

**ANALYTICS-BASED CUSTOMER VALUE PROPOSITION DEVELOPMENT  
IN B2B SUPPLY CHAIN**

A Record of Study

by

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Submitted to the Office of Graduate and Professional Studies of  
Texas A&M University  
in partial fulfillment of the requirements for the degree of

DOCTOR OF ENGINEERING

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December 2014

Major Subject: Engineering  
College of Engineering

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## **ABSTRACT**

The customer value proposition is the heart of an organization. The internship provided an opportunity to examine this critical process at a wholesaler-distributor firm, in business-to-business supply chain. Distributors cannot expect a premium return on their value proposition of superior service if they cannot persuasively demonstrate it to the customer's own satisfaction. To address the same, the process is analyzed by focusing on three aspects of value proposition – value proposition development, demonstration and customization. The study formulated analytics to assess these aspects of value proposition process. Based on extensive survey data and in-depth interviews, the study identified four key elements of value proposition and six aspects of customer value. The value proposition framework is developed by mapping distributor's capabilities to financial drivers of customer's business. The framework is applied to subject firm in order to develop value proposition map. Using the value proposition map as blueprint, customer profitability analyzer is developed as a value proposition demonstration tool. Applying value proposition map and leveraging existing customer classification, the guidelines for customizing value proposition to individual customers is developed. Finally, a business case is established by linking recommendations and tools to return on investment and risk assessment. The value proposition map and associated sales enablement tools act as a catalyst to solving industry-wide challenge of transforming salesforce to value advisor state as part of counter-commoditization strategy.

## **DEDICATION**

To Saraswati, Goddess of knowledge and wisdom.

## **ACKNOWLEDGEMENTS**

The Doctor of Engineering (DE) program is a key contributor to my journey of lifelong learning. A doctoral degree was not in my career plan as my limited imagination always associated such a degree to theoretical learning. But DE program shattered those misconceptions by exposing me to diverse and applied learning in a wide range of fields, from organizational communication to international finance to engineering ethics to marketing and sales. Such a diverse, challenging experience would not have been possible without the support of many individuals. In my humble opinion, an individual can hardly achieve anything of worthwhile without the support of his or her family, teachers, colleagues, and friends. At this juncture, I would like to express my gratitude to them.

Firstly, I would like to thank Dr. Jorge Leon for his guidance and encouragement as my committee chair to help navigate the unique needs of the Doctor of Engineering program. I am grateful to him especially for his advice on my academic course plan and internship firm selection. He highlighted the potential of doing internship with an industry rather than research center. This proved to be a very rewarding experience by moving beyond my comfort zone.

I am grateful to my committee co-chair Dr. Barry Lawrence for his support and guidance in completing DE program. It was a valuable and rewarding experience to have worked

with him as a full-time research staff at Global Supply Chain Laboratory (GSCL) which has had a profound impact on my overall research and managerial capabilities. I take this opportunity to express my gratitude for his support and friendship throughout the years.

I would like to thank my committee member Dr. Bimal Nepal for his support and guidance. His suggestions and guidance on coursework and research helped me complete DE program successfully. Similarly, Dr. Sudarsan Rangan provided valuable insights during my internship. His thought-provoking questions and suggestions helped me understand the importance of keeping the right scope for research project. Finally, his thorough review of final report and suggestions were very helpful in finishing my thesis.

I would like to express my sincere gratitude to industry advisor, Mr. Martin Naeger, Director (Sales support), L&W Supply for his patience, guidance and support. His efforts to obtain the right resources for this project are a key determinant in completing this research successfully. I am also thankful to Mr. Brendan Deely, Mr. Jake Gress, Mr. Rob Waterhouse, Mr. Gus Backer and many other members of L&W team for their time, thought and commitment to this project.

I am thankful to Mr. Dirk Van Dongen, Mr. Ron Schreiber, and Ms. Ruth Stadius at National Association of Wholesaler-Distributors (NAW) for their support to my doctoral research, focused on distribution industry.

Numerous brainstorming sessions and technical discussions shaped up much of my problem-solving thought process and solution approach over the years. This would not have been possible without invaluable feedback, support, and understanding from my friends and colleagues, Mr. Pradip Krishnadevarajan, Mr. Bharani Nagarathnam and Dr. Sivakumar Sellamuthu at GSCL. I am thankful to them as well as all those colleagues whom I worked with at GSCL over the years.

I would like to thank our department head, Dr. Reza Langari and faculty members at Engineering Technology and Industrial Distribution program for their guidance and support. Especially, I would like to thank Dr. Dan Jennings, for his support and guidance in coursework and research.

I am also thankful to Ms. Kaye Matejka, and Mr. Matthew Pariyothorn, Program Specialist for Graduate Studies for their administrative support and guidance in helping me conduct my doctoral studies. Along the same lines, I would like to thank Ms. PeggyJo Johnson for assisting me in accomplishing several administrative tasks in a timely manner.

Last but not the least, family and friends are a vital part of one's life. My inclination to learning, in general, is directly attributable to my mother, Devika, an avid reader herself, in spite of her limited educational background. She is more fascinated by doctoral degree

than me and her consistent encouragement to complete this highest educational experience is a key source of inspiration. My parents, brother and in-laws are excited to have a first doctoral graduate in our family and they are instrumental in this achievement. Our friend, Ms. Anu Shanmugam, was a constant source of support throughout the studies. I am indebted to all of them.

My wife, Manochitra, and kids, Nimalan and Akilan are fundamental ingredients in this achievement. She worked tirelessly by taking care of family and giving me peace of mind to pursue studies over the years. She patiently listened to my stories, projects, assignments, and complaints and offered great suggestions. Without her support, this doctoral degree would still be in my to-do list. I am sincerely grateful to my love, Mano.

Now, I realize that thanking people, who made this possible, is not an easy task. We are what we are because of our teachers, starting from parents as first teachers to all the way now. As part of thanking my teachers, I offer my salutations to an intangible but all-pervading and invading eternal force, Brahman, for giving me this great opportunity to study and experience a premier institute like Texas A&M University.

## **NOMENCLATURE**

B2B	Business-to-Business
COGS	Cost of Goods Sold
DE	Doctor of Engineering
eSite	Electronic Site
GSCL	Global Supply Chain Laboratory
L&W	L&W Supply
NAW	National Association of Wholesaler-Distributors
OSHA	Occupational Safety and Health Administration
USG	United States Gypsum



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## **1. INTRODUCTION**

The motivation to choose the subject of customer value proposition as focus area is briefly discussed in the context of wholesaler-distributor industry. A brief introduction about L&W Supply (L&W) where my Doctor of Engineering (DE) internship was conducted is given in the following section. Finally, an overview of internship objectives is provided.

### **1.1 Motivation**

The key business trends—including globalization, consolidation, and commoditization—are rapidly shaping customer expectations and increasing the pressure to maximize value creation across the supply chain in all industries. In the business-to-business environment, manufacturers and wholesaler-distributors are being forced to think about their value propositions in a holistic manner against traditional low-cost transactional selling models. In the new business environment, following the severe 2008-09 recession, the customers expect their manufacturer and distributor suppliers to go beyond merely meeting their needs for products and services. Distributors must also demonstrate to customers the value of doing business with them by efficiently integrating many parts of their business systems—including finance, operations, sales, and marketing. The progressive distributors are sensing these forces of change and trying to adapt their business model. The adaptation requires them to develop new value

propositions as well as deliver existing value propositions effectively. Given that the salesforce is one of the competitive advantages of wholesaler-distributors against other go-to-market channels, the adaptation of business model inevitably includes salesforce transformation in terms of their ability to persuade customers in this competitive landscape. Thus customer value proposition development and salesforce's ability to demonstrate the same are key determinants of successful distributor transformation. The study therefore focuses on analyzing these two critical success factors. The study aims to examine the current status of these critical processes and build a comprehensive framework to developing customer value propositions as part of distributor's business strategy. The study also targets to bring a quantitative rigor, by integrating analytics, to qualitative sales and marketing processes such as value proposition development and demonstration. This would enable the distributors to demonstrate the benefits of doing business with them in terms of shareholder value improvement for the customer.

## **1.2 About L&W Supply**

United States Gypsum (USG) Corporation is North America's leading producer and distributor of gypsum wallboard, joint compound and a vast array of related products for the construction and remodeling industries. The firm also manufactures ceiling suspension systems and is recognized as the premier acoustical panel and specialty ceiling systems innovator. L&W Supply Corporation (L&W), the subsidiary of USG, is the nation's largest distributor of drywall and related building products. The corporate

headquarters is located in Chicago, Illinois. L&W serves the professional contractor through a network of more than 140 locations and strives to be their preferred source for all quality products and services they need to complete their projects — on time and on budget. The firm supplies panels (interior wall products), metal framing, ceilings, joint treatment and textures, insulation, fasteners and other accessory tools. L&W Supply serves both commercial and residential building contractors. The firm helps contractors achieve profitability through safe, on-time jobsite delivery as well as other value-added services such as submittals, and specialty product sourcing. L&W reported net sales of \$1.1 billion in 2011 and employs approximately 2,100 people according to USG factsheet (2011).

L&W Supply has been on a journey to both recover from the debilitating recession which begun in 2007 and to identify best practices to drive efficient and profitable growth in the coming years. The firm implemented many strategic initiatives in the pursuit of improving profitability while facing a declining construction market. The initiatives focused on right sizing the number of stocking locations, rationalizing inventory, streamlining warehouse operations, and optimizing delivery practices. The firm also implemented customer analytics, helping the salesforce and operations understand cost to serve various customers and the resulting impact on profitability. The initiatives helped the firm climb back to profitability though the market was bouncing back slowly. The firm also engaged in standardizing the customer facing processes across 140 locations in order to provide consistent and excellent customer experience

while eliminating non-value adding activities. Thus, the cost-focused initiatives assisted the firm to improve operating expenses and current assets (inventory and accounts receivables) while maintaining or increasing customer service. With the market recovering slowly, the competition in the field has been accelerating steadily. The competitive bidding and limited number of construction projects, coupled with commodity nature of construction supplies, led customers to focus on price excessively. The firm diagnosed the challenge of revenue growth after optimizing profitability through a series of strategic initiatives.

Porter (1985) defines three generic strategies that describe how a company achieves competitive advantage across its chosen market scope. An organization chooses to pursue one of two types of competitive advantage. The first type achieves differentiation through lower costs than its competition. The second type attains differentiation through product or service dimensions valued by customers to command a higher price. The organization also chooses one of two types of scope, either focus (offering its value proposition to selected market segments) or industry-wide (offering its value proposition across many market segments). The competitive strategy reflects the choices made regarding both the type of competitive advantage and the scope. L&W Supply positions itself in the market as differentiator (specializing in safety, technical and application support, specialty sourcing and other customer value drivers), playing in an industry-wide scope (through stocking 40,000 products across multiple building material product categories). This positioning helps the firm provide superior customer experience



through consistent and responsive distribution service. The firms in the cost leadership zone have a straightforward customer value proposition: lowest price. The customers understand this value proposition easily. This strategy requires no effort in demonstrating customer value. On the other hand, the firms in differentiation zone have a greater responsibility to demonstrate customer value, as it is not manifested directly. The salesforce has a huge role to play in demonstrating customer value and persuading customers subsequently. The firms in differentiation zone may not achieve profitability if they don't capture value according to their superior service. Thus both revenue growth and profitability (through value capture rather than cost reduction) squarely relied on how effectively salesforce could demonstrate the value proposition to existing as well as new customers. It is paramount that the salesforce has the ability to direct customer conversation away from price for firms competing in differentiation (in terms of customer service) zone. This ability is in proportion to the degree of focus and alignment in the salesforce' understanding of firm's value proposition (i.e. why should customers buy from L&W Supply against competitors). Given L&W's value positioning and customers' increasing focus on price, the firm decided to examine salesforce's capability to develop, demonstrate and customize customer value proposition. This challenge is shared by many industrial firms across the industry, according to Oliva et al. (2012). The authors surveyed more than 70 business-to-business (B2B) industrial firms to understand key marketing challenges as part of their annual trends research and identified customer value quantification and communication as the top concern.

### **1.3 Internship Objectives**

The internship objectives are focused on identifying best practices for customer value proposition development, demonstration and customization. The individual objectives are as follows:

- Capture the current practice of developing value proposition for engineering products by interacting with L&W personnel (sales force and branch managers).

Three specific processes are selected:

- Customer value proposition description
  - Customer value proposition demonstration
  - Customer value proposition customization
- Analyze the current practice to understand value proposition effectiveness and identify opportunity gaps.
  - Solve process gaps by developing framework for customer value proposition.
  - Develop guidelines for monetizing key elements of value proposition.
  - Explain the process of customizing value proposition to suit customers' value orientation.
  - Provide recommendations and implementation roadmap for L&W to carry out results.

More details about the internship objectives are provided in APPENDIX A for reference. The scope of the project is defined in terms of market segment as customer value proposition varies from segment to segment. Given growth potential and relevance of the subject, L&W chose commercial market segment for the study. Another dimension of scope is related to perspective. The value proposition has two viewpoints: customer and distributor. L&W has done many customer studies during their customer experience initiative and the data was made available for this study. Therefore, distributor perspective is analyzed in detail. Here, the distributor refers to salesforce and sales management, who are the primary interface to customers. Their perspective is the primary focus of this study. In other words, how salesforce and sales management develops and demonstrates customer value proposition.

The rest of the report is structured around internship objectives and three focus business processes.

- **Problem:** Section “Baseline Assessment” defines the problem in detail using quantitative metrics. This assessment defines as-is case and helps the firm understand magnitude of the challenge.
- **Solution:** Section “Solution Overview” outlines key elements of the proposed solution and the role of analytics in developing the solution.

- **Toolkit:** The next three sections go into details of the proposed solution. It explains the solution framework, how each element is defined and connected to the challenge identified in the previous steps.
- **Roadmap:** The section “Implementation Roadmap” focuses on providing specific recommendations and implementation guidelines for L&W Supply. The guidelines focus on key management and organizational factors required for successful implementation of best practices.

Finally, section “Summary and Conclusions” paints a picture of quick summary as well as key learnings from Doctor of Engineering program.

## **2. BASELINE ASSESSMENT**

The baseline assessment of current value proposition development process is performed in a series of three steps: (1) define analytics that assess value proposition development capability based on focus group study and literature review, (2) collect and analyze data by surveying salesforce and sales management, and (3) evaluate and summarize current status of value proposition development capability.

### **2.1 Analytics Development**

The input for value proposition analytics development was collected from both focus group study and personal interviews. The focus group study included five sales representatives. The participants were selected by L&W based on industry experience, tenure at the firm, geography, and performance. The discussion focused on three processes: value proposition description, demonstration and customization. In addition, one-to-one interviews were conducted with six sales representatives, two sales managers, one branch manager, two directors (finance and sales support), vice president (marketing), senior vice president (sales), and chief executive officer. Both focus group discussion and interviews helped us understand key aspects of customer value proposition development process, challenges and opportunities.

In parallel, literature review was performed to understand current best practices in value proposition development, customer value assessment and marketing analytics. A brief overview of the current literature state on these research streams is given below.

Though academic literature has many publications focused on value assessment, this survey has focused on business-to-business markets, and models that are relevant to distributors or manufacturers. This has narrowed the space and provided a comprehensive overview of existing value assessment models that are in practice. Wind (1990) explains the importance of understanding value of specific offering in particular customer applications in business markets, given the nature of buying decision-making. Anderson et al. (1993) claim that the concept of customer value in business markets is perceptual in nature and should be expressed in financial value. They also emphasize that the financial value should be computed in light of competitor offerings. Thus, they define value in business markets as the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm.

Several researchers over the years have proposed ways to define value in terms of the customer's perspective and one comprehensive view is that of Woodruff (1997) who defines customer-perceived value as a ".....customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations". The roots of the value proposition can be found in the work of Bower and

Garda (1985), but a comprehensive structured description of value proposition was published by Lanning and Michaels (1988).

Treacy and Wiersema (1995) defined three types of value disciplines: operational excellence, customer intimacy and product leadership. The concept of differentiation has important role in developing value propositions. Ulaga and Eggert (2006) argue that differentiation in business relationships can be researched from a value-based perspective academically. But the differentiation must be relevant to customer by either providing benefits to the customer or lowering a customer's cost structure. The importance of customer value and its contribution to successful market leadership positions has been well established in the business marketing discipline over the past decade by Anderson and Narus (1999). Blissett (2010) identified analytics as one of the key forces of change in wholesaler-distribution industry. Marketing analytics is defined as "technology-enabled and model-supported approach to harness customer and market data to enhance marketing decision making" by Lilien (2011). The benefits of applying marketing analytics are related to decision-making. The decision consistency is improved as stated by Natter et al. (2008). Sinha and Zoltners (2001) argue that it helps explore broader decision options. Based on inputs from L&W personnel and literature review, the following value proposition analytics are defined in order to assess current process status.

- **Value Proposition Focus:** The customer value proposition has three parts: distributor (or supplier) capabilities and resulting customer value drivers, how value drivers help customers achieve their goals and which value drivers are superior than that of competitors (points of difference). The value proposition description should focus on all three parts. This measure assesses if salesforce's description of value proposition focuses on all three parts, especially, about customer goals. At regional level, this metric measures the percentage of salesforce that focuses on customer goals, L&W capabilities, competitive difference and all three.
- **Value Proposition Alignment (within a group):** The value proposition should mention points of difference with respect to competitor in order to highlight differential value created for customer. In other words, it should highlight value drivers that are superior to competitors' value drivers. This set of differentiating value drivers provides the firm its competitive advantage. Porter (1985) argues that the competitive advantage is essential for a firm's existence and sustained profitable growth. This measure evaluates the percentage of responses who believe in a given customer value driver as differentiator. It can be measured at regional or division or company level. Since firms invest key resources in enhancing differentiators, it is essential that the organization is aligned in terms of its differentiators. Especially, the salesforce' belief is vital as it directly influences how they sell and demonstrate value to customers. There are two dimensions on this metric. The first dimension assesses *spread*, i.e. number of value drivers cited as differentiators in a region. The higher the spread, the lower the focus (creates more noise through mixed signals in the



market). This indicates lack of clarity among salesforce in which value driver creates differential value. The second dimension measures *agreement* on a given value driver as differentiator. This is measured by percentage of salesforce that agree on a given value driver as competitive difference. The higher the agreement among salesforce on differentiators, the stronger the message in the market.

- **Value Proposition Alignment (between groups):** The alignment can be measured between two groups as well. The sales management (sales managers, regional sales managers, divisional vice presidents) coaches and develops sales representatives. It is paramount that the value proposition alignment between these two groups is high on a given differentiator. This internal alignment indicates or explains if value proposition alignment (at group level) is high or low on a given value driver. The internal alignment is measured by two dimensions. The first dimension compares views of sales reps and sales managers on top competitive value drivers. This is the comparison of *importance* placed by sales reps and managers. The second dimensions evaluates *agreement* on a given value driver. This compares percentage of sales reps and sales management who believe in a given value driver as a differentiator. The higher the difference, the lower the agreement between sales reps and sales management.
- **Value Proposition Demonstration:** The salesforce should demonstrate the value proposition by explaining how firm's key value drivers (differentiators) are helping customers achieve their business goals. This process can be analyzed in two settings: pre-sale and post-sale. In pre-sale context, salesforce may have to achieve this using

a set of tools such as return on investment calculations, productivity improvements, references and case studies. In post-sale situations, salesforce may document value delivered in order to demonstrate co-created value. The pre-sale context is assessed for the purpose of this study. This metric measures the percentage of salesforce who establish the connection between firm's value drivers and customer goals. This connection is important on two fronts: (1) for customers, it helps them understand how firm positively influences their business goals, (2) for sales force, (a) it provides guidelines on how firm's value proposition works in customer context and how to customize the same, (b) it helps them generate new sources of customer value, and (c) finally, it assists them on monetizing relevant or selective aspects of value proposition to demonstrate differential value, as needed by customers.

