# THE LEVITT GROUP ANNUAL LECTURE 2018

London, 7 November 2018

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The Chartered Institute of Marketing

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# Six Actionable Steps to Creating Financially Quantified Value Propositions
# by
# Professor Malcolm McDonald

**Levitt Group Annual Lecture**
**November 2018**

# Value Co-creation

The supplier working with the customer to uncover unidentified needs and opportunities for value creation based on an in depth understanding of the customer's business and markets in such a way that these are translated into monetary terms.

(Professor Malcolm McDonald. Levitt Group Annual Lecture. November 2018)

## Six Steps To Creating Financially Quantified Value Propositions in B2B Markets

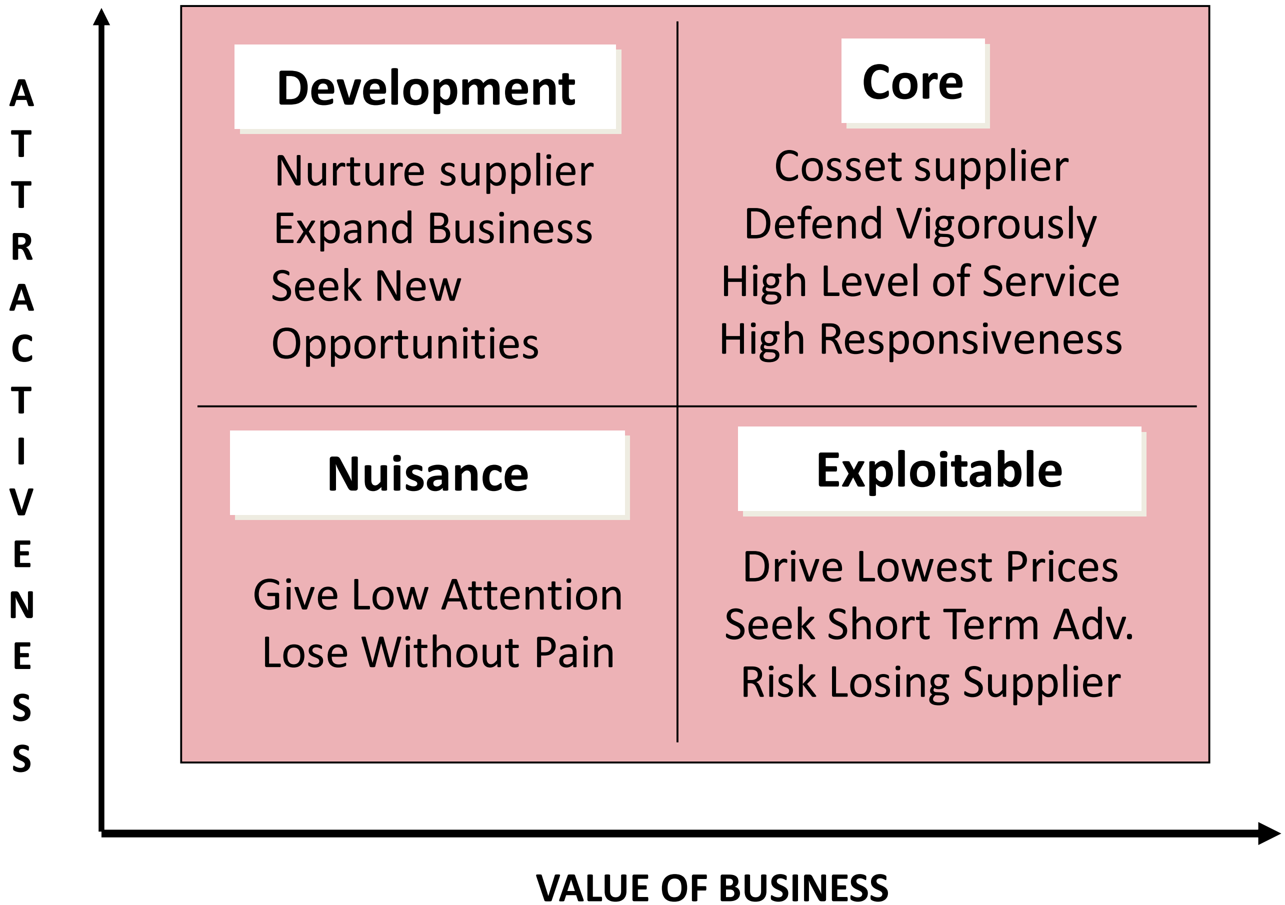
1. **The need for financially quantified value propositions**

2. **Definitions and examples**

3. **Process steps**

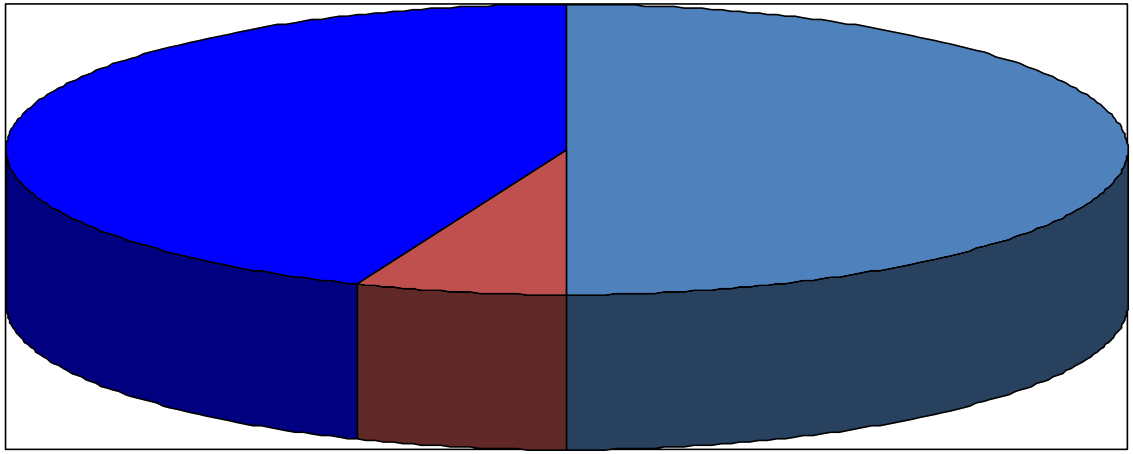
# 1. The need/justification for financially quantified value propositions

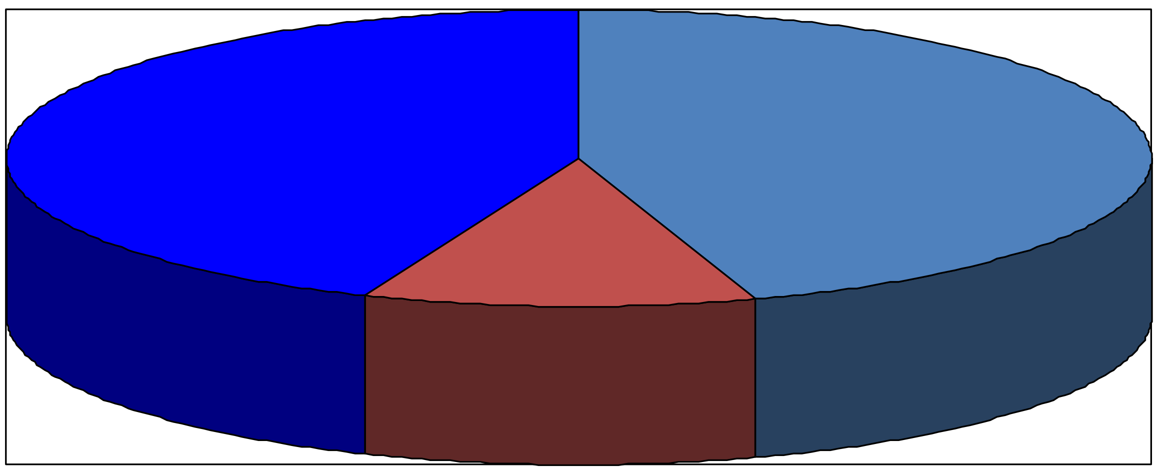
# Strategic purchasing




Based on: Kraljic P HBR 1st Sept 1983

# Double your money:  cut spend on purchases




*‘Purchasing:  adding value to your purchasing through effective supply management’ Institute of Directors, September 2003*

