that BestValue must take into account as it moves into the new markets and begins to provide LAN products and services? How will value creation change for it with the addition of LANs?

Appendix: Relationship Selling Math

An important element in relationship selling is developing an effective and persuasive value proposition. In the vast majority of sales presentations a critical component of the value proposition involves a quantitative analysis of your product and its value to the customer. This appendix which we call Relationship Selling Math provides the tools to develop the quantifiable justification for a value proposition. All of the spreadsheets discussed in this appendix can be found at the Web site for *Relationship Selling*, 2e (along with other important information). Please go to www.mhhe.com/johnston2e and download the spreadsheets before you continue. Working through the spreadsheets as you read the appendix is the best approach for understanding and applying Relationship Selling Math. In addition, the spreadsheets are interactive so you can create your own scenarios and see how a change in one component of the analysis alters other elements.

Most quantitative analysis involves a spreadsheet and is usually in one of two formats.

- If you are selling a product that is sold to a reseller (for example a retailer), use the *profit margin spreadsheet.*
- If you are selling a product or service that is used in the production of the business, use the *return on investment (ROI) spreadsheet.*

In customer relationship management (CRM) the customer value proposition is ascribed to one of three scenarios; (1) acquisition of new customers, (2) retention of existing customers, or (3) additional profitability (see page 00). When creating a value proposition it is a good idea to identify which of these three is the most important objective in the presentation and create your spreadsheet around that goal. For example, if you were going to sell a new brand of clothing to a department store, you might argue that it would bring in new customers who are loyal current customers of the brand that had not shopped at the store previously. You might also argue it will increase retention by offering existing customers a larger selection which results in their greater satisfaction. Finally, you could argue the addition of the new brand would increase profitability because of the demand for the new product from existing and new customers, which would result in increased sales and profits. Analyzing the customer's needs and then matching the company's products to those needs is essential in choosing the most appropriate objective and spreadsheet model. This is not to say the other advantages should be ignored, just not quantified in the spreadsheet. Let's consider each scenario more closely and give some examples.

Acquisition of New Customers

In a retail purchase situation a customer may have many concerns and questions. Often a critical question in taking on a new product or service is, would the addition of your product or service actually bring new customers to the store? Keep in mind that consumers today are overloaded with product choices and a vast array of convenient purchasing options. When was the last time you went out of your way to find a particular product? Most likely this would occur when the product is a specialty good with high brand recognition. In this selling scenario, you would want to prepare a *ROI spreadsheet.*

Retention or Retaining New Customers

Does the addition of your product or service allow the buyer to have better customer satisfaction? As we have discussed in relationship selling, exceeding customers' expectations results in keeping customers. It is much less expensive to keep existing customers than to attract new ones. How much is this actually worth to the company? It is possible to see the value of retaining particular customers through different kinds of analysis.

- If the goal is to determine the worth of a customer you would use the *lifetime value formula* (Exhibit 3.3 on page 00).
- If the objective is customer retention, you would choose an *ROI spreadsheet* using the lifetime value of the customer offset by the inventory costs of your product.

Profitability

Profit is generated by a reduction in costs or an increase in sales. Questions that are frequently addressed in this selling scenario include: Does the addition of your product or service reduce labor or operational costs? Will the purchase of the product by the reseller increase sales? The information to address these questions can be measured and dealt with in a quantitative analysis.

If the profitability objective is based primarily on reducing costs, you should choose the *return on investment spreadsheet.* The cost savings would be compared to the cost of purchase to see if the ROI is positive. The bottom line of the ROI spreadsheet is the *net savings or return to the company.* If the purchase produces a positive ROI, in other words, if the savings are greater than the costs, it is a good match between the buyer's needs and the seller's product/service. If the purchase would produce a negative ROI—the cost is greater than the savings—it may mean the prospect is not a qualified buyer or the value proposition is not well developed (for example, there are too many product features relative to the cost targets for the customer).