- **Value Proposition Customization:** The value proposition is designed at market segment level. But customers' requirements and value orientation differ within a market segment. In addition, the cost to serve customers varies widely due to difference in customer behaviors (such as order size, payment terms, etc.). The customers also assign different degree of importance to various benefits or business goals. This variation in customer requirements and value orientation requires firms to customize value proposition to achieve customer-level profitability. This metric evaluates the percentage of salesforce that customizes value proposition (according to pre-established criteria such as past customer profitability, etc.).

## **2.2 Data Collection and Analysis**

Based on value proposition analytics and feedback from focus group, a survey was prepared to get inputs from sales representatives, regional sales managers and divisional vice presidents. The value proposition assessment survey was designed around the following five categories:

- Customer value proposition – 4 questions
- Customer expectations – 3 questions
- Value proposition demonstration – 2 questions
- Growth opportunities and challenges – 4 questions
- Sales support tools – 3 questions

The detailed survey questions are provided in APPENDIX B. Nine regions across four divisions participated in the survey and 60 responses were received in total. Table 2.1 describes the break-up of responses by region and role (salesforce and sales management). The survey questions were designed as open-ended questions in order to get unbiased input from participants. The assumptions were made in interpreting open-ended responses. The responses were coded in order to assign them into one of the potential response categories. The coding was performed independently by internship supervisor and intern in order to improve consistency in data interpretation. The coded data was analyzed to evaluate five value proposition analytics discussed earlier.

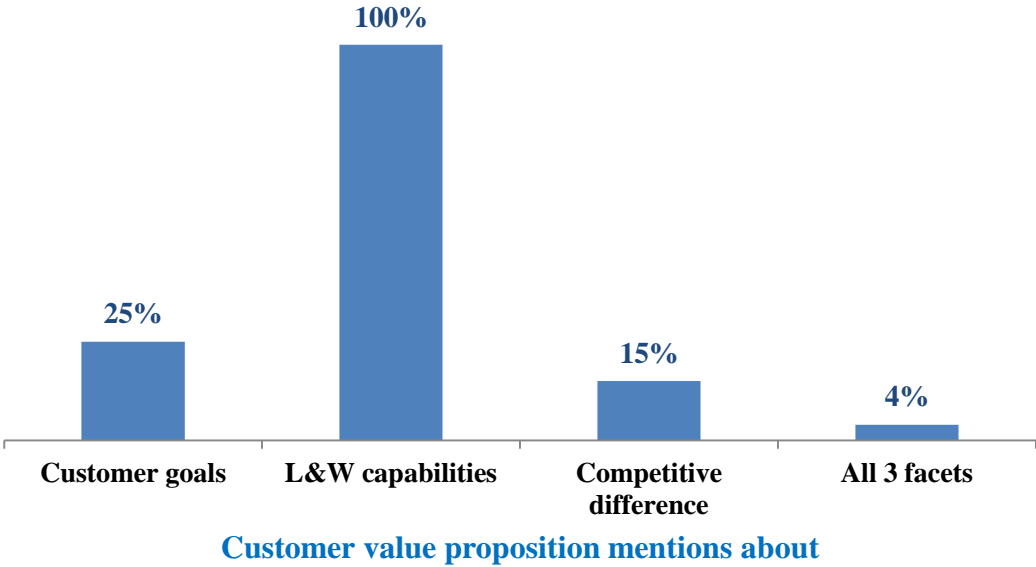
**Table 2.1 Survey Response Data**

Division	Region	Sales Reps	Sales Management		
			Region-level	Division-level	Company-wide
D1	R1	6	1	1	2
	R2	2			
	R3	2			
D2	R4	7			
	R5	7	2		
D3	R6	7	3	1	
D4	R7	7		1	
	R8	5	1		
	R9	4	1		
<b>Total Responses</b>		<b>47</b>	<b>8</b>	<b>3</b>	<b>2</b>

The first analytic – value proposition focus – is measured to understand the relative emphasis placed by salesforce on three aspects of value proposition: L&W value drivers, how they influence customer goals and how they are superior to competition. This was assessed using the responses provided for the first question. There were 53 responses for this question and the Figure 2.1 describes the results. Out of 53 responses, only 25% of them mentioned about how L&W’s capabilities help customers achieve customer goals. All responses described L&W’s range of capabilities and resulting value drivers. Eight (15%) responses mentioned about competitive difference, in addition to L&W capabilities. Six of them mentioned price as a differentiator by using the phrase “competitive price”, whereas two responses mentioned service as differentiator. Finally,

two responses addressed all three facets of customer value proposition. The focus among three parts seems to be lopsided, with excessive focus on L&W capabilities while moderate mindshare is given to mentioning of customer goals.

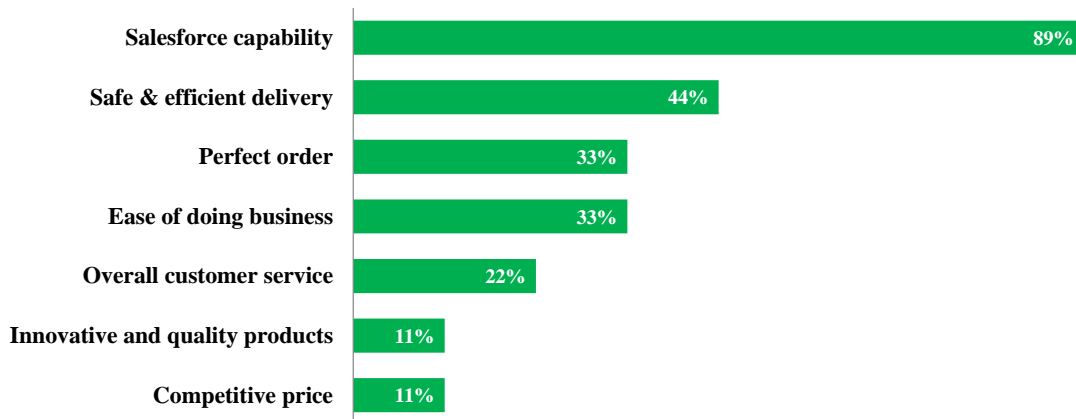
**Figure 2.1 Survey Results: Value Proposition Focus (company-wide)**



The second analytic – value proposition alignment (at group level) – is evaluated using the responses provided to questions two through four. Since the survey questions are open-ended, the responses needed extensive coding. The initial responses included 144 value driver descriptions. This was reduced to 37 value drivers by creating categories. In the second stage, 37 value drivers were analyzed for common themes or patterns and

then reduced to 13 value drivers. The responses are analyzed at regional, divisional and firm levels. The metric assessed percentage of responses (sales reps and sales management), within a region, who agreed on a given customer value driver as differentiator. The Figure 2.2 illustrates the results for region 5.

**Figure 2.2 Survey Results: Value Proposition Alignment (Region 5)**



Nine respondents in this region mentioned about seven value drivers as differentiators. Eight (89%) of them agree on salesforce capability (technical knowledge, responsiveness, reliability, effective communication and others) as a key differentiator at this region. While one-third of them believe in perfect order delivery (on-time, in-full, accurate deliveries) and ease of doing business (eSite capability, consistent customer experience, etc.) as differentiators in creating customer value, 44% of them agree on safe delivery capability as competitive difference in this region. Value proposition alignment

is high (greater than 66%, i.e. two-thirds of salesforce or more) on one value driver, while alignment on other value drivers as differentiator seems to be moderate (between 33% and 66%, i.e. greater than one-third support but less than two-third) to low (less than 33%). The same analysis was extended for other eight regions as well. Table 2.2 shows the consolidated results for all nine regions across thirteen value drivers.

**Table 2.2 Survey Results: Value Proposition Alignment (9 Regions)**

COMPETITIVE Value Drivers & Regions	R1	R2	R3	R4	R5	R6	R7	R8	R9
Number of responses	7	2	2	7	9	10	7	6	5
Salesforce capability	57%	50%	100%	57%	89%	80%	71%	60%	80%
Safe & efficient delivery	71%		50%	57%	44%	40%	57%	40%	
Perfect order	57%		50%	43%	33%	30%		60%	40%
Innovative and quality products		50%			11%	10%	14%	20%	20%
Overall customer service			50%	29%	22%	10%	43%		40%
Comprehensive product portfolio		50%		14%		10%	29%		60%
Product availability		100%		14%		40%		20%	
Ease of doing business	14%				33%	10%			
Competitive price	14%				11%		14%		
National footprint						10%	14%		
Value-add services						10%	14%		
Supplier relationship									20%

The number of responses from each region is given to compare results across regions. The same rule for high, moderate and low is followed. In addition, color code is used. The alignment values of greater than 66% (two-thirds of salesforce or more agree on a given value driver) are defined as high alignment and highlighted in green. The alignment values between 33% and 66% are defined as moderate alignment and highlighted in orange. The rest are defined as low alignment and are not highlighted.

Each region had one high alignment index except regions four and eight. The two-thirds of salesforce in these two regions did not agree on any value driver. Salesforce capability is the most popular value driver in which salesforce in five regions (R3, R5, R6, R7 and R9) had high degree of alignment, with region five approaching 89%. Safe and efficient delivery is the most popular differentiator in region one and no other regions have high degree of alignment on this value driver. Two value drivers enjoy the highest alignment (100%): product availability in region two and salesforce capability in region three. But note that the number of responses is at the lowest level at these two regions. The number of value drivers cited by salesforce as differentiators varied across regions. Region six mentioned about 10 value drivers while regions two and three mentioned only four value drivers. This spread is influenced by number of responses as well as coding methodology used.

The analysis was consolidated to understand divisional and company-level value proposition alignment. Table 2.3 shows the consolidated results at division and company-level. This includes five more responses, three from divisional vice presidents and two from firm-level senior vice presidents. The results are similar to regional alignment. Salesforce capability has the highest degree of alignment in each division, as a competitive differentiator. Safe and efficient delivery comes next; almost half of the salesforce believes this as a competitive advantage except division four.



**Table 2.3 Survey Results: Value Proposition Alignment (4 Divisions)**

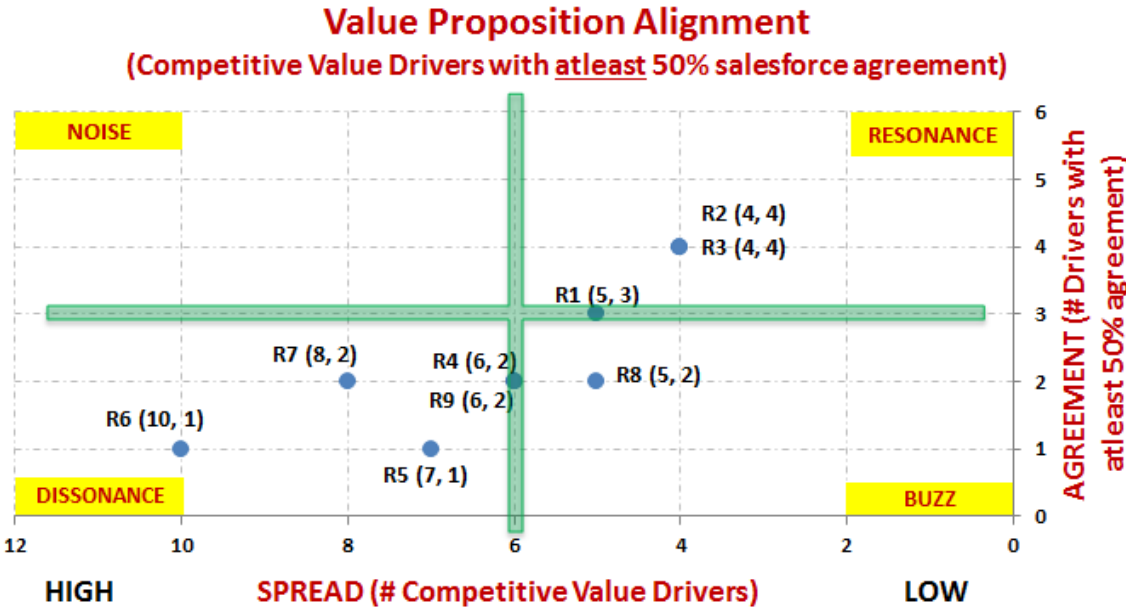
<b>COMPETITIVE Value Drivers &amp; Divisions</b>	<b>D1</b>	<b>D2</b>	<b>D3</b>	<b>D4</b>	<b>Nationwide</b>
<b>Number of responses</b>	12	16	11	19	60
Salesforce capability	67%	75%	82%	67%	69%
Safe and efficient delivery	58%	50%	45%	33%	46%
Perfect order	42%	38%	27%	28%	34%
Product availability	17%	6%	36%	6%	15%
Overall customer service	8%	25%	9%	28%	19%
Comprehensive product portfolio	8%	6%	9%	22%	12%
Innovative and quality products	17%	6%	9%	17%	12%
Ease of doing business	8%	19%	9%		12%
Competitive price	8%	6%		6%	5%
National footprint			18%	6%	5%
Value-add services			9%	6%	3%
Supplier relationship				6%	2%
Express will-call				6%	2%

Perfect order delivery has more than one-third of salesforce support in divisions one and two, while division three has moderate support for product availability. The similar theme emerges at company-level as well. There is no single competitive value driver in which the whole firm believes in (i.e. 100% alignment) as differentiator. Salesforce capability is the closest winner in which more than two-thirds of the firm believes as competitive difference. Note that these value drivers emerged from open-ended responses and were not given as choices in survey.

The regional level analysis measured two dimensions of value proposition alignment, spread and agreement, as defined in section 2.1. The spread is evaluated based on

number of value drivers cited as differentiators in a region. For instance, the spread for region one is five (refer Table 2.2). The second dimension agreement is measured based on number of value drivers in which at least half of the salesforce (50% agreement) agrees as differentiator. For region one, the number of value drivers in which more than half the salesforce agrees is three (refer Table 2.2). These two dimensions are measured for all nine regions and plotted as shown in Figure 2.3.

**Figure 2.3 Survey Results: Value Proposition Alignment – 4 Quadrants**



The horizontal axis defines spread in terms of number of competitive value drivers cited in a region. The vertical axis defines agreement in terms of number of value drivers

agreed by at least half of the salesforce in a region. The plot is divided into four quadrants by projecting mid-point in each axis. The top right hand quadrant represents the area in which the spread is low (meaning clarity in salesforce's understanding of competitive value drivers) and agreement is high. In this quadrant, the message is focused and strong. Hence, it is named as 'resonance'. The diagonally opposite end (bottom left hand quadrant) represents high spread and low agreement. This creates confusion in the marketplace, with both focus and agreement lacking. Hence, it is named as 'dissonance'. The top left hand side quadrant characterizes high spread and high agreement. This reduces clarity of the message but increases the volume. Therefore, it is named as 'noise'. Finally, bottom right hand side quadrant signifies low spread and low agreement. Here the message is focused but not enough agreement, leading low impact. As a result, it is named as 'buzz'. The values of spread and agreement are assessed for each region from Table 2.2. For region one, spread and agreement are five and three, as explained in the previous paragraph. This lies on the border between 'resonance' and 'buzz'. Thus, three regions (R1, R2 and R3) falls under 'resonance', one (R8) holds quadrant 'buzz' and the remaining five regions takes the space of 'dissonance'. This quadrant summarizes regions' positions on value proposition alignment, collectively represented by spread and agreement. Note that depending on agreement percentage (50% in this case), the relative positions of regions will change.

The third analytic – value proposition alignment (between groups) – is assessed using responses to questions two through four, along with respondent's role information

provided. This metric evaluates the degree of alignment between sales reps and sales managers on any given competitive value driver. This is measured at company-level and there were 42 responses from sales reps and 13 from sales managers. There are two dimensions to measure on this metric, as defined earlier. The first dimension compares *importance* placed by sales reps and managers on competitive value drivers. Table 2.4 shows views of sales reps and managers on competitive value drivers.

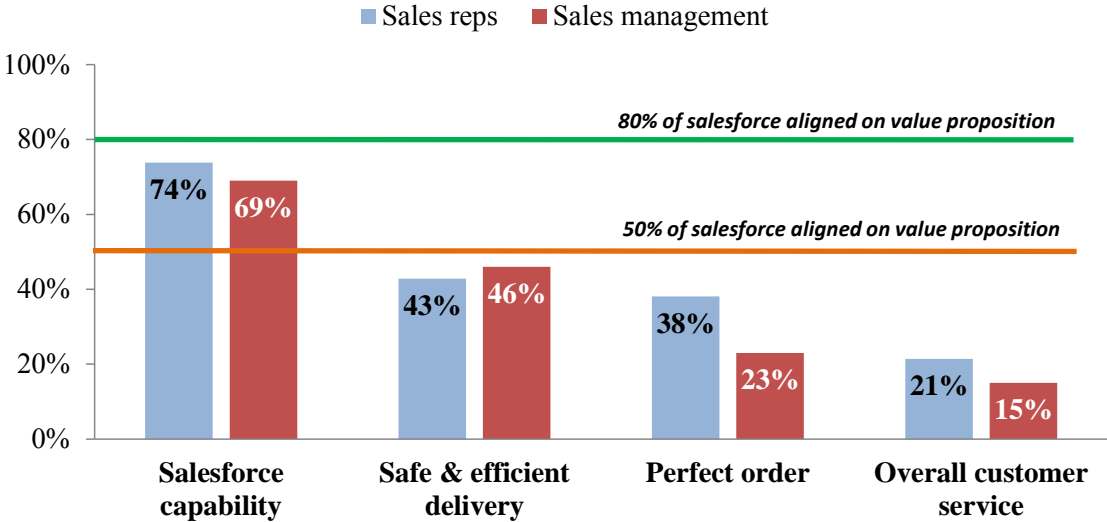
**Table 2.4 Survey Results: Competitive Value Driver Comparison**

Sales Rep View			Sales Management View		
Ranking	Customer Value Drivers	% agree as competitive value driver	Ranking	Customer Value Drivers	% agree as competitive value driver
1	Salesforce capability	74%	1	Salesforce capability	69%
2	Safe & efficient delivery capability	43%	2	Safe & efficient delivery capability	46%
3	Perfect order	38%	3	Perfect order	23%
4	Overall customer service	21%	3	Ease of doing business	23%
5	Comprehensive product portfolio	12%	3	Product availability	23%
5	Innovative and quality products	12%	4	Overall customer service	15%
5	Product availability	12%	5	Express will-call	8%

There are seven customer value drivers on each side and five out of them matches (highlighted in brown) both views. This leads to 71% alignment on importance. The second dimension evaluates *agreement* on top four customer value drivers. Figure 2.4 demonstrates the degree of agreement between sales reps and managers for four competitive value drivers – salesforce capability, safe and efficient delivery, perfect order and overall customer service. The degree of alignment between two groups is very

high on salesforce capability, safe and efficient delivery and overall customer service, with 5%, 3% and 6% absolute difference, respectively. This indicates better communication and understanding between sales reps and sales management on points of difference that create customer value. However, there is only one competitive value driver that has broader agreement (with more than two-thirds of sales reps and sales managers believing it as differentiators). Safe and efficient delivery has support from only half the sales reps and sales management as competitive difference.