# The effect of discounts on profit

| | | - 5% Discount | -10% Discount |
|---|---|---|---|
| Price | £10 | 9.50 | 9.00 |
| Profit | £ 2 | 1.50 | 1.00 |
| Sell | 100 | 133.3 | 200 |

# Price and value

Price is only ever an issue in the absence of quantified value.

It is the supplier's job to quantify the value, not the buying organisation.

(Todd Snelgrove. SKF." Lowest price is not the same as lowest cost"
Linkedin 24th August 2016)

# Customers expect their business to be better off as a result of dealing with you

- How will your offer enable your customer to serve their customers better?
- How will your offer enable your customers to be more competitive?
- How will dealing with you make your customers more profitable ?

You must be able to prove that dealing with you will create advantage for your customer, not merely help them to avoid disadvantage

# The case for Financially Quantified Value Propositions

- **Only 5% of companies have financially quantified Value Propositions ((McKinsey) and developing them will differentiate your company.**

- **90% 0f the buying cycle is done BEFORE speaking to suppliers**

- **Even if you DON'T have any differentiation, the very act of financially quantifying the benefits, even if they are standard benefits, will give you an advantage over your competitors.**

- **You will close more deals (typically an additional 2% to 10%) ***

- **The sales cycle will be reduced by 10% to 25% ***

- **It will help reduce discounting by 20% to 30% ***

* There are many references to justify the percentages quoted above. One such is:
Michael Nick "The ROI on ROI" www.roi4sales.com

# The case for Financially Quantified Value Propositions

**Additional benefits (harder to quantify) are:**

- **Avoidance of no/delayed decisions to buy**
- **Improved customer relationships**
- **Referrals from satisfied customers**
- **Sustained relationships**

# Sales Velocity

**There are four factors that impact how much you sell. It is a function of:**

1. **Number of leads**
2. **Closure rate**
3. **Average deal size**
4. **Sales cycle**

**Marketing has most influence on item 1 and the sales team have most influence on items 2 to 4.**

$$\text{Sales Velocity} = \frac{\text{(1) Number of leads x (2) Closure rate (\%) x (3) Average Deal Size (£)}}{\text{(4) Sales Cycle (months)}}$$

# Sales Velocity Example

$$\text{Sales Velocity} = \frac{(125 \times 20\% \times £120{,}000)^*}{3 \text{ months}}$$

= £1,000,000 per month

**By increasing closure rate, average deals size and reducing sales cycle by 10%**

$$\text{Sales Velocity} = \frac{(125 \times 22\% \times £132{,}000)}{2.7 \text{ months}}$$

= £1,344,000 per month

**An increase of 34%**

# Sales Cycle for NHS

| Phase | Action | Estimated Time |
|---|---|---|
| 1 | **Introductory e-mail/discussion** (May require several calls and e-mails to get to speak to the right person) | May take up to 2 weeks once targeted to speak to the right person |
| 2 | **Introductory meeting** (If introductory meeting is successful this may lead to a scoping meeting) | May take up to 2 to 4 weeks to organise the meeting |
| 3 | **Scoping meeting** (The purpose of the scoping meeting is to help define the business benefits to be achieved. A proposal is submitted after the scoping meeting) | May take up to 4 weeks to organise the right team for the scoping meeting |
| 4 | **Proposal submitted** | |
| 5 | **Evaluation of other providers** | This would normally happen either before or as the benefits case is being put together. |
| 6 | **Benefits case and budget approval**<br><br>(If successful may lead to a short list of providers and potential calls to references) | May take between 4 to 8 weeks of authoring, presenting, amending and re-presenting the business case before approval is given for the budget by the finance director and/or purchasing board. It may also require getting the support of key stakeholders, which may result in further visits |
| 7 | **References** | This may take between 2 to 4 weeks to organise and get the calls made |
| 8 | **Selected and contract negotiation** | This may take between 2 to 4 weeks |
| | **TOTAL Timeframe for a sale** | **Between 16 weeks and 26 weeks** |
| | | |
| | At any time during any of the above phases the project may be postponed or delayed because the implementation of another system has been delayed, they are short staffed have re-prioritised their objectives or there are political conflicts within the organisation. | |

# 2. Definition and examples

# Our Definition of Financially Quantified Value Propositions

**The translation of the supplier's offers into monetary terms and the demonstration of their contribution to the customer's profitability.**

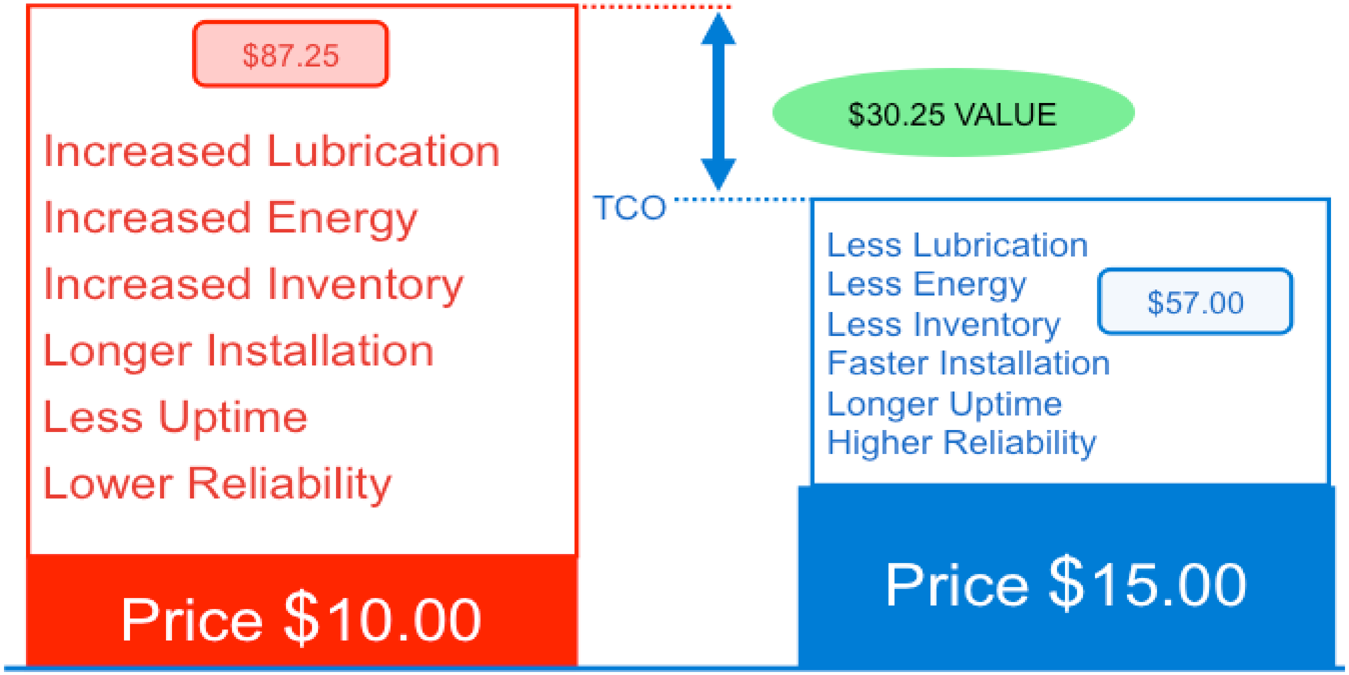
(Professor Malcolm McDonald and Grant Oliver 2017)