If the value proposition is profitability based on increasing sales, you should choose the profit margin spreadsheet. The revenue from additional sales would be compared to the cost of purchase to project profit margin. The reseller spreadsheet is a simple calculation of costs less discounts, offset by retail price. An actual seller would supply costs and discounts. It is always important to be as accurate as possible in assigning costs and discounts; a thorough analysis of the customer's business and your company's own pricing flexibility is crucial to developing an accurate forecast. All research including interviews with store personnel should be documented and/or presented as evidence in your sales presentation. Let's examine each of these spreadsheet models.

Understanding the Profit Margin Spreadsheet

Units	Unit Cost	Total Cost	Quantity Discounts	Co-op Allowance	Net Cost	MSRP	Revenue	Net Profit	Profit Margin/Unit	Markup Up/retail

- The *Units* column indicates the size of the purchase in the multiples in which they are sold. For example, some products are only sold by the case and therefore units would be number of cases. If products were sold individually then it would be the number of individual units.
- *Unit cost* is the wholesale price of the unit. If your unit were a case it would be the price of the case. As stated above, this information would be readily available to you in your industry. It is not easily ascertained outside the company. You might have to find an industry average, ask for a range from an employee, or work backwards from retail price. To work backwards, you could take the retail price less the markup and discover the cost. For example, if you see a product advertised for $100 and you research the industry and discover there is usually 100 percent average industry markup you can deduce that the cost would be $50. Another option would be to check prices at online discounters or cost clubs. They sell closer to wholesale and you could use their numbers as your wholesale cost.
- *Total cost* is number of units multiplied by the unit cost. Be sure you are using concurrent numbers. For example, if you discover the wholesale cost of a bottle of water is .29, but it is sold in cases of 12, you will first need to translate the unit cost to the cost for a case (12 × .29), or break down the number of units from number of cases to number of actual bottles.

Example

Cases	Units per Case	Total Units	Unit Cost	Total Cost
10	6	60	$50	$ 3,000
20	6	120	50	6,000
50	6	300	50	15,000

- In B2B *quantity discounts* are often used to encourage larger purchases. The amount of the discount varies by industry and research can determine an industry standard. Quantity discounts are normally expressed as a percentage of the total cost.
- Another common discount in B2B, especially in heavily advertised brands, is *co-op allowances.* This is money allocated for promotion of the seller's product by the reseller. Co-op discounts are often a percentage of the total cost. These discounts would only be offered if the reseller engaged in advertising that would significantly promote the seller's product. Co-op discounts are not usual for small orders or commodity items.
- *Net cost* would be the result of subtracting all discounts from total cost.

Example

Cases	Units per Case	Total Units	Unit Cost	Total Cost	Quantity Discounts	Co-op Allowance	Net Cost
10	6	60	$50	$ 3,000	$ 0	$ 0	$ 3,000
20	6	120	50	6,000	180	0	5,820
50	6	300	50	15,000	450	750	13,800

- *Manufacturer's suggested retail price (MSRP)* is the price of the product to the end user. It is the price without promotional allowances (markdowns, on sale, clearance, etc.). To find the best MSRP you should go to an actual brick-and-mortar retail location, not a discounter, and research the price at which your product is selling. Online resellers may discount the price and therefore you will not get an accurate MSRP. Manufacturers suggest a retail price to maintain brand equity. If you shop at a reseller location that also maintains strong brand equity you will get a more accurate MSRP.
- *Revenue* is the amount of sales generated by the order. The MSRP would be multiplied by the number of units. Be especially careful that you convert units into individual units because the MSRP will be for one unit. If your total cost was figured by the case, you will need revenue projections that include all the units.

Example

MSRP	Revenue
$100	$ 6,000
100	12,000
100	30,000

- *Net profit,* the bottom line, is revenue minus net cost. The buyer is most focused on this number. You should create a graph showing the increasing levels of profit with increased order size.
- *Profit margin per unit* could be a persuasive indicator. The revenue from the sale of the product or service is reduced by the cost of goods sold to determine profit margin. If the profit margin generated by the unit were significantly higher than the average margin experienced by the buyer, this would be of value. For example, in a grocery store markup on staple items is generally low, often below 30 percent. If your product could generate a pm/unit of more than 50 percent, especially if shelf space needs were low, the purchase would be highly valued.