**Figure 2.4 Survey Results: Value Proposition Alignment (between groups)**

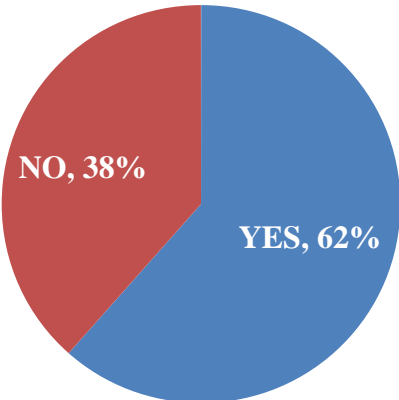


The penultimate analytic – value proposition demonstration – captures how effectively salesforce connects customer goals and profitability to firm’s value drivers. This is

evaluated based on responses to survey questions eight and nine. There were 52 responses for this question company-wide. Figure 2.5 illustrates the results based on percentage of responses who explained how they connect firm’s value proposition to customer profitability against who do not.

**Figure 2.5 Survey Results: Value Proposition Demonstration**

**Do you establish a connection between “L&W’s value proposition” and “contractor’s profitability”?**



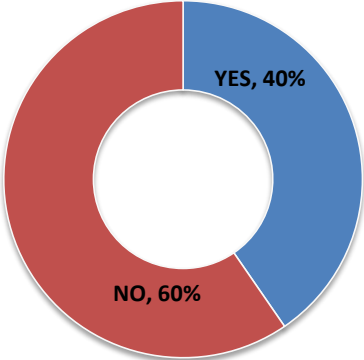
Sixty-two percent of salesforce responded ‘yes’ and explained how they establish connection. About eighty percent of them referred to labor cost savings due to better on-time delivery, product substitutions, new product introductions, invoice accuracy and

others. The remaining responses mentioned about hidden costs with competitor services that cost contractor profitability. There are no specific value proposition demonstration tools and the salesforce does this reactively and informally. The responses mentioned about difficulty associated with lack of sales tools to convince customers about price differentials.

The final analytic – value proposition customization – focuses on salesforce’s customization process. It evaluates percentage of salesforce who customize value proposition based on pre-established criteria. The responses to question 15 are analyzed to evaluate customization practice. There were 47 responses and sixty percent of them did not customize value proposition. Figure 2.6 shows the results for this analytic.

**Figure 2.6 Survey Results: Value Proposition Customization**

**Do you customize value proposition based on customer stratification types?**



The responses acknowledged variability in customer requirements, behaviors and value orientations (relative importance assigned by customers to various benefits and value drivers). But they did not customize value proposition. The reasons varied from fear of losing the sale to importance of relationship to importance of achieving sales quota to lack of control to influence customer behaviors. This clearly shows the opportunities as well as challenges in terms of salesforce's belief or perception of customer value proposition.

### **2.3 Current Status**

The summary of five value proposition analytics is described as follows:

- **Value Proposition Focus:** Twenty-five percent of salesforce mention about customer goals as part of their value proposition description. The focal point of value proposition should be the customer rather than L&W capabilities and resulting value drivers. Also, only 15% of salesforce mention about *differential* value by referring to competitors' weakness or superiority of L&W capabilities. Currently, focus on customer goals and differential value is relatively low.
- **Value Proposition Alignment (within salesforce):** There are two dimensions under this metric.
  - Spread: This refers to number of value drivers mentioned by salesforce as differentiators. The total number of differentiators cited across nine regions is



twelve, which is relatively high. This indicates salesforce's lack of clarity in what creates differential value to customers.

- Agreement: This denotes number of value drivers with at least two-third of salesforce' support. Ideally, all competitive value drivers should have this level of agreement among salesforce. But all regions, except regions four and eight, have at least two-thirds of agreement on one value driver only. For all other competitive value drivers agreement is moderate (between 33% and 66%) to low (less than 33%). The spread and agreement, collectively, assess alignment and plot on four quadrants – resonance, dissonance, noise and buzz. Only three regions fall under 'resonance' zone. Hence, there is a potential in improving value proposition alignment across the firm considerably.
- **Value Proposition Alignment (between sales reps and managers):** There are two dimensions to assess alignment between sales reps and managers.
  - Importance: This refers to alignment in terms of importance assigned by sales reps and managers to value drivers as differentiators. The alignment is high (71%) on competitive value driver comparison (i.e. 5 out of sales reps' top 7 ranking matches with sales managers' ranking).
  - Agreement: This denotes level of agreement between sales reps and managers on a given value driver as differentiator. The level of agreement is high (75%) on three out of top four competitive value drivers, with less than 6% absolute difference in their views. Overall, the internal alignment

between sales reps and sales management is high. This indicates better communication and understanding between sales reps and managers in terms of competitive differentiators of the business.

- **Value Proposition Demonstration:** Sixty-two percent of salesforce demonstrate value proposition by linking customer goals and firm's value drivers. But they mention that the process is more reactive and applies informal methods based on their experience. They also mention about lack of sales support tools and training to perform this process effectively.
- **Value Proposition Customization:** Forty percent of salesforce customize value proposition based on customers' past behavior in terms of profitability and loyalty. The remaining salesforce treats all customers the same for various reasons, ranging from fear of losing the sale to lack of guidance. The process has opportunity to improve current 40% to higher value through better guidelines, tools and sales force coaching.

### **3. SOLUTION OVERVIEW**

The baseline assessment of current value proposition development process is discussed in the previous section. The project team reviewed current status and set goals for value proposition metrics. The goals and corresponding solutions to reach the same are discussed in this section.

#### **3.1 To-be Status**

The project team reviewed current status of value proposition development process in light of three factors: firm's value positioning, revenue growth goals and competition. The firm has positioned itself in 'differentiation' zone against 'low cost', as discussed in section 1. This positioning requires firms in this zone to demonstrate differential value to customers in order to achieve sustained profitable growth. Without consistent and convincing value demonstration, firms in this zone will either lose profitability or yield to 'low cost' zone due to customer pressure. The firm has above-average growth goals as part of its strategic plan. The firm has also consistently invested over the years and continues to invest in developing specific capabilities that increases customer experience and value. Finally, both regional and national competition is increasing acutely due to moderate industry growth. Given these market forces, value proposition development and demonstration processes are high critical activities that have direct bearing on firm's ability to command profitable growth. Given moderate industry growth, customer

retention has become critical. The contractors are project-driven and have many moving parts in a construction project that demands attention. Since their customer requirements change from project to project, their value orientation is dynamic. The contractors' profitability also varies from one job to the next depends on many factors such as general contractor requirements, labor, estimate accuracy, number of change-orders, and other factors. This dynamic makes contractor more short-term focused. As a result, their value orientation oscillates between price and service. The distributors have full responsibility in helping contractor understand the importance of their above-average service. This has to be done by framing the right context and demonstrating value delivered in order to achieve profitable growth. This responsibility exponentially increases if a firm competes from differentiation zone. Considering these forces, the project team set to-be goals as shown in Table 3.1.

**Table 3.1 Value Proposition Analytics – As-is and To-be Status**

Value Proposition Analytics	Current Status	Tools	Training & Development	To-be Status
<b>Focus of value proposition</b>	- 25% salesforce focus on customer goals - 15% focus on differential value	<b>Customer value proposition framework</b>	<b>Salesforce regional workshops and Sales manager coaching</b>	All salesforce focus on customer goals and differential value
<b>Alignment (within salesforce)</b>	- High spread - Low agreement - Majority in dissonance zone			Migrate to resonance zone
<b>Alignment (between sales reps and sales management)</b>	- 71% alignment on importance - 75% alignment on agreement			Maintain and increase as needed
<b>Demonstration</b>	- 62% of salesforce demonstrate value proposition but done reactively with informal methods	<b>Value demonstration mechanisms</b>		Increase to 100% by providing right tools and guidance
<b>Customization</b>	- 40% customize value proposition; others treat all customers the same for various reasons	<b>Customization process and guidance</b>		Increase to 100% by providing right process and coaching

The first column lists five value proposition analytics. The second column summarizes the results from previous section. The final column shows targets set for each analytic. The project team decided to increase the focus of all salesforce on customer goals and differential value while describing value proposition. The value proposition alignment is summarized in four quadrant matrix and five out of nine regions are in dissonance zone. The project team decided to migrate everyone to resonance zone by reducing spread and increasing alignment among salesforce. The internal alignment between sales reps and sales management is in good standing. Hence the project team decided to sustain the current position. For both demonstration and customization processes, team decided to

enhance this capability to 100% level as it is critical for firm's sustained profitable growth.

### **3.2 Solution – Tools and Training**

Two levels of solution are proposed to achieve to-be status. The first level consists of frameworks and tools that provide guidance to salesforce in describing, demonstrating and customizing value proposition. The second level consists of salesforce training to deploy the tools and techniques and sales manager coaching to guide and sustain improvement process.

Three specific tools are developed – value proposition framework, demonstration mechanisms and customization process. The customer value proposition framework is developed to increase value proposition focus and alignment. The framework is designed to provide high degree of clarity in how firm influences customers' business processes. The customer touch points are identified and customers' critical success factors are unearthed. The detailed step-by-step charting is done to explain key components of value proposition (distributor side) as well as how value is co-created at customer side. The framework is designed to make it visually appealing and interesting in order to make salesforce learning easy and effective. With proper training, the framework can be adapted for demonstrating differential value to customers. The framework will be discussed in detail in section 4.

The next solution focused on making value demonstration effective. The value proposition framework provides key linkages between distributor and customers' business. These linkages can be proved or validated using many methods. The methods vary from providing customer references to measuring our customer-specific metrics (such as on-time delivery or fill rate) to sharing case studies of past solution to quantitative demonstration of return on investment. But there are other determinants (such as stage in sales cycle, jobsite project life cycle, customer stakeholders, etc.) that govern value demonstration mechanism for a given context (market segment and customer). The solution is developed to provide guidance on both demonstration methods as well as determinants. This will be discussed in detail in section 5.

The third solution helps salesforce customize value proposition. The customization is dependent on many factors such as customers' past behavior and current requirements. But there is no established process to help salesforce successfully navigate customization currently. The salesforce is reluctant due to many factors such as fear of losing the sale, lack of control and others. Given salesforce' reluctance level, the solution has to be gradual in order to earn buy-in from salesforce. A simplified, rule-based solution is developed to help salesforce customize value proposition. The process details will be explained in section 6. Finally, salesforce training and sales manager coaching will be discussed as part of other recommendations in section 7, before concluding in section 8.

#### 4. VALUE PROPOSITION FRAMEWORK\*

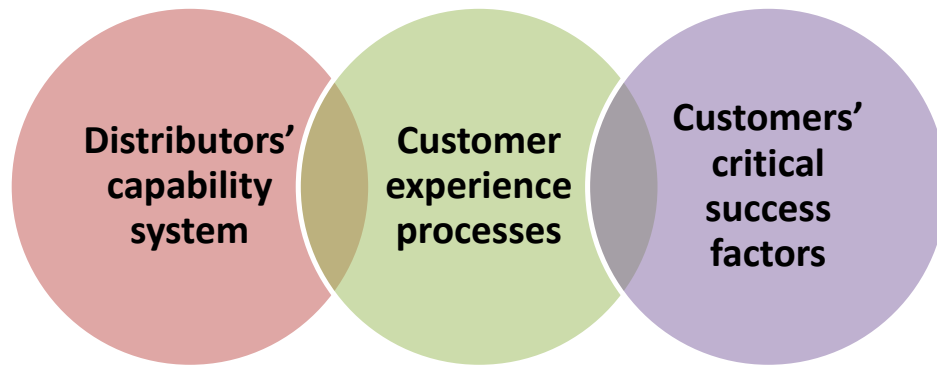
Five basic elements define business systems: customer requirements, people, process, technology, and shareholder value. In this ecosystem, for the given customer requirement in the marketplace, people perform the business processes with the help of technology which, in turn, satisfies customer requirements and creates shareholder value. In order to increase value proposition focus and alignment, it is essential to establish the connection between distributor capabilities and resulting value drivers and customer requirements and their business outcomes. Though this connection is intuitively understood at a high level, it usually is not comprehensive, meaning that salesforce, branch/local personnel and corporate executives do not understand the link on the same level. As baseline assessment demonstrated, there is a lack of alignment even within salesforce in understanding value proposition. If we can represent customer value based on their critical success factors, then the objective becomes establishing the connection between distributors' value drivers and customers' critical success factors that represent customer value, as shown in Figure 4.1. The upcoming sections explore how to structure both distributors' capability system (and resulting value drivers) and customers' critical success factors and then how to connect the same through customer experience processes.

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\* Part of this chapter (distributors' process and financial structure) is reprinted with permission from Lawrence F. B., S. Gunasekaran, P. Krishnadevarajan. 2009. *Optimizing distributor profitability: best practices to a stronger bottom line*. NAW Institute for Distribution Excellence, Washington, D.C. Copyright 2009 (NAW Institute for Distribution Excellence)



**Figure 4.1 Linking Value Proposition to Customer**



#### **4.1 Distributor Capability System**

As the traditional supply chain becomes increasingly global and complex, the distributor's role in supply chain functions grows, both in scope and depth. The distributors create value for customers through hundreds of processes performed in a typical wholesaler-distributor environment. Bringing structure to these business processes and resulting value drivers require grouping them under certain functions. The Optimizing Distributor Profitability framework, defined by Lawrence et al. (2009), breaks distributor business processes into seven functional groups. In a typical

distributor environment, these process groups are collectively known as the “7S” process groups:

- **Source:** This is the first group in the sequence and addresses the processes related to the resource category vendors/suppliers.
- **Stock:** (inventory management): The stock group addresses one of the two largest distributor assets according to survey respondents--inventory.
- **Store:** (warehouse management): This group is comprised of facilities and material handling supporting assets.
- **Sell:** This group primarily focuses on customers and cash (accounts receivable, the other largest asset).
- **Ship:** This group deals with processes that deliver products to customers; it involves facilities and transportation support.
- **Supply Chain Planning:** This group addresses the distribution network assets, which include facility, transportation, vendors, customers, and inventory. Although these assets are included in other categories, it's important to organize them into one cohesive supply chain for strategic planning purposes.
- **Support Services:** Support and supply chain planning are critical groups that support all the functions in a firm. Human resources, finance, and others are the resources that interact with all the other groups and are vital to the survival of any business.

This process structure is adapted for value proposition framework with following modifications.

- ‘Support services’ process group is classified into four individual components – human capital, financial capital, organization capital and information capital.
- ‘Sell’ process group is divided into three categories – outside sales, inside sales and marketing – due to their varying roles and responsibilities in creating customer value.
- ‘Store’ and ‘Ship’ process groups are combined due to their close association in delivering customer value.

These process groups (process capital) and resources (human, information, financial and organization capital) collectively enable a firm to develop a set of capabilities that deliver customer value, hence shareholder value. This collective entity is called as capability system. This capability system acts as an engine for firms’ value creation. This system creates customer value while performing a given business process. For instance, when delivering products to customers on construction jobsite, L&W practices a well-defined safety protocol as part of delivery process. This process feature or attribute enables L&W make an incident-free delivery. This process feature or attribute is defined as customer value driver as it creates safe work place that protects contractor profitability as well as reputation in the market. Similarly, each business process will have multiple value drivers. These value drivers apply to products as well. If a given product has certain attributes that help customers perform their processes efficiently or

effectively, these attributes are essentially value drivers of that product. For instance, USG reduced the weight of sheetrock products, which enabled contractors install the product efficiently. This weight attribute becomes a value driver. Note that not all product or service attributes are value drivers. An attribute or feature of a service or product becomes a value driver when it can be linked to customers' process or business outcomes. Kaplan and Norton (2000) identify product and service attributes, customer relations and corporate image as three elements of customer value proposition. Applying this classification to wholesale-distribution industry, the distributors' value proposition includes three more components in addition to product and service value drivers – brand and image, supplier relationship, and customer-value driven relationship. All components are intangibles. Brand and image refers to firms' reputation or goodwill developed over the years in the marketplace. It is a function of multiple factors such as years of existence, perceived product or service quality and others. Supplier relationship refers to firm's relationship with strategic suppliers. This relationship acts as a key source of value driver. For instance, contractor may require a specific product related information to meet general contractors' design specifications. The distributors use their relationship capital to access expert sources inside supplier organization in order to obtain this information. The level of mutual value created between distributors and suppliers decide the maturity level of relationship and resulting benefits. Customer value-driven relationship refers to salesforce's relationship with customers developed over the years. Though the relationship is a catalyst in a buying decision, it is driven and sustained by mutual value created for both parties over the years. Without mutual value,

the relationship may not sustain over the long term. It is important to understand the role of value in relationship as it blinds salesforce over the long run. Though the salesforce is part of the value created, they are not the only source of co-created value. The value is created through multiple value drivers such as on-time delivery, technical support, product availability and others. The salesforce capability is one of the value drivers and not the only source of value. Thus, distributors' value proposition constitutes five ingredients: product portfolio (tangible), service proposition (tangible), brand and image (intangible) supplier relationship (intangible) and customer value-driven relationship (intangible).

#### **4.2 Customer Value Creation**

The distributors' value drivers influence customers' business in six critical areas:

- **Process Performance:** The distributors' value drivers influence customers' business processes in three aspects: (1) increase process efficiency, (2) increase process effectiveness and (3) add additional value through process enhancement. The process enhancement is done by going beyond process objectives. For instance, when contractors request for quote, if L&W provides quote in acceptable timeframe. The process is efficient and effective. But if the quote coordinator provides recommendations on substituting the products or adding missed critical components, in order to help contractor estimate better or increase jobsite labor productivity, he or

she is adding additional value through this process. The process is enhanced through their value engineering suggestions. All three aspects – efficiency, effectiveness, and enhancement – collectively determine benefits of a given process.

- **Knowledge Capital:** The distributors act as a source of technical knowledge as part of their go-to-market strategy. This technical knowledge could be related product or service or application or market. Distributors' salesforce shares this knowledge through their interaction, as part of value creation. This knowledge sharing enhances customers' technical knowledge, hence their ability to perform a given process efficiently or help their customers (end customer). A common example includes distributors' training (as value-added support) on new products or lean production techniques or other content. This helps contractors perform their installation or production process efficiently.
- **Risk Mitigation:** The distributors, given their position in the supply chain (between manufacturer and retailer), manage demand and supply variability. Essentially, the distributors help their customers manage the risk of stocking out through better product availability or distributor-managed-inventory. The distributors also mitigate the risks associated with customers' critical processes. For instance, L&W, through their safe delivery process, mitigates legal and financial risks associated with jobsite accidents for contractors. The risk mitigation has many potential benefits but it manifests only when things go wrong. Hence customers do not place high value on this benefit but it is critical to their survival when it happens. In such cases, the

distributor has additional responsibility in reminding or continuously demonstrating the *potential* benefits through case studies or other industry incidents.

- **Triple Bottom Line:** Distributors' processes directly influence customers' financial performance through payment terms or rebates or revenue growth through joint business development. In addition, all of the benefits that are described above can be monetized (based on assumptions and availability of data) as well. This economic benefit is important to the customer. But, recently, businesses (especially large businesses) are increasingly becoming aware of their role in environmental sustainability, as a result of new regulations, economic benefits or sacrifices (such as carbon tax) and shareholder activism. This makes customers examine the role of distributors' value proposition in their sustainability efforts. This is important to firms in construction industry as large builder and architects consider this as one of the key elements of suppliers' value proposition. The "triple bottom line" is an accounting framework with three dimensions: financial, environmental and social. The phrase "triple bottom line" was first coined by John Elkington (1998). He argues that firms should be preparing two more bottom lines, in addition to traditional income statement-driven one. The second bottom line assesses how socially responsible an organization has been throughout its operations. The third bottom line focuses on how environmentally responsible it has been. Thus, the triple bottom line aims to measure the financial, social and environmental performance of the organization over a period of time.