# The Components of a Value Proposition

- added value (e.g. revenue gains, improved productivity, service enhancement, speed etc.)*
- cost reduction
- cost avoidance
- emotional contribution (e.g. trust, “feel-good” factor), confidence, self-esteem, risk reduction, reduced “hassle”, etc. In this respect, powerful branding is important. Effective, needs-based market segmentation is even more important

*** This “added value” list is not exhaustive and not all are mutually exclusive. It is recommended that each organisation should brainstorm its own list: better product mix; better customer mix; more sales calls; better sales calls; increase price; reduce discounts; reduce debtor days, speeding time to market; improving agility (e.g. time to react to market changes); improving intelligence/insight; improving accuracy of forecasts; reduce cost of capital; etc. The actual relevant list will become apparent on going through the value proposition financial quantification process.**

# Example of a Quantified Value Proposition - SKF




Source: SKF

# Example - label company to food manufacturers taking over responsibility for almost eliminating their stock-holding

**All were quantified and tailored to each customer**

- **It reduces your inventory from 6 to 2 weeks**
- **It reduces the cash tied up in inventory**
- **It reduces the problems when you have a stock-out**
- **It reduces stock-out costs (downtime, expedited shipping, overtime)**
- **It reduces inventory-carrying costs**
- **It reduces inventory obsolescence**
- **It increases sales when you can make quick changes**
- **It eliminates the need to place orders**
- **And all at the same price**

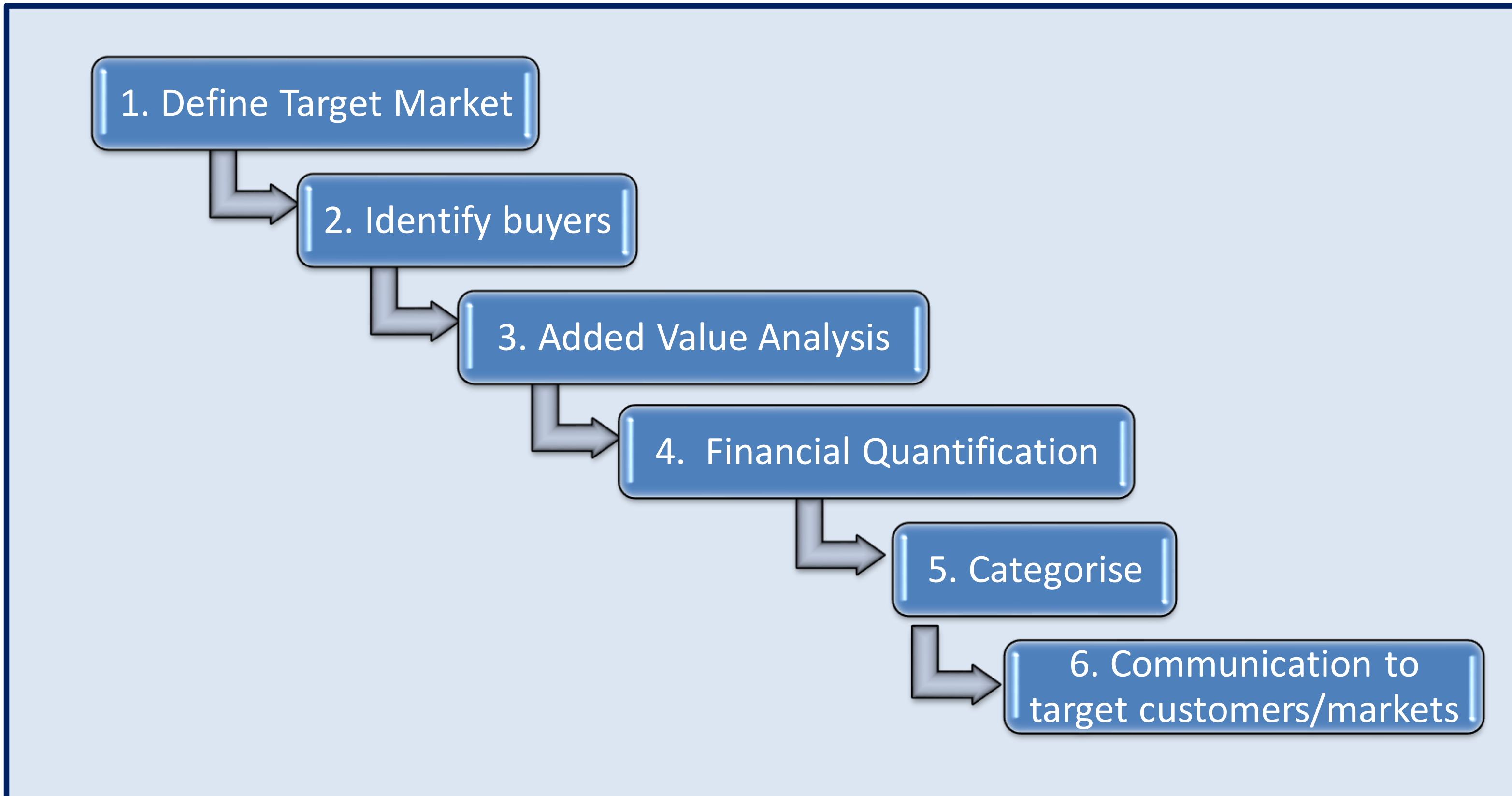
# Quick value propositions assessment

"Our value propositions for relevant customers are financially quantified, justified and proven"

