



## THE ACID TEST: Does your strategy process deliver real client value?

### Quick Points: An overview in 60 seconds

- Key Point 1:** The acid test of a successful strategy is how it is crystallised in terms of value creation in the eyes of your potential and indeed current clients. If you can't deliver, from the perspective of these clients, value that sets you apart from your competitors, then your strategy process has failed.
- Key Point 2:** A winning strategy process delivers a winning *client value proposition* (CVP).
- Key Point 3:** Many companies invest tens of people years in the process of building and honing a strategy, but when it comes to communicating the CVP to a potential client, things seem to fall apart.
- Key Point 4:** If you can't deliver a winning CVP, then you will, by default, be reduced to using price discounting as your only "trump card". Profit margins will suffer.
- Key Point 5:** Delivering a CVP requires an intimate understanding of your clients' hygiene factors (needs that must be met just to get you sitting at the negotiating table) and motivation factors (offering features that really excite the client and could close the sale). Above all, you have to understand *your client's* strategy.

This *Critical Update* explores these issues and presents a short questionnaire to help you health-check where your organisation is.

### Introduction

What is "strategy" all about? A basic and possibly startling question. A basic answer to a basic question could be that any strategy must result in the creation of either superior or different forms of value for a firm's clients. Forms of value, we hope, that our competitors would find difficult to deliver.

So, following this train of thought, the acid test of a really good strategy process is in the "offering" or value proposition that the firm provides to its clients. The problem is that frequently we don't focus closely enough on how effectively we create, communicate and deliver value propositions to our potential, and indeed, current clients. We just leave it to the sales and marketing people.

### Strategy and the Value Proposition

The question of how firms really can deliver successful value propositions is dealt with in detail by James Anderson and colleagues in their 2006 Harvard Business Review article *Customer Value Propositions in Business Markets*. For the full reference, please see the end of this briefing. I certainly would recommend that you place this article on your reading list as it provides an excellent framework.

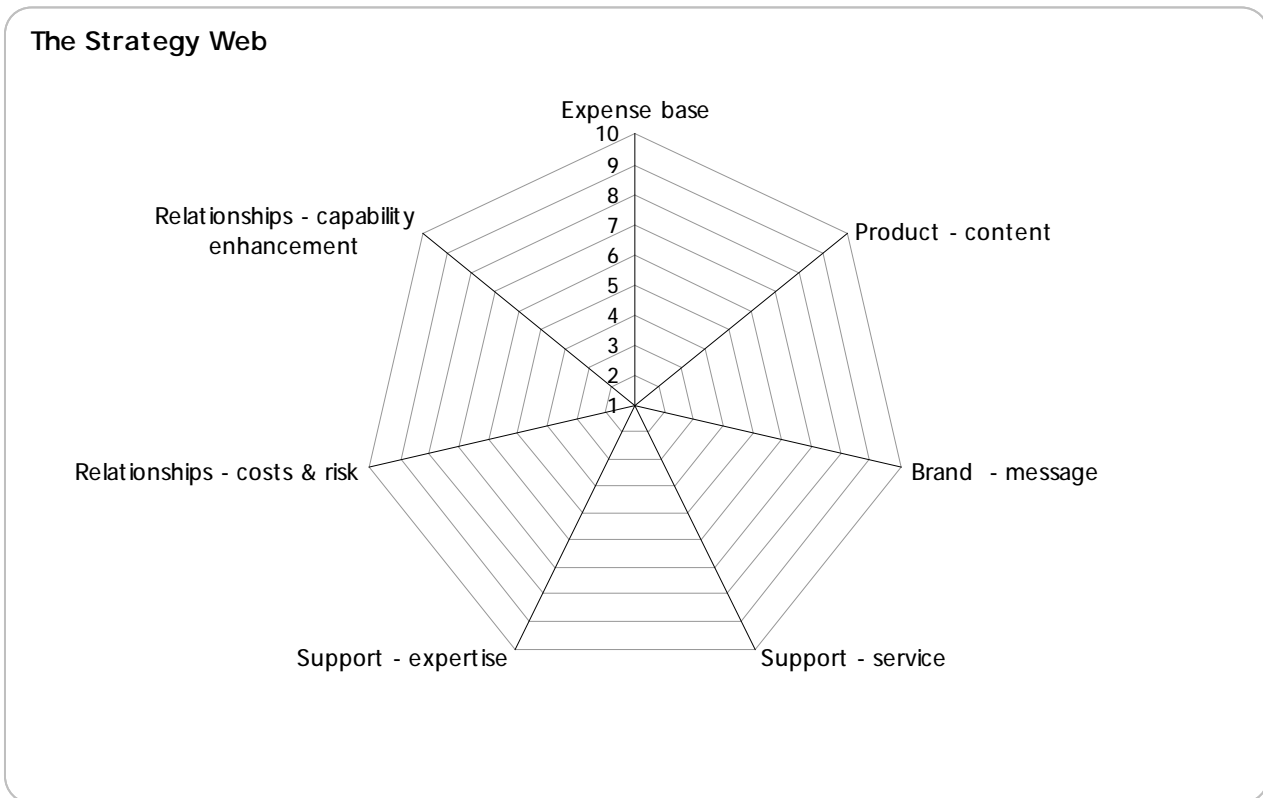
In short, the message in the James Anderson et al article can be summarised as follows:

- § We tend to spend too little time on designing a critical item – value propositions. In many cases, these are little more than a list of benefits.
- § When we do understand how our proposition differs from those of the competition, we don't understand which points of difference are *really* important to the client.
- § Unless we can develop a "resonating" proposition – one that really appeals to the most important needs and concerns of a client, we are reduced to the profit destroying end game of price matching or more probably giving that 10% special discount!