- **End Customer Satisfaction:** The distributors' processes influence end customers' (customers' customers) satisfaction indirectly. For instance, when L&W delivers products at the jobsite, their safe practices (or lack thereof) gain the attention of general contractor (end customer). A safe delivery helps a sub-contractor (L&W's customer) gain a good impression from general contractor (end customer). This, in turn, increases sub-contractor's reputation as a result of end customer satisfaction. The other example is prompt bid responses. When L&W responds to quote inquiries promptly, it enables the sub-contractor submit his quote on time, leading to end customer satisfaction. In essence, end customer (general contractor) satisfaction is based on the effectiveness of sub-contractor's overall value proposition (sub-contractor's brand and image, service proposition, value-driven relationship with general contractor) delivery. The distributors, through their value drivers, influence sub-contractor's value proposition and delivery. Though it is an extended benefit, it matters to customers, i.e. end customer satisfaction influences customers' buying decisions. Hence, distributors should highlight their impact on end customer satisfaction.
- **Customer Experience:** This is determined by multiple factors that customer experiences in a given transaction or total business done over the long term. Especially, this refers to ease of doing business with distributor. This is based on how easy for the customer to perform a process (such as placing the order or contacting technical support or payment) or access people or information or do business, in general. This is a subjective measure that is influenced by personal



preferences and other factors. All five benefits – process performance, knowledge capital, risk mitigation, triple bottom line and end customer satisfaction – collectively determine customers’ experience of a given process or total business done over time. This experience shapes customers’ perception, hence perceived customer value.

Thus customer value is created in six critical areas of customers’ business. These are called as value targets. The purpose of value proposition framework is to link distributors’ value drivers to customers’ business outcomes. The customers view the result of distributors’ value creation at multiple levels. They see immediate tactical outcomes resulting from distributors’ specific value drivers. For instance, a distributor may provide a quote for a given proposal. The customer sees this outcome through metrics such as turnaround time, accuracy of quote, etc. These are called as value outcomes (at tactical level). Essentially, these value outcomes influence one or more of six critical areas (value targets) discussed earlier. Though these six areas represent benefits across wide spectrum (social to process to environmental), the customers prefer to understand value in financial terms as it is universal and helps them make effective business decisions. Therefore, the objective is to create a cause-and-effect framework that links distributor value drivers to financial dimension of customer value, i.e. customers’ shareholder value. Though financial perspective dominates business-to-business buying decisions, humans still make the decision. In other words, customers’ perceived value (in addition to proven or demonstrable financial value) does play its role

in their buying decisions, though degree of importance varies from context to context. Hence, it is important to understand the linkages behind customer perceived value in parallel.

### 4.3 Customer’s Financial and Perception Structure

The financial structure is defined at three levels, as defined in Sales and Marketing Optimization framework by Gunasekaran et al. (2012). The Figure 4.2 shows the financial structure. The principal financial drivers are linked to the metrics, which can then be connected to the financial elements.

**Figure 4.2 Financial Structure**



For example, sales and revenue are financial elements that contribute to the metric “gross margin,” which connects to the financial driver “profitability.” Level 1 is a

snapshot, with key financial drivers for top management, level 2 is for mid-managers and operations, and level 3 is at a detailed level. The framework offers flexibility for all three levels and can be applied at a field or corporate level. All levels are linked to each other so management can drill down to details.

#### **4.3.1 Level 1 (Financial Drivers)**

There are four financial drivers that capture the essence of shareholder value. They are profitability, revenue growth, asset efficiency and cash flow. The path to defining each level of the framework becomes clearer when connected to financial information. There are three important financial statements:

- The income (profit and loss) statement captures revenue and operational expenses for a specified period of time.
  - The income statement also helps companies set growth targets based on current revenue (profitability and growth).
- The balance sheet statement captures the status of assets and liabilities at a point in time. Both short-term and long-term assets and liabilities are captured in the statement (asset efficiency).
- The cash flow statement indicates the health of the firm in terms of its cash reserves and needs (cash flow).

### **4.3.2 Level 2 (Financial Metrics)**

The financial metrics are the indicators used to help your organization define and measure progress toward organizational goals. It varies by organization. Every financial metric can be tied to one of the four basic financial drivers (cash flow, asset efficiency, growth, and profitability). The profitability driver includes the following metrics: gross margin, operating margin and net profit. Inventory turns and total asset turnover are popular metrics under asset efficiency driver. Working capital is the common metric under cash flow.

### **4.3.3 Level 3 (Financial Elements)**

Financial elements can be related to transaction-level information taken from daily operations. The elements can be combined in various ways to arrive at an appropriate metric. Elements include inventory, revenue, and expenses (warehouse, payroll, marketing, and so forth). These are the basic elements that appear in financial statements and are used to calculate financial metrics. For example, the cost of goods sold (COGS) from income statement and the inventory from balance sheet are two financial elements used to calculate the financial metric “inventory turnover.” The causal linkage flows from financial elements (COGS and inventory) to metrics (inventory turnover) to drivers (asset efficiency).

In addition to general financial structure, there are industry-specific critical success factors. L&W serves sub-contractors in construction industry. The critical success factors in construction industry are on schedule, on budget, job quality and safety. These industry-specific factors contribute to both financial performance (shareholder value) and customer perceived value.

#### **4.3.4 Customer Perception Structure**

Similar to financial structure, customers form perception over time based on many experiences with processes, people, product, service and system. Customers form perception as a result of series of experiences or one strong (desirable or not-so-desirable) experience, whereas experience is an emotion, resulting from an interaction with people, process, product, service or system. For each business process interaction, customers experience different emotions. For instance, if distributor calls ahead of delivery and informs customer of the status, this makes the foreman on the jobsite more comfortable in managing his schedule. He feels relieved and this provides a peace of mind. In another setting, if distributor informs project manager of lead time delay and how to manage delay in advance of delivery, this increases contractors' level of confidence. In another example, if distributor invoices wrongly, the customer has to call back and follow up to correct the same. This increases customers' work load and also increases noise level in the system. The distributor may be perceived as difficult to do business with. The key words are confidence, peace of mind, stress level, hassle index,

pain factor and others. Similar to Profit and Loss statement, customers' mind may be compared to Pain and Gain statement, which records both positive and negative experiences, which result in Net Perceived Value. Ease of doing business is used in this framework to capture customer experience. Hassle index, goodwill, peace of mind, and confidence level are used as perception metrics, leading to customers' final experience and perceived value.

#### **4.4 Customer Experience Processes**

The distributor capability system is examined in order to understand five key ingredients (brand and image, product portfolio, service proposition, supplier relationship and customer value-driven relationship) of distributor value proposition. Then, how value drivers (resulting from capability system) influence customer business in six aspects (process performance, knowledge capital, risk mitigation, triple bottom line – financial, social and environmental, end customer satisfaction and customer experience) is analyzed. The financial structure is defined in order to express these six aspects in customer shareholder value and industry-specific critical success factors. The question remains about the central linkage, i.e. how do we connect distributors' value drivers and customers' financial drivers. The bridge that connects these two perspectives is customer experience processes. The customer experience processes are defined as strategic touch points where customers interact with distributors. These touch points provide a conduit (refer Figure 4.1) to transfer the benefits of value drivers to customers' business. The

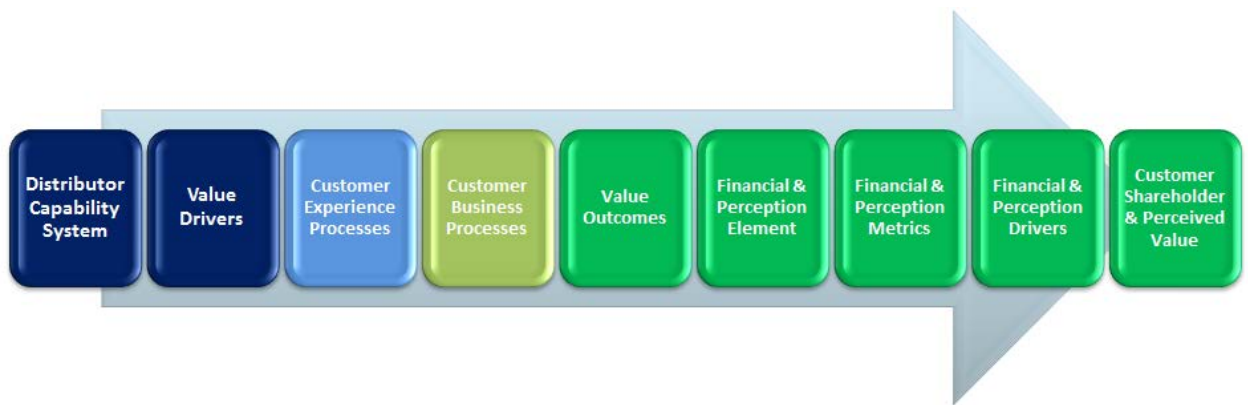
customer experience processes will have a counterpart from customer side. L&W identified five customer experience processes – inquiry and quote, order, deliver, invoice and business development.

- **Inquiry and Quote:** This customer experience process overlaps with customers' bidding process. On L&W side, it includes receiving request for quote, preparing and enhancing the quote, and finally submitting the quote promptly. The customer side has counterpart – bidding process. The customer follows its own process routine and has key process indicators.
- **Order:** The customers' order management process overlaps with this customer experience process. This is where customer places the order with L&W. This involves account set-up, order preparation, planning order delivery date and finally, confirming the order details.
- **Deliver:** This is a critical customer experience process where value is co-created by both customer and distributor. This includes a detailed steps starting from loading the material into the truck, arriving at jobsite, putting on safety ware, taping off the location, unloading the material, placing the material as discussed with customer, cleaning up debris, demobilizing and returning to the location. The customer has order receiving process that focuses on safety, on-time, in-full and accuracy of the delivery.
- **Invoice:** In this penultimate process, L&W sends order delivery confirmation along with accurate invoice. The customer matches with their record and pays.

- **Business Development:** This process is conducted in an on-going basis to develop business jointly through lead generation or other growth strategies. The customer has corresponding strategic process that focuses on achieving profitable growth and achieving critical success factors in every project.

Now, bringing all things together, Figure 4.3 illustrates value proposition framework, starting from L&W capability system to contractor shareholder value and perceived value.

**Figure 4.3 Customer Value Proposition Framework**



The above framework was applied to all five customer experience processes. As a result, a detailed value proposition map is created, as shown in APPENDIX C. Due to proprietary nature of value proposition map; one customer experience process (inquiry



and quote) is discussed here. Inquiry and quote customer experience process overlaps with customers' bidding process. On L&W side, it includes receiving request for quote, preparing and enhancing the quote, and finally submitting the quote promptly. This process is analyzed in detail to identify customer value drivers. Seven value drivers are detected, as follows: product portfolio, national footprint, salesforce knowledge and experience in building codes, product installation, technical advice on substitutions, branch managers' pre-visit to the site and responsive bid development. Each value driver creates value as explained below:

- **Product portfolio:** L&W stocks comprehensive building materials products (including top brands and specialty items). This enables contractor manage one vendor against developing and managing relationship with multiple vendors for a given quote, which is very time consuming and leads to inaccuracies in the process. This also increases overhead cost for contractor due to increased amount of time required for purchasing person or project manager to receive and manage bids. This may cause overhead budget overruns, leading to reduced profitability.
- **National footprint and knowledge and experience in building codes:** These two value drivers work together in order to provide a complete bid to contractors. National footprint enables L&W to access inventory from 140+ locations. The salesforce knowledge and experience in building codes helps contractor prepare complete bid, accounting for construction regulations. This completeness helps contractors estimate their requirements correctly and before signing the contract,

leading to better material budget performance. This reduces the possibility of material cost surprises and overruns in the later stage, leading to better profitability.

- **Knowledge and experience in product installation and Technical advice:** These two value drivers help contractor by performing value engineering. Value engineering is a thorough review of quote to identify opportunities for material substitutions or redundant material elimination or finding of missing key requirements. This helps contractor perform value enhancement through labor efficiency (through easy installation material substitutions), and bid accuracy, which, in turn helps contractor minimize or eliminate material budget overruns, leading to better profitability.
- **Branch manager's pre-visit:** This value driver helps L&W understand job complexity (in terms of jobsite access, number of floors, etc.) in advance. As a result, L&W can help contractor improve bid competitiveness by providing accurate quote that is in-line with job complexity. Bid competitiveness helps contractor manage profitability better through reduced material budget overruns.
- **Responsive bid development:** This value driver directly influences bid turnaround time, which is crucial for contractors to submit his bid on time. This also directly contributes to end customer satisfaction and forms first impression.

All of the above value drivers collectively influence contractors' bid win rate, which is a critical success factor. This bid win rate directly influences contractor's revenue growth

and market share, which in turn, affects revenue growth financial driver, a key component of contractor shareholder value.

This whole process, in parallel, influences contractor's perception. Primarily, the ease of requesting, following up and receiving the quote is crucial as it forms first impression as well as indicates future potential performance. The level of hassle in achieving this process directly contributes to customer perception. The source of pain may come from people interactions, or process interfaces. The key influencers at this stage are quote coordinators and outside sales. The process interfaces are compatibility between contractor and distributor bidding documents. Bid response time and accuracy (attention to details) are critical success factors for contractors at this process.

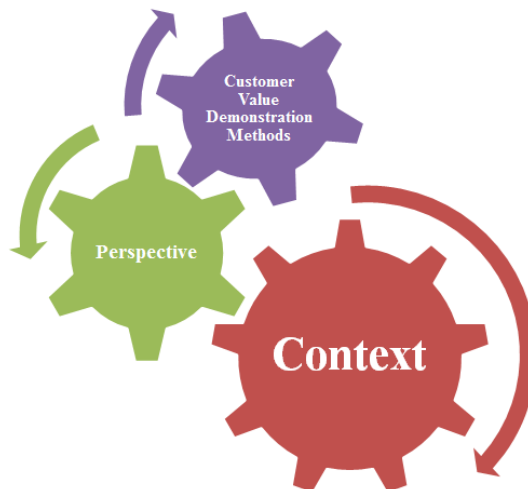
The other four customer experience processes were mapped similarly to customer shareholder value and perceived value. This value proposition framework brings out all value drivers and maps its influence all the way to customer business outcomes. This unified company-wide document helps bring all salesforce to the same page and provides a dynamic platform to discuss customer value. Since map focuses on customers' business processes and critical success factors, this would help salesforce understand customer perspective, which is lacking currently. Also with further discussion, the sales management, along with salesforce, may decide on competitive value drivers out of the big list of value drivers. This would bring more clarity to differential customer value created in each region. Two value drivers – salesforce

capability (69%) and safe & efficient delivery (46%) – got highest rating as differentiators in the survey. If L&W decides after examining its capabilities and customer requirements in these value drivers, it can be incorporated into the framework, so that salesforce will have less spread and more agreement. This will push them towards resonance zone, indicating higher value proposition alignment.

## 5. VALUE PROPOSITION DEMONSTRATION

The value proposition demonstration refers to sales enablement methods or tools used to express differential value added to customers as part of persuasion and confirmation. These methods vary based on context and perspective. The context denotes situation-specific variables such as pre-sale or post-sale stage. The perspective refers to customer information such as customer size, target audience and others. Based on context and perspective, value proposition mechanisms (sales enablement tools) are chosen for effective demonstration of differential value. Figure 5.1 illustrates the relationship among context, perspective and demonstration methods. The context and perspective elements will be discussed in the next section, followed by demonstration methods and real-world application scenarios.

**Figure 5.1** Determinants of Value Demonstration Methods



## 5.1 Context and Perspective Elements

The demonstration methods vary based on given context and target audience. The context addresses two questions: *why and when*. It refers to the purpose (why) for which we need demonstration mechanism. The purpose could be retaining existing customer or acquiring new customer. It also denotes temporal dimension from both customer and distributor standpoints. The distributor standpoint views the situation as pre-sale or post-sale stages. In pre-sale stages, the focus is on potential value to be delivered, whereas post-sale situations focus on actual delivered value. The customer standpoint views from their project life cycle such as start of the project or middle or end of the project. Depending on the stage of project life cycle customers' primary focus changes. For example, at the start of the project, the contractor looks for high degree of responsiveness, expects high reliability during middle part and expects prompt follow-up as he races to finish the project. Thus context decides the type of customer value that will be primary focus. The demonstration mechanisms are chosen accordingly.

The perspective addresses the question of *who*. It refers to who are the customer and their information. The information can be classified into two types. The customer information, at organization level, provides information such as customer size, market segment (both macro and micro), and background information such as how long in the business and their financial stability. The customer information, at individual level, mentions information such as stakeholder's role in the organization and their personality

type. The customers' purchasing decision is influenced by multiple stakeholders inside their organization, according to Webster and Wind (1972). Applying their model, in contractor organization, there are five stakeholders: owner, project manager, buyer (and administration), foreman and installer. Depending on their size of the organization, the roles may increase or decrease. In smaller organizations, the same person may play multiple roles. The personality type refers to person's preference to various types of communication methods. The popular personality tests such as Myers-Briggs assessment classify individuals into multiple types such as thinker, feeler, and others. It helps the salesperson to choose the right media and presentation style for value proposition demonstration mechanisms, if he or she understands their target audience's preference and style. Based on context (purpose and temporal information) and perspective (customer profile, stakeholder role and personality type) elements, the value proposition demonstration methods vary as discussed in the next section.

## **5.2 Demonstration Metrics and Methods**

The value demonstration metrics are classified into four categories: (1) Distributor performance metrics (such as historical value driver assessment such as 97% on-time delivery over 10,000 shipments). (2) Customer-side metrics assess customer value addition in six areas (customer experience, trip bottom line (financial, environmental, and social), process performance, knowledge capital, risk mitigation, and end customer satisfaction) as identified in value proposition map. The examples include joint bid win

rate, total incident record, on-time project starts, and others. (3) Competitor performance metrics (such as capturing competitors' jobsite accidents that are part of public reporting and other sources). (4) Industry-level metrics from third-party study or government reports, signifying distributor value proposition. These metrics are demonstrated through various mechanisms or methods. The value proposition demonstration methods (sales enablement tools) vary from past customer references to spreadsheet-based profitability analyzers. They are described as follows:

- **Value Proposition Map:** The value proposition map is developed using customer value framework in the previous section. This map could be used as a value demonstration tool for having customer value-based conversation with customers. The map is divided into five parts to suit L&W's customer experience processes. Depending on various key stakeholders on customer side, the sales person can have effective value-based conversation to demonstrate value as well as understand customer priorities or concerns. The map could be used in both pre-sale as well as post-sale situations. Since it depicts cause-and-effect all the way from distributor capability to customer value, the challenges with current service or opportunities to improve service can be readily clarified and discussed.
- **Value Case Studies:** Anderson et al. (2006) recommend that suppliers in business-to-business markets can demonstrate customer value using value case histories. These case histories explain actual value delivered to customers in past engagement. This method becomes effective depends on details and transparency of the case



study. If the case study includes real-world customer names, it increases credibility of this mechanism. This mechanism provides opportunity for the firm to highlight unique challenges solved in the past. This helps potential customers to relate it better. Depending on the industry, the case study may have technical details. Also the case study is effective to demonstrate contingent values, i.e. certain types of customer values such as risk mitigation provide benefits to customers by absence rather than presence. In other words, when accident happens, everyone appreciates safety practices and values insurance. When safe deliveries are made continuously, the absence of accidents may be taken for granted. In order to demonstrate these values, case studies can be very effective. The case study may document instances of contractor accidents and overlay with firm's value proposition that helps them avoid such scenario. The other opportunity is to document safe delivery record over time with a contractor and then demonstrate how their 'Total Incident Rate' (OSHA metric), which defines injuries per work hours for the year and their "Experience Modification Rate", which is the number used by insurance firms to help compute Worker's Compensation premiums, according to The Austin Company report (2014). For both metrics, lower numbers equate to better safety records. Value case studies thus may require customer's willingness to share information. The distributor may hide the identity of the customer if confidentiality is required. This mechanism also includes white papers, prepared by third-party subject matter experts, which endorses or signifies firms' value proposition.