SCORE YOUR ORGANISATION ON A SCALE OF 1 TO 10 AGAINST THIS STATEMENT, WITH 10 BEING PERFECT

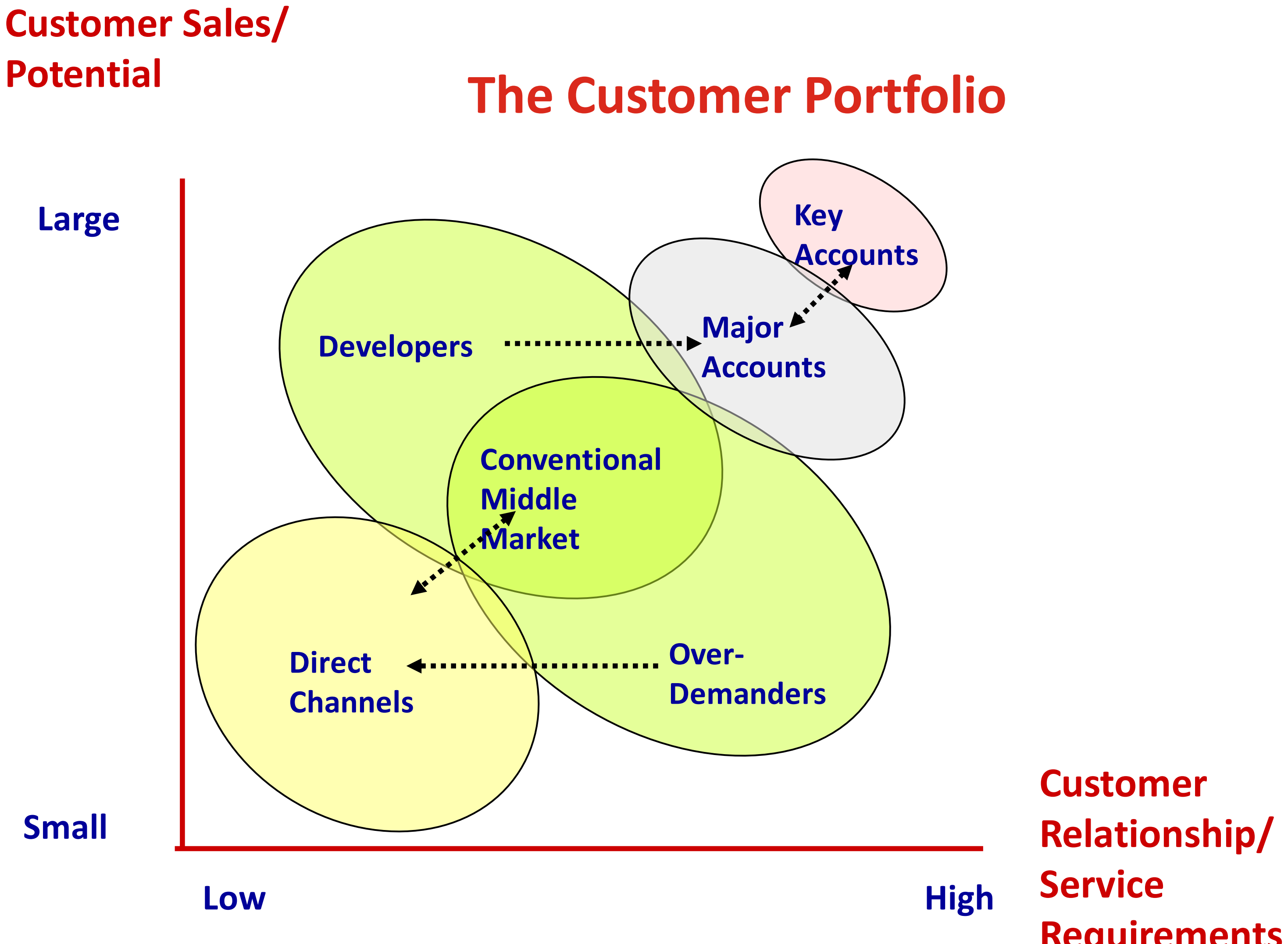
# 3. Value Proposition Development Process

