INTRODUCTION

Sustainable, profitable growth is a constant priority for any business. But the initiatives that drove yesterday's successes often cannot deliver results today or tomorrow. As companies arrive at this crossroads, where expectations are high but their economic future is unclear, leaders must hunt for tactics, approaches, and methods that will help them navigate toward sustainable prosperity.

Suppliers who sell to other businesses are particularly challenged. These business-to-business firms often face complex markets with varying needs, demands, and economic drivers. Dilemmas over such issues as commoditization, industry consolidation, price-based competition, and complicated channel networks can thwart growth and inhibit success. At the same time, opportunities to enter new areas of business, acquire companies, and nurture major customer relationships can reenergize the organization's growth. Simply put, for these companies, sustaining and growing the business is a big-time opportunity—and also a big-time challenge.

Over the last two decades, we've had the privilege of working with many industry-leading business-to-business organizations on their strategies in the toughest, most competitive markets around the world. These firms have invited us to help them solve their most pressing, perplexing problems. What their leaders needed was an entirely new approach—one that would let their organizations thrive in the face of ever-changing market realities. Our response has been to help refocus their perspective, by offering a method that allows businesses to successfully create value for customers and capture value for themselves. In other words, a firm can overcome its growth challenges by helping its customers overcome theirs. Ultimately, the firm can succeed by linking its destiny with that of its customers.

Before we can discover ideas that will bring value to a firm and help it grow, we must bring these ideas to the customers who will reward the firm for this value. But these rewards can be fleeting and elusive, particularly as the definition of a "valuable" product or service varies from customer to customer. And yet opportunities to overcome these growth challenges by creating new value opportunities don't just happen haphazardly at the mercy of market forces. Rather, there is an approach by which this can be achieved systematically and consistently.

In this book, we'll describe a systematic approach to overcoming your growth challenges by creating value for customers and capturing value for your business. Our approach works for any business, from start-up to market leader. It works with any product line, in any industry, in any location. We've presented this approach in three sections, each building on the foundations of the last.

In the first section of the book, we'll show you how to create and capture value. You'll discover how to define your customer chains and segment your customers according to the motives that drive their purchase decisions—and you'll understand why you must do both for the success of your business. You'll learn how to convert your ideas into actions for which your customer will reward you.

In the second section, we'll show you how to develop a specific growth strategy for going to market—a strategy that accelerates your growth and captures value for your business by focusing on products, service, price, acquisitions, market expansion, and external relationships.

In the third section, we'll show you how to implement your Go-to-Market Strategy with a Get-to-Market Plan, so you can take action and increase your shareholder value as quickly as possible.

Throughout the book, we mix theoretical discussions with practical case studies. In our fifty combined years of advising companies, we've found that we learn the most valuable lessons from our experiences with a variety of strong companies in diverse industries and countries. We believe that these lessons from other environments can be as valuable to our readers as they have been to us. It is our hope that you will take these ideas and use them to succeed with your business.

—Atlee Valentine Pope and George F. Brown, Jr.

SECTION I: CREATE AND CAPTURE VALUE THROUGH YOUR CUSTOMER CHAIN

Chapter 1

YOUR CUSTOMERS WANT MORE—AND THEY WILL PAY FOR IT

When we are called in to speak confidentially with companies about their growth challenges, business leaders rarely share with us that they have a crystal clear, perfect understanding of their marketplace. Instead, they often lament that their customers and markets seem unnecessarily mystifying, brazenly unforgiving, and overly harsh. We hear complaints such as "Our products are not a commodity, but our customers treat us as if they were," or "Our channel partners are blood-sucking weasels who do little to promote our efforts," or even "Our most cherished customers are now dictating that we enter into reverse auction bids to ensure price competition." Without a doubt, these growth-inhibiting pressures are real and unrelenting, and they should not be ignored.

Several years ago, we had the opportunity to work with Emerson, the diversified manufacturing firm widely recognized today for its excellence in engineering and management. A number of Emerson's companies make products like motors, valves, compressors, and control systems that are sold into the appliance, furnace and air conditioner, and water heater industries.

During our first meeting with Emerson leadership, we heard stressful comments. "They treat us like a commodity," said one company leader who observed how customers, in decision after decision, rejected Emerson's newer innovations in favor of lower-cost standard products. Another executive noted, "If an idea costs a dime more, it gets rejected unless we're willing to fund it out of our own pocket." At the time, Emerson enjoyed a leading market position in these industries, yet given these customer behaviors, some individuals had doubts about Emerson's long-term viability. The question posed at the end of the meeting summarized the group's concern: "How can we, on the one hand, enjoy a number-one market share position with these customers and, on the other hand, be treated with such indifference?"

