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How much is your company worth to its customers?

Established companies with long histories of performance, increasingly face new competitors with no track record and lower prices. What's the value of experience?

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Let's say you're the sales rep for a well-established manufacturer. After years—even decades—of selling to a range of retailers, you suddenly find yourself competing against a new company that offers similar products at lower prices. On the one hand, you have long-standing relationships with your current buyers, who are familiar with your brand, your pipeline of new offerings, and the quality of your products and services. On the other, you know they'll be tempted by the lower-cost product as long as the new competitor can meet their expectations for service and quality, availability of supply, and on-demand delivery. You might find yourself asking how much it is worth to your customers to purchase products from you.

It's a question that marketing experts have examined for decades. But for many companies it's worth revisiting, especially in industries where technology is enabling ever-faster disruption. Take medical devices, for example. Are procurers' decisions influenced by a manufacturer's brand image, its customer-centricity, or its level of experience—and are they willing to pay a pre-mium for these traits? Are they also influenced by a manufacturer's financial stability, its level of innovation, or even its reputation for contributing to society and the environment? Among a range of measures reflecting the performance of a company, strength in these six traits is, in our experience, often the strongest indicator of its value to customers.

To understand how much these traits might be worth, we surveyed 228 people who make product-purchasing decisions for medical products, testing their preferences and price sensitivity. Our respondents were procurement decision makers, including CEOs, CFOs, procurement managers, and department heads[1] in public and private hospitals, clinics, laboratories, and insurance companies.[2] We found that their preferences varied but that they were willing to pay an average price premium of 5 to 10 percent for the traits they preferred. These findings can help incumbents to better position themselves to their customers (see sidebar, "Calculating your value to customers"). But they also suggest how start-ups might break through.

Brand image and other preferences

In our survey, we asked procurement decision makers to make purchasing choices among fictional manufacturers of medical products that we defined as best in class in different ways. In real life, decision makers will have their own subjective perceptions of a manufacturer's traits. But for our survey, we defined each of the six traits strictly by objective measures: we identified one manufacturer as having the best brand, for example, based on its regular appearance toward the top of brand-strength rankings. We defined another as having the best financial health based on its performance against measures of financial health, such as liquidity or the ratio of long-term debt to total capital. A third we identified as the best in class for sustainability for its high ranking on the Dow Jones Sustainability Indices. We then examined how strongly each of those traits was associated with the size and duration of procurement contracts.

Interestingly, the duration of the contract under consideration did not change trait preferences. They were, however, affected by the size of the contract. Of the six traits we examined, preferences varied by customer segment. Brand image, for example, dominated the top of the rankings for contracts above $750,000 (Exhibit 1). For contracts below $750,000, buyers leaned toward companies with the longest history and experience creating the market (longevity), as well as those with larger R&D investments or a history of launching new products ahead of competitors (innovation). Our data also

[1] Located in the United States, France, Germany, Italy, Spain, or the United Kingdom.
[2] Respondents were included only if they had sole or joint decision-making power for an annual procurement budget over $1 million and had procured medical products within the past five years.

Calculating your value to customers

To estimate how much of a premium a customer might pay to do business with your company in view of its specific combination of traits, you can use a method similar to ours.

We started by identifying objective measures to score each of six traits of a company's reputation. For companies in medical products, we combined a company's internal data with its ranking in external indexes to create an overall corporate-impact score, using Brand Finance's Global 500, PatientView's ratings of medical devices, and the Dow Jones Sustainability Indices to assess brand value, patient-centricity, and sustainability, respectively. Years of operation, R&D budgets, and debt-to-capital ratios were our indicators of longevity, innovation, and financial health, respectively.

The corporate-impact scores of the 21 medical-product companies we tested ranged from 1.8 to 4.4. By assuming that a perfect score (five) would yield the full premium, we estimated the actual premiums that each company could expect. Readers can calculate a similar value for their own companies by generating a corporate-impact score (Exhibit A) and then looking at the table below to find the premium it would command (Exhibit B).

Exhibit A

Calculate your company's corporate-impact score.