# Value Proposition Process

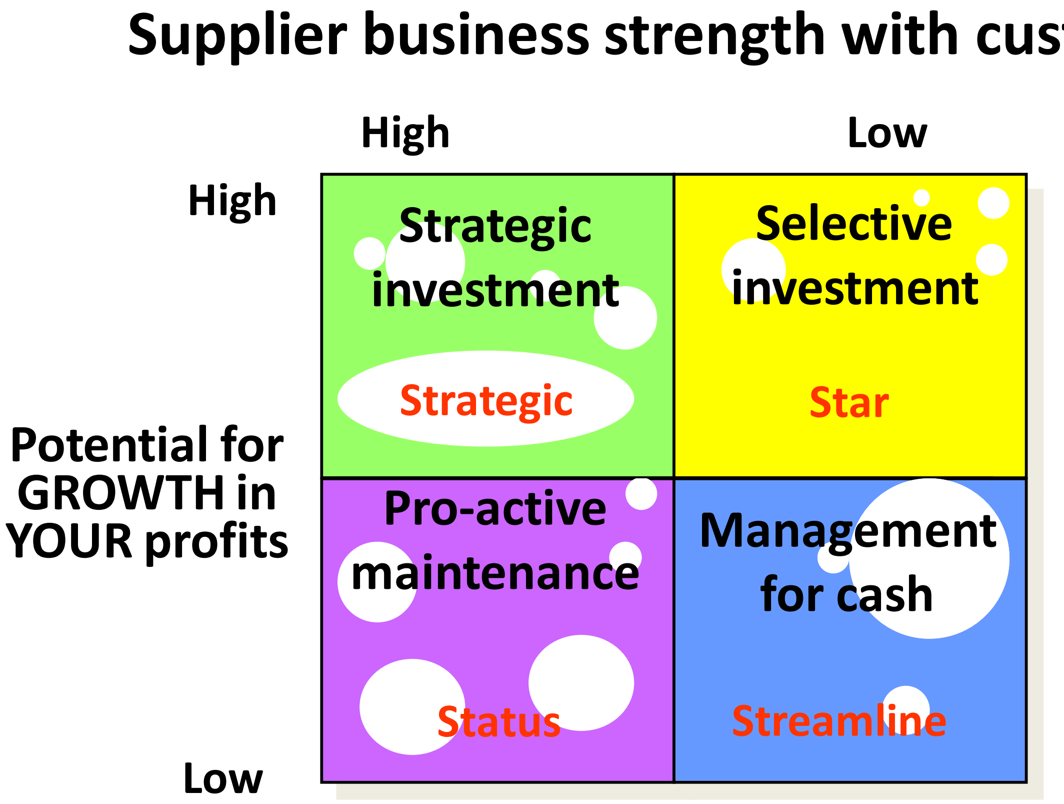


# The Customer Portfolio

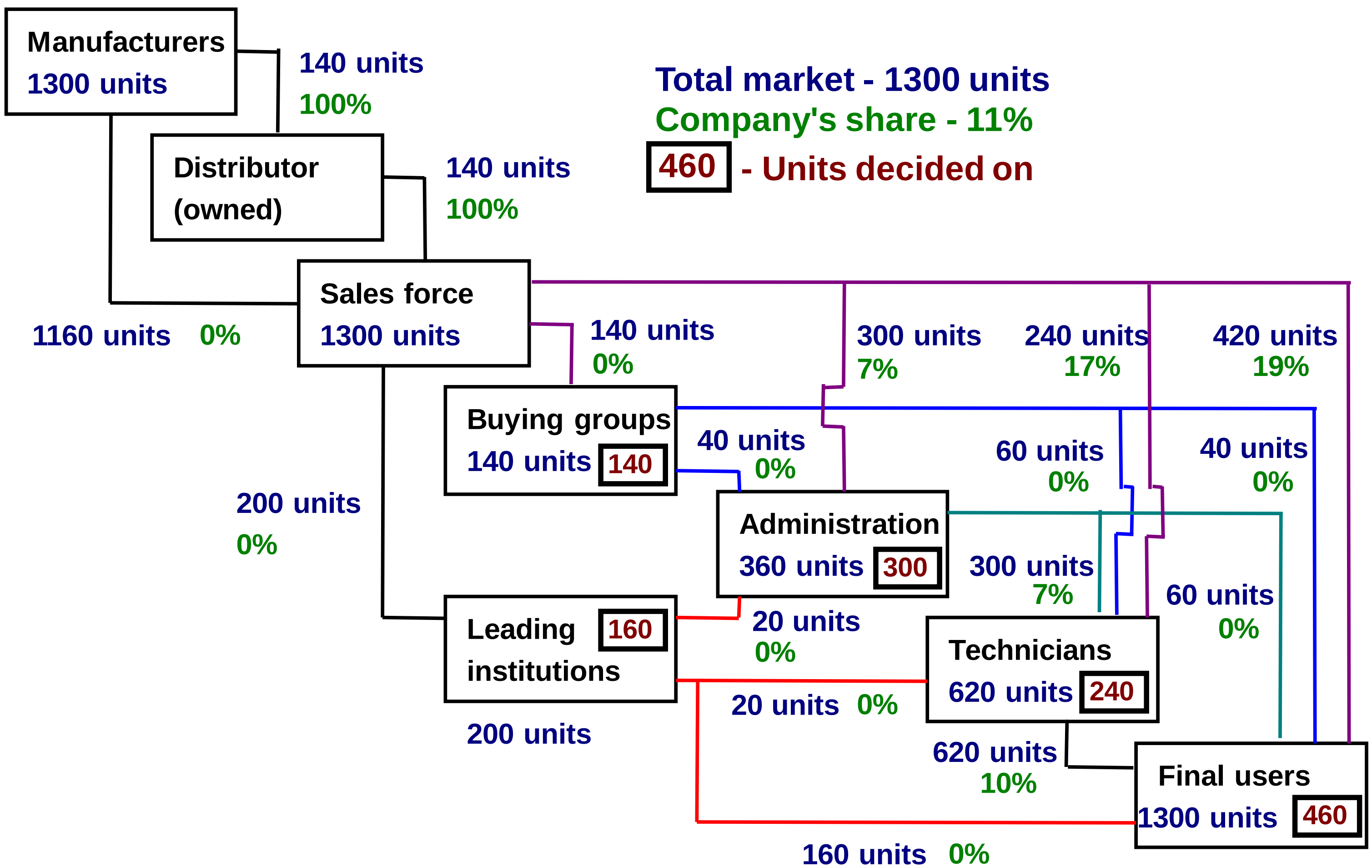
## The Customer Portfolio



# Selecting and categorising customers by potential

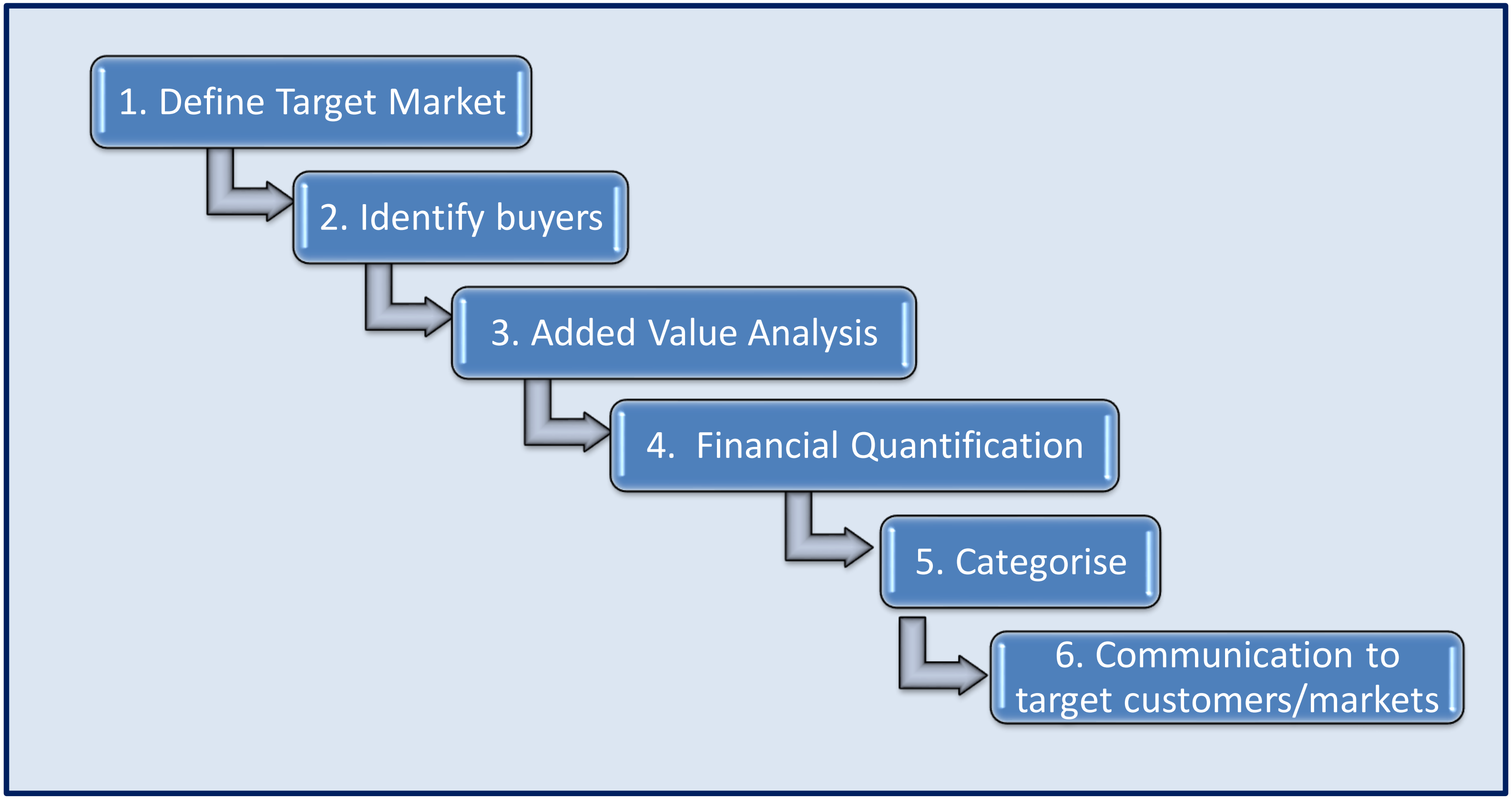


# Market Map

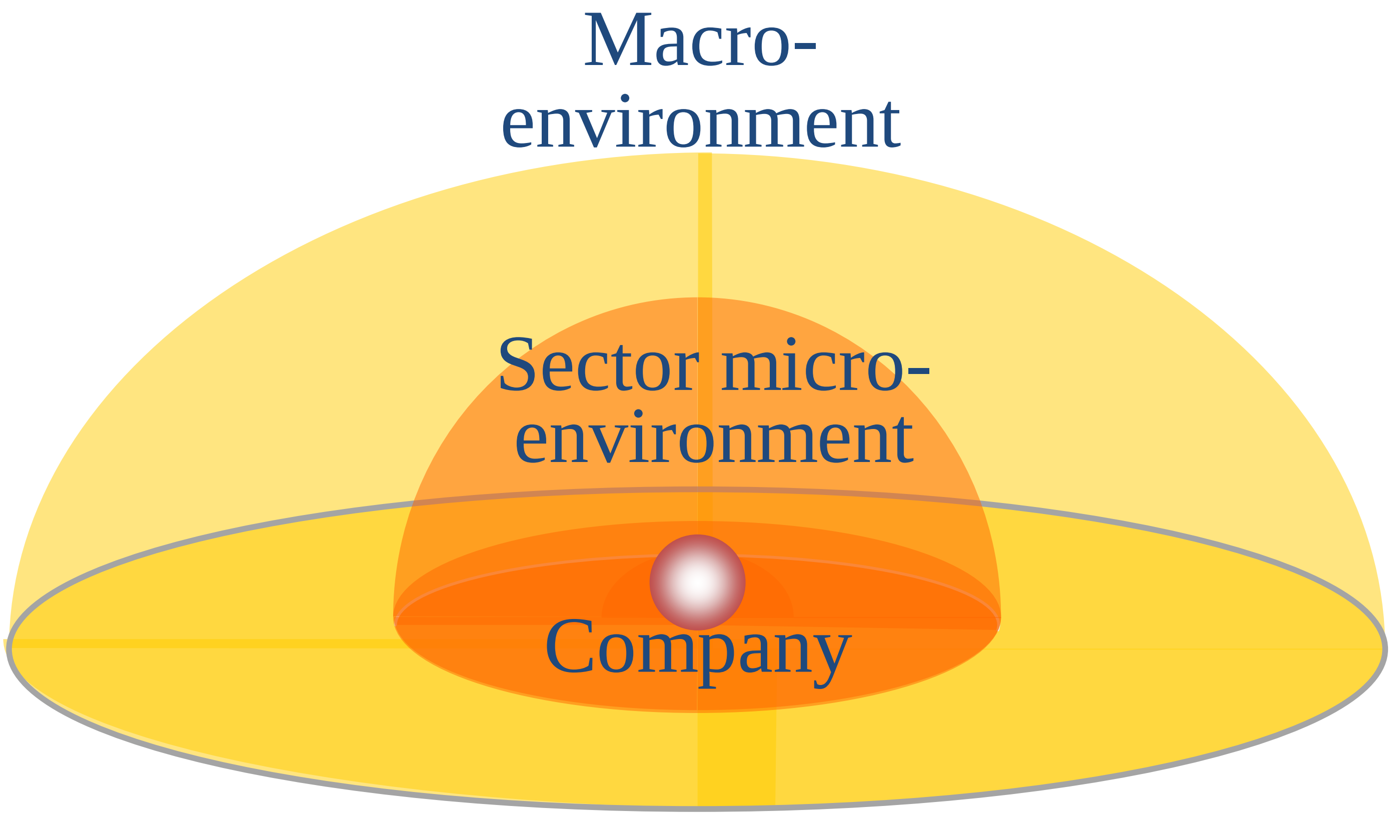


Manufacturers
1300 units
140 units
100%
Distributor
(owned)
140 units
100%
Total market - 1300 units
Company's share - 11%
460 - Units decided on
Sales force
1300 units
1160 units 0%
140 units
0%
300 units
7%
240 units
17%
420 units
19%
Buying groups
140 units 140
40 units
0%
60 units
0%
40 units
0%
200 units
0%
Administration
360 units 300
300 units
7%
60 units
0%
Leading 160
institutions
20 units
0%
Technicians
620 units 240
20 units 0%
200 units
620 units
10%
Final users
1300 units 460
160 units 0%

# Value Proposition Process



# Macroenvironment



# Forces driving industry competition

# Annual Report Summary

| | |
|---|---|
| 1 MAJOR ACHIEVEMENTS | |
| 2 MAJOR PROBLEMS / ISSUES | |
| 3 OBJECTIVES | |
| 4 STRATEGIES | |
| 5 IN WHAT WAYS CAN WE HELP? | |

# Financial Analysis

| Financial Ratio Indicator | Formula | Source | | | | | Company Standing | Industry Standing | Does it appear as though improvement is needed? | | Are there any initial thoughts about how our organisation's products/services can help? |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Annual Report | | | | | | | Yes | No | |
| Current Ratio | Current Assets / Current Liabilities | | | | | | | | | | |
| Net Profit Margin | Net Profit / Net Sales | | | | | | | | | | |
| Return on Assets | Net Profit / Total Assets | | | | | | | | | | |
| Collection Period | Debtors Less Bad Debts / Average Day's sales | | | | | | | | | | |
| Stock Turnover | Cost of Goods Sold / | | | | | | | | | | |
| | Stock | | | | | | | | | | |

| Description of Indicators | | |
|---|---|---|
| | **Current Ratio** | Measures the liquidity of a company - does it have enough money to pay the bills? |
| | **Net Profit Margin** | Measures the overall profitability of a company by showing the percentage of sales retained as profit after taxes have been paid. If this ratio is acceptable, there probably is no need to calculate the Gross Profit or Operating Profit Margins |
| | **Return on Assets** | Evaluates how effectively a company is managed by comparing the profitability of a company and its investments |
| | **Collection Period** | Measures the activity of debtors. Prolonged collection period means that a company's funds are financing customers and not contributing to cash flow of the company |
| | **Stock Turnover** | Evaluates how fast funds are flowing through Cost of Goods Sold to produce profit. If stock turns over faster, it is not in the plant as long before it is saleable as a product. |

# The value chain

| SUPPORT ACTIVITIES | | |
|---|---|---|
| | ADMINISTRATIVE | Accounting, Financial management, Legal |
| | HUMAN RESOURCE MANAGEMENT | Recruitment, Training, Succession planning, Performance management, etc. |
| | PRODUCT & TECHNOLOGY DEVELOPMENT | Product and process design, Production engineering, Market testing, R&D |
| | PROCUREMENT | Supplier management, Funding, Sub-contracting, Specification |

| PRIMARY ACTIVITIES | INBOUND LOGISTICS | OPERATION | OUTBOUND LOGISTICS | SALES & MARKETING | SERVICING |
|---|---|---|---|---|---|
