



Creating Real Value for Customers

By Neil Rackham and John DeVincentis



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22630 Davis Drive, Suite 100

Sterling, VA 20164

703-467-3800

www.huthwaite.com

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Three Proven Models

Suppose a corporate Rip Van Winkle, who fell asleep on the job a generation ago, were to wake up today. He would find his company changed almost beyond recognition. As he wandered through manufacturing, he would rub his eyes at the sight of strange new machines. “Something’s very different,” he would mutter. “The shop floor looks like a laboratory. The oil, the grime, and the piles of half-finished goods have gone. There are no rows of people working at repetitive tasks. No one is standing around waiting for instructions about what to do next. There’s not one quality control inspector in sight. Where are the supervisors? Who is a worker and who is a manager?”

It is a huge transformation, and more than Rip can absorb on his first waking day, so off he goes in search of something more familiar. First, he heads for the typing pool, only to discover that it no longer exists. Then he tries a succession of other departments. Everywhere he goes he sees new technology, new processes, and above all, a radically new approach to work itself.

Everywhere? Not quite. The sales department, where he used to work, remains much as it was when he fell asleep. True, most people now have laptop computers, though many of them seem more decorative than useful. And there are more women in the department; he would now be a “salesperson” rather than a “salesman.” But most other things in the office don’t surprise him.

The company decides to give Rip back his old sales job, so he goes out with his manager to see if selling itself has changed. He finds that for the most part it is comfortingly familiar. There is certainly a wider range of products, and many of them seem more complex. Competition is intense, and the pace of work is faster. The hard sell now appears to be officially discouraged, but even in the old days Rip preferred to sell through relationships rather than pressure.

He is still expected to fill in call reports, although technology now lets him enter his lies and excuses electronically. Pay is higher than it was a generation ago, but it still comes in the form of base plus commission. His sales manager coaches him in such familiar terms—features and benefits, objection handling, open and closed questions, and so forth—that he feels as though he has never been asleep. In fact, just about everything she says comes almost word for word from E.K. Strong’s *The Psychology of Selling*, published back in 1925. “Well,” thinks Rip, “selling will always be selling. I could probably get away with it if I napped for another couple of years.”

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But he would be wrong. Powerful new forces have begun to change the world of selling. Sales functions everywhere are now in the early stages of a transformation comparable to the one that reshaped manufacturing 20 years ago. According to some estimates, at least half of today's selling positions will vanish within five years. Time-honored territorial structures are disappearing, too. The substance of selling is itself in flux.

“Perhaps the time has come to ask the most basic question of all: what is the purpose of a sales force?”

Some organizations have already crossed the threshold of this new world. Until a few years ago, Microsoft, for example, had a sales force that offered software in bulk to corporate accounts in typical business-to-business transactions. Today, its sales reps spend their time organizing and mobilizing networks of independent solution providers such as systems specialists, trainers, software designers, and installers.

In the past, when you called Charles Schwab, which pioneered telephone sales of brokerage services in the 1970s, you talked with a broker (or salesperson by another name) who transacted your business for you. Now you can choose to dial up Schwab on the Internet and place your trades yourself.

What Is the Purpose of a Sales Force?

The questions top executives are starting to ask are a sure sign that the nature of sales is changing. Three years ago, CEOs talking about sales forces would have focused on compensation, training, and automation. But at recent CEO forums, the issues were more fundamental. “Do I need a sales force at all?” mused the chairman of one technology company. A CEO asked, “What is the difference between selling and marketing? I’m not sure I understand the distinction clearly any more.” The head of a big communications company suggested, “Perhaps the time has come to ask the most basic question of all: what is the purpose of a sales force?”

For many years, sales forces have existed to communicate the value of their companies’ offerings. But while the sales function has been busy fulfilling this role, a great change has swept over the business world. Other functions—manufacturing, engineering, product development, and even human resources—have been restructuring and realigning themselves to create more value for customers. Activities that do not add value have been pared down or eliminated.