Trait	Index/data[1]	Score 1	Score 2	Score 3	Score 4	Score 5	Your score
Brand	Brand value—eg, Brand Finance index	No ranking	Other regional or sector ranking	201–500 in global 500	101–200 in global 500	Top 100 in global 500	
	Brand reputation—eg, Reputation Institute's Global RepTrak	No other known ranking	Ranking other than RepTrak	Other regional RepTrak ranking	51–100 of global 100	Top 50 of global 100	
Customer-centricity	Industry ranking—eg, PatientView medical-device ranking	No rating	Over 31	21–30	11–20	Top 10	
Longevity	Years in operation	<15 years	15–29 years	30–69 years	70–99 years	≥100 years	
Financial sustainability	Solvency (long-term debt/overall capital)	>50%	41–50%	31–40%	21–30%	0–20%	
	Liquidity (current ratio)	<1	1–2	2.1–4	4.1–5	>5	
Sustainability	Dow Jones Sustainability Index	Not listed	Listed	Bronze	Silver	Gold	
	Sustainability rating—eg, CSRhub	Not rated	<50	50–79	80–89	90–100	
Innovation	R&D spending as % of revenues	<5%	5–7%	7.1–10%	10.1–15%	>15%	
TOTAL AVERAGE							

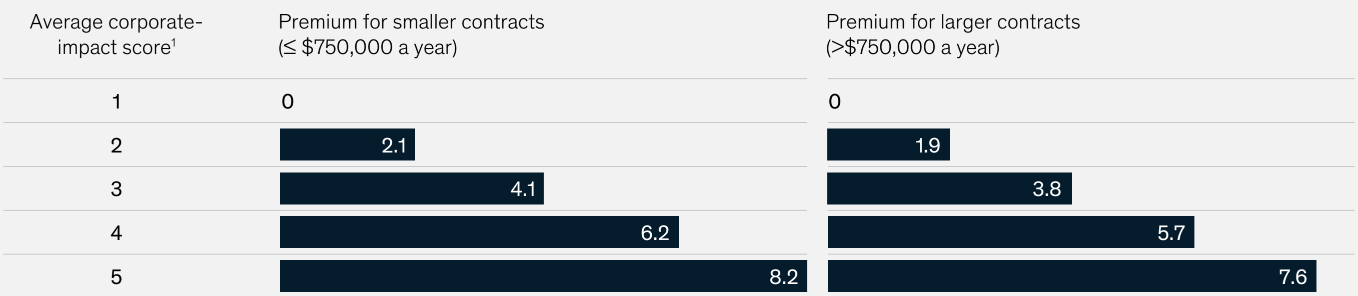
[1] Various metrics could be suitable to evaluate each trait. We chose these because of their broad applicability and the availability of data.

Calculating your value to customers, continued

Exhibit B

Estimate your premium by looking up your total average score.

For 3- to 7-year contracts, %



[1] Component weight as brand, 28%; longevity, 19%; patient-centricity, 20%; financial sustainability, 9%; sustainability, 6%; innovation, 18%.

Source: McKinsey Value of Corporate Impact Survey, 2019

suggested that innovation may be more important for European respondents, for private institutions, and for more senior management—though additional research is needed to confirm this impression.

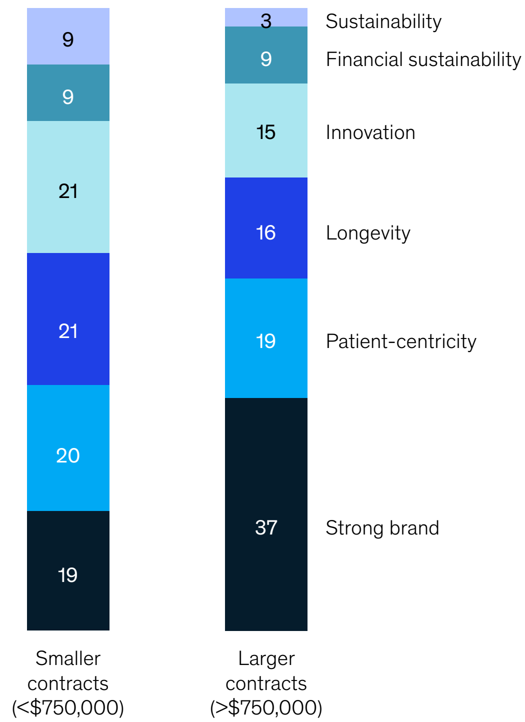
Brand strength stood out when we tested our respondents' second-choice preferences; in fact, no matter what trait was a respondent's first preference, brand strength was always the second (Exhibit 2). This finding will provide some comfort for large incumbents, whose executives told us in interviews that they took brand strength very seriously, often associating it with high quality, good service, and a mature, comprehensive portfolio. But our findings also highlight the opportunity for newcomers to disrupt the sector with highly innovative or patient-centric products.