The distributor may provide a track record of past performance, in terms of, distributors' (against customers' business) metrics as well. For instance, the distributor may measure on-time delivery record over time and may use quantitative metrics (such as 98% on-time deliveries over 20,000 shipments) rather than qualitative descriptions in their marketing communications. These past performances are a strong indicator of distributor's future performance, as described by Möller & Törrönen (2003). The distributors may communicate this past performance through their website or other marketing communication content, as suggested by Jalkala & Salminen (2009). They also mention that providing potential customers with a list of reference customers as a value demonstration mechanism.

- **Industry or Customer Awards:** This mechanism could be powerful demonstration if the award is related to firm's *differential* value drivers. If the award is regarded as industry standard, it becomes even more powerful. The examples include J.D. Power ratings (customer satisfaction) or Malcom Baldrige National Quality Award.
- **Information Graphics:** This is also called as info-graphics. The information graphics are graphic visual representations of information, data or knowledge intended to present complex information quickly and clearly, as per Newsom and Haynes (2005). These visual representations act as effective mechanism to remind customers of differential value. The customers can quickly absorb information without spending additional time. This mechanism could enable more focused customer conversations when presented concisely and credibly.

- **Customer-approved Value Additions:** This mechanism captures customer value created in terms of customer's business outcomes. For instance, a distributor works with a manufacturing plant and manages their indirect supply base. The service helps the customer manage their procurement and inventory management process better. As a result, the distributor captures inventory status before and after the project over specified timeline. This captures inventory savings achieved over project timeline. Since this is done using customer data, after verification, the customer approves (signs) the business outcome. This serves as distributors' testimonial but with monetized value addition and customer name information. This makes it very effective to attract similar customers as well as retain existing ones. The challenge is in defining common metrics and customer buy-in for such process. Since it creates mutual value, the customers buy into such initiatives. If the metrics are not clear or measurement methods are not transparent or data is not correct, then the customer and distributor may have challenge in monetizing the results. Keränen & Jalkala (2013) provide a detailed framework that describes five key processes and eleven related activities involved in customer value assessment. The five processes are value potential identification, baseline assessment, performance evaluation, long-term value realization, and systematic data management. The suitability of customer-approved value addition mechanism depends on the complexity of value proposition, customer's willingness, required resources and implementation timeline.
- **Pilot Runs:** This mechanism refers to performing pilot programs with customers as part of value validation. Anderson et al. (2006) state that this requires intimate

cooperation with customers and is resource-intensive. This may be relevant based on size of engagement. With national accounts and similar large customers, this mechanism may prove beneficial. This mechanism provides a great platform to demonstrate a holistic value addition in terms of process performance, knowledge capital, financial and risk mitigation. Since it happens inside customer site, Anderson & Wynstra (2010) argue that it allows customers to get “tangible evidence of the value that an offering would deliver in their operations” and also it provides distributors with direct data on the performance of its value proposition.

- **Potential Value Calculator:** This mechanism focuses on demonstrating potential customer value in pre-sale situations. In pre-sale situations, the customer has an existing solution. The distributor faces the challenge of demonstrating or proving the value in advance, i.e. before actually getting an opportunity to deliver and demonstrate performance. The solutions to this situation should address two key questions: (1) what is the challenge with existing solution, and (2) how proposed solution would benefit customer in terms of incremental or differential value. The first question is tackled by demonstrating disadvantages (and resulting costs incurred by customer) in the current scenario. This exercise brings out hidden costs (if any) in the competitors’ solution. This can be performed using total cost of ownership analysis, defined by Carr & Ittner (1992). The second question is addressed by demonstrating advantages, especially differential ones, and resulting benefits in monetary terms. This can be performed using common return on investment measurements as appropriate to a given situation. In either situation, financial data

requirements are extensive. Since it is a pre-sale situation, the distributor may not have access to customer data. This forces distributor to use historical data collected through past transactions that typify an average customer profile or other industry association data resources, if available. This introduces a set of assumptions required to make this calculation. Anderson et al. (2006) recommend developing customer value models to perform such potential value calculations. According to them, customer value models are summaries of value word equations. Value word equations are a tool to express monetary differences between two value propositions. A value word equation expresses precisely in words and simple mathematical operators how to assess the differences in functionality or performance between two value propositions and how to convert those differences into monetary terms. The result of this calculation effort can be generalized as a *potential value* demonstrator. This value demonstration mechanism is very effective than communicating potential value through presentation slides and set of brochures. But it requires considerable effort in defining value drivers, assumptions, and data collection.

As salesforce mentioned in survey response, sixty-two percent of them demonstrate value proposition but through informal and reactive approaches. They currently lack well-defined value proposition tools to perform an effective value demonstration. These mechanisms present a multitude of opportunities to help salesforce demonstrate value to customers.

### 5.3 Customer Profitability Analyzer

L&W positioned itself in differentiation zone due to unique value drivers such as specialized safe delivery, access to specialty products, technical knowledge and others. The competition provides basic services that focus on distribution of common products. This basic service causes customers additional costs such as labor cost due to late delivery, decreased labor productivity due to disruptions to workflow during delivery, increased premium due to unsafe incidents and resulting citations, and others. The contractors do not track this information and as a result it becomes a hidden cost that they do not evaluate while deciding material supplier. The project team wanted to demonstrate these hidden costs without overwhelming contractor with complex calculations. Customer value model is developed to meet this objective. The value proposition map is used as the focal document to build this customer value model. After multiple workshops, four differential value drivers are selected to estimate hidden costs.

- **Delivery:** Two metrics are critical in assessing delivery performance: on-time and in-full delivery. On-time delivery examines the impact of late delivery on labor productivity. In-full delivery refers to the degree of completeness in delivering a given sales order. If the whole order is not delivered as agreed in one shipment, it leads to backorders. This impacts contractors on two fronts: (1) labor cannot start the project as planned due to incomplete material, and (2) buyer or admin personnel has

to follow through backorders, leading to increased overhead expenses. These two metrics are linked to contractor financial drivers using value proposition map.

- **Safety:** This value driver is assessed using five underlying elements. Unsafe delivery causes damage in terms of material and other work damage in the jobsite, lost productivity due to disruption to work environment, increased labor material handling time against installation (due wrong placement of material in the jobsite), injury level and related expenses, and finally, labor time involved in cleaning post-delivery jobsite and preparing for installation. The impact on labor cost and increased material cost are estimated using historical data from third-party sources such as industry associations and OSHA reports. The values are customized for industry-specific situations and customer relevance.
- **Salesforce:** The salesforce provides customer value through multiple attributes. Three attributes are identified as differential elements based on past customer studies (performed by L&W for various purposes) as well as survey done for this study. Those attributes are responsiveness, resourcefulness and reliability. The value proposition map is used to track the influence of these value drivers on contractor profitability. The responsiveness refers to how effectively salesforce followed through when customer queries are received. The response within two hours against one day makes a big difference in construction industry as contractor operates on a time-driven budget. The chopped responses would increase contractors fire-fighting cost through additional overhead costs. This also causes more stress and reduced confidence to contractor personnel in distributors' ability. The second attribute,

resourcefulness, refers to knowledge capital as well as network capital of salesforce. Knowledge capital refers to salesforce's ability to answer technical questions in terms of installation or industry regulation (building codes) or product knowledge. Network capital refers to salesforce's ability to access key resources within L&W or from preferred suppliers. When supplier-specific technical questions are posed, the customer knows that distributor may not have answer but salesforce's ability to locate and access key technical resource is referred as network capital. Both capitals jointly define resourcefulness. In the absence of such access to knowledge, it may increase labor cost for contractor due to increased rework and customer complaints. The third attribute, reliability, refers to salesforce's ability to provide reliable information on product availability, delivery timing or other technical questions. This attribute is all about whether salesforce does what they said they would do. In case of change of plans, contractor wants to hear it as quickly as possible, so that he can rearrange his work schedule to minimize impact on labor productivity. The contractor's biggest challenge is managing change-order requests from general contractor or owner. When such last minute modifications are requested, reliability is vital for contractor to make timely and profitable decisions. Similarly, both labor cost and customer's stress level increases, leading to reduced profitability and damaged customer perception. The impact of three attributes is estimated in terms of increased labor cost based on industry association resources and L&W's historical knowledge.



- **Business Development:** The salesforce, assisted by marketing, helps contractors grow their business through timely job leads and business training. Two examples, identified during the internship, illustrate this capability. A sales rep, after working with a contractor on multiple construction projects, recommended ways to expand contractor offerings in adjacent product lines. Both contractor and sales rep jointly identified adjacent product lines that could help contractor specialize in installing insulation product line, in addition to his current capabilities in wallboard. This helped contractor grow their business at above –average growth rate over the next few years. In other instance, an experienced sales rep helped a contractor, who is relatively new to the business. The sales rep, based on his past construction experience, identified specific material substitutions (in the area of steel joists and related material), that saved contractor time, material cost and increased job quality. This idea had a wide range of applications and contractor extended the idea to his future business as well. This increased contractor profitability over the next few years. Most importantly, the contractor valued this productive insight and did business together in future projects. These examples demonstrate impact of business development on customer loyalty. The business development is captured through three elements – job leads, productivity ideas and business training. The job leads helped contractor get future projects, contributing to revenue growth. The number of qualified job leads and average project size are inputs to estimate revenue growth. The productivity ideas helped customer increase profitability through reduced labor cost. The value of idea on labor cost is estimated using the above real-world

examples. Also the calculation included the recurring effect of these ideas. Finally, business training on how to profitably develop and manage their business is provided to customers through third-part resources. The cost of this training is shared by L&W and customers. The financial contribution of this training is captured as well. In competitors' offering, the contractor would miss this business development benefits. Hence the financial contribution from this driver is not a hidden cost on competitor side (like three previous drivers) but benefit or potential profitability for customer with L&W.

This customer value model required basic inputs such as project size, number of installers, their hourly rate, number of deliveries and other related information. Using L&W's current customer base and other industry sources, this information is calculated to provide industry average inputs. The assumptions are documented in order to share with customers as required. Since the inputs represent industry average numbers, an additional input column is provided for customer to change this standard input. This is an opportunity for customer to interact and personalize the calculation. Figure 5.2 shows input screen for project budget information and Figure 5.3 shows input page for salesforce capability. Due to proprietary reasons, limited snapshots of customer profitability analyzer are shared here.

**Figure 5.2 Profitability Analyzer: Project Budget Input Screen**

Contractor Profitability Analyzer - Please <b>input</b> project info			
<b>Project budget</b>			<i>Legend</i>
Project budget	\$	100,000	Input cells
Material cost	\$	33,000	33%
Labor cost	\$	55,000	55%
Admin and overhead	\$	4,000	4%
Unexpected cost	\$	2,000	2%
Operating profit	\$	6,000	6%

**Figure 5.3 Profitability Analyzer: Salesforce Capability Input Screen**

Technical & Application Support - <b>CHOOSE</b> Performance Levels	<i>What it means to contractor profitability?</i>	Increase in total labor or overhead cost (based on historical records)	Your input
<b>Responsiveness</b> <div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid gray; padding: 5px; width: 45%;"> <p><i>Chopped responsiveness (inconsistent, less-than-average support)</i></p> </div> <div style="border: 1px solid gray; padding: 5px; width: 45%;"> <p><i>Highly responsive; gets back to customers promptly and keeps customers confident.</i></p> </div> </div>	Causes more stress and increases overhead administrative (fire-fighting) costs by 2-4%	3.00%	1.0%
<b>Resourcefulness</b> <div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid gray; padding: 5px; width: 45%;"> <p><i>Incomplete solutions due to lack of knowledge and access to expert resources.</i></p> </div> <div style="border: 1px solid gray; padding: 5px; width: 45%;"> <p><i>The salesforce gets answers from manufacturers through better supplier relationship; helps contractors manage spec. and submittals</i></p> </div> </div>	Leads to increased stress, more rework and end-customer complaints; increases total labor cost by 3-5%; total material cost by 5-10%	4.00%	1.5%
	Increase in material cost	7.50%	3.0%

The design also made sure that the overall model does not require more than five inputs in a given value driver. The objective of this model is not to *accurately* estimate the potential value but to engage customer in value-focused discussions. Since this does not enforce any specific data, the chances for argument about data integrity are eliminated. Since the model’s purpose is to highlight hidden costs of current solution, the model focused on current solution and customer challenges rather than L&W benefits. This

aspect makes the model more neutral and helps customer analyze their profitability impact based on various inputs. This tool benefits the customer regardless of their business with L&W but leads to business with L&W. Detailed salesforce instructions are added for ease of use. The results display profitability from two perspectives: planned profitability in contractor’s budget and estimated ‘true’ profitability with current supplier (accounting for hidden costs). Figure 5.4 demonstrates the results of one scenario where budget and profitability with current supplier differed by 5.8%. Figure 5.5 lists the actual sources of hidden costs accounting for profitability differential.

**Figure 5.4 Profitability Analyzer: Contractor Profitability Output Screen**

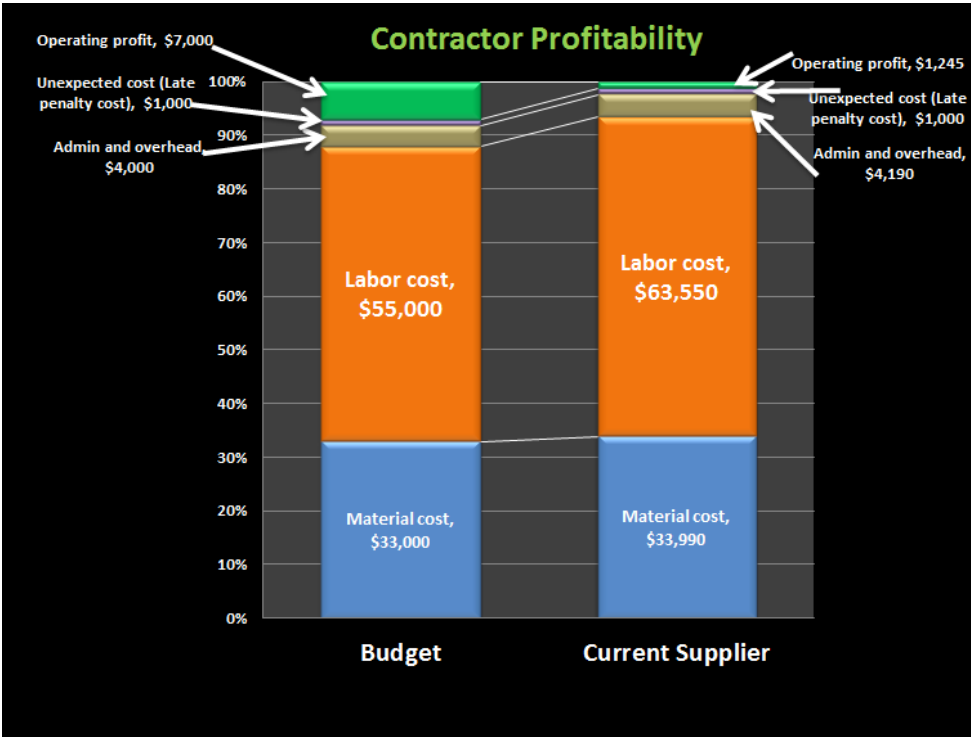
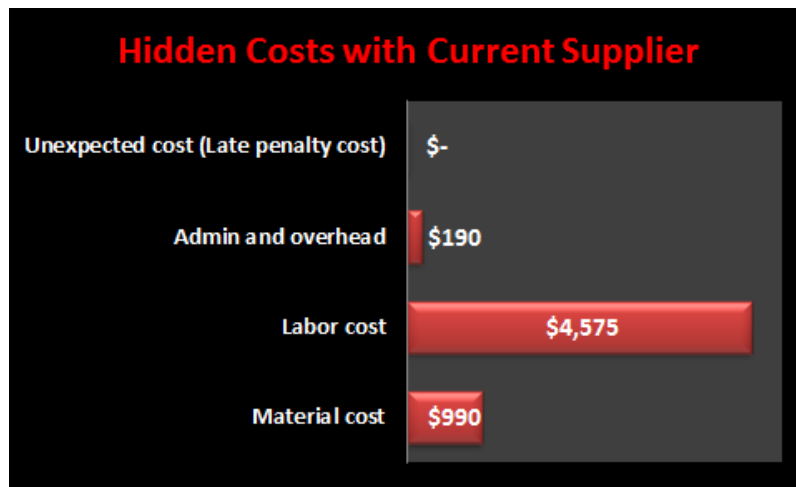


Figure 5.5 Profitability Analyzer: Hidden Cost Output Screen



## 6. VALUE PROPOSITION CUSTOMIZATION

The value proposition customization refers to adapting value proposition to suit customer profitability. L&W implemented customer stratification best practice few years ago as part of its strategic plan. Customer stratification is a process of classifying existing customers into two to four categories based on customer revenue, profitability, loyalty and cost to serve factors, as defined by Lawrence et al. (2011). Distributor resources are limited and expensive, so they should be deployed optimally for a better return on investment. Distributors cannot be everything to all customers, and must prioritize key resources such as salesforce and inventory. Customer stratification allows distributors achieve these goals by providing a measurable scale of customer importance that is connected to optimizing shareholder value. Customer stratification has both internal (optimizing firm resources) and external (optimizing customer interaction) applications. The internal applications range from inventory management to salesforce management (deployment and compensation) to marketing. There are three critical ways to apply customer stratification or similar customer profitability outcomes to customer interactions externally. They are optimizing pricing decision, customizing value proposition and influencing customer behavior. The former two refers to change in distributor behavior and the latter denotes change in customer behavior. The focus of this study is on second application, i.e. customizing value proposition. Sixty percent of salesforce do not customize value proposition after two years of implementing customer profitability best practice. This highlights an opportunity to provide guidance on

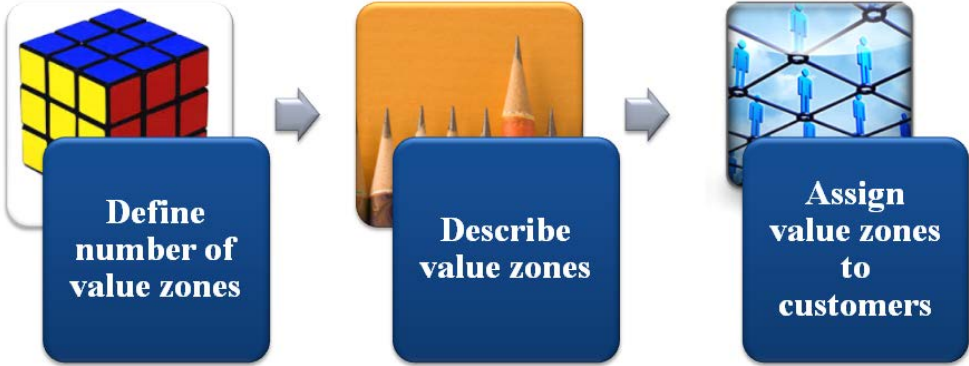
customizing value proposition so that L&W can improve growth and net profitability (through cost to serve) by providing differential service to profitable customers and attracting the right type of customers that suit L&W's proposition. It is important to note that remaining 40% of salesforce is implementing customization but in a piecemeal fashion. The next section focuses on customizing value proposition elements to suit customer profitability, in line with current customer stratification results. The final section discusses customization of value demonstration at individual customer level.