Such new approaches to work as continuous improvement, the re-engineering of business processes, Kaizen, and self-directed work teams have been introduced to create high-quality products and services more cheaply and efficiently. Put simply, other functions have become conscious value creators. In today’s enterprises, it is hard for functions and even individuals to survive—and impossible for them to prosper—unless they clearly add value for customers.

In yesterday’s world, it was feasible to argue that by communicating product information to customers, the sales force was actually adding value. “We’re useful to doctors because we educate them on the latest drugs,” a pharmaceutical rep told us. “We tell them about new options that haven’t gotten into the reference books. Without us, doctors would quickly become out of date.”

But buyers now tend to know as much or more about products as do the people selling them. The advent of specialization in medicine, for example, means that many doctors have participated in clinical trials or learned about the effects of new drugs well before they are approved for release. Buyers in other industries, too, are better informed than they used to be. So much information about almost everything is now so accessible that the need for an expensive salesperson to dispense it has come under increasing doubt.

The ubiquity of information is not the only force transforming the sales function. Another is the decline in differentiation between products. As they become commodities, their features have less significance for customers. Value migrates from the product to the way in which it is acquired, and customers start to attach more importance to the acquisition environment they prefer.

Unfortunately, generations of salespeople have been brought up with the notion that they create value by bringing in revenue. But bringing in revenue means collecting value, not creating it. And that is not enough to survive in today's competitive markets.

Value Is in the Eye of the Beholder

The idea that a sales force must create value, and not just communicate it, is simple and attractive. But what does it really mean? Ask academics or consultants, and they will tell you that value, at its simplest, is defined by the equation: value = benefits—cost. So there appear to be two ways for sales departments to create value: they can either generate additional benefits or reduce the cost of the benefits they already provide.

In the first case, a company might increase the ability of its sales force to deliver benefits by giving reps more technical support, by improving their problem-solving capabilities, or by allowing them to spend more time working on customers' issues. In the second case, the company must find cheaper ways to sell. Some organizations that aim to create value by cutting sales costs have relied on telephone selling or part-time sales-people. Others have abolished the sales force altogether, moving to channel distribution, catalogs, or electronic commerce.

Strategically, which way is better: creating new benefits or cutting the cost of old ones? Most people prefer the former, seeing it as the way to create a bigger pie, capture more profit, and lavish so much extra value on the customer that competition withers away. A sales force that adds new value feels more successful than one that slashes costs. Yet many organizations have charged down this path only to discover that they have devised costly strategies that are neither valued nor rewarded by the market, and that make them less competitive than ever.

It is the customer who decides whether any benefit is real. Different customers, even in the same industry, have very different notions of value.

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The better approach depends entirely on the customer; indeed, it is the customer who decides whether any benefit is real. Different customers, even in the same industry, have very different notions of value. If a company gives its sales force the ability to provide new benefits that customers genuinely want, they will cheerfully pay well for those benefits. But if customers are indifferent, the company may well lose business. Traditional sales thinking fails to recognize this reality.

Segmenting by Size Isn't Sufficient

Since the 1960s, most sales organizations have segmented their customers by size, a practice that has served them well for 30 years. But it is no longer sufficient. Consider the three largest accounts of the Sleepy Hollow Insurance Group: three insurance brokers of roughly the same size. A key account sales team at Sleepy Hollow would try to sell its products to all three in much the same way, using similar amounts of resources.

Yet despite their superficial similarities, the three customers have very different needs:

Customer A, an aggressive regional broker, tells Sleepy Hollow, “Don’t send me your salespeople, just send your quotes. And those quotes had better be fast and cheap, because you have a dozen competitors who will get our business if they beat you on speed and price.”

Customer B, a broker that has grown through mergers and consolidation, has a very different story. “We need a lot of help. Every one of our offices does things its own way. We don’t have a common set of procedures or a common information system. We’ll write a lot of business with you if your people are prepared to work with each office individually and help it get its act together.” Here, there is a chance for the sales force to create real value.

Customer C seeks yet another kind of relationship. “What we want is a strategic partner that will put its underwriters into our offices, develop cutting-edge information systems with us to turn quotes around more quickly than anyone had thought possible, and work with us to develop new and innovative risk management systems. We’d like to leverage some of your back-office know-how, and we’d be interested in having your marketing people contribute to our internal planning process.”

