



Value-Based Planning: Creating Customer Value at the Account and Opportunity Levels

By Steve Andersen

*President and Managing
Director,
Performance Methods, Inc.*

and Steve Bistriz

*Senior Consultant,
Performance Methods, Inc.*

Talk to customers today and you will typically hear them describe their suppliers as “vendors” that only appear when there is a potential sales opportunity in sight and money to be made. Yet ask them what they want, and you will hear them say with surprising consistency that they need more than just “vendor” relationships. Take them deeper into this type of questioning and they begin to describe – at times with great clarity – how they wish their suppliers would build and sustain relationships with them.

This apparent disconnect between customers and suppliers is not a recent phenomenon, but the means for understanding and then correcting it is quite new. It has become increasingly obvious that the old methods of focusing first on sales opportunities, then on the customer’s buying team (if the opportunity is large enough) and then, and only then, on taking an interest in the customer and its business, just don’t work with the sophisticated and strategic customers of the new millennium.

The following explains why collaborative planning between customers and suppliers to create mutual, measurable value has become such a hot topic—for both suppliers and the customers that they serve.

What Is Value-Based Planning?

Today’s customers want their suppliers to listen to them – proactively and aggressively – and then provide them with the consultative benefits that can only come from relationships in which a strong “trust bond” exists. They don’t want to **only** see their strategic account manager when there is an opportunity to make a sale. This limited interaction makes it appear to the customer that the only tactic that matters to the supplier is the immediate sale, which flies in the face of establishing long-term relationships capable of delivering customer value. In this case, the SAM is perceived as a “TAM” (Tactical Account Manager) and will never be able to rebuild enough trust and credibility – probably the two most important tenets in selling – with the customer to create an environment conducive to collaborative planning.

Value-based planning is a collaborative approach to plotting the creation of value with strategic customers, and it begins with an understanding of how the customer does business. Today, strategic buyers have a keen understanding of “typical sales tactics,” and in the words of a senior executive with a *Fortune* 500 IT industry leader, “How can our suppliers expect us to believe that we’re strategic to them when they only show themselves when the smell of a sale is in the air?” Following this comment, the senior executive proceeded to explain the manner in which he would prefer to engage with his suppliers, using words such as “value,” “long-term relationships,” “joint action

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Figure 1. Customer Engagement Model



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planning," "joint value propositions" and "performance measurement".

Feedback from direct involvement with suppliers and their customers since early 2001 has led us to conclude the following: from the vantage point of today's strategic customers, there needs to be more focus on **value** in customer / supplier engagement than with the typical execution of sales tactics. This realization, in combination with ongoing deployment of opportunity and account management programs, has given rise to an approach to customer engagement that is called the "Customer Engagement Model" (see Figure 1).

At the center of the Customer Engagement Model is the assumption that suppliers must focus their efforts first and foremost on the creation of value for their customers. This model was developed to help a number of

different suppliers increase the effectiveness of their engagement with their customers, and the Customer Engagement Model provides a basis for examining the execution of best practices in serving customers.

While the center of the Customer Engagement Model clearly suggests that "Customer Value" is what the supplier should focus its customer engagement efforts upon, it implies little about technique and process until we examine the circle surrounding it. Here, we can begin to unpack the "how to" of value-based planning, as we challenge suppliers to connect their business processes congruently and simultaneously with those of the customer. In this manner, suppliers become more attuned to how their customers seek to do business, and are able to engage with them much more proactively to collaboratively plan the creation of value (see Figure 2).

Engaging directly with suppliers and their customers provides an opportunity to closely examine the customer / supplier relationship, and the feedback from both sides of the table is nothing short of fascinating. In one customer / supplier planning session, a customer executive with a *Fortune 500* food and beverage industry leader exclaimed, "Don't my suppliers understand that while I'm discovering, evaluating and deploying, I'm spending money? I can't realize a return and make any money until I begin to optimize what I've already bought, and

