

Getting customers to say, ‘The price is right!’

In a world where too many companies still believe that ‘if we build it they will come,’ practitioners of semiconductor sales know otherwise. This article lays out the elements essential to extracting the most value for current products by effectively communicating the true value of those products to customers.

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Keeping the marketing and sales engines humming profitably is a cornerstone of all successful companies. It is especially important in the semiconductor industry, where the leaders in each product segment usually take most of the profits. Things often go wrong when companies feel their market share is threatened. Frequently, the first response of both leading and lagging players is to discount prices. Closer analysis, however, often reveals that this move needlessly dilutes value that could have been retained despite competitive pressure.

In semiconductors, discounting is not just a strategy but an industry norm—a condition that has prevailed owing to an industry adaptation to extremely tight innovation cycles. That is, the

larger issue underlying habitual discounting in semiconductors is the acceptance on the part of semiconductor companies that a dynamic built into the industry as a whole will always drive prices down. Companies therefore often fail to address and can even contribute to the shortfall by expecting nothing better. However, companies can begin to reverse this trend by revisiting the value proposition they are offering to customers, specifically to determine whether the true, unique value of their products is being communicated. This is where the journey to value selling begins.

The value-selling approach

We have devoted considerable research and drawn upon extensive engagement experience to create

an approach to sales by which companies can better understand their existing value propositions, identify where these are failing them, and make the transition to a customer-centric approach that immediately demonstrates the full value of their products to customers. A value-selling approach allows companies to pursue and capture margin according to the end-to-end value provided to the customer, as opposed to the traditional cost-plus approach. Even in the semiconductor industry—with its engineering culture that is particularly comfortable with cost-plus pricing—most client executives have been pleasantly surprised to see the top-line impact possible from value selling, especially as it requires no changes to the existing product portfolio. In the first year, value selling can add 2 to 4 percent to average selling prices, a number that can grow to 6 to 8 percent in the second year if customer insights are fed back into the design of new products.

Our original findings were based on practical experience. We interviewed dozens of one company's end customers, asking each of them to allocate 100 points among the different factors in their process for making purchasing decisions. The great majority of those surveyed identified price as the most important factor in their final decision. Deeper analysis of those responses revealed, however, that some groups of customers actually cared as much or more about features than about price. It turned out that some customers were knowingly paying more for the client's product than they would have for the next-best alternative. The discovery of this partly hidden preferential-buying behavior led to a conclusion that a sales approach that communicates a holistic view of value could positively affect the way that customers think about purchases.

The transition to a value-based selling approach involves a fundamental change in existing sales approaches and marketing messages. The constituent tactical shifts of the approach are made based on deep-structure interviews with customers, as well as by working to identify the value of the company's offerings. A company adopting this approach will also need to construct a set of new tools for the sales force and build value-selling capabilities in the workforce. Last, it must develop metrics to track sales-force performance over time. A formal transformation program is necessary to sustain the transition; the good news is that the scope can be either narrow or broad, focusing on a single product family or region, or encompassing a program that repositions a company's entire product portfolio.

Identifying value to the customer

Value selling requires, at its base, an understanding of the true value of the product to the customer. Most customers think of value as apparent value—that is, the benefit they receive directly from a purchase. They rarely consider indirect benefits, such as the positive or negative impact of switching costs, or the infrastructure savings that come from sticking to current product lines. In addition, a mind-set has been observed in both companies and their customers by which current prices are expected wholly to determine future prices. Accordingly, unless the product changes, the price should rise only in line with inflation or if particular input costs increase. This generally leads companies to neglect the question of how the value of their products evolves over time.

In all, there are four components to implementing a value-selling approach: developing a new approach to purchasing criteria, building a new set of tools to support the sales teams in the field,

developing training to educate sales teams on the new sales approach, and developing metrics and systems to track the sales force's performance over time.

1. Uncovering customer purchasing criteria

The first step in the new direction is a diagnostic analysis aimed at uncovering the key criteria that customers use to make purchasing decisions. This may seem counterintuitive, as company sales and marketing teams would be expected to know these criteria already. Typically, top salespeople do know exactly what matters to their customers, but their less skilled colleagues may not; best practices are not always shared or institutionalized in a form that is useful to less experienced account managers. We begin with interviews to determine the elements that matter most to customers and to understand how these are prioritized. The exercise is highly qualitative, requiring dozens of interviews throughout the customer base.

The diagnostic yields three results: a list of factors that are most important to customers, a ranking of those factors in order of importance, and, critically, an assessment of company performance against those value drivers in any particular product category.

To go beyond articulated preferences, we conduct a conjoint analysis to quantify value drivers at both the individual product level and the broader company level. Typical findings from diagnostics of the sources of value at the *product level* have included these attributes:

- Superior performance with regard to power efficiency, speed, graphic resolution, and so on

- Ease of use and ability to design in, without many additional modifications
- Advantaged size and packaging to enable greater bill-of-materials integration
- A better set of built-in capabilities to reduce the need for additional discrete peripherals, board design, or programming

At the *company level*, we have found that customers derive value from the following elements:

- The reputation of the provider—for example, the value of saying “powered by *x*” or “includes *y* processor”
- Strong development and technical-support capabilities
- Advantaged supply-chain and manufacturing capabilities, resulting in higher product availability, better quality assurance, and superior reliability
- Developer tools and well-established code libraries—for instance, a network of independent software vendors (ISVs) for microprocessors

In a value-selling pilot, one customer said, “If it saves me development cost and improves my time to market by *x* percent, I am not going to go for a cheaper device.” This remark neatly sums up the reasoning behind value selling and the source of its impact.