Example

Net profit	Profit Margin/Unit
$ 3,000	$50
6,180	52
16,200	54

- Markup is the percentage added to the cost of the product to determine the selling price. *Markup based on retail* price should be included if you worked backwards to find the wholesale cost. The formula for markup is Cost / (100% − GM%) = Selling price. You can replace GM in the formula with the average markup to determine cost. Markup could be an industry average if specific numbers are unavailable. Markup is often used to determine if the return on the space your product occupies is worth the investment. For example, retail stores calculate their return on shelf space based on the sales generated from the square footage of selling space available. If your product requires more selling space than the revenue it will generate, it would be a bad purchase decision for the customer.

Understanding the ROI Spreadsheet

	Plan 1	**Plan 2**	**Plan 3**
Expenses			
Daily			
Average number of staff			
Average amount of time			
Labor minutes used			
Labor hours			
Monthly			
Labor hours			
Average hourly wage			
Total monthly cost			
Yearly			
Investment			
Product/service cost			
Additional costs			
Total yearly cost			
Net savings			
Over time . . .			
ROI/month			

The ROI spreadsheet requires a deeper understanding of your buyer's business than the profit margin spreadsheet. It also requires access to sensitive information about the company's operations. If you are selling a product or service that will decrease costs to the customer's business and consequently increase profitability, you need to show your buyer the value of buying/investing in your product. Profitability from the purchase is called the return on investment (ROI). In many cases the main expense is labor costs as in the example. You can use the same format, substituting rows as needed to adapt to the other expenses.

In this example we have chosen to present three options to the buyer with each providing a greater return. It is not always necessary to have numerous options, but it does help illustrate the financial advantage of building the relationship with a long-term contract.

The purpose of the ROI spreadsheet is to persuade the buyer to invest in your product or service. The payoff of their investment, or the return, is the difference between their current expenses and the new purchase.

- The spreadsheet begins by addressing the *expenses.* The buyer will be more comfortable discussing the current situation from this point of view. It is also a good idea to show the need for your product before introducing the price.
- If your product/service is going to reduce labor costs, you first need to know the current labor costs. Begin by determining the current cost of labor associated with the task the sale will impact. If you are selling accounting software, this could be the number of people who will use the software. If you are selling Internet access this would be the number of employees who will benefit from faster connections. In this example we have started with *daily usage* and built into the larger picture. Many buyers will find it easier to think in smaller time blocks. "How many minutes would you estimate you spend waiting on the phone per day?" is much easier to answer than asking the same question for minutes per year.
- *Average amount of time* is the current use of time by the employees included in the staff calculation above. For example, if they use about 30 minutes a day on a task that will now be eliminated or streamlined, that would be put in the cell. Time wasted while waiting on connections or slow computers could also be included.
- *Labor minutes used* are the number of staff members multiplied by the average amount of time worked. This tells us the total usage for the company on a daily basis.
- Since most wages are calculated per hour we need to convert minutes into hours. Thus, *labor hours* are the labor minutes divided by 60.

Example

	Plan 1	Plan 2	Plan 3
Expenses			
Daily			
Average number of staff	10	10	10
Average amount of time	12	12	12
Labor minutes used	120	120	120
Labor hours	2	2	2

- *Labor hours/month* is calculated to build the bigger picture. Since investments are not made on a daily or even monthly basis, we need to build up to the yearly usage. Labor hours multiplied by 30 gives us the labor hours per month.
- To determine the actual cost of the labor hours we need an *average hourly wage.* Be sure to note that this is an average. In some cases all employees impacted by the investment will be comparable in earnings, in other cases there may be

great disparity between management and staff. This is your best attempt at parity and can be quite easily researched.

- *Total monthly cost* is calculated by multiplying average wage by labor hours/month. This amount is the cost to the buyer of not buying your product or service.