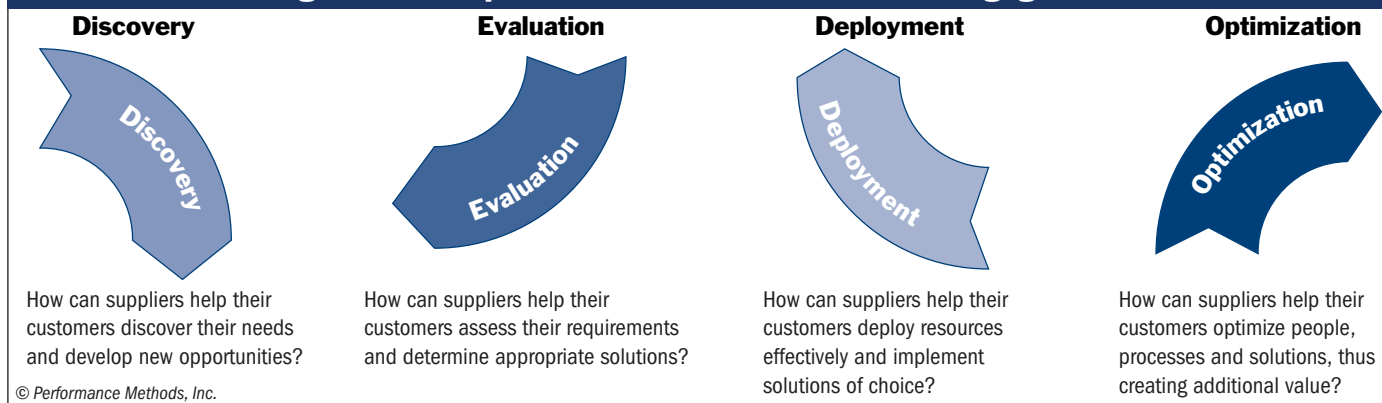
this is precisely when my suppliers tend to disappear—until the next opportunity comes along and I'm ready to discover and evaluate them again. Maybe their cost of sales would be lower if they would rethink this paradigm!"

The first step to engaging in effective value-based planning with customers is to understand how they discover, evaluate, deploy and optimize within their own organizations, and then align "supplier processes" for business development, sales, delivery and the measurement of customer satisfaction accordingly. This way, the supplier ensures that its focus is the creation of value for its customers. When suppliers engage with their customers to help them discover, evaluate, deploy and optimize effectively, they are planning to be successful with them and raising the bar for their competitors at the same time. Value-based planning begins with this type of commitment to creating value for customers.

Who Stands to Benefit from Value-Based Planning?

The short answer is everyone, but there are some **very** tangible benefits to both customers and suppliers. Suppliers repeatedly describe their business objectives to include "increasing customer loyalty," "selling higher and wider," "utilizing company resources more efficiently" and "transitioning salespeople from product sellers to consultative sellers." At the same time, their customers are saying that their

Figure 2. Components of Effective Customer Engagement



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Figure 3. Aligning the Business Objectives of Customers and Their Suppliers

Business Objectives	
Customers	Suppliers
1. Exploit the value of what we purchased.	1. Increase the loyalty of our customers.
2. Broaden our relationships with key suppliers.	2. Sell "higher and wider" to our customers.
3. Align with suppliers' organization (so that they are easier to do business with).	3. Utilize our company resources more efficiently and with less redundancy.
4. Focus our suppliers on our problems (as opposed to their products).	4. Transition our salespeople from product sellers to consultative sellers.

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business objectives include "exploiting the value of what they have purchased," "broadening their relationships with key suppliers," "solving the supplier's organization" (so that they are easier to do business with) and "focusing suppliers on our problems—not their products." By aligning these perspectives (see Figure 3), suppliers are able to establish a strong, actionable basis for effective collaborative planning sessions with their customers.

If suppliers and their customers seem to be saying that they have similar objectives, it's because they do. This further suggests that the only truly sustainable customer / supplier relationships will inevitably be "win / win" relationships, as both parties must ultimately achieve their business objectives, as shown in Figure 3, or be forced to eventually engage elsewhere. To build this type of relationship, suppliers need a tool that can provide them with more specifics about the customer's business than the standard concept of a value proposition. By building their customer's business objectives into actionable, **customer-specific** value propositions, suppliers are able to see **how** to plan for mutual success and create value for their customers.

In the realm of strategic customer / supplier relationships, this may be the most practical and actionable way to plan. When both parties are successful, and their objectives are being met and exceeded, there is little reason

for business not to flourish and less likelihood that relationships will become strained. In the words of a *Fortune* 500 consumer products industry executive, "Joint planning with (a particular supplier) is a big contributor to the success of our relationship. Last year we gave them over 100 positive references!"

The process of creating customer-specific value propositions and validating them with customers can be quite impactful for suppliers. By training their salespeople to "think like their customers," suppliers are able to customize and deploy customer-specific value propositions. With this type of approach, suppliers' salespeople become more comfortable understanding their customers' industry drivers, business

objectives and operational issues. Combine this with the ability of salespeople or SAMs to connect this customer information with their own solutions, and the supplier is on the way to consultatively solving the customer's problems. Add competitive information to help salespeople anticipate their competitors' strategies, and reference data to help them "prove" that they can and will deliver on their commitments to their customers, and you have started to define competitive advantage. Finally, complete the picture with the unique value that the supplier can deliver to the customer, and you have a customer-specific value proposition (see Figure 4).