| | Receiving and warehousing materials, Inventory control, Transportation, Scheduling to manufacture, Quality control | Manufacturing, Packaging, Production control, Quality control, Repairs and Maintenance | Finished goods, Order handling, Dispatch, Delivery, Invoicing | Customer management, Order taking, Promotion, Sales analysis, Market research | Warranty, Maintenance, Education and training, Upgrades |

**Profit**
**=**
**Sales**
**less**
**costs**

# Example - Software

## Firm Infrastructure
• Web-based, distributed financial and ERP systems
•On-line investor relations (eg. Information dissemination, broadcast conference calls)
•Accounting Systems

## Human Resource Management
• Self-service personnel and benefits administration
• Web-based training
• Electronic time and expense reporting

## Technology Development
• Collaborative product design across locations and among multiple value-system participants
• Knowledge directories accessible from all parts of the organisation
• Real-time access by R&D to on-line sales and service information

## Procurement
• Internet-enabled demand planning; real-time available-to-promise/capable-to-promise and fulfillment
• Other linkage of purchase, inventory, and forecasting systems with suppliers
•Director and indirect procurement via marketplaces, exchanges, auctions, and buyer-seller matching

## Inbound Logistics
• Real-time integrated scheduling, shipping, warehouse management, demand management and planning, and advanced planning and scheduling across the company and its suppliers
• Dissemination throughout the company of real-time inbound and in-progress inventory data

## Operations
• Integrated information exchange, scheduling, and decision making in in-house plants, contract assemblers, and components suppliers
• Real-time available-to-promise and capable-to-promise information available to the sales force and channels

## Outbound Logistics
• Real-time transaction of orders whether initiated by an end consumer, a sales person, or a channel partner
• Automated customer-specific agreements and contract terms
• Customer and channel access to product development and delivery status
• Collaborative integration with customer forecasting systems

## Marketing & Sales
• On-line sales channels including Web sites and marketplaces
• Real-time inside and outside access to customer information, product catalogs, dynamic pricing, inventory availability, on-line submission of quotes, and order entry
• On-line product configurators
• Customer-tailored marketing via customer profiling
• Push advertising
• Tailored on-line access

## After-Sales Service
• On-line support of customer service representatives through e-mail response management, billing integration, co-browse, chat, 'call me now', voice-over -IP, and other uses of video streaming

← Web-distributed supply chain management →

# Checklist For Added Value

- What value does the customer put on this ?
- Does it impact their core values ?
- What does it cost them– time, money, other ?
- Would they pay for it as part of a service ?
- What will it cost you to provide ?
- Can you charge enough to cover costs ?
- Do you have the capability ?
- If not, can you work with a partner to bring the capability ?
- Does it give you competitive advantage ?
- Can it enhance your service to other customers , segments, or markets ?
- Does it give you any kind of “lock in” ?