As the title of the article indicates, the above comments are made in the context of business markets. I will argue that the basic tenet holds in most markets.

If we are going to have the capability to deliver resonating value propositions then we must take a careful look at what our strategy process is in turn delivering.

The first point that we need to check is how well our strategy process analyses competing offerings. Don't stop at looking at the tangible, obvious or core component of the offering. There is probably more to it than that. As I have suggested in previous briefings, there is more to strategy than positioning the core offering against those of competitors. We have to consider a "web" of issues as I illustrate below.



As you can see, it's not just a case of analysing the content or features of the core offering itself, we must also look at:

- § What advantages the expense bases of our competitors generate.
- § Their brand message – what it means to buy their offering. For example, what a consumer believes the Apple brand conveys to him/her and why this "hidden value" may outweigh the price premium charged over a generic MP3 player.
- § Support – not just in terms of service but also access to unique skills and experience.
- § Relationships. Here I'm not talking about the existence of customer relationship managers or smiling nicely at people. I'm talking about hard, tangible capacity building relationships that help drive costs out of the client's organisation and/or build capabilities that wouldn't exist without your – or your competitor's offering.

We need to use these seven dimensions to position our offerings against those of our competitors and to ensure that this positioning work filters down into the sales process itself and into the construction of the value proposition.

Now for the second point. How well does our strategy process deliver to us a clear understanding of our clients' strategies?

We have to clearly understand both our competitors' strategies *and* the strategies of our clients. If we don't understand a client's strategy how can we hope to craft the more advanced strands of differentiation – expertise support and relationships – shown in the strategy web?

Going further, an understanding of clients' strategies provides us with another golden key. It starts to tell us what their "hygiene" and "motivation" factors might be. Here, I'm referring to the factors that clients take into account when choosing whether or not to buy your offering or that of your competitor. Hygiene factors, otherwise known as "points of parity", are features that all competitors offer. Probably, these are the basic set of features or benefits that you need to offer just to get a seat at the negotiating table.

But motivation factors are different and they may change from client to client. These are the factors that really fire up a client. So if you really want to deliver a winning value proposition that stands head and shoulders above those of the competition, you have to understand and use the motivation factors. And the first step in doing this is to understand your client's strategy.

This now leads me to my final point – and it is very much linked to the need to understand our clients' strategies. We need to understand how they in turn create value for their own clients. Why? Well, as James Anderson and his colleagues point out, a really good value proposition clearly demonstrates *how* your offering creates value for the customer and how *certain* you are that it will create value. Unless we understand how our clients create value, we really can't maximise the value that we, in turn, create for them.

## Conclusion: Where are you?

Crafting a winning value proposition isn't an abstract process. Without an effective strategy process and research that lets you intimately understand the strategies of your competitors *and* clients, you're really dead in the water.

The following short questionnaire might be helpful in focusing in on potential areas for attention and improvement.

Answer each question using a five-point scale.

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Q1. Have you researched your clients' requirements and preferences? (1 = "no zero", 3 = "a little" 5 = "yes, completely")	1	2	3	4	5
Q2. Do you know what the points of parity or hygiene factors are? (1 = "not at all", 3 = "some idea", 5 = "yes, completely")	1	2	3	4	5
Q3. Do you know what the motivation factors are? (1 = "not at all", 3 = "some idea", 5 = "yes, completely")	1	2	3	4	5
Q4. Do you understand, from the client's perspective, what the relevant importance of each of the motivation factors are? (1 = "not at all", 3 = "some idea", 5 = "yes, completely")	1	2	3	4	5
Q5. Can you substantiate how your offering creates value for your clients? (1 = "no, not at all", 3 = "as well as the competition can", 5 = "yes, uniquely")	1	2	3	4	5
Q6. Can you deliver a resonating CVP – one that really appeals to the client's key motivation factors? (1 = "no, not at all", 3 = "as well as the competition", 5 = "yes, absolutely")	1	2	3	4	5

How did you do?

## References/Recommended Reading

Anderson, J C, Narus, J A and van Rossum , W (2006) Customer Value Propositions in Business Markets. *Harvard Business Review*. March.

## Finally

I hope that you have enjoyed this Critical Update.

You can find more on the website or e-mail me using the link below. I enjoy personally helping businesses - some of the work I undertake includes:

- § Market research to identify the product performance and service needs of B2B customers
- § Facilitating board level strategic reviews, with a particular emphasis upon the definition of tomorrow's competitive environment
- § Design and implementation of Balanced Scorecard performance measurement systems
- § Research to help identify what potential capital providers will look for in your business plan
- § Training: Strategic Thinking, Performance Measurement and Strategic Change Workshops.
- § Product portfolio assessment. Helping the business to define the optimal product portfolio – balancing future competitive conditions with the probability of achieving future planned performance
- § Communication programmes
- § Organisational audits – assessing the innovative capability of your organisation

Best regards,

*Robert Davies*