To help Emerson unravel this complex paradox, we interviewed a variety of players in the appliance, furnace and air conditioner, and water heater markets. We spoke with employees of Emerson companies and to their customers, including distributors, retailers, contractors, home builders, and even end customers using these products. These individuals spanned multiple job functions, from general management to operations to purchasing to marketing to sales. Our goal: to learn from various customers how Emerson could potentially bring value to the table—value that depended less on a product's price than on its benefits, and that would be eagerly recognized and handsomely rewarded.

Based on these interviews, we reported to Emerson a message that has often emerged from our decades of field research: *Your customers want more—and they will pay for it!* This finding differs radically from the perception of being treated "like a commodity" and from the belief that an idea would be "rejected if it costs a dime more." But in fact, the conclusion is accurate.

We've learned that *customers want more and will pay for it* in market after market, from one product line to another. And to readers who reflect on their own personal experiences, this conclusion shouldn't come as a surprise. Who among us hasn't jumped at the opportunity to buy, say, a higher-priced car—once the carmakers began to include sunroofs, advanced safety features, and such great consumer electronics as DVD players and GPS mapping? Others of us rushed to buy wide-screen, flat-panel TVs at prices an order of magnitude higher than what we'd spent for the TV being replaced. Still others of us were among the consumers fascinated with granite countertops, outdoor kitchens, and monstrous master bathrooms. And few of us can deny that we've willingly paid more than $3 for the "Starbucks experience" when there were much lower-priced cups of coffee just around the corner.

All these examples show that customers recognize value and are willing to pay for that value. Successful firms tap into those customers' needs. They follow a systematic approach to *creating value* for their customers and *capturing value* for themselves in order to grow—and to reach greater heights of success, your organization must do the same. You must align your business's destiny with that of your customers. To do this, you must accept that your business's interests are intertwined with that of your customers' and that both have a common destiny. You must learn how to identify your customers and how to determine what they value. You must discover how to create value, not only for consumers but for suppliers, channel partners, and other organizations with which you have key relationships. You must develop a Go-to-Market Strategy and a Get-to-Market Plan that will help you capture value. And, most important, you must learn how to implement your plan immediately and reward your stockholders as quickly as possible.

We know only too well that discussing theory without taking action is a waste of time.

So let's take action.

In our work with Emerson, we embarked on an interesting investigative journey that would lead us to uncover an amazing variety of market messages. An executive from a major appliance company started us off by explaining one of the ongoing challenges associated with energy and water use: "Consumers are more and more aware of energy and water and are looking for more efficiency in all their appliance purchases. We have to offer steady progress on these fronts. We invest heavily in technologies that use less energy and water."

Energy and water were what he called the "table stakes" of the industry. To maintain its position as a "major player" and the "first-to-mind leader," the appliance manufacturer had to meet customers' expectations by continually delivering improvements in energy and water use and developing smarter, time-saving appliances. According to this executive, breakthroughs in these areas could be game changers—innovations that would motivate consumers to replace their existing washers and dryers long before these appliances simply quit working. He observed, "If the clothes came out of the dryer already folded, we wouldn't even have to advertise."

A very different story about replacing appliances emerged in discussions with the manager of a big-box home center. We met with him at one of the company's flagship stores, and as we discussed water heaters, he walked us behind the store to show us the "graveyard." There we saw about a dozen water heaters stacked for pickup by a waste removal company. Most of them looked brand-new. The manager explained that the units had been purchased over the past few weeks, some by contractors and some by do-it-yourselfers, and returned shortly thereafter. "Pretty much all of them were fine when they left the store," he grumbled, "but they got trashed during installation." The store's policy was to accept returns basically without argument, and it would cost more to repair these units than they were worth, so they just went to the graveyard for disposal.

Later, in conversations with contractors, we asked about this problem. One contractor's company had more than a dozen trucks out, all doing various types of appliance installations, day in and day out. He told us that stuff happens during installation:

> Sometimes it's just a dumb mistake. Sometimes it's a wrong hookup. Sometimes it's a problem in the house that goes unnoticed. And with installers working on a tight schedule and trying to finish all the jobs that we've committed to for the day, we know there are going to be problems now and then. The worst thing about it? It creates callbacks, and callbacks kill us. We don't get paid for a second visit to fix a problem, and sometimes it requires a third visit because we have to go and get a new unit. And some of these calls come at night or on the weekend, when we pay double for overtime, which adds even more expense to the job. Any job that involves a callback is a profit killer.

A sales executive at a furnace and air-conditioning system manufacturer talked instead about price pressures. While he acknowledged the major appliance executive's theory—that an innovation could get a consumer to spend more money by trading up—he noted that a significant part of his sales were to home builders. "These customers are brutal," he confided. "They buy in quantity, but they want rock-bottom prices, and rarely will they go beyond the basic products." The sales exec went on to say, "About the only time we can bring new technology out, and see some uplift in prices, is when the government mandates higher standards for the industry."