Example

Monthly

Labor hours	60	60	66
Average hourly wage	$9.00	$9.00	$9.25
Total monthly cost	$540	$540	$611

Most investments in B2B are long term, not merely for 30 days. To calculate the yearly cost of not buying, we would multiply total monthly cost by the number of months in the year.

Example

Yearly	$6,480	$6,480	$7,326

The next section of the ROI spreadsheet is the introduction of the investment or cost to buy your product/service. These costs are usually easy to find as they are the retail price of the good or service.

- *Product/service cost* is the actual amount the business needs to "invest" in the solution. It should be expressed in the total cost for the year to keep our analysis logical.
- *Additional costs* might be installation, training, maintenance, support, compatibility upgrades, etc. In building strong relationships all costs should be discussed. Hidden costs are unethical and do not contribute to long-term relationships.
- The *total yearly* costs are the sum total of the investment for that year. Services are often repeating investments. Many times a discounted price is offered for multiple year contracts. In some buying situations, a large purchase could be amortized over an extended period. All costs should appear when presenting the ROI.

Example

Investment

Product/service cost	$5,000	$6,000	$5,500
Additional costs	1,200	0	0
Total yearly cost	$6,200	$6,000	$5,500

The bottom line of the ROI spreadsheet is the *net savings*. If the purchase produces a positive ROI, in other words if the savings are greater than the costs, it is a good match between the buyer's needs and your (the seller's) product/service. If the purchase would produce a negative ROI—the cost greater than the savings—it may mean the prospect is not a qualified buyer or that price negotiation is needed.

As stated previously, there are often advantages to making a commitment to purchase for more than one year. It is an advantage to the seller to know they will have the repeat business, and an advantage to the buyer to know they have created a relationship with the seller that can provide them benefits from customer service and reduced ordering costs. In the case of some B2B purchases, the one time purchase price is spread out over the life of the product. In both these instances it is important to show the ROI over the life of the contract or product. In the example, we chose to look at the investment over a three-year period. The yearly return for each year is added together to determine the actual return over the three-year life of the investment.

Since many businesses use monthly cash-based accounting methods, it is a persuasive tool to break down the large investment dollars into monthly returns. If you take the three-year ROI and divide by the number of months in the same time period (36) you find the *ROI* per month. As consumers we find $99 per month easier to accept than $1,200. In B2B, the same psychology applies.

Example

Investment			
Total yearly cost	$6,200	$6,000	$5,500
Net savings	280	480	1,826
Over time . . .	840	1,440	5,478
ROI/month	$ 23	$ 40	$ 152

If you are using the ROI spreadsheet to quantify the *acquisition of new customers* a few modifications would be made. You would need to forecast of the number of new customers that would be attracted. You would also need a lifetime value for the customer (see Exhibit 3.3). This would determine the revenue stream.

Example

	Minimum	**Average**	**Exceptional**
Acquisition			
Number of new customers	3	4	5
Lifetime value	$ 5,000	$ 5,000	$ 5,000
Revenues	$15,000	$20,000	$25,000
Investment			
Product/service cost	$13,000	$ 17,000	$ 20,000
Additional costs	1,500	1,500	1,500
Total yearly cost	$14,500	$18,500	$21,500
ROI	$ 500	$ 1,500	$ 3,500

The revenues generated would be offset by the cost of the product/service and any related costs. Be sure to include all costs that will be associated with the decision. In this example we are selling advertising space. The additional cost of artwork for the ad design is shown as an additional cost. If you were selling a product that would provide value through *customer retention,* your product cost would be the investment.

The ROI in the acquisition example shows that a $20,000 yearly investment in advertising could return $25,000 in sales revenue and thereby not only recovering the expense but actually return $3,500. The spreadsheet also shows that in the worst-case scenario the return on the investment would be $500.

As you work through the spreadsheets it is important to note the challenge of these analyses is not the calculations but, rather, verifying the accuracy of the data. Without valid data the analyses are not very valuable to you as the salesperson, or the customer. Indeed, a poor analysis with invalid data could do more harm than good to the relationship. Mastering the relationship selling process means, in part, becoming comfortable with understanding, creating, and then explaining these kinds of analyses to customers.