

Value proposition transformation: Having the insight, humility and guts to evolve your business

Recently, an industrial distribution client asked our firm to help them understand how to best position their offering. They are a high-touch organization with a wide array of services ranging from on-site inventory management to technical product support for the products they sell. They constantly receive rave reviews from their customers.

But the problem is that volume per service representative has been stagnant (in some cases decreasing)... it hasn't grown in years. And it's becoming a very expensive model to maintain as price pressure increases. The organization knew it had to make a change quickly, but they couldn't figure out how to get traction.

We conducted detailed interviews and highly structured surveys with hundreds of customers and made a startling discovery: The services provided by the company were highly valued by customers, but not every service was valued by every customer. While some services were important to over 90% of the customer base, others were important to fewer than 10%. In most cases, the company had been providing all services to all customers... even if the customers didn't value them. With a little analysis, it became clear customers fell into a handful of discrete segments

Once we had an extremely deep understanding of what different segments of customers wanted, the solution seemed obvious: Design different service models, create pricing structures for each model and develop a process for sales people to determine which model is most appropriate for a prospective customer. This is what the company did and it's well on its way to improving the situation. But the more important question is this: How did the company become so disconnected from what its customers valued and how can this disconnect be avoided in the future?

Working through this question with the executive group, we concluded there were three key characteristics the organization needed to embrace:

- 1. Asking the right questions of customers.** Our client periodically assessed customer satisfaction levels, but that only told them if they had happy customers. It's one thing to ask customers if they are satisfied and if their needs are being met (e.g., "Are you satisfied with the service you're getting?"). It's another to ask them what they truly value (e.g., "How much of a price decrease would you expect if inventory management services were no longer provided?"). If organizations want to optimize returns on what they provide customers, they need to understand their customers' true needs and the value of addressing them.
- 2. Putting hubris aside.** At the same time we were asking customers detailed questions, we asked the organization's field service personnel virtually the identical questions about what customers valued. Not surprisingly, they mostly perceived that all customers placed a great deal of value on every service they provided. They had come to feel a great deal of pride about their work and could not conceive of the notion that not everybody treasured absolutely everything they did. This gave them blinders that prevented them from improving the model. If an organization is going to improve it needs to be willing to look in the mirror and acknowledge that not everyone has as high opinion of it as it has of itself. The facts may be painful, but those facts need to be confronted by the entire organization.
- 3. Making the hard decisions.** The hardest part about coming to grips with the need for change is actually making it. This is where leaders of many organizations fall short: Even if they are able to acquire significant learnings, they'll share them with employees and expect things to change magically without making hard decisions. The reality is that long term gain often requires short-term pain. A few customers might be lost, some financial targets might be missed and some employees might not make the journey in the short-term. But without a willingness to make the hard decisions and live with the consequences, long-term benefit is tough to come by.

Organizations that exhibit these characteristics have one thing in common: strong leaders who have the stomach to ask tough questions, confront unpleasant realities and take risks by making difficult decisions. Organizations with strong leaders make change happen. Organizations without strong leaders ultimately have change imposed on them.