## **6.1 Customize Value Drivers**

The customization requires three decisions: (1) define number of value proposition types (called as zones, henceforth), (2) describe how value drivers differ across these zones, and (3) decide how to assign zones to each customer project or transaction. Figure 6.1 shows three decisions involved in customization process. There are four customer types (type A through D) in the current system. At the outset, one may use these four types to define four zones. But challenges to effective implementation should be considered. L&W has more than 140 locations and around 200 sales representatives. There is a tremendous variability across locations in terms of customer preferences, salesforce capability, competitive intensity and other industry dynamics. The goal is not to eliminate variability but to manage it for profitability. The key is in converting this situation into "managed variation" rather than "uncontrolled" or "unguided". The value proposition customization aims to achieve the same. An effective implementation of

customized value proposition requires both buy-in as well as a good deal of discipline in practicing guidelines. In light of this, the solution is designed to have two types of value proposition or value zones. The value zone one refers to offering all value drivers in a superior way, whereas value zone two refers to basic service elements. L&W may expand this model as it progresses in implementing initial solution. The next decision is describing these two value proposition zones in terms of how value drivers differ between them.

**Figure 6.1 Value Proposition Customization Decisions**



There are five customer experience processes: inquiry and quote, order, delivery, post-delivery and business development. There are 27 value drivers underlying these



customer experience processes as illustrated in value proposition map. Each value driver is examined for potential to differentiate between zones. The basic service elements (such as reliable delivery, invoice accuracy, etc.) are filtered out as they are performed similarly for both zones. The remaining value drivers are analyzed to identify varying service levels. For instance, delivery preference is one of the value drivers, which will be offered in zone 1, but not in zone 2. The value engineering – salesforce knowledge and experience in identifying substitutions and missing items – is offered in zone one but not to customer projects in zone two. The exercise identified 22 drivers (across five customer experience processes) that helped differentiate between two zones of value propositions. Three value drivers are grouped under basic service experience category, which offered the same level of service in both zones, as shown in Table 6.1. (Due to proprietary reasons, partial description of value zones is given.) High priority is given to customer transactions in zone one when it comes to responsiveness. Similarly, during quote stage, difference in service levels are demonstrated through three value drivers. For each value driver, resource type is identified and it denotes cost involved in providing that value driver.

**Table 6.1 Value Zone Descriptions**

Customer Experience Processes & Value Drivers	Resource Type	Zone 1 Value Proposition	Zone 2 Value Proposition
<b>Basic Service Experience</b>			
Deliver as promised (Reliability)		Yes	Yes
Incident-free, safe delivery (Safety)		Yes	Yes
Invoice accuracy		High	High
<b>Overall Customer Service</b>			
Responsiveness	Salesforce/CSR/Branch Manager time	High priority	Secondary
<b>Inquiry &amp; Quote</b>			
Access to eSite capability	IT assets	Yes	No
Pre-delivery jobsite inspection	Branch manager time	Yes	No
Value engineering	Salesforce & CSR time	Yes	No

The final decision is defining decision matrix, indicating assignment of value zones to customer types, according to their project profitability. Note that this assignment is done for each quote or major project that is served. The decision matrix is defined based on three variables: customer type, current project profitability and potential profitability. The customer type refers to four customer stratification types, already present inside the system. This captures the past customer behavior in terms of profitability and other factors. In reality, there is another customer type. In other words, the salesforce is targeting and working on a certain type of customer in order to move them into better customer type. To reflect this reality, an additional type (type E) is defined to represent customers who are in transit mode from not-so-profitable type to profitable type. The second variable focuses on current project profitability. This is the result of current pricing rules, salesforce negotiation and customer approval. Based on agreed price for the current project, the profitability can be classified into multiple types. To keep the

model simple, the solution proposes two types: basic and basic plus. The gross margin percentage and dollars can be used to define these two zones. The basic refers to lower profitability range, whereas basic plus denotes higher profitability. The third variable assesses future project opportunities with the customer (potential revenue and profitability). This could be a concrete number, representing number of other projects the customer has on hand or an estimate based on customer's business plan and past performance. All three variables collectively assess customer's status based on past, current and future behavior. Since potential profitability data is not readily available, the current solution is designed to incorporate customer type and current project profitability. Bringing these two variables together, the decision matrix is developed to assign value proposition zone to five customer types, according to their project profitability. Due to confidentiality reasons, the matrix results are not shared but structure, as shown in Table 6.2. The decision matrix will be referred as value profiler, henceforth.

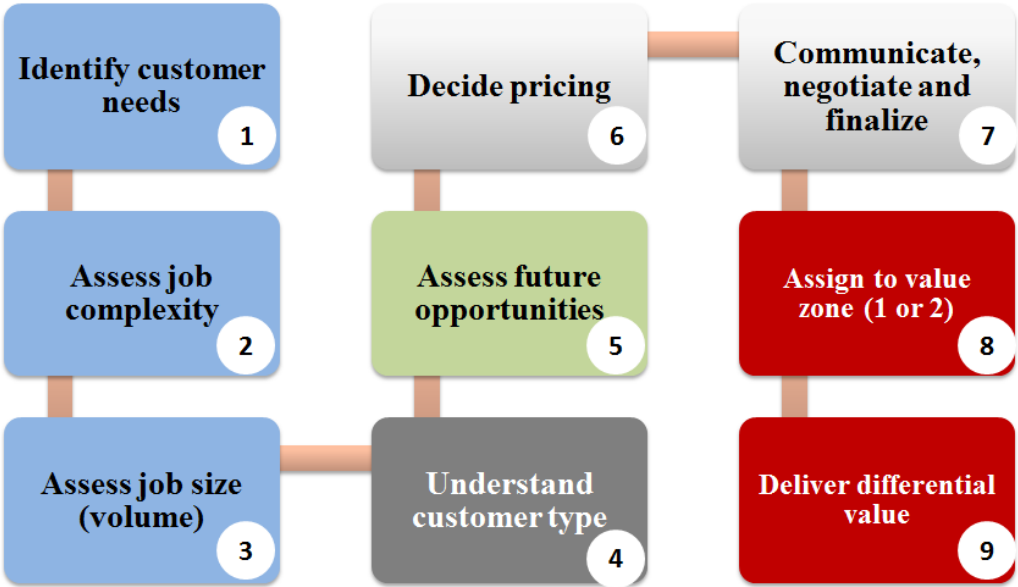
**Table 6.2 Value Proposition Decision Matrix**

<b>Value Proposition Decision Matrix</b>	<b>Current Project Profitability</b>	
<b>Customer Type</b>	<i>Basic Plus</i>	<i>Basic</i>
<b>Type A</b>	<b><i>Assign value proposition zone for each combination</i></b>	
<b>Type B</b>		
<b>Type C</b>		
<b>Type D</b>		
<b>Type E</b>		

The first two decisions are one time activity (reviewed annually or as needed), where the firm decides number of value zone and describes the same. The third decision – assigning value zone – is done for each customer project or transaction. This has to be integrated with current sales process. Figure 6.2 illustrates future-state sales process where customization decision is integrated at tactical level. The first seven steps are already performed in the current practice as part of sales process. Steps eight and nine are additional process steps. The first three steps essentially assess current project requirement in detail. They focus on customers’ present status. Step four refers to customer type, as defined by internal customer stratification process. This reflects customers’ past behavior and profitability. Step five provides an opportunity sales

person to estimate potential profitability. Every salesperson intuitively does this step as part of each sales transaction. Steps six and seven represent pricing and negotiation processes. The new processes step eight uses information collected from previous steps to assign value zone to current transaction. The final step helps salesperson communicate value zone decision to rest of the branch, so that value is delivered consistently as a team. This can be done through internal coding or just writing on sales ticket so that branch manager or supervisor, warehouse and delivery personnel know the importance and delivery accordingly.

**Figure 6.2 Future-state Sales Process with Customization**



All three decisions along with proposed future-state sales process, collectively, provide the guidelines for value proposition customization. The existing practice does not provide any guidelines on how to customize value drivers at customer type level. As a result, the sales person decides the level of service, jointly with branch manager based on customer types. This practice creates pockets of excellence but the net impact is less than desired. This detailed solution provides specific guidelines that help firm (1) deliver differential service to right type of customers, so that they appreciate differential service and provide their loyalty, (2) reduce cost to serve (by design) by reducing level of service to not-so-profitable customers, and (3) better utilization of branch and salesforce resources creates additional capacity to grow. The key is in keeping the solution simple (to start with) and building right controls in organization structure for effective buy-in. The salesforce and branch manager discipline is vital in implementing customization practice as it directly influences customer's perceived value. The exceptions have to be managed consistently by establishing pre-defined rules (similar to current pricing practice decisions). The salesforce cited many reasons that vary from fear of losing the sale to lack of control to absence of guidelines. The fear of losing the sale has to be addressed by encouraging salesforce to say 'no' to the business L&W does not want to do. The salesforce training and coaching around value zone descriptions and decision matrix is vital for implementation. The detailed discussions of these two decisions would help salesforce understand and alleviate fear. Also note that this value zone customization is kept behind the screen, similar to customer stratification. This is not discussed directly with customer as it would lead to unbundling challenges. The

customization provides specific guidelines to discipline our value delivery behavior (internal) across the organization (salesforce, branch resources and others) so that customers receive differential value and firm achieves profitable growth. In the absence of value proposition customization, customer profitability practice (such as customer stratification) does not serve its purpose. They provide good insight and salesforce tries to influence customer behavior to mixed result. The value proposition customization and pricing optimization, jointly, take customer stratification to its intended destination, i.e. achieving profitable growth at customer level.

## **6.2 Customize Value Demonstration**

The previous section discussed the customization of value proposition across customers. The customization is required within a customer organization as well. The customers' purchasing decision is influenced by multiple stakeholders inside their organization, according to Webster and Wind (1972). They developed a model describing organizational buying decision-making process. According to their model, the buying center consists of five buying roles: users, deciders, influencers, buyers and gatekeeper. The gatekeepers control the flow of information into the buying center. This is played by purchasing agent. Influencers add information or decision criteria to the decision process. Buyers execute the contractual arrangement. Bonoma (1982) added a sixth role, called initiator, the person responsible for the definition of the buying situation. Applying this model to construction industry, the number of roles varies by contractor's

organization size. In small organization, multiple roles may be played by the same person. However, the buying situation involves the following stakeholders regardless of size: owner (imitator and decision-maker), project manager (influencer), foreman (influencer), buyer or purchasing agent (gatekeeper) and installer or field labor (user). Each stakeholder has their own value focus and interested in slightly different critical success factors based on their individual goals, organizational objectives and other intangible factors. This requires business-to-business sales person to customize value proposition and how he or she demonstrates value to each of these stakeholders. Based on past customer studies done by L&W and current survey responses, primary value focus and critical success factors are defined for these stakeholders. The value focus evaluates six customer-side value add areas (customer experience, trip bottom line (financial, environmental, and social), process performance, knowledge capital, risk mitigation and end customer satisfaction), as identified in value proposition map, across stakeholders. Critical success factors refer to key performance indicators that matter to these stakeholders inside their organization. For instance, on-time and on-budget are key concerns to project managers, whereas foreman and installer consider safety as primary concern. Buyer focuses on meeting material budget. In addition to value focus and critical success factors, demonstration mechanism (ten methods discussed in section 5.2) also varies by stakeholder. The profitability analyzer and value proposition map are effective mechanisms with owner in demonstrating hidden costs and benefits of collaboration. On the other hand, installer may be interested in how-to video or product demonstration that makes installation easier. The stakeholders vary by market segment.



Between small-to-medium size contractor and large national account (Fortune 500 firm or large facility builders), the stakeholders and their preferences vary. These two market segments are researched and corresponding stakeholders are identified. For these stakeholders, following guidelines in sections 5.2 and 5.3, primary value focus, critical success factors, demonstration metrics and mechanisms are mapped, as shown in Table 6.3 and Table 6.4. This provides a detailed guideline on how to customize value proposition and demonstration inside a customer organization.

**Table 6.3 Value Demonstration for Small-to-medium Contractor Segment**

Market Segment: Commercial Customer Size: Small-to-medium Contractor			Context: PRE-SALE, demonstrating POTENTIAL value		Context: POST-SALE, demonstrating DELIVERED value	
Stakeholder	Primary Value Focus	Critical Success Factors	Metrics	Value Proposition Demonstration Methods	Metrics	Value Proposition Demonstration Methods
<b>Owner</b>	> Financial > Risk mitigation > End customer satisfaction	> Profitability > Growth > Cash flow > Safety > GC satisfaction	> Demonstrate hidden issues and costs in competitor offering  > Show potential return on our offering  > Focus on DIFFERENTIAL value  > Past performance history (historical value driver measurements)	> Value proposition map > Value case studies > Value graphic > Profitability analyzer > Past customer references > Customer-approved value additions, if available	> Capture and share DISTRIBUTOR'S actual performance (measure value drivers and highlight differential ones) with key influencers and owner  > Capture and share DISTRIBUTOR'S superior service instances (e.g. send value invoice) with key influencers and owner	> Communicate DELIVERED customer value through multi-channel  > Focus on DIFFERENTIAL value  > Face-to-face communication about delivered value with key influencers and owner  > Value reporting  > Joint value case study development  > Use value proposition map and profitability analyzer but with customers' specific data  > Capture customer approval on mutually agreed value additions
<b>Project manager</b>	> Process performance	> On time > On budget > Value-added services (submittals, etc.)		> Track record on value drivers		
<b>Buyer / Admin.</b>	> Financial > Process experience	> On budget > Ease of doing business		> Trial run > System demonstration	> Capture metrics from CUSTOMER business (measure customer value addition in six areas - e.g. joint bid win rate, total incident record, % on-time project start, etc.) and discuss with key influencers and owner	
<b>Foreman</b>	> Process performance > Knowledge capital	> Technical support > On time delivery > Safety > Labor productivity		> Safety checklist > Track record on value drivers	> Survey post-project experience with key influencers and owner	
<b>Installer</b>	> Knowledge capital	> Ease of installation > Technical and application support		> Product samples	> Develop value case studies from successful project completion	

**Table 6.4 Value Demonstration for National Accounts Segment**

Market Segment: Commercial Customer Size: National Account (Ex: Fortune 500 firm)			Context: PRE-SALE, demonstrating POTENTIAL value		Context: POST-SALE, demonstrating DELIVERED value	
Stakeholder	Primary Value Focus	Critical Success Factors	Metrics	Value Proposition Demonstration Methods	Metrics	Value Proposition Demonstration Methods
<b>Owner</b>	<ul style="list-style-type: none"> <li>&gt; Financial</li> <li>&gt; Risk mitigation</li> <li>&gt; Environmental</li> <li>&gt; Social</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Financial</li> <li>&gt; Sustainability</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Demonstrate hidden issues and costs in competitor offering</li> <li>&gt; Show potential return on our offering</li> <li>&gt; Focus on differential value</li> <li>&gt; Past performance history (historical value driver measurements)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Value proposition map</li> <li>&gt; Value case studies</li> <li>&gt; Value graphic</li> <li>&gt; Profitability analyzer</li> <li>&gt; Past customer reference</li> <li>&gt; Customer-approved value additions, if available</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Capture and share DISTRIBUTOR'S actual performance (measure value drivers and highlight differential ones) with key influencers and owner</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Communicate DELIVERED customer value through multi-channel</li> </ul>
<b>Architect</b>	<ul style="list-style-type: none"> <li>&gt; Environmental</li> <li>&gt; End customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Product portfolio</li> <li>&gt; Sustainability</li> </ul>		<ul style="list-style-type: none"> <li>&gt; Value graphic</li> <li>&gt; Product samples</li> <li>&gt; Reference</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Capture and share DISTRIBUTOR'S superior service instances (e.g. send value invoice) with key influencers and owner</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Focus on DIFFERENTIAL value</li> <li>&gt; Face-to-face communication about delivered value with key influencers and owner</li> </ul>
<b>Procuring Agent</b>	<ul style="list-style-type: none"> <li>&gt; Financial</li> <li>&gt; Process performance &amp; experience</li> <li>&gt; End customer satisfaction</li> <li>&gt; Risk mitigation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Financial</li> <li>&gt; National footprint</li> <li>&gt; Product portfolio</li> <li>&gt; Service capability</li> <li>&gt; Reporting</li> </ul>		<ul style="list-style-type: none"> <li>&gt; Value proposition map</li> <li>&gt; Value case studies</li> <li>&gt; Value graphic</li> <li>&gt; Profitability analyzer</li> <li>&gt; Reference</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Capture metrics from CUSTOMER business (measure customer value addition in six areas - e.g. joint bid win rate, total incident record, % on-time project start, etc.) and discuss with key influencers and owner</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Value reporting</li> <li>&gt; Joint value case study development</li> <li>&gt; Use value proposition map and profitability analyzer but with customers' specific data</li> </ul>
<b>General Contractor</b>	<ul style="list-style-type: none"> <li>&gt; Financial</li> <li>&gt; Process performance &amp; experience</li> <li>&gt; End customer satisfaction</li> <li>&gt; Risk mitigation</li> </ul>	<ul style="list-style-type: none"> <li>&gt; National footprint</li> <li>&gt; Product availability</li> <li>&gt; Service capability</li> <li>&gt; Safety record</li> </ul>		<ul style="list-style-type: none"> <li>&gt; Value proposition map</li> <li>&gt; Value case studies</li> <li>&gt; Reference</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Survey post-project experience with key influencers and owner</li> <li>&gt; Develop value case studies from successful project completion</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Capture customer approval on mutually agreed value additions</li> </ul>

## **7. IMPLEMENTATION ROADMAP**

“The execution of the laws is more important than the making of them,” Thomas Jefferson wrote, as stated by Peterson (1984). His words apply equally to best practices implementation. Value creation happens not just by learning best practices but by executing those practices. This section is split into three parts: (1) baseline and opportunity, (2) recommendation roadmap, and (3) guidelines for decision-making.

### **7.1 Baseline and Opportunity**

The internship focused on a vital sale and marketing process – customer value proposition – in business-to-business setting. The process is assessed by developing value proposition analytics. The opportunities are identified and the solution is generated as shown in Table 7.1. The solution developed three tools – value proposition framework (map), customer profitability analyzer and value profiler – that would help L&W develop value proposition training and coaching program. The tools address opportunities in value proposition description, demonstration and customization, respectively. The tools have multiple applications and they provide a platform for L&W to choose applications as they see fit to their strategic growth plan.

**Table 7.1 Baseline Summary and Solutions**

Value Proposition Analytics	Current Status	Tools	Training & Development	To-be Status
<b>Focus of value proposition</b>	- 25% salesforce focus on customer goals - 15% focus on differential value	<b>Customer value proposition framework</b>	<b>Salesforce regional workshops and Sales manager coaching</b>	All salesforce focus on customer goals and differential value
<b>Alignment (within salesforce)</b>	- High spread - Low agreement - Majority in dissonance zone			Migrate to resonance zone
<b>Alignment (between sales reps and sales management)</b>	- 71% alignment on importance - 75% alignment on agreement			Maintain and increase as needed
<b>Demonstration</b>	- 62% of salesforce demonstrate value proposition but done reactively with informal methods	<b>Value demonstration mechanisms</b>		Increase to 100% by providing right tools and guidance
<b>Customization</b>	- 40% customize value proposition; others treat all customers the same for various reasons	<b>Customization process and guidance</b>		Increase to 100% by providing right process and coaching

The value proposition map is the central solution that drives other tools. The map connects L&W’s value drivers to customer’s financial drivers and critical success factors. It organizes value drivers by customer experience processes and provides detailed one-to-one connection that helps customers understand how L&W influences their profitability. Here is the list of eleven applications.