2. The value-selling tool: Communicating quantifiable value to your customer

Once a company understands the real value of its products to its customers, it must develop

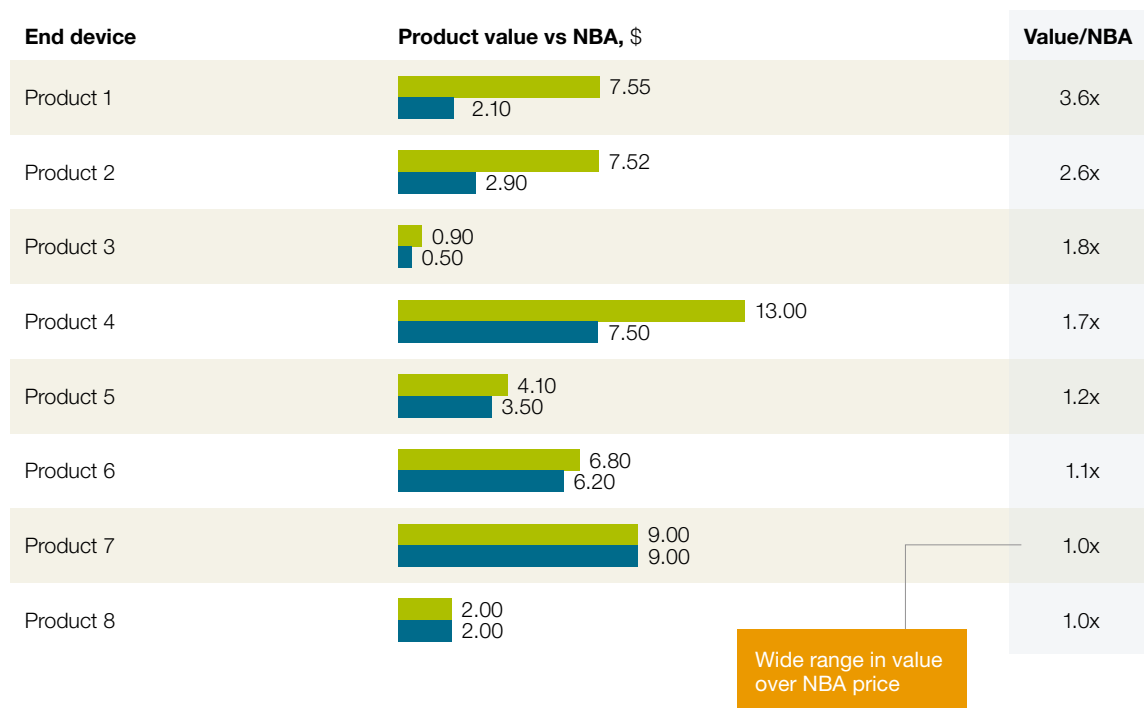
easy-to-use tools to guide the sales team in its work. The tools are often mechanisms for quantifying the impact of relevant value drivers and simplifying any calculations the sales team must make. If we consider the example of a company that can deliver a particular product faster than a competitor, its sales force must be able to quantify the value to the client of faster time to market in the specific marketplace into which the product is being sold. A calculation of such specificity can rarely be performed in an ad hoc manner by a sales team in the field.

The team therefore needs an analytic tool that can systematically identify the value created for the customer by the company's product versus the next-best alternative. This identification will come in the form of an assessment that clearly captures the incremental value delivered by the product vis-à-vis competitor offerings (Exhibit 1). The tool must be easy to use, and its analytic mechanism dynamically responsive to the needs of the field. The salesperson must be able to enter a few essential variables reflecting the specific interest of any

Exhibit 1

Research shows that customers make clear value distinctions for many products.