How does a typical sales force, geared to judging its effort by the size of its customer, handle these three requests? Badly. A sales force dedicated to serving large customers usually expends too many resources on the first account. This kind of customer does not want—and will not pay for—an expensive investment in selling time. Companies can waste or destroy value by putting unwarranted effort into these accounts.

By contrast, large customers of the third kind expect a heavy investment in selling effort. Yet all too often such an investment can be misplaced, with salespeople seeing themselves as value communicators when what the customer is looking for is value creators. The selling effort mistakenly focuses on persuasion rather than on understanding: salespeople spend time explaining and differentiating products instead of bringing new insights and value to the customer by diagnosing its problems and needs.

Needless to say, similar problems can undermine the efforts of sales forces dedicated to serving smaller customers. Although segmentation by size would imply that such customers can expect only a small sales effort, some of them are actually prepared to pay handsomely for advice and help. But most sales forces are not designed for this type of customer, lacking any mechanism to allow salespeople to play a value-added role. As a result, the opportunity to create and capture value is lost.

Matching Strategy to Customers

But it is not only in resource allocation that sales forces typically go awry. They also fail to recognize that different approaches to selling may be needed for different customers, even if they are similar in size. To succeed, they must learn that customers should be segmented according to the way they perceive value. Such a segmentation yields three distinct categories, each requiring its own approach (Exhibit 1):

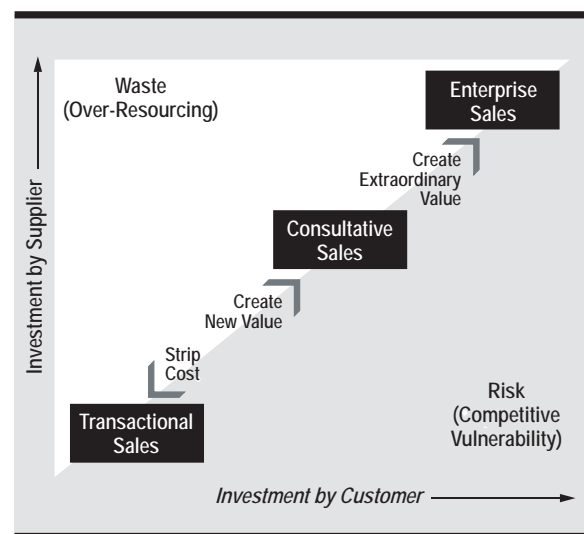
Transactional Sales

For customer A and its peers, value is intrinsic to the product alone. The sales force adds little or nothing for them, since they already understand what they are buying and know how they want to use it. Viewing it as a commodity, they simply want a favorable cost, reckoned either by price or by ease of acquisition, and they resent the time they have to spend with salespeople. Such customers call for transactional sales techniques that should be as risk-free, hassle-free, and efficient as possible.

Wal-Mart, for example, deals with relatively small suppliers, but it refuses to meet regularly with their salespeople. As a Wal-Mart spokesperson noted, it would be better if “their salaries and commissions were taken off the price. Why should we pay for something that takes up our time without providing anything in return?” And it is no longer only traditional industrial commodity suppliers that sell in this way; such professional service providers as lawyers, accountants, consultants, and doctors—people who never dreamed that their activities might be regarded as commodities—find that more and more of their clients want to purchase transactionally.

Consultative Sales

Customer B looks largely at the extrinsic elements of the value equation. For such customers, value is not inherent in the product; rather, it lies chiefly in how the product is used. In this case, a sales force can create a great deal of new value. Putting a premium on advice and help, these customers expect it to



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enlarge their understanding of their needs and options. This kind of consultative selling, which calls for a sales force that gets close to customers and has an intimate grasp of their business needs, involves an investment of time and effort by seller and customer alike.

In consultative sales, the ability to listen and build up an understanding of the customer's business is a more important selling skill than persuasion; empathy takes precedence over product knowledge. A sales force of this kind creates value in three primary ways: it can help customers understand their problems and opportunities in a new or different way; it can provide better solutions than customers would have discovered themselves; and it can act as their advocate inside its own company to ensure that resources are allocated to them in a timely way and that solutions meet their particular needs.