1. **Raise customer awareness:** The map provides a great platform to have customer business-focused conversation against product features or price-driven ones. It

visually depicts the connection, making it easy for quick comprehension regardless of customer's background. The map could be used to discuss and engage with potential as well as existing customers, who are in transit to desired quadrant. It acts as an educating tool while helping customer comprehend the complexity and how we create value.

2. **Customize to close sale:** The map is a productive tool to explain distributors' value contribution to new customers in terms of customers' business outcomes; especially this is a vital in closing strategic or complex sale with National Accounts. L&W may customize map as needed based on various business purposes. For instance, to close a sale with a national account, with little research, L&W may customize the map to reflect customer's individual needs. The visually appealing map would convince the customer in terms of L&W's understanding of their business. If needed, L&W may create quick reference maps by breaking bigger framework into five small maps (for each customer experience process) to suit small-to-medium contractor segment. The map is created at segment level. For residential segment or national accounts, the map would look different.
3. **Tackle price objections:** The profitability analyzer could be used to educate customers of hidden costs with competitors. The objections to price could be tackled by showing specific differential value delivered in a given situation by connecting to customers' critical success factors which they tend to forget in day-to-day business. The tool could be expanded and modified to make it more mobile to upload and demonstrate using tablet or similar applications. The salesforce should be trained in

various ways they can use the tool and what type of insights they may want to communicate.

4. **Customer insights:** The map provides a wide range of value drivers and their contribution to customer value. The marketing communication content can be developed directly from this map, which is used for demonstrating customer value. For example, an infographic could be designed using hidden cost logic used in profitability analyzer in order to communicate hidden cost message effectively. Another example would be developing an infographic about how salesforce capability (reliability, responsiveness and resourcefulness) influences customer value through series of metrics and processes. Other such insights about customer value can be inferred from the map.
5. **Sales support tools:** The map acts as a blue print for sales support tool development. The distributor's salesforce needs effective sales support tools beyond brochures and line cards in order to become value advisors to their customers. Profitability analyzer is one such tool. As discussed in chapter 5, many other sales support tools could be developed using value proposition map, such as customer value case study, infographic, customer-approved value additions, tools that track distributor as well as customer performance, and others.
6. **Use for monetizing value:** Value proposition map is a blueprint that visually depicts how we co-create customer value. One needs to apply this framework using customer-specific data, i.e. monetize customer value and demonstrate the overall impact on customer's business as needed. Profitability analyzer is just one example

of this. Similarly, any series of links can be used to monetize customer value, as needed. If a national account is trying to estimate the financial benefit of doing business with L&W, based on availability of data, any series of linkages in map could be calculated.

7. **Managing change and organizational alignment:** As L&W implements its strategic initiatives around customer experience, it is imperative to communicate and align the organization around new business practices. The value proposition map acts as a customer value-centric document that can be used to explain why certain changes in business are carried out. This puts strategic initiatives in context and helps everyone in the firm to relate and visually understand rather than going through realms of data or information. This way, the map acts as a strategic tool to manage change across the organization. As an effort to align such a diverse organization (4 divisions, 19 regions, 140 locations, more than 750 employees), the framework could be used as a focal document (by displaying a bigger (readable), branded map at every branch meeting room or so) that provides context and perspective to branch's everyday activities. This way, the framework helps the organization communicate and move forward in the same direction.
8. **Supplier relationship:** The map could be used to demonstrate value to both potential as well as existing suppliers about how L&W creates value through multiple drivers. This helps supplier communication and provides leverage for L&W for improving supplier relationship.



9. **Capex decisions:** The map could be used for capital expenditure or other major strategic investment decisions to understand how it creates ‘differential’ value for customer. The investment in any customer experience process helps senior management team understand the linkages that benefit customer.
10. **Recruiting and training:** The map could be used it for training new employees on how the firm works to create value for contractors. Also this helps the employee see themselves in how they influence customer and engages the employee to organization.
11. **Investor relationship:** The map or its partial content could be used to quickly demonstrate how L&W creates value in construction market. This explains both business complexity as well as detailed understanding of your customers to investors. For relatively less popular industry like distribution, the map makes it easy for quick comprehension.

These applications are not comprehensive by any means and L&W team should explore others potential applications that can be derived from value proposition framework.

## **7.2 Recommendation Roadmap**

The recommendations are described using two steps and this sub-section explains opportunity potential and the next sub-section describes guidelines for decision-making,

as shown in Figure 7.1. The opportunity potential is explained using the following four recommendations.

**Figure 7.1 Recommendation Roadmap**



- *Design and develop a portfolio of sales enablement (support) tools to increase customer acquisition and retention*
- The distributor's salesforce needs effective sales support tools beyond brochures and line cards in order to become value advisors to their customers. The map acts

as a blue print for sales support tool development, in addition to being a sales support tool. Profitability analyzer is another sales tool. As discussed in chapter 5, many other sales support tools could be developed using value proposition map, such as customer value case study (describing importance of safety), infographic (explaining hidden costs), customer-approved value additions, value stories (instances of superior service) and others.

- Start measuring differential value drivers such as on-time delivery, number of safe deliveries, number of days without incident, and other similar measures. Also educate salesforce on how to use these quantitative metrics in demonstrating value proposition. For instance, a monthly or quarterly value report could be developed, indicating instances of superior service (such as opening branch after-hours for last minute need) and other performance metrics.
- Start capturing *customer* performance metrics such as qualified leads and realized profitability, joint business development efforts and results, and other customer metrics that demonstrate L&W performance in contractor terms.
- Deploy these mechanisms periodically and track salesforce usage rate. Based on salesforce feedback, further development can be decided.
- Capture and publish success stories (value story) of salesforce using these sales support tools effectively. The success stories are the best training content. This is crucial for salesforce buy-in over the long term.

- Socialize sales support portal by naming Customer Value Portfolio or Briefcase that could be loaded into tablet and used by salesforce in the field. This would increase usage as well as willingness to try.
- Consider all segments while developing sales support tools as some of them may be segment-specific. This study focused on commercial segment for the most part. National accounts segment may benefit in using sales support tools while persuading customers in complex selling situation.
- ***Design and develop training and coaching course focused on ‘value proposition development and demonstration’.***
  - Design a course focused on value proposition demonstration that leverages deliverables from this study as well as outcomes from previous recommendation. The objective of the course is to increase salesforce awareness of value proposition, so that their focus and alignment increases over time, leading to ‘resonance’ quadrant. The second objective is to socialize sales support tools developed in the previous step through such training and follow-up.
  - L&W is a diverse organization with national footprint. There are many best practices across the company, but not known company-wide. Capture such instances of value proposition demonstration practices, in addition to deliverables provided in this study. Include the same in the course content to reflect and communicate ongoing practices rather than new suggestions.

- Build real-world assignment or similar activities that require attendees to apply concepts post-training and report on a forum or portal. So that it becomes more interactive and also it does not become a one-time event.
- Build role-play activities to make training more dynamic. Use salesforce with contractor background to play customer roles.
- Test training content with pilot locations to get feedback and fine tune the content.
- Customer stratification is perceived as profitability tool by salesforce; position these value demonstration tools as sales support tools or customer value tools that help close the sale or retain the customer or acquire new customer (rather than as profitability tool). This positioning shapes salesforce perception and makes it appetizing for them to view it as their income generation tool.
- Make this training as part of salesforce development plan; may L&W want to consider to make this training as mandatory one such as once per year.
- Value proposition demonstration is a continuous activity. Therefore, it needs continuous follow-up and coaching support from sales managers. Sales managers should be trained on the difference between training and coaching. Coaching should be part of sales managers and divisional head responsibility.
- ***Implement value proposition customization by forming a cross-functional team or existing customer stratification steering committee.***
- Have a one-day workshop to get broader inputs, in addition to details in chapter six.

- Take regional preferences into account while designing value zones. As a result, value zone definitions may differ by region or division. This accounts for regional customers preferences that may not be popular at other regions.
- Make sure that value drivers are clear in terms of what to do and what not to do for value proposition zone 1 and zone 2.
- Prioritize top five value drivers that are critical in differentiating value zones and deploy them in pilot locations to test before implementing across the organization.
- The decision on this is also dependent on how L&W plans to manage pricing optimization in future. Both pricing optimization and value zone customization are critical applications of customer stratification. Without these two applications, stratification does not achieve its potential, other than creating awareness among salesforce but without action. It may be worthwhile to revisit the importance of implementing customization mentioned in section 6.1.
- ***Create a sense of urgency as well as awareness for ‘customer value’ orientation across the organization to achieve profitable growth.***
  - Note that this recommendation applies to all of the above process recommendation.
  - Salesforce communication is a key ingredient for successful implementation of the above recommendations. Frame the above initiatives in ways that helps them achieve goals with right effort.

- Sales leadership is encouraged to remind salesforce that L&W's playing zone is not least cost but differential service. Communicate that firm cannot afford not to demonstrate its value, leading to customer's fixation on price and customer value demonstration is the best route to bring customers out of price obsessiveness.
- Acknowledge salesforce's perception of importance of customer relationships and address the same to put it into the right perspective. Remind salesforce that customer relationships are key but it has to be value-driven (customer) relationship rather than just friendship-based (customer) relationship. Recommend salesforce not to pass the opportunity to discuss value even when they have strong relationship and price may end up being tie-breaker over the long term. In other words, position sales support tools as a resource that helps them build customer value-based relationship.
- The firm's priority towards customer value demonstration should be communicated by establishing following organization controls.
  - Division-level or region-level or firm-level quarterly awards (such as value proposition competition or champion) can be designed to showcase the best use of these sales support tools. This serves two purposes: (1) motivates the individual, and (2) helps others see real-world example in practice. The latter is more important in salesforce environment. Also

make sure that all success stories highlight how it increased income level of salesperson.

- Build into salesforce development plan, so that it becomes one of the objectives for sales manager to coach and follow-up.
- The sales leadership commitment, marketing engagement and top management attention are key determinants of successful implementation of value proposition best practices.

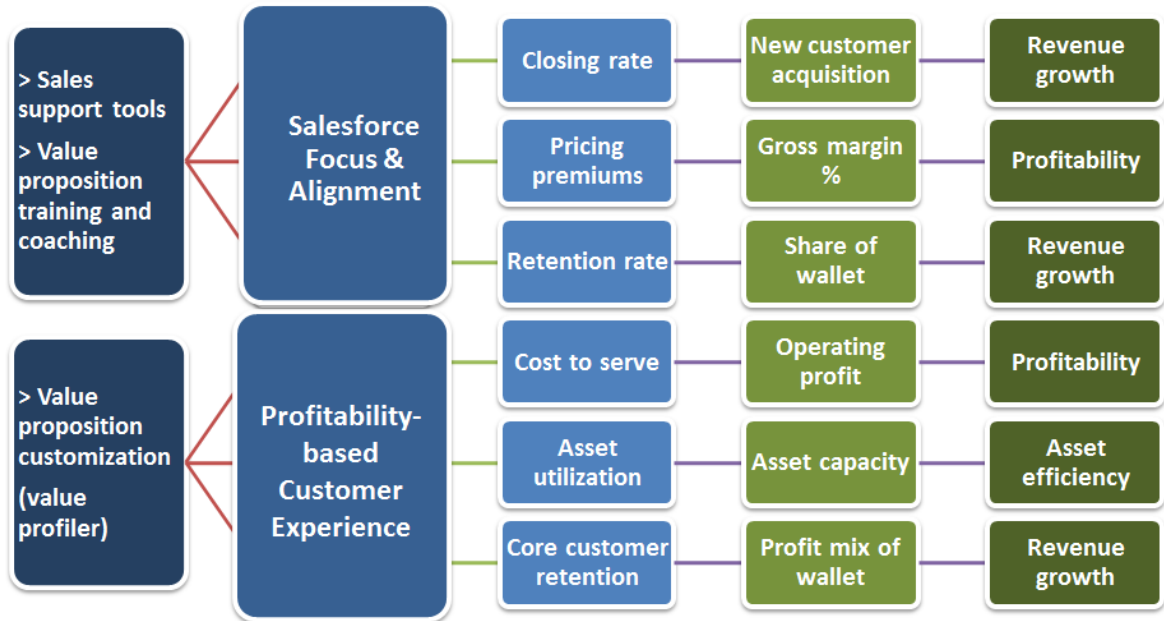
### **7.3 Decide and Deploy**

This section explains return on investment behind recommendations and related guidelines to help L&W team make a decision for implementation.

The recommendations are analyzed to make a connection to four financial drivers of shareholder value, namely, asset efficiency, cash flow, profitability and revenue growth, as illustrated in Figure 7.2.



**Figure 7.2 Linking Recommendations to Shareholder Value**



The first two recommendations, focused on sales support tools and salesforce training, are primary tools to improve salesforce’s current level of focus and alignment on customer value proposition process. The recommendations would help increase salesforce awareness as well as capabilities to take current level of value proposition to the next stage. This can be assessed through three process metrics: closing rate, price premiums and retention rate. These metrics should be measured at salesforce or regional level. This would provide a baseline. An effective implementation would help salesforce improve these metrics that would reflect on financial elements, revenue growth (through

new customer acquisition rate and share of wallet from core customer retention), and profitability (through increased or sustained gross margin percentage). The recommendation on value proposition customization targets to improve core customer experience. Current practice of undifferentiating service level for all customers may not help core customer retention over the long term and also it increases operating cost by providing same level of service to other three quadrants. The profitability-based customization would bring down operating cost at branch level, increase asset capacity by not providing superior service to infrequent and not-so-profitable customers and increase core customer retention through superior service demonstration. This would ultimately increase profitability, asset efficiency and revenue growth respectively. The key is to measure baseline metrics at branch level, so that improvement can be measured over the long term.

In addition to financial benefits, L&W should consider impact on competitive advantage over both regional and national players. The new sources of value that L&W can offer include contractor business management services. These services would range from assisting contractor with information technology management to helping them manage succession to managing financial or legal aspects or specific productivity or growth training. In light of these new services, L&W should position their salesforce using the above recommendations as value advisors rather than distribution sales representatives. The value proposition training and sales support tools would help salesforce make this

jump with right level of top management commitment. This would L&W well ahead of competition as well in customers' perception.

The risk profile associated with recommendations is really low due to the following factors: (1) the first two recommendations focuses on salesforce capability and it provides tools to improve customer relationships. The tools are not consuming salesforce time excessively, rather they help them close better, have better customer conversations and tackle value or price disputes better. It aligns exactly with what sales person is trying to do every day. (2) Regarding the third recommendation, L&W already implemented customer stratification and the firm is socialized on this topic. It is part of internal discussion and decision-making. Hence, customization is not introducing any new concept but extends to a critical application of customer stratification, i.e. customize value delivery so that core customer gets differential service than others. Forty percent of salesforce is already doing this informally by differentiating in terms of delivery priority and others. The recommendation provides guidelines to make this process more structured so that firm realizes the benefits through operating cost reductions and revenue growth through core customer retention. (3) Finally, the recommendations do not require any significant investments in technology or processes. It builds on existing processes and roles (people) to enhance them to the next level.

Finally, it is important to understand how the recommendations align with other ongoing and future initiatives. L&W should review the recommendations in light of its current

strategic initiatives and future growth plan. This would help L&W team understand resource constraints and make a decision on priorities. Any effort towards salesforce should be done with long term view as it is a people-focused initiative and takes a long time to move people out of their comfort zone. The effort should be backed at all organizational levels (corporate, division, region and branch) so that target audience understand commitment and urgency.

Above all, a fundamental reason for L&W to implement these recommendations is its value positioning. A low cost-based player enjoys the benefit of straightforward value demonstration through price. But the sustainability is the challenge and there can be only one player in that zone at any given time. But players focused on differentiation and superior customer experience have an innate responsibility of demonstrating customer value through tangible or intangible measures. And there can be many players in this zone as long as they demonstrate their customer value persuasively and gain premium pricing, hence profitability. I thank L&W Supply for their time, thoughts and support in carrying out this study. I wish them the best in their quest for customer excellence and shareholder value.

## 8. SUMMARY AND CONCLUSIONS\*

This section is presented in two parts: (1) summarizing internship experience and learnings, and (2) discussing the implications of the study in broader industry context.

### 8.1 Summary

The area of customer value proposition management is studied in detail, in the context of business-to-business supply chain. The internship firm provided specific objectives and defined clear scope. The data is collected using personal interviews and survey. The quantitative metrics are developed to understand challenges. The challenges are diagnosed using these analytics. Then solution is designed to address both firm-specific and industry-wide challenges. The tools and framework are developed for tactical implementation. The specific recommendations are presented along with guidelines for executive decision-making. The internship provided me an opportunity to address and contribute to an area that is of interest to both internship firm and industry, in general. As expected in Doctor of Engineering program, the internship provided me an experience that enabled me to deal with broadly based problems affecting more than one facet of the organization, rather than a single narrow or specific technical problem. Also my internship position provided ample opportunities to apply both technical and

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\* Part of this chapter (a paragraph describing distribution industry) is reprinted with permission from Gunasekaran S., P. Krishnadevarajan, F. B. Lawrence. 2012. *Sales and marketing optimization: developing competitive value propositions in distribution*. NAW Institute for Distribution Excellence, Washington, D.C. Copyright 2009 (NAW Institute for Distribution Excellence)

managerial skills. Another key focus of Doctor of Engineering program is organizational communication. The position required me to extensively communicate with various levels and functions of the organization. It included field salesforce, sales managers, regional sales leaders, sales leader, chief executive officer, marketing leader, sales support director, branch manager, outside consultants and other corporate leaders. The communication included not only face-to-face conversations but extensive written communication and phone calls. The internship was a good mix of field trips, business meetings, and individual work. The internship also provided a diverse platform to apply critical, analytical and creative thinking skills while diagnosing and developing solutions.

The internship provided me a great platform to experience two critical processes applied research: (1) Apply existing concepts to solve a real-world challenge. For instance, design and development of contractor profitability analyzer applied established concepts such as total cost of ownership and other customer value assessment methods. (2) Develop innovative, ready-to-use solutions to a real-world challenge. Internship provided two opportunities. The salesforce's capability to describe value proposition is explained using qualitative metrics. This challenged my engineering mind and helped me formulate new analytics to measure value proposition communication. The second opportunity is related to the same area but in different aspect. The concept of linking one business' capability to its customers' business has existed but specific framework for connecting to customers' shareholder value is not present. This provided me an

opportunity to develop an original solution to demonstrate how customer value is created between organizations. The process of developing inter-organizational value proposition framework taught me the importance of this document to an organization. Similar to a firm's mission and vision documents, this detailed value proposition map is a central document that explains how firm creates value, a basic tenet of business strategy. To that end, it occurs to me that this document may be one of the fundamental, must-have documents in any organization that helps align organization to customer-centric activities, explain value to customers, suppliers, new employees, shareholders, and other stakeholders.

The internship experience provided me a sense of fulfillment in knowing that a highly *applied* solution is developed for an area of interest and importance not only to a real-world company but to a broader audience. Customer value proposition is an essential component of any organization or institute, for-profit or non-profit. For instance, the value proposition framework could be applied to a non-profit firm in order to demonstrate how their donors' resources are applied to influence a humanitarian purpose. A value proposition tool of this nature would help the firm raise their resources for a noble cause. To that end, I am excited to learn the potential of this solution to a broader industry including both for-profit and non-profit.