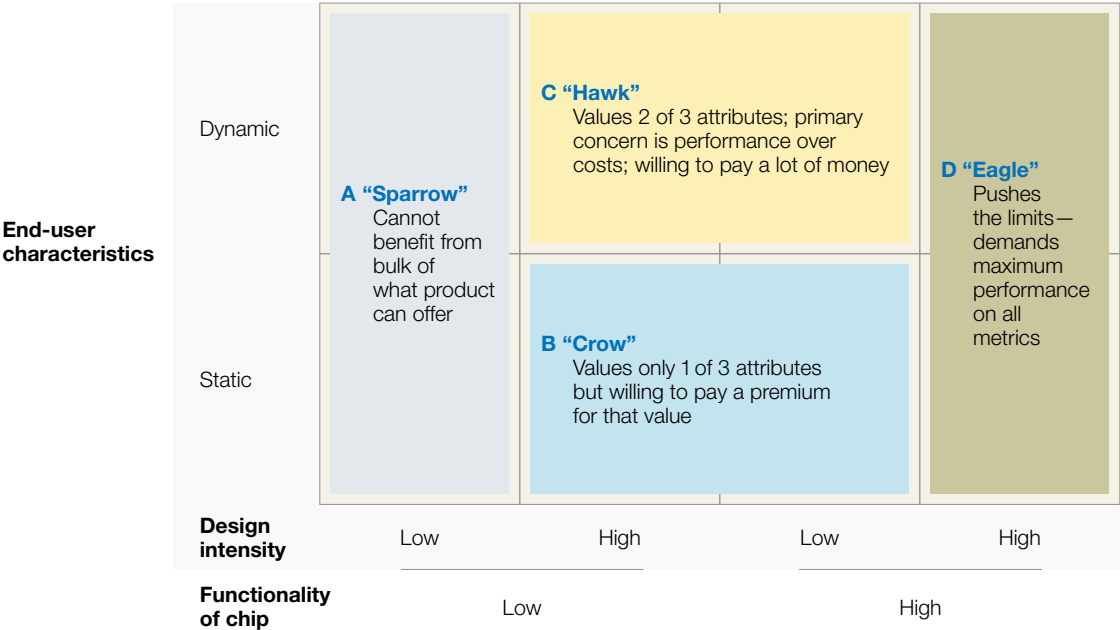
■ Client product value
■ Next-best alternative (NBA)



Source: Customer interviews; McKinsey analysis

Exhibit 2

What customers value differs significantly according to the segment they fall into.



given customer and obtain an assessment of the value of the product to that customer.

Much technical and experiential expertise will be incorporated into the value-selling tool, and this input must be regularly updated with product, customer, and market data. The tool's purpose, however, is a simple and visible demonstration of the power of the value-selling approach. This power lies in value selling's ability to communicate a quantifiable value, based on the drivers that are most important and therefore worth the most to the customer relative to competitive offerings. The approach is entirely oriented to allowing the salesperson to take a customer-centric view. It enables salespeople to provide in a dynamic fashion the information needed by a customer's line-of-business leader or procurement

officer in order to make the winning case for their product to his or her boss. The salesperson thus delivers to the customer a transformed value proposition. The message becomes "I'm getting a product worth two to three times its price," rather than "I'm getting a product 10 cents cheaper than the next guy is."

Not all customers are the same: some may share a consistent set of value drivers, while others have variable priorities or find different value in comparable attributes. Good value-selling tools empower salespeople to identify the types of customers they are dealing with and to generate quickly the most convincing value proposition for them. The sales force can adapt to different types of customers without having to improvise value propositions for each customer visit (Exhibit 2).

3. Building value-selling capabilities in the sales force

The value-selling approach represents a new way for the field sales force to relate to its customers. How can you bring this new approach to life for them? Here we believe there are three critical success factors: first, leaders and the sales force must co-create the solutions; second, leadership must visibly model the new approach; and third, salespeople should be allowed to practice new skills in a safe, non-customer-facing environment.

Co-creating solutions

The more the experienced members of the sales force are engaged in the quantification process—that is, in generating the underlying numbers that drive the calculations made by the tools the sales force will use—the more effective the result. There are two reasons for this: first, experienced salespeople understand the dynamics in the marketplace and can use their expertise to improve the tool, and second, they must believe in the calculations that drive the value-selling tools they are being asked to use.

Modeling the approach

The second success factor is no less important than the first. The sales force must feel the

inspiration from above. The head of sales for the company must participate in the effort and personally emphasize the need for value selling.

Practicing the approach

Finally, we have found that it is crucial to create a low-stress environment, in which salespeople can practice free of exposure to customers and fears of internal evaluation. Every time we have conducted such sessions, we have discovered that recording the salesperson's customer approach and then reviewing it with them helps prepare them for even the toughest customers. When they see themselves working—and improving—in the new way, salespeople truly internalize the arguments they must make and embrace the value quantifications they will put forward.

Early practice often becomes a learning opportunity, in which the shortcomings of the existing approach are revealed and understood as such. Salespeople usually begin by talking in cost-plus language, rather than adopting a customer perspective. A salesperson may fail to offer quantified comparisons with competitive products, even when supporting data are at the ready. The key is to keep trying: with practice, the new way of working begins to stick.

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4. Locking in change by tracking performance

We cannot overstate the importance of metrics to track performance. Simply put, what gets measured gets done. Most successful transformation programs have an engaged program-management office that is aided by efficient IT systems to track progress and assess sales-force behavior on a regular basis. The most successful value sellers use a sequence of workshops, scheduled to coincide with the run-up to new sales campaigns or new product launches, to maintain momentum. These sessions allow companies to share best practices and celebrate successes. In the medium term, value selling can improve average selling prices substantially, reinforcing the approach.

McKinsey has introduced its value-selling approach in a number of industries, where it is increasingly becoming a key success factor. We strongly believe that this approach has a great deal to offer the semiconductor industry, where customers want to be told precisely what value is being created for them and to know how a product will help them be more successful. In a world where products do not sell themselves, value selling is demonstrating that it can make the crucial difference for companies. ○

