

THE THIRD WAVE SELLING NEWSLETTER

AVOIDING THE COMMODITIZATION TRAP™ PART 2

ALIGNING YOUR SALES MODEL

Vol. 1 Issue 2

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David Smith, owner of *Smith Electronics*, was trying to solve a problem. His revenues were growing beyond his projections, but his profits and margins were not. Hoping to stop the pressure on the margins, he introduced a sales force initiative focusing on value-added services. The value-added initiative was costly, but David was confident that if he could get his salespeople to give more value to his customers, the investment would more than pay for itself. After meeting with his accountant, David learned that not only was he not increasing his margins, but the rate of the margin compression was actually going up, too! What should David do? Are there some additional value-added services he should be addressing? The answer is: no. That is not the solution. What, then, is David's problem?

David's sense that value-added services would benefit him was not wrong. But he had not considered his customers' definition of value before he began expending resources on that initiative. In this issue of *The Third Wave Selling Newsletter*, we are going to focus on one of the key reasons that investments in sales departments don't work and how to correct that problem. The focus of this issue is on aligning your sales model to your customer's definition of value.

Which Value-Segment Does Your Customer Belong To?

In the previous issue of *The Third Wave Selling Newsletter* we introduced the concept of The Commoditization Trap. Central to that concept was understanding value as, "something someone is willing to pay for." If businesses are to succeed, we asserted, salespeople need to stop focusing on communicating

the value their company, products, or services provide, and they need to start creating value themselves. 1

People define value in many different ways. One of the best ways salespeople can differentiate themselves is to hone in on those unique value definitions each customer or prospect has. However, before you can effectively hone in on a unique value definition, you must understand that there are two value-segments into which your customers may fall: fundamental value and total value. The first segment is fundamental value. This segment of your customers focuses exclusively on the product/service. The second segment is total value. Total value customers focus on the product/service, but they also include areas of value beyond the product/service.

Let's look at our example. *Smith Electronics* is a company selling electronic infrastructure that enables manufacturing plants to monitor their equipment more effectively. This effective monitoring results in increased productivity and reduced downtime for the plants.

A fundamental value customer would not be interested in what the salesperson (or the company) has to say about the manufacturing process. Fundamental value buyers are *only* interested in the product or service itself; there is no additional value that *can* be offered to them. Moreover, fundamental value buyers often *feel* they are qualified to discern the differences between options and to understand the implications of their decisions. They are not necessarily qualified, but, to them, that does not matter.

Total value customers are different. They may be open to a salesperson's (or a company's) input about the manufacturing process. They may want to hear how they can apply solutions in a different manner.

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In addition to the value that lies within the product or service, total value customers are interested in value added offerings. For our example, this may mean a customer who is interested in the wisdom Smith Electronics has acquired working with other manufacturers, and how that wisdom can help them improve their processes.

Aligning Your Sales Model with Your Customer's Value-Definition

You must structure your sales effort to match the value segment that your customer fits into. You must align your sales model with your customer's definition of value. When selling to fundamental value customers, your focus should be on reducing the costs associated with buying. The maximum value you can provide to this customer is limited to the value that lies within the product or service. The only way to improve the cost/reward equation is to reduce the *total* cost of purchasing. This does not mean that you need to sell your product at the lowest *price*. It does mean you need to pay extra special attention to all the costs associated with purchases: hard and soft, direct and indirect. This can impact your sales by reducing the interaction between salespeople and customers. Sometimes, it may mean eliminating your sales force altogether. Dell is perhaps the greatest practitioner of this concept in manufacturing. Many of Dell's computers are more expensive than their competitors', yet they are considered the *low cost* provider—and you don't have to talk to a salesperson unless you want to. Travelocity applies this principle well in the services sector, through their sale of airline tickets and vacations.

When dealing with total value customers the focus should be on maximizing the reward, as well as controlling costs. With these customers you'll want to

focus on a value-added process; you can increase value independent of the product, enabling you to work on both the reward and cost side of the value equation. Many sales consultants call this a "Consultative Sales Process." At Imagine, we teach sales people that the process is more consulting than it is selling. Salespeople cannot give added value if their focus is exclusively on their products or services. Salespeople must be willing to separate themselves from their solutions. They must develop a thorough understanding of their customers' needs if they intend to give added value. We will be outlining this process in a future issue of The Third Wave Selling Newsletter.

Misalignment: A Critical Mistake

No matter how hard you work or how much money you spend on marketing, a misaligned sales model will *not* work. One of the most difficult challenges facing sales organizations emerges when they apply a sales model that does not align with the customer's value segment. Imagine Consulting has worked with many companies who have asked us to train their salespeople in giving added value. After the leaders of the companies completed the Defining Your Game™ part of our process we helped them discover that the majority of their customers were fundamental value customers. No matter how well they trained salespeople in giving added value, their results would not improve. In fact, one of the reasons the company was struggling was that, unknowingly, they kept giving a total value proposition to fundamental value prospects. The more a salesperson tried to give added value, the more frustrated the fundamental value buyer became, thus increasing the associated costs for both the buyer and the seller.

Misalignment is especially prevalent in companies describing themselves as service or creative companies. Travel agencies, financial services

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companies, real estate companies, advertising agencies, and even product focused companies (like printing companies that focus on services to differentiate themselves) are so aware of the “value” their service offers that they fail to realize a significant number of their customers are not total value customers.

If you are facing situations similar to Smith Electronics, your best solution is either to change your sales model and focus on reducing the total costs associated with buying your products and services, or to change your marketing efforts and focus on total value customers. One of the biggest mistakes salespeople make when selling to fundamental value buyers is that salespeople believe they can convince them of the meaning of their value added offerings. While it is possible to transform a fundamental value buyer into a total value buyer, it is a marketing function—it requires a lot of time and a significant investment. It is not something that can be done during the sales process.

Bringing It All Together

In the issue #1 of The Third Wave Selling Newsletter we explained the need to focus on your customer (instead of your company) to give added value. In this issue we’ve explained that you need to understand how your customers define value *before* you determine your sales model. In the next issue we will explain that the benefits of your products and services are only one part of the value equation, and that by adjusting from a solutions focus to a problem focus your company can escape The Commoditization Trap forever.

(Footnotes)

1 If you would like to read *Avoiding The Commoditization Trap, Part One* in its entirety, send us an e-mail at newsletter@imaginellc.com and we will send a copy.

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