# Financially Quantified Value Propositions – Workshop Summary Part 1
# Worksheet 6

| Customer's opportunities and threats | Describe the opportunities or threats to the customer | Describe the opportunity for us (the supplier) | Importance to the customer or impact (high/ medium/low) | Added value + ($ € £) | Cost reduction + ($ € £) | Cost avoidance + ($ € £) | Intangible benefits + ($ € £) |
|---|---|---|---|---|---|---|---|
| From the STEEP analysis | | | | | | | |
| From the Porter's Five Forces analysis | | | | | | | |
| From the Annual report summary | | | | | | | |
| From the Financial analysis | | | | | | | |
| | | | Subtotal | | | | |

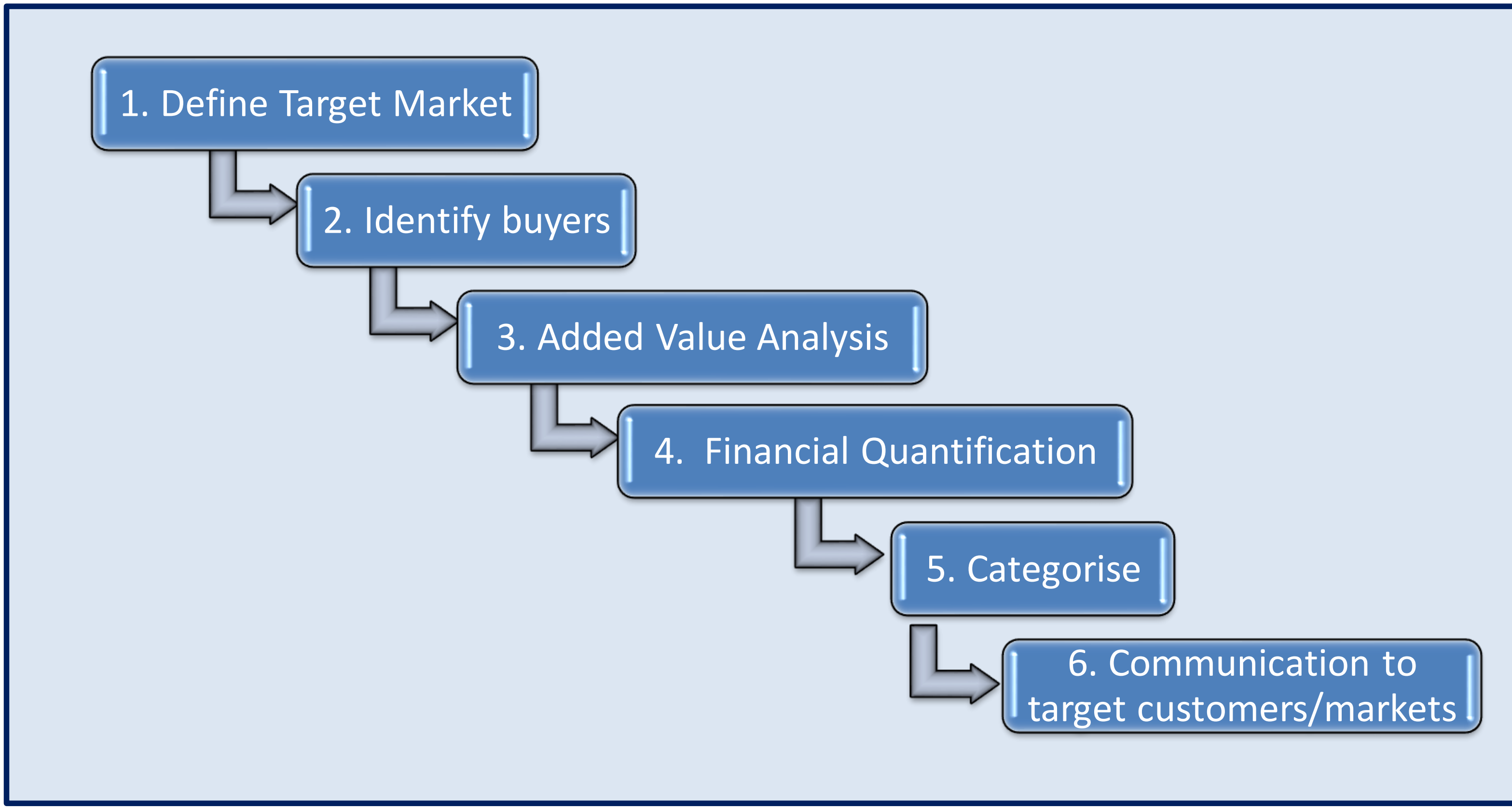
TOTAL
$ € £

# Financially quantified value propositions – workshop summary Part 2
# Worksheet 7

| Customer's value chain weaknesses and opportunities for the supplier to add value | | Customer weaknesses | Describe in words the opportunity for us (the supplier) | Importance to the customer or impact (high/med/low) | Added value ($ € £) | Cost reduction ($ € £) | Cost avoidance ($ € £) | Intangible benefits ($ € £) |
|---|---|---|---|---|---|---|---|---|
| VALUE CHAIN | Inbound | | | | | | | |
| | Operations | | | | | | | |
| | Outbound | | | | | | | |
| | Marketing and sales | | | | | | | |
| | Customer service | | | | | | | |
| VALUE CHAIN FIRM INFRRASTRUCTURE | Finance | | | | | | | |
| | Procurement | | | | | | | |
| | Technology development | | | | | | | |
| | HR management | | | | | | | |
| | Other (e.g. CSR) | | | | | | | |
| | | | | Subtotal: | | | | |

**TOTAL:** $ € £

# Value Proposition Process



# Summary of value propositions
## Worksheet 8

| | STRATEGIC | HIGH POTENTIAL |
|---|---|---|
| CREATING ADVANTAGE | | |
| AVOIDING DISADVANTAGE | | |
| | KEY OPERATIONAL | SUPPORT |