## 8.2 Conclusions

I am fortunate to observe, interact, and learn from hundreds of wholesaler-distributors over the past 12 years through our research consortia, workshops, and projects with individual companies. Combining that experience with this productive internship, I would like to offer the following conclusions about how the solutions outlined in this study can make a difference for wholesaler-distributors in all lines of trade. “There is only one valid definition of business purpose: *to create a customer,*” states management expert Drucker (1954). Though the entire organization seeks to achieve this goal, accountability for it primarily lies with the salesforce. Wholesaler-distributors must effectively design, develop, and manage the sales force if they want to achieve this fundamental business purpose. What’s more, the sales force is one of the primary reasons the wholesaler-distributor exists in the supply chain. The distributor’s role is changing immensely in the face of increasing economic uncertainty and a rising level of complexity in the business landscape. Effectively managing the sales force has never been more important. Changing the way wholesaler-distributors go to market requires new ways of thinking, innovative business models, and creative leadership, according to an industry study by Blissett (2010). Both progressive manufacturers and wholesaler-distributors are in the process of transforming the organization from product-centric focus to solution-driven space as part of their quest for escaping commoditization trap and achieving sustainable profitable growth over the past three decades. In this new state, customers expect the sales force to not only meet their needs, but to bring value as



independent, value advisors. Today more than ever, salespeople must integrate the distributor's resources--finance, operations, sales, and marketing--to solve customers' problems. The increasing focus on solution-driven business is pushing sales reps to become true knowledge workers. Management teams must recognize these dynamics and manage the sales force accordingly. This requires an array of organization-level change that varies from salesforce mindset to organizational structure to top management commitment to internal capability development. The central focus of this transformation is salesforce as they are customer-facing entity. This transformation can happen only if salesforce can convince customers to solution-driven business and bring enough volume to scale this new business model. The degree of success varies by organization ranging from complete mastery to mixed results to disbelief and abandonment. The salesforce transformation is the key challenge among all of them. The challenge is to make salesforce think outside product-centric business, where most of them started their career. In product-centric model, the value proposition is tangible, whereas in solution-driven business the value proposition is intangible, requiring salesforce to demonstrate how their services or solutions will benefit customers' business. This requires a deeper understanding of customers' business. The value proposition framework, developed as part of this study, provides this exact business knowledge (linking our capabilities to customers' business and having a customer value-focused conversation around this) and enables salesforce to go beyond product. This is clearly not a silver bullet but I sincerely believe that it is a critical step in the direction towards solution-driven space, as part of countering commoditization challenge. Many

such sales enablement or value proposition tools should be developed using this blueprint to enable salesforce transform to the next stage. I hope that this study and its deliverables provide the right platform for both manufacturers and distributors in business-to-business setting to continue their journey to solution-driven business models, where customer value has to be defined, discussed, and delivered in concrete ways. Given that this is a challenge across industry, the solution possesses potential for competitive advantage for those who can implement timely, effectively and manage profitably. The conclusions are summarized as follows:

- A one-to-one connection can be established between distributor capabilities (and resulting value drivers) and customer's critical success factors and shareholder value.
- This connection can be monetized using right type of data and assumptions.
- Understanding and educating the sales force about how firms' capabilities influence customers' business is as critical as defining value proposition to customers.
- Developing value proposition map and educating salesforce is the first step in transforming them to proactive value advisors from reactive order managers.
- Customizing value proposition is not only important to manage operating cost but also retain core customers through differential service.
- Art (customer relationship) gets you to growth; science-assisted art (customer *value-driven* relationship) gets you to sustainable, profitable growth.

“We must be the change we wish to see” – Gandhi

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## **APPENDIX A**

### **INTERNSHIP FINAL OBJECTIVES**

The following are the internship final objectives approved by the committee on November 11, 2013.

To: Doctor of Engineering Advisory Committee  
From: Senthil Gunasekaran  
Re: Internship Proposal (*Final Objectives*)

#### **Introduction**

This proposal describes the final objectives and other relevant details of my DE internship that will become the subject of my Record of Study. It is my intention to request approval from the Advisory Committee for the same. The internship duration will be from Fall 2013 to Summer 2014.

#### **Internship organization**

The internship project will be conducted with L&W Supply Corporation. L&W Supply (L&W) is the nation's largest distributor of engineered building materials such as gypsum wallboard, steel studs, acoustical ceilings and Exterior Insulation Finishing Systems. They are the subsidiary of United States Gypsum Corporation (USG) and the corporate headquarters is located in Chicago, Illinois. L&W serves the professional engineering contractor through a network of more than 150 locations and strives to be their preferred source for all quality products and services they need to complete their

projects on time and on budget. L&W reported net sales of \$1.1 billion in 2011 and employs approximately 2,100 people.

### **Internship project**

The key business trends – globalization, consolidation and commoditization – rapidly shape customer expectations and increase the pressure for maximizing value creation across the supply chain in all industries. In business-to-business environment, manufacturers and distributors are forced to think about their value propositions in a holistic manner against traditional low-cost transactional selling models in the new normal setting (after Great Recession in 2008-9). The recent NAW (National Association of Wholesaler-Distributors) study (Blissett, 2010) identified analytics as one of the primary forces shaping the industry, as a source of competitive advantage. The emerging business landscape calls for integrating strategic analytics into consultative selling where customers expect their suppliers (manufacturers and distributors) not only to meet their needs (in terms of products and services) but also wants to identify their needs and demonstrate the value of doing business with them in an integrative manner by incorporating many parts of the business system – finance, engineering, operations, sales and marketing. Similar to many leading wholesaler-distributors, L&W is also facing this challenge with added complexities emerging from moderate growth of construction industry post-recession.

### **Final internship objectives**

The overall objective is to apply analytics to developing customer value propositions (as part of business strategy) for distribution firms. This entails the following final objectives:

- Understand the current industry practice of developing value proposition for engineering products by interacting with L&W personnel (sales force and branch managers).
- Identify the challenges – process, personnel, tools, and managerial – in current value proposition development process.
- Develop customer value proposition by focusing on valuable points of difference.
  - Identify *present* valuable points of difference in the current value proposition and it includes the following activities.
    - List the value elements by analyzing features and benefits systematically.
    - Decide on the next-best-alternative (competitor’s value proposition) for the given market segment and geography.
    - Compare the firm’s offering with the next-best-alternative in order to identify valuable points of difference.
  - Identify *potential* changes to create superior value in cases of new products and services and it entails the ensuing tasks.
    - *Value-storming*: Perform brainstorming session to identify new value elements using internal cross-functional group based on collective experience.
    - *Customer visits*: Spend a day in the life of the customer to identify new sources of value in customer operations.
    - Leverage ongoing and past customer and market related projects to learn about the above-mentioned activities.
  - Validate *potential* changes to create superior value by discussing with customers. This helps detect unrealistic assumptions behind value propositions.
    - Conduct focus groups and customer surveys to obtain their perception of value for given new points of difference.
    - Past customer studies can be leveraged again to validate assumptions.



- Quantify customer value proposition using systems engineering principles and analytics by addressing gaps in existing environment.
  - Build customer value formula to express technical and other benefits. This includes both product and service benefits. The focus is on determining monetary value of these benefits. This is achieved by converting points of difference in the value proposition.
  - Validate customer value notion by visiting and sharing value formulae with selected customers in each market segment. This process brings out the points of contention and the potential opportunities to gather data for the same. The data collection methodology should be discussed for both reliability and consistency aspects.
  - Assess customer value by analyzing collected data from customers and other industry sources such as trade associations, and industry benchmark databases. It is critical to leverage strategic analytics such as inventory, and customer stratifications. L&W Supply has already performed both inventory and customer stratification analyses and the results need to be integrated, as needed. The systems (comprehensive) perspective should be adopted to perform comprehensive customer value assessments by reviewing '7S' processes and capitals deployed (both human and technology). It is not only enough to quantify customer value but equally important to demonstrate customer value through analyzer (simple spreadsheets) that is easily understood and adopted. This demonstration should be followed by actual value proposition delivery and subsequent capture of actual customer value realized. The mechanisms and procedures need to be established to enable the firm to do the same.
- Finally, present a business case to L&W Supply for implementing value assessment methodology across the firm. The business case should be supported by corresponding recommendations on processes, organizational controls and tools. The

business case also lists the list of actions (roadmap) to perform in terms of people, process, technology and metrics.

### **Project scope**

The scope is defined by selecting at least two market segments for the project. L&W Supply currently serves two major market segments – residential and commercial. These two segments or any sub-segments would be selected based on firm's preferences and requirements. This will also highlight corresponding geography. The number of customers to validate customer value concepts will be selected from these market segments based on project team's inputs. Also the project scope should identify the type of sale such as transactional, complex or any other types, along with list of products and services to focus on. It is recommended (but not necessary) to include specialty products and services (involving complex sale or key account sale) rather than commodities as it will help identify points of difference against competitors.

### **Internship supervisor**

My proposed internship supervisor, Martin Naeger, Director, Operational Excellence, has spent the past 20 years working with L&W Supply in various capacities ranging from sales, branch management, business planning and development. His educational background and extensive experience in wholesale-distribution will be instrumental in guiding my internship project of value proposition development for engineering products and services.

### **Role of coursework**

The internship experience provides several opportunities for exhibiting both the technical and non-technical skills gained during my DE coursework. The overall

technical nature of the internship would directly relate to industrial engineering courses like Systems engineering methods and frameworks, Engineering economy, Engineering management control systems and Engineering decision support systems. Project management skills gained from the industrial engineering course 'Industrial case analysis' would help in planning, scheduling and controlling projects in order to achieve the competing objectives of time, cost, performance and customer expectation. I also have numerous opportunities to apply management courses like Behavior in organizations, Organizational communication, Business and corporate strategy and Survey of management while performing activities like gathering business data from lower-level managers, communicating technical details in a simple-to-understand style during presentations, suggesting improvements over existing methods, developing layman-friendly tools and understanding the motivational factors for successful implementation of new procedures. Finance and Accounting courses would also help me in evaluating the organizational impact of the project and its results.

## **APPENDIX B**

### **SURVEY QUESTIONNAIRE**

#### **Customer value proposition – Sales force perspective**

1. Please state your customer value proposition for the commercial market segment.
2. Please list (up to five) customer value drivers (such as on-time delivery) of your value proposition.
3. Please assign degree of importance by splitting 100 points among the value drivers you mentioned above.
4. From the above list, please pick key value drivers (up to three) that differentiate your firm from competitors in your market?

#### **Customer expectations**

5. How do customers evaluate/assess your value proposition (other than price)?
6. What are the TOP THREE business goals of your customers in the commercial market? (Be specific)
7. What are the key benefits that matter most to customers in your local market?

#### **Value proposition demonstration**

8. How do you currently demonstrate your value proposition to customers?
9. Do you establish a connection between “L&W’s value proposition” and “contractor’s profitability”? If yes, how?

#### **Growth opportunities & challenges**

10. What are the TOP THREE challenges for customers in your commercial market segment?
11. Please list any new services or offerings that would help customers achieve their goals.
12. What is the major challenge in retaining CORE customers?

13. What is the major challenge in acquiring NEW customers, especially in demonstrating value proposition?

**Sales support tools**

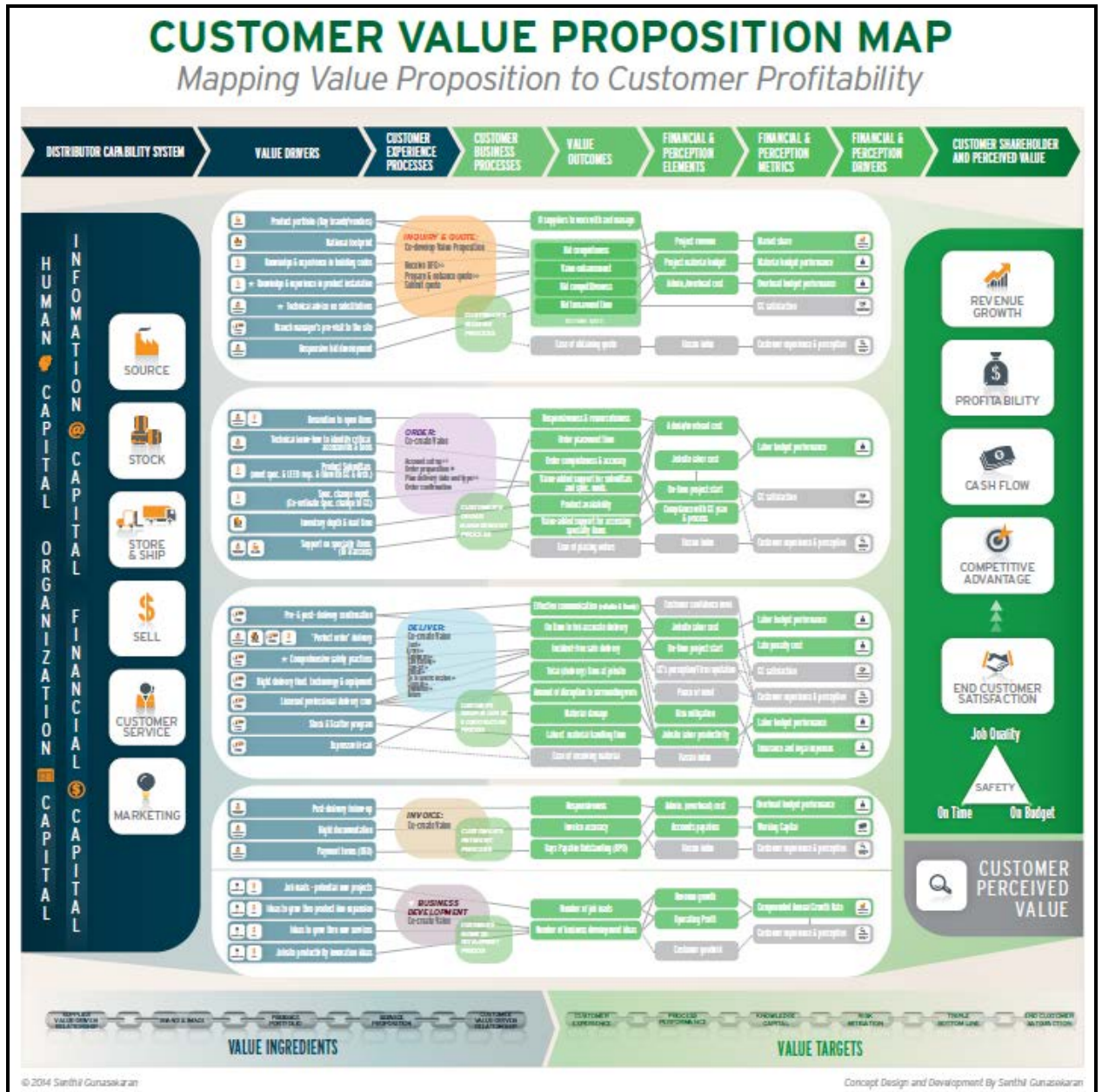
14. What are the TOP two challenges in putting customer stratification into practice?

15. Do you differentiate or customize your value proposition based on customer analytics?

16. What are the sales support tools that would be helpful in demonstrating your value proposition effectively to the market?


# APPENDIX C

## CUSTOMER VALUE PROPOSITION MAP



## APPENDIX D

### INTERNSHIP SUPERVISOR'S FINAL REPORT

	<b>NATIONWIDE STRENGTH LOCAL COMMITMENT</b>	550 West Adams   Chicago, IL 60661   <a href="http://www.lwsupply.com">www.lwsupply.com</a>
<p>Doctor of Engineering Program The Dwight Look College of Engineering Texas A&amp;M University College Station, Texas</p>		
<p>L&amp;W Supply has been on a journey to both recover from the debilitating recession which begun in 2007 and to identify best practices to drive efficient and profitable growth in the coming years. Much of the work has centered on operational functions, such as inventory, warehouse, network and delivery. Sales &amp; Marketing functions, outside of implementing Customer Stratification, has been neglected and received little investment... most notably, understanding L&amp;W's value to our customers and shaping the conversations to enable the sales force to articulate same.</p>		
<p>Senthil's work in identifying key value elements beyond price has been groundbreaking and has contributed mightily to developing and positioning the "L&amp;W Way". The L&amp;W way is about "<b>making it happen every day for our customers by bringing our best</b>". Senthil has given us much more understanding of how to message L&amp;W's reliability, consistency, responsiveness, follow through and operational/sales capabilities. Without his efforts, developing training content, implementing trigger marketing and even growing our category relationships with vendors would be much more difficult to execute.</p>		
<p>We anxiously await Senthil's model and the insights contained therein. His work has been outstanding and will certainly contribute largely to our strategy execution in 2015. Finally, I would like to thank both Senthil, the committee chair, Dr. Leon, and Dr. Lawrence for their support of L&amp;W Supply through the internship program.</p>		
<p>Respectfully,</p>		
<p><b>Martin Naeger</b> Director, Sales Support &amp; Training</p>		
<p>550 West Adams Chicago, IL 60661 214-733-7217 mobile 312-436-6150 office <a href="mailto:mnaeger@lwsupply.com">mnaeger@lwsupply.com</a></p>		
	<b>NATIONWIDE STRENGTH LOCAL COMMITMENT</b>	 Proud Sponsor
<a href="http://www.lwsupply.com">www.lwsupply.com</a>		

## **APPENDIX E**

### **VITA**

Senthil Gunasekaran leads industry projects, executive education and applied research activities on wholesale-distribution at Texas A&M University's Global Supply Chain Lab (GSCL), part of Thomas & Joan Read Center – only university center in the U.S. that focuses on research and education in wholesale-distribution. He designs and directs industry projects and consortia focused on implementing best practices for wholesaler-distributors and is involved in distribution-focused applied research, implementation, and executive educational activities. He successfully led four industry consortia – Optimizing Distributor Profitability (11 distributors from six channels in 2008), Sales and Marketing Optimization (20 distributors from 10 channels in 2009), Optimizing Growth and Market Share (20 companies from 11 channels in 2010) and Optimizing Channel Compensation (six manufacturers and 14 distributors from 10 channels) – focusing on identifying cutting-edge best practices. As an Assistant Director of industry solutions, he has designed and managed more than 75 wholesale-distribution industry projects (generating more than seven million dollars over the last 10 years) that achieved significant process improvements leading to improved shareholder value. His clients include distributors from small and medium enterprises to large, global corporations. He develops and presents executive educational/training sessions, technical workshops, and growth strategy sessions for distributors throughout the year. Being one of the leaders of GSCL, Senthil's research interests include a wide range of business topics—growth strategy, connecting business processes and shareholder value, analytics, supply chain management, sales and marketing, customer value proposition, and strategy-execution dynamics.



His corporate career started with TATA Motors (NYSE:TTM), the largest auto manufacturer and distributor in India, in 1998. As a supply chain engineer, he worked on project INDICA's (the first indigenous passenger vehicle in India) process management initiatives for three years at the company's Pune (India) facility.

Senthil holds an ME in industrial engineering (supply chain management) from Texas A&M University, and a BE in mechanical engineering from Government College of Technology, Bharathiar University in India. He has 15 years of industry experience and is a co-author of four best-selling NAW Institute for Distribution Excellence books, : *Pricing Optimization: Striking the Right Balance for Margin Advantage, Sales and Marketing Optimization: Developing Competitive Value Propositions in Distribution, Customer Stratification: Best Practices for Boosting Profitability* and *Optimizing Distributor Profitability: Best Practices to a Stronger Bottom Line*, which detail wholesale-distribution best practices, their implementation, and return-on-investment. He is also an APICS Certified Supply Chain Professional (CSCP) and Certified in Production and Inventory Management (CPIM). Senthil can be reached at (979-845-4907) or via e-mail ([senthil@tamu.edu](mailto:senthil@tamu.edu) or [thoughtnet@gmail.com](mailto:thoughtnet@gmail.com)).