Because these are demanding tasks, good consultative salespeople are hard to find. Organizations seeking to improve their consultative selling abilities can easily fall hostage to highly paid star performers. For this reason, effective consultative sales efforts increasingly use diagnostic tools, sales processes, and information systems that allow ordinary mortals to perform the increasingly sophisticated consultative selling role.

Enterprise Sales

Customer C, and others like it, demand an extraordinary level of value creation. They do not simply want the products or advice of the supplier; they also want to make full use of its core competencies, and will transform their own organizations and strategies to make the most of their strategic value relationship. In such a situation, it is almost impossible to tell who is selling and who is buying. This is an alliance between business equals working together to capture an extraordinary level of new value that neither could have created alone.

Such customers call for an enterprise sales effort in which both the product and the sales force are secondary; its primary function is to leverage any and all of the supplier's corporate assets to contribute to the customer's strategic success. No single salesperson, or even sales team, can set up or maintain an enterprise relationship; it is invariably initiated at a very high level in both organizations. It is closely linked to the customer's strategic direction and usually implemented by cross-functional teams on each side.

A good way to think about enterprise selling is to see it as the redesign and continuous improvement of the boundary between supplier and customer. Often, hundreds of people participate directly in such a relationship, and it is difficult if not impossible to tell where selling begins and ends.

Can I Think about This Tomorrow, Please?

Since the days of Julius Caesar, it has been convenient to think about complex problems by dividing them into three parts. But is there any real advantage to classifying sales efforts under the headings of transactional, consultative, and enterprise? Don't most sales organizations survive well enough by dividing customers by size? What is the benefit of segmenting them according to the way they perceive value?

In our view, the answer is simply this: any sales force that wants to survive has no alternative, for unless its approach to creating value closely reflects its customers' needs and value perceptions, its efforts are bound to fail. Three examples will show what we mean.

A Bottom-line Buyer

A manufacturer of packaging materials competed in a marketplace where more than 90 percent of customers were bottom-line value buyers who bought transactionally. Because the manufacturer's costs were slightly higher than those of competitors, it was losing business. It decided that the best way to halt this decline would be to upgrade its sales force. Instead of sales reps, it now sent out packaging consultants charged with adding value by giving customers help and advice.

The effort to recruit, retrain, and develop a new marketing strategy cost upward of \$10 million. Operating expenses were even more frightening. The average cost of each sales call was no less than \$890, and the average cost of acquiring a new account was \$112,000—far more than a normal account generated in profits over its entire life.

The strategy was a disaster. These customers neither needed nor wanted help and advice; for them, value lay only in the product. They needed packaging material, pure and simple, and that was all they would pay for. In other words, they made their purchases transactionally, but the manufacturer had embarked on a costly consultative strategy. Not long after, a major competitor bought the company at a bargain price and cut the cost of sales by reverting to a transactional selling effort that suited their customers' value needs.

“Make the Sale and Move on”

A small consulting company developed a number of offerings to improve the productivity of its clients. As a consulting firm, it did not have a dedicated sales force; instead, its consultants worked closely with clients to define their needs and create tailored solutions—a classic example of consultative sales. Seeing an opportunity to expand its market, the company brought in a chief executive who had previously worked in the packaged software business. He was horrified at the length of the selling cycle and the use of expensive consultants in the business development process.

The new chief executive removed consultants from the direct selling role. He created a telephone sales organization staffed with salespeople on commission who were managed with ruthless cost efficiency to increase coverage. Instructed to “make the sale and move on,” they did not spend what was now regarded as unnecessary time understanding the business needs of their customers. The number of new customer contacts quadrupled, while the cost of each contact fell by more than half. In this way, the chief executive succeeded in creating a high-coverage, low-cost transactional sales force.