**Key:**

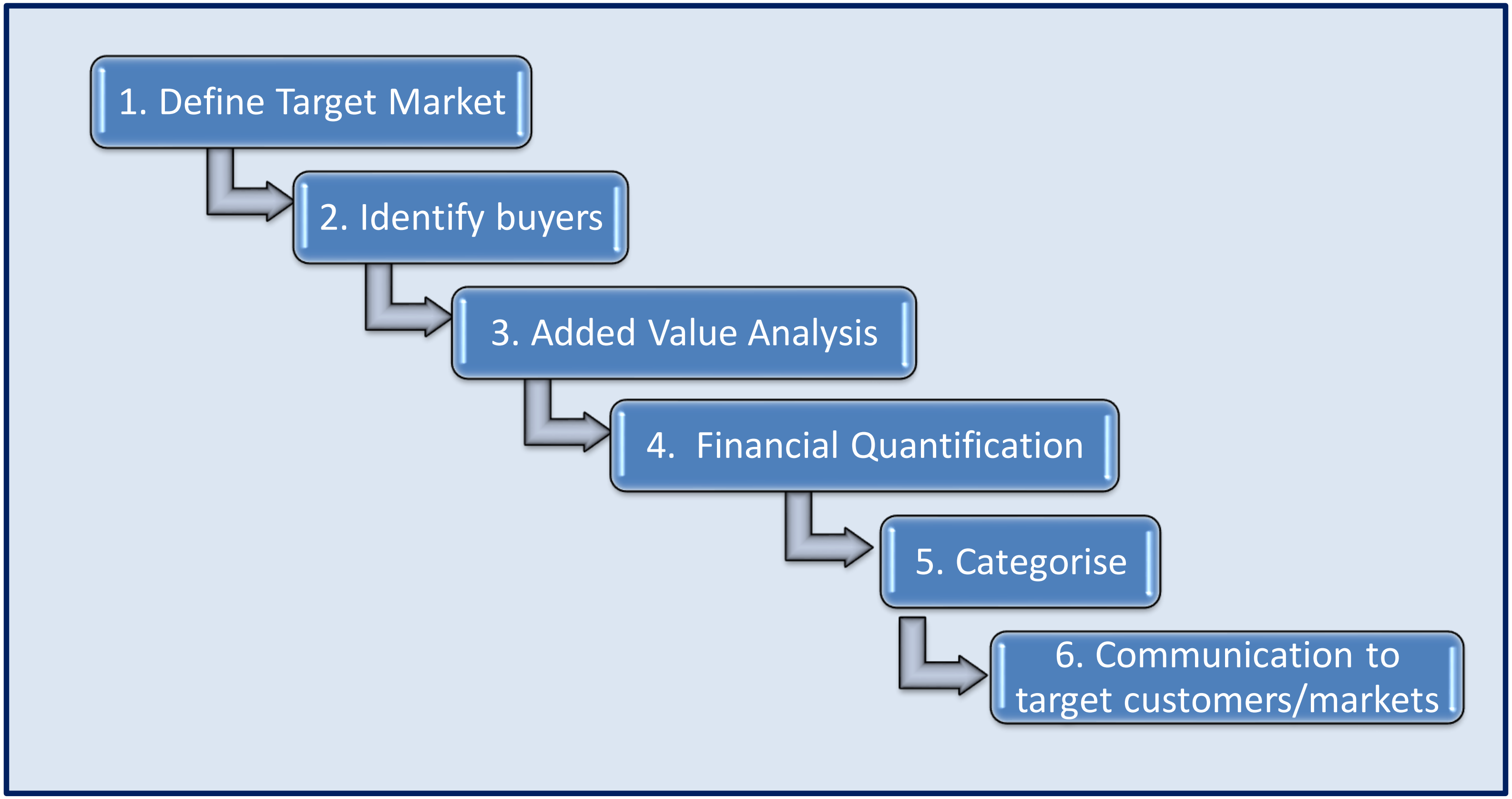
**<u>Strategic</u>** = Issues that will ensure the customer's long term success.

**<u>High Potential</u>** = Issues that, whilst not crucial currently, could potentially lead to differential advantage for the customer.

**<u>Key operational</u>** = Issues that, unless solved reasonably quickly, could lead to disadvantage for the customer.

**<u>Support</u>** = Issues that, whilst of a non-urgent nature such as information availability, nonetheless need to be solved to avoid disadvantage for the customer.

# Value Proposition Process



# Step 6 - Communicate to target customers/markets

Customer Analysis Form

Customer ____________________

Salesperson ____________________

Address ____________________

Products ____________________

____________________ Telephone number ____________

____________________

Buy class new buy straight re-buy modified re-buy

Date of analysis ____________________

Date of reviews ____________________ ________ ________ ________ ________

| Member of Decision Making Unit (DMU) | Production | Sales & Marketing | Research & Development | Finance & Accounts | Purchasing | Data Processing | Other |
|---|---|---|---|---|---|---|---|
| **Buy Phase** Name | | | | | | | |
| 1 Recognises need or problem and works out general solution | | | | | | | |
| 2 Works out characteristics and quantity of what is needed | | | | | | | |
| 3 Prepares detailed specification | | | | | | | |
| 4 Searches for and locates potential sources of supply | | | | | | | |
| 5 Analyses and evaluates tenders, plans, products | | | | | | | |
| 6 Selects supplier | | | | | | | |
| 7 Places order | | | | | | | |
| 8 Checks and tests products | | | | | | | |

Factors for consideration

1 price
2 performance
3 availability
4 back-up service
5 reliability of supplier
6 other users' experience
7 guarantees and warranties
8 payment terms, credit or discount
9 other, eg. past purchases, prestige, image, etc.

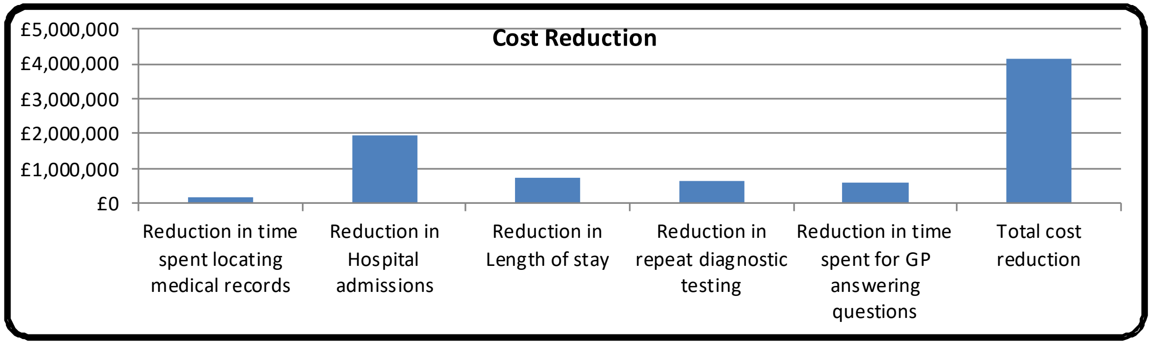
*Adapted from J. Robinson, C.W. Farris and Y. Wind, Industrial Buying and Creative Marketing, Allyn and Bacon, 1967*

# 4. Proposals
# Financial Models - Dashboard

| Financial Dashboard Summary | |
|---|---|
| **Investment** | **£2,900,000** |
| **Estimated saving** | **£4,159,000** |

| Financial Dashboard Metrics | | |
|---|---|---|
| Return on Investment | | 116% |
| Payback Period | | 10 months |
| Factor [8%} | NPV | £5,100,000 |
| Internal Rate of Return (IRR) | | 55% |
| Start up (6 months) | Monthly Cost of not purchasing | £45,000 |

| Improvements from Cost Reduction/Cost Avoidance/ Revenue Increase | |
|---|---|
| Reduction in time spent locating medical records | £196,000 |
| Reduction in Hospital admissions | £1,945,000 |
| Reduction in Length of stay | £742,000 |
| Reduction in repeat diagnostic testing | £658,000 |
| Reduction in time spent for GP answering questions | £618,000 |
| **Total cost reduction** | **£4,159,000** |



# Enterprise value, profitable growth and the role of the CMO

CEOs and CFOs demand value creation, but are unclear how their CMO's plans do this.

The goal is to maximise the financial value of market/customer relationships

There are 4 core ways CMOs can increase enterprise value:

Invest in markets/customers that earn > cost of capital

Increase profits from existing relationships

Reduce assets in markets/customers that earn < cost of capital

Reduce the firm's cost of capital by reducing marketing risk

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See our online courses and workshops at:

https://the-mmacademy.teachable.com

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