Finally, although four traits—brand strength, innovation, longevity, and patient-centricity—always wound up at the top, managers shouldn't disregard the bottom two. A significant number of managers identified even those traits as their top priority. Take sustainability—the reputation and recognition a company has won for contributing to society and the environment. Only 7 percent of procurement decision makers (and only 3 percent of those with large contracts) said that this was their top trait. However in follow-up interviews, respondents alerted us that this is a recent trend and that its importance seems to be increasing, even if it is still rarely a formal consideration in tender assessments. As one manager told us, "Over the past five years, we have been introducing sustainability as a factor for consideration in procurement

Exhibit 1

The preferences of procurement decision makers varied by contract size.

Question: If providers with unique defining traits charged the same price and you could select only one, which would you choose?, % of respondents[1]



Note: Figures may not sum to 100%, because of rounding.

[1] n = 228.

Source: McKinsey Value of Corporate Impact Survey, 2019

decisions, emphasizing low-waste products that are easy to recycle." Regulators are playing a part in this trend, particularly in Europe, for example, through the introduction of the "most economically advantageous tender" directive.

Willingness to pay a premium

Our survey also found that respondents across regions, contract sizes, and institutions were willing to pay a 5 to 10 percent premium for their preferred trait. Interestingly, we found no statistically significant variation in the specific premium that each of the different traits commands—interviewees suggested that real companies display a mix of traits and that it would be challenging to separate the financial value they attribute to each. We did observe that the length of the purchasing contract significantly affected our respondents' willingness to pay a premium: contracts over seven years commanded lower premiums for preferred traits than contracts lasting for three to seven years.

It's worth noting that procurement decision makers may not be free to pay a premium for their preferred trait. In follow-up interviews, several of them reminded us that procurement decisions can be limited by the formal assessment of bids: internal processes may lay out clear criteria for decision makers. If these processes consider only price, for example, and bids don't get extra points for other traits, there's no way to justify paying a premium for them. This situation will vary by category (highly commoditized categories, such as wound care, will be more price driven) and geography (some countries have strong national tendering and pricing policies).

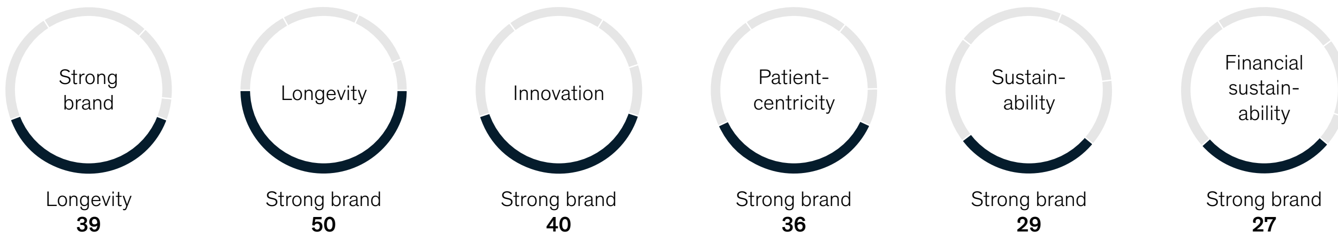
Procurers who identified sustainability as a preference, for example, were willing to pay a premium for it of around 7 percent. That's consistent with a 2009 McKinsey survey, which associated a preference for sustainability with a premium of around 5 percent.[3] However, tender criteria can limit the ability to pay for sustainability, since requests for bids rarely include metrics for it. More sustainable companies may want to push industries to include such metrics.

[3] "Valuing corporate social responsibility," McKinsey & Company, February 2009, McKinsey.com; and Mehdi Miremadi, Christopher Musso, and Ulrich Weihe, "How much will your customers pay to go green?," *McKinsey Quarterly*, October 2012, McKinsey.com.

Exhibit 2

No matter which trait was the first choice, brand was always the second.

% of respondents' second choice, by first choice



Source: McKinsey Value of Corporate Impact Survey, 2019

Procurement decision makers consider a wide range of issues when they decide which products to buy. Incumbent manufacturers and new entrants alike should understand the preferences of procurement decision makers and their willingness to pay for those preferences. They should also be aware of their own best traits as companies when communicating their value as suppliers—and consider how tender categories reflect those traits.

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