Unfortunately, the company's clients—especially the most profitable ones—were extrinsic value buyers who bought consultatively. They were willing to pay well for the understanding of their business and the

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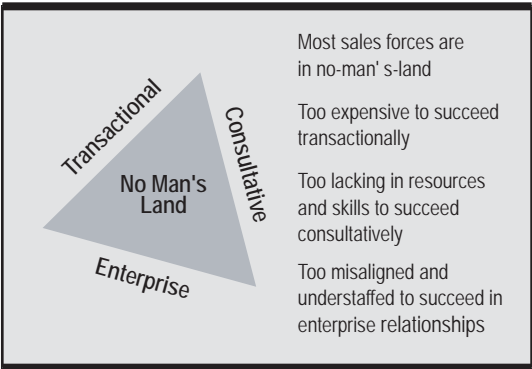
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customized solutions that the company had provided in the past. Under the new regime, many of them defected to competitors that offered value-creating sales forces. The company began to lose business, and soon decided to lose its chief executive. By returning to a more expensive model that matched its clients' value expectations, the company was able to regain some of its lost ground.

The End of A Relationship

A manufacturer of containers had a long-term association with a major food company, which it supplied not only with containers but also with special machinery and advice on container design. The relationship was good and happy on both sides. One day, the customer asked if the manufacturer would be interested in a different kind of relationship that would involve taking on some of the customer's production activities and joining with it to develop (and share the risks of) radically new approaches to packaging.

Lacking the authority to respond to such a revolutionary proposal, the sales team took it back to top management. "We're not equipped to run their lines," said the CEO. "We're not a food production company, and this co-development idea sounds mighty risky. But they are a valued customer, so let's offer



them lots of extra design and engineering support." To the CEO's surprise, the customer declined the help and switched to a new supplier whose president and executive team had worked for six months at a high level within the food company to create new risk-sharing strategies.

The new supplier agreed to manage all the production lines of the food company and work with it to develop a range of innovative packaging concepts created by an R&D team that included members from both companies. The customer had wanted a strategic value

relationship with its old supplier, which was unable to offer it within the constraints of its consultative selling effort. A new supplier that understood how to initiate high-level enterprise sales was able to shatter a 30-year relationship. The old supplier recently announced a downturn in its results and a major restructuring.

These cases—and hundreds like them—show that it is fatal to adopt one sales model if customers want another. No amount of selling skill, clever strategy, or well-crafted value proposition can bridge the gap between what a customer wants and what a supplier has to offer. A sales force cannot transform transactional customers into consultative ones, or vice versa. At best, effective selling can shift the balance slightly, but it is an uphill struggle. In an age when customers not only demand more value than ever before but are increasingly clear about the kind of value they want, a sales force must align its values with theirs.

What is more, the value expectations of big business customers, small business customers, and even individual consumers are changing dramatically. As a result, sales forces are in the early stages of a

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transformation that will affect every aspect of selling. From the simplest transactional sales right through to massive enterprise relationships that are reshaping the entire business strategies of the participants, the changes are profound and irreversible. And they are gathering speed. Individual salespeople are bound to feel alarmed, confused, and uncertain, but, unlike Rip Van Winkle, their predicament is more likely to keep them awake than put them to sleep.

We wish we could say the same of the sales forces they work for, but too many seem to be dozing, oblivious of the forces that will ultimately drive them to extinction. Almost everywhere, transactional sales forces have unsustainably high cost structures; consultative sales forces don't sell deeply enough to win business; and would-be enterprise players lack the cross-functional capacity to create enough value to cover the huge costs of this approach (Exhibit 2). Sales forces of companies that are household names remain firmly convinced that their mission is to communicate value, seemingly unaware that some of their smarter competitors are already learning to create it.

The message for these sleepy sales functions is simple: wake up fast! Our corporate Rip Van Winkle may have slept for a generation and woken to find not much changed, but any sales function today that dozes off even for a few months will not be worth waking. Sales forces must think in terms of value creation and understand how to structure and manage the transactional, consultative, or enterprise elements of the sales effort to forge new value for customers.

This is a time of unprecedented opportunity for thoughtful players. In the past, selling offered high rewards to those with the energy to sell hard and the tactics to close deals. In the new era, it will offer even greater bounty to those who can sell smart and understand and implement strategies for creating customer value.



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