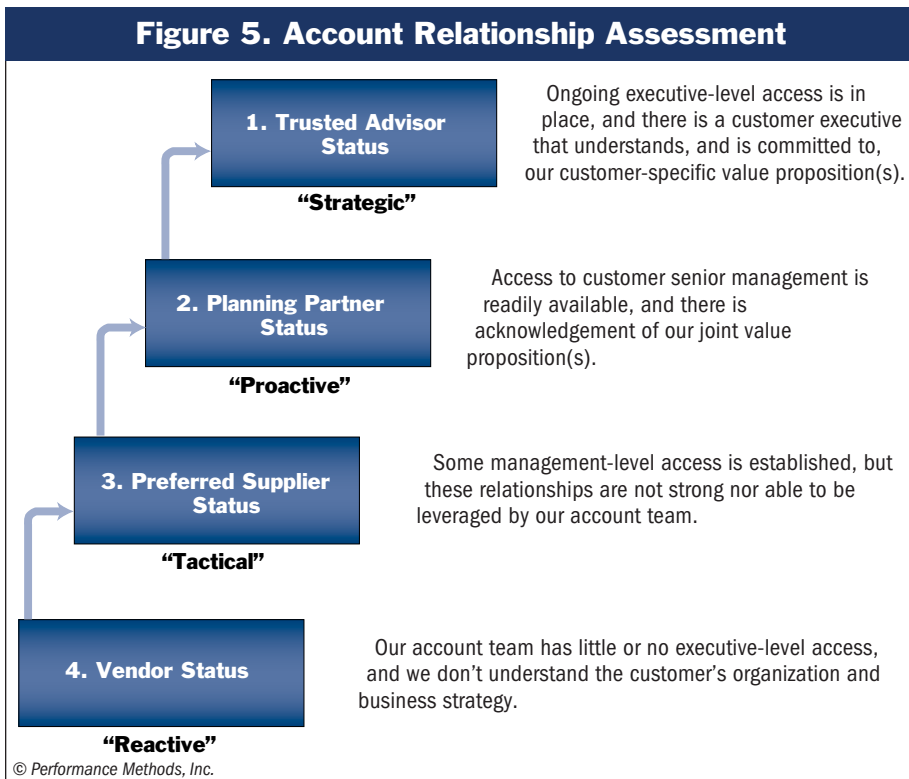
Figure 4 provides an outline of a step-by-step process to developing a joint value proposition. This collaborative approach to documenting value yields immediate benefits to both suppliers and their customers alike, and is one of the key components to implementing value-based planning. The development of customer-specific value propositions at the opportunity level can provide an interesting basis upon which to look at "total value" at the account level. This can be accomplished by summarizing the opportunity level value propositions into an "account value scorecard," in which we establish a macro view of the supplier's creation of total customer value.

Figure 4. Customer-Specific Value Proposition

1. Customer's Industry Drivers	What are the market factors that are impacting the customer's business?
2. Customer's Business Objectives	What is the customer doing to address these industry drivers?
3. Customer's Operational Issues	What could prevent the customer from meeting its business objectives?
4. Supplier's Solutions	How will the supplier work together with the customer to resolve its operational issues?
5. Supplier's Competitors	How is the supplier different from the competition in resolving these operational issues?
6. Supplier's References	What other customers has the supplier helped to resolve similar operational issues?
7. Supplier's Unique Value	How does the supplier's solution address the customer's needs and deliver unique value?

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Figure 5. Account Relationship Assessment



When Does Value-Based Planning Become Necessary?

If the supplier’s first step in effective value-based planning is understanding how to engage with the customer so that the processes of the customer and the supplier are complementary, then the second step should be determining where the supplier stands with the customer before initiating the planning process. This means that the supplier needs to have an understanding of how the customer perceives it—including the value and relationships that they have created together. We refer to this concept as the **account relationship assessment**, and we urge suppliers to assess their customer relationships carefully before engaging in value-based planning. This will ensure that the plan for a strong future with the customer does not begin on a shaky and uncertain foundation.

Our experience in strategic account management has shown that there are four fundamental levels of customer / supplier relationships; we refer to them as *Vendor*, *Preferred Supplier*, *Planning Partner* and *Trusted Advisor*. While the scope of this article

doesn’t allow for detailed examination of these relationship levels, they are briefly described in Figure 5.

Work with suppliers and their customers has further revealed that it is not atypical for as many as 90% of the

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relationships that suppliers have with their customers to be at the *Vendor* and *Preferred Supplier* levels, and rarely do we find situations where more than 33% of a supplier’s relationships with its customers are in the top two categories: *Planning Partner* and *Trusted Advisor*.

When salespeople claim to have a *Trusted Advisor* relationship with a customer,

they can typically articulate some of the behaviors they have implemented to achieve that level of relationship. A key question to pose to salespeople to validate their assessment of a *Trusted Advisor* relationship with the customer is the following: What actions has the customer taken to confirm it views you at that level of the relationship?

Typical responses might include the following:

- A customer executive asked you to become part of its strategic planning committee to review its long-range plans.
- The customer unveiled its upcoming project plans to give you competitive advantage in responding to its proposal.
- A customer executive shared confidential information with you.
- The customer asked you to come in at an early stage in a project to help it establish the project’s objectives.

The absence of those, or similar, indicators would suggest that the supplier is not perceived as a *Trusted Advisor* by the customer.

What does this mean? Among other things, this suggests that from the supplier’s vantage point, customer relationships are typically not as strong as it would like to think. From the customer’s perspective, there is almost always some level of interest in improving supplier relationships. As the CIO of a major apparel company remarked, “We are interested in meeting quarterly with our strategic suppliers to share updates of our growth and go-to-market strategies, and to ensure that our value propositions are on track.” The question then becomes, why doesn’t this actually happen, since it seems to be in both parties’ interest to have a value-based relationship built on trust and credibility?

It is our belief that the primary blocking factors that are standing between most suppliers and their customers, preventing them from doing the very thing that this executive cited above, are as follows:

1. Absence of a plan for joint value

Figure 6. Supplier Self-Test for Value-Based Planning

Solutions Focus	We are willing to focus our selling efforts on solving our customers' problems and will listen to our customers' needs before discussing the merits of our products (see Figure 1).	Yes _____ No _____
Consultative Relationships	We want to establish consultative relationships with our customers by understanding their business needs and by being available to them even when there is no immediate sales opportunity (see Figure 2).	Yes _____ No _____
Collaborative Planning	We are interested in planning with our customers and would welcome the opportunity to engage with them collaboratively to ensure that we have realistic account and opportunity plans (see Figure 3).	Yes _____ No _____
Customer-Specific Value Propositions	We are committed to understanding our customers' industry drivers, business objectives and operational issues and matching our solutions and value to them in ways that can be measured (see Figure 4).	Yes _____ No _____
Account Relationship Assessment	We will ensure that we always understand the state of our relationships with our customers by conducting ongoing assessments of our relationships with them (see Figure 5).	Yes _____ No _____

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creation between the parties. This might become a key part of the supplier's account plan—but **only** if the customer helps develop it.

2. Lack of a process to engage the supplier and the customer in collaborative planning.

A solid approach to value-based planning must contain both of these vital components, namely, the plan itself and a process for validating and evolving it. In addition, they must be tailored, adapted and effectively coached to ensure proper traction and results.

How Do Suppliers Know if It's Time to Begin Value-Based Planning with Their Customers?


After considering the effectiveness of value-based planning to the customer / supplier relationship, the supplier must assess its own willingness to do business in a new, more customer-focused manner. Not all suppliers are interested in changing their go-to-market strategy and execution accordingly. Hence, we offer a self-test to determine supplier willingness to extend value-based planning to customers (see Figure 6).

Take this supplier self-test to see where you stand with respect to establishing a value-based planning relationship with your customer.

If you have answered "Yes" to all, or even most, of the questions in the supplier self test, then it is time to start thinking seriously about implementing a value-based planning approach to engaging with customers.

What can we conclude about the potential benefits of value-based planning? It stands to reason that customers will be more loyal to suppliers with whom they are more closely aligned, and stronger alignment between

customer and supplier is certainly one of the results of effective value-based planning. Further, customers want solutions to their business problems, and they are more likely to find these solutions in a consultative, collaborative environment with their suppliers, which is precisely the forum that value-based planning creates. With the benefits so compelling and clear, how can the potential advantages of value-based planning be overlooked?

A potential starting point for suppliers interested in implementing a value-based planning process would be to select a strategic customer and ask them how they feel about this concept. The suppliers may be surprised and pleased at their customer's willingness to proactively plan and collaborate with them. We advise suppliers to have this conversation before any of their competitors engage in that type of discussion...because there is typically only one true *Planning Partner* or *Trusted Advisor* for a customer in a specific market, and second place is for *Vendors!* 

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Steve Andersen is President and Managing Director of, and Steve Bistriz is a Senior Consultant at, Performance Methods, Inc., a sales best practices consultancy, specializing in the deployment of customized engagement processes for suppliers and their customers.

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