To deepen our understanding, we talked with a number of home builders. They pointed out that they make the HVAC decisions long before the ultimate customer shows up, and they insisted that home buyers don't really care which system is in the house. One home builder challenged us—and the major appliance executive's claim—by asking, "Do you know what brand of furnace is in your house?"

In addition to this argument, we heard a wide spectrum of messages about costs—of the components inside the appliance and of the appliances themselves. One water heater manufacturer joked, "Most people think all we do is bend metal and shoot screws. They think all the value and all the costs are in the components, like the motors and control systems inside these appliances that we buy from suppliers." At the other end of the spectrum were the firms that handled the installation of furnace and air-conditioning systems. From these firms' perspective, even the costs of the full HVAC system, let alone any component within it, were modest in comparison to the costs of the labor and service involved in the installation process.

Along with these messages from appliance manufacturers, sellers, and installers and from home builders, we also heard from homeowners. We learned that while these consumers expected to see fair prices, they spent far more time discussing their concerns about what features they *weren't* getting. One cluster of consumers had strong opinions about safety, and another group focused on the reliability of these products. They shared their desire for assurance that their water heater wasn't going to leak and destroy their property, and they revealed their worries about what would happen when storms and other power disruptions triggered an unwanted electrical surge in the appliance.

One focus group participant whose family had just replaced its furnace and air conditioner described how much the new system was saving them in electricity costs. Others in the group jumped right into this discussion, revealing that they too were interested in efficiency and comfort features. Someone spoke up about how great it would be to be able to turn things off and on through the Internet when he was away from his home. The innovation theory was on the table once again.

When we returned to meet with the Emerson executives, it was with the following conclusion: Some of the firm's customers did in fact consider certain Emerson products to be a commodity, and regardless of the promise of improved features, those customers still wouldn't pay a dime more. But other customers were excited about the great ideas on the drawing boards at Emerson's many research and development centers and would jump enthusiastically at the opportunity to buy such products.

From this research, we determined that Emerson's customers associated value with such concepts as water and energy savings (for the homeowner), increased convenience and reliability (for the homeowner), elimination of callbacks (for the contractor), decreased warranty returns (for the store manager), and increased opportunities for trading up (for the sales exec). Different customers made it very clear that they wouldn't hesitate to purchase an offering that delivered value along such lines. In other words, our message to Emerson was "Your customers *want* more—and they will pay for it."

Of course, our conclusion brings with it a number of challenges. The first of these is to define what creates value—and to identify which customers will pay you for this value. Over the years, we've become conscious of the many great ideas that emerge from company laboratories, sales team meetings, and other sources, only to meet the market's reaction of complete disinterest and disregard. Every business leader can give examples of ideas that were good for some customer segments but totally inappropriate for others.

The subsequent question, which occurs even when it becomes clear what product or service creates value for which customer, is how to define a well-honed, carefully crafted response to this challenge—in other words, how to help both you and your customers grow by creating value for them and capturing value for your firm.

Sometimes firms can quickly deliver value once they know of their customers' needs and interests. In other instances, however, creating value is not so simple. An appropriate response to the customer's needs may require significant investment in product development, a lengthy lead time to introduce the next-generation product, or other demands for advanced technology.

Emerson was able to embed sensors and re-engineer controls to respond to the homeowners' concerns about safety, efficiency, and the reliability of water heaters. The company also deepened its involvement with contractors by enhancing both direct support and creating retrofit diagnostic packages that predict failure and ease system repairs. As Emerson implemented these concepts, it was able to deliver value to its own customers and be rewarded. Because these upgrades responded to customer preferences, they yielded gains in volume and earnings. Additionally, because new, higher-priced technologies such as the "idiot-proof" installation components were embraced by contractors, over time they were put into the product specifications.

Over the years, we've witnessed many creative, successful responses from companies that help them gain insight into value creation. From introducing customer-centric technical innovations to becoming the partner of choice within a new channel network to establishing a global footprint across developing regions, companies have met their customers' unmet needs and have delivered value, allowing them to grow and prosper.

In this book, we'll share how a packaging firm captured value through a groundbreaking design that, by providing unique displays for retailers, helped the customer gain shelf space. We'll showcase a business-to-business supplier's successful entry into the Chinese market after tapping into a network of preferred channel partners that needed technical support to penetrate more remote, lesser developed Chinese cities. We'll describe how a supplier of commercial vehicle components, by forging relationships with logistics fleets, helped its truck builder customers gain market share. And in other examples, we'll illustrate how companies have managed to avoid zero-sum price negotiations and instead win higher volume with a superior product—priced so that both they and their customers can gain market share.

Once you've read the book, you and your company can overcome your growth challenges by creating win-win-win opportunities across the marketplace. You will be on the road to achieving your co-